

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

*in accordance with Art. 123-bis
of the Consolidated Finance Act*

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This is a courtesy translation from the Italian which remains the definitive version.

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Glossary

Code/Corporate Governance Code: the Corporate Governance Code for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, *Ania* (national insurance association), *Assogestioni* (national association of asset management companies), *Assonime* (association of joint stock companies) and *Confindustria* (Confederation of Italian Industry).

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

Issuer: the issuer of the shares to which this report relates.

Financial year: the financial year to which this report relates.

Consob Issuers' Regulations: the regulations issued by the Consob (Italian securities market authority) with Resolution No. 11971 of 1999 (as subsequently amended) for issuers.

Consob Markets Regulations: the regulations issued by the Consob (Italian securities market authority) with Resolution No. 16191 in 2007 (as subsequently amended) for markets.

Consob related-party regulations: the regulations issued by the Consob with Resolution No. 17221 of 12th March 2010 (as subsequently amended) concerning transactions with related parties.

Regulations concerning risk assets and conflicts of interest with connected parties: Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011.

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

Consolidated Finance Act: Legislative Decree No. 58 of 24th February 1998.

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

Introduction

The information given in this report refers to the current Articles of Association.

It should moreover be noted that draft amendments to the Articles of Association have been drawn up, taking into account regulatory developments, instructions received from the Bank of Italy and market trends, which aims to update governance mechanisms in compliance with current policies and the creation of an integrated “popular” bank based on the principle of per capita voting while able to promote a balanced representation in the governance of all the components of its corporate structure.

The draft Articles of Association - subject to obtaining the necessary authorisations - will be submitted for the approval of the Shareholders' Meeting.

1. Profile of the Issuer

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

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

UBI Banca is a “popular” bank incorporated in the form of a joint stock co-operative company. As such, UBI Banca is required to comply with the provisions of the Italian Civil Code concerning co-operative societies (excluding those expressly listed in Article 150 *bis* of the Consolidated Banking act) and also with those governing joint stock companies, to the extent that they are compatible with the laws governing co-operatives, as indicated in Article 2519 of the Italian Civil Code. Express details of the Bank’s particular characteristics as a co-operative are given in the separate company financial report of UBI Banca Scpa, an integral part of the management report, which was drawn up in compliance with Article 2545 of the Italian Civil Code and states the criteria followed in company operations to pursue the Bank's mutual objects.

The legal nature of a “popular” co-operative bank lies in the circumstance that each registered shareholder of the co-operative is entitled to one vote whatever the number of shares possessed.

Conversion Law No. 221 of 17th December 2012, converting Decree Law No. 179 of 18th October 2012 “Further urgent provisions for the Country’s growth” (known as *Sviluppo bis*) introduced Art. 23 *quater*, which made some significant changes to the regulatory regime for “popular” banks regulated by Art. 30 of the Consolidated Banking Act (Legislative Decree No. 385/1993).

The most important change relates to the increase in the limit on direct or indirect shareholdings (from 0.50% to 1% of share capital), without prejudice to the power conferred by the Articles of Association to set a lower proportion, in any event not less than 0.50%.

An exception to the maximum 1% limit is made for collective investment organisations, for which the regulatory limits specific to each of them apply.

UBI Banca has adopted a two tier system of management and control, which is considered better suited to the governance requirements of the Parent, UBI Banca, and at the same time as providing stronger protection for registered and unregistered shareholders, especially

through the activity of the Supervisory Board, a body appointed directly by the registered shareholders and representing them.

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

- the strategic supervision and control functions, assigned to the Supervisory Board, which combines some of powers assigned by traditional systems to shareholders' meetings (approval of financial statements, appointment of the members of the management body and determination of the relative fees) and to boards of statutory auditors and assumes some "senior management" responsibilities, insofar as it is called upon to take decisions on proposals submitted to it by the Management Board on the business and/or financial plans and budgets of the Bank and the Group and also on strategic operations indicated in the Articles of Association (article 46 of the Articles of Associations – available on the corporate website www.ubibanca.it in the section corporate governance – corporate documents);
- corporate management functions, assigned to the Management Board, which has exclusive authority to perform all ordinary and extraordinary operations necessary to pursuit of the company objects, in compliance with the general guidelines and strategic policies approved by the Supervisory Board (article 37 of the Articles of Association).

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

* * *

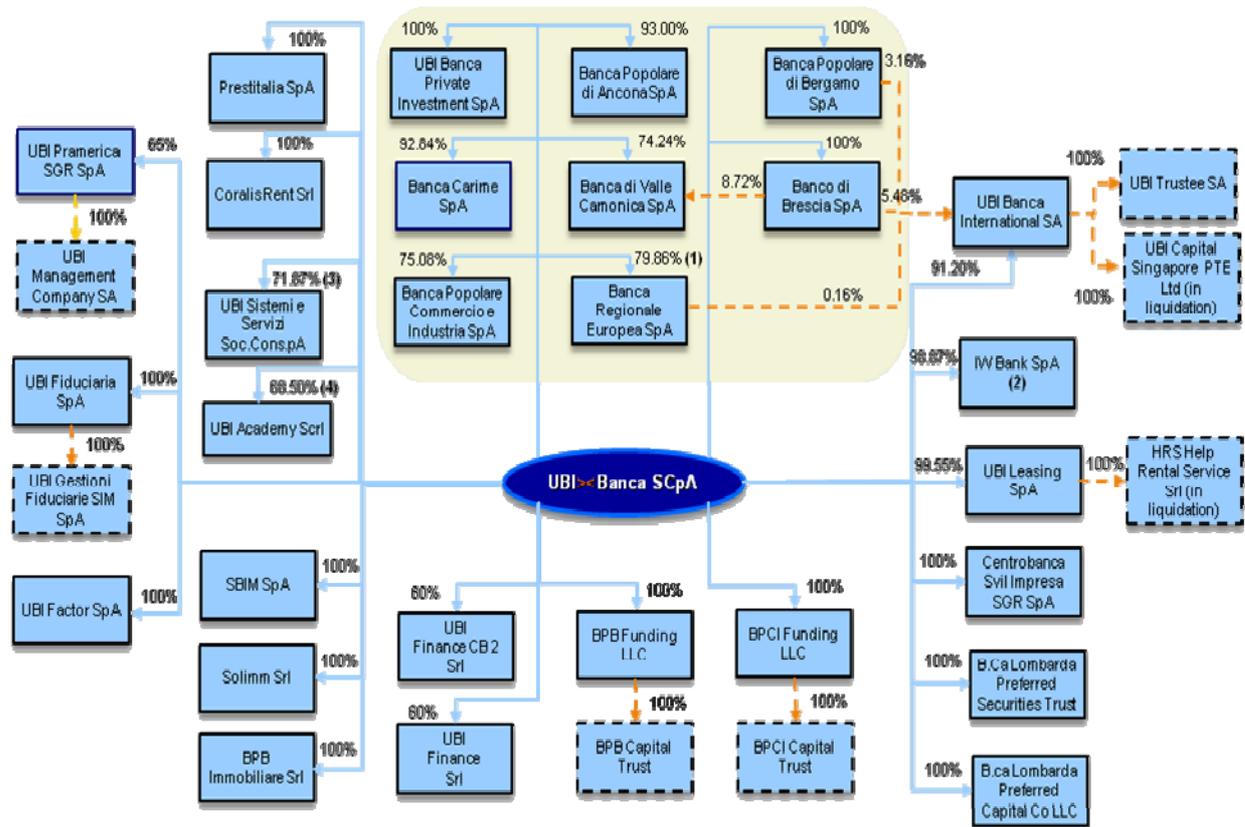
UBI Banca is the Parent of the Unione di Banche Italiane Group, organised on according to federal, multi-functional model, integrated with its listed 'popular' Parent, which sets strategic policies and performs functions of co-ordination and control over all the organisational units and companies in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

In implementing its management and co-ordination activities in compliance with both specific regulations laid down by the Supervisory Authority and civil law, UBI Banca sets the strategic objectives of the Group, mainly through the Group budget and Business Plan. Moreover, without prejudice to the Articles of Association and operational independence of each company in the Group, it also defines the strategic lines of development for each of them, just as they are called upon on the one hand to achieve those objectives in terms of a single business plan and on the other to benefit from the overall results of the management and co-ordination activities.

UBI Banca pursues its entrepreneurial mission while at the same time maintaining the strong sense of social responsibility that is typical of "popular" banks which are deeply rooted in their local communities. This philosophy is strengthened by the adoption of specific instruments which include the Charter of Values, Code of Ethics and the Social Report.

The chart that follows illustrates the composition of the UBI Group as at 31st December 2013:

The UBI Banca Group of companies as at 31/12/2013



(1) Percentage of ordinary share capital
 (2) Percentage of the total share capital, the remaining 1.13% consists of treasury shares held by IW Bank itself

(3) The Group also holds 26.89% as follows: EPA (2.88%), EPCI (2.88%), EBS (2.88%), Banca Carime (2.88%), BPB (2.88%), IW Bank (2.88%), BRE (4.32%), BVC (1.44%), UBI Banca P. Inv. (1.44%), UBI Pramerica (1.44%), UBI Factor (0.72%), Prestitalia (0.07%), UBI Academy (0.01%).

(4) The Group also holds the remaining 31.5% as follows: EPA (3%), EPCI (3%), EBS (3%), Banca Carime (3%), BPB (3%), BRE (3%), UBSS (3%), BVC (1.5%), UBI Banca P. Inv. (1.5%), UBI Pramerica (1.5%), UBI Factor (1.5%), UBI Leasing (1.5%), IW Bank (1.5%), Prestitalia (1.5%).

UBI Banca Servizio Partecipato

2. Information on the ownership structure (pursuant to Art. 123 bis, paragraph 1 of the Consolidated Finance Act) of 11th March 2014

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

The share capital of UBI Banca Scpa is composed entirely of ordinary shares traded on the *Mercato Telematico Azionario* (screen based stock market).

* * *

With regard to 2013, we report that:

- on 5th February 2013 16 new UBI Banca shares were issued following the conversion of UBI 2009/2013 notes;
- on 22nd May 2013 1,346 shares were issued following the merger of the subsidiary Centrobanca SpA;
- on 28th May 2013 the Management Board and on 30th of May the Supervisory Board of UBI Banca Scpa decided to opt for the redemption in cash of the "*Prestito Obbligazionario Convertibile UBI 2009/2013*" (UBI 2009/2013 convertible bond) issued in July 2009, as required by the regulations of the bond debt;
- on 3rd July 2013: 84 new UBI Banca shares were issued following the conversion of UBI 2009/2013 notes;
- on 10th July 2013: 121 new UBI Banca shares were issued following the conversion of UBI 2009/2013 notes;

* * *

On 31/12/2013 the share capital of UBI Banca Scpa therefore amounted to euro 2,254,371,430.00 divided into 901,748,572 shares with a nominal value of 2.50 euro each and has not changed to date.

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

Section i) below of this chapter may be consulted in relation to treasury shares.

b) Restrictions on transfer of securities (pursuant to Art. 123 bis, paragraph 1, letter b) of the Consolidated Finance Act)

No restrictions on the transfer of shares exist, since the shares are transferable in accordance with the law (article 15 of the Articles of Association).

Acceptance clauses exist solely for admission to the status of registered shareholder.

Persons who intend to become Registered Shareholders must present a certificate of participation in the centralised management system and a written application to the Management Board containing not only details of the shares possessed but also personal particulars, domicile, citizenship and all other information and/or declarations required by law or the Articles of Association or requested in general by the Bank. For the purposes of acceptance as a Registered Shareholder, certificates testifying to the ownership of at least 250 shares must be presented.

With account taken of the provisions of the law on 'popular' co-operative banks, all decisions on the acceptance of applications for registered shareholder status are taken by the Management Board, with exclusive regard to the objective interests of the Bank, including those of its independence and autonomy, and to observance of the spirit of its co-operative status. For the purposes of assessing these requirements, account shall be taken, amongst other things, of any previous relations between the persons applying and Group member companies.

Since it is a “popular” bank, there is a limit on shareholdings pursuant to Art. 30 of the Consolidated Banking Act and to article 18 of the Articles of Association, which states that no one may hold more than the maximum limit permitted by law, which is 1% of the share capital (this limit does not apply to collective investment organisations for which limits laid down in the rules of each of them apply).

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

In accordance with regulations in force, the time limit for the obligation to dispose of shares has been extended until 31/12/2014 for those who as at 31/12/2009 held an investment in the share capital greater than the limits set, if exceeding that limit is the result of concentration transactions between banks or between investors, while it is understood that the investment may not be increased.

Following the issue by the Bank of Italy on 11th February 2014 of the provision required pursuant to Art. 56 of the Consolidated Banking Act and on the basis of the powers assigned to it by the Articles of Association (Art. 46) regarding decisions to update the same to comply with legislation and regulations, on 13th February 2014 the Supervisory Board of UBI Banca decided on the statutory integration of Art. 8 and the amendment of Art. 15 of the Articles of Association, in order to implement the provisions relating to the acquisition and expiry of Registered Shareholder status contained in Art. 30, paragraph 5-*bis* of the Consolidated Banking Act, a paragraph introduced by Decree Law No 179 of 18th October 2012, converted with amendments by Law No 221 of 17th December 2012.

In order to encourage the capitalisation of the company, Art. 30 paragraph 5-*bis* of the Consolidated Banking Act provides that if the Articles of Association makes the acquisition of Registered Shareholder status subject to the holding of a minimum number of shares and this minimum shareholding is no longer held, the Registered Shareholder status acquired in this way expires.

In relation to the above, an addition was therefore made to paragraph 2 of article 8 of UBI Banca’s Articles of Association as follows: “For the purposes of acceptance as a registered shareholder, certificates testifying to the ownership of at least 250 shares must be presented, while should they no longer be held, this shall result in the loss of registered shareholder status in accordance with the law”. For consistency, article 15 of the Articles of Association was amended with the elimination of paragraph 4.

In consideration of the mutual spirit of the Bank as a co-operative, the Supervisory Board has resolved to introduce a transition measure which provides for a period within which registered shareholders who hold a number of shares less than the minimum required may take action to increase the number of shares they possess in order to avoid loss of their registered shareholder status. More specifically, on the basis of the records contained in the shareholders’ register, as added to by the certifications which will be issued by depository intermediaries and sent to the Bank, the latter will take action to verify the loss of registered shareholder status for those who on 19th April 2014 shall hold a number of shares that is less than the minimum of 250 shares required by article 8 of the Articles of Association.

If, at the end of the transition period, the minimum number for the maintenance of registered shareholder status has not been restored, the financial rights attaching to the shares shall remain unchanged and the shareholder may at any time submit a new application for acceptance as a registered shareholder in compliance with the Articles of Association of the Bank. The Bank will provide all the necessary information needed to assist the registered shareholders affected by the operation in a later and fuller communication.

As concerns the other amendments to the Articles of Association, illustrated in the press release of 19th December 2013, a further communication will be issued once the necessary authorisations have been received from the Bank of Italy.

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

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

- Silchester International Investors LLP (5.001%)

- BlackRock Incorporated (indirect - assets under management): (4.951%)
- Cassa di Risparmio di Cuneo Foundation (2.230%)

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

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

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

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

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

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

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

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

In compliance with article 30 of the Consolidated Banking Act and article 26 of the Articles of Association, registered shareholders have only one vote, irrespective of the number of shares held.

Rights over capital and profits are in proportion to the shares owned (Art. 17 of the Articles of Association); nevertheless if a shareholder fails to transfer ownership of shares in excess of the limit on share ownership set by the regulations in force concerning share capital within one year of the violation being reported by the Bank, the relative ownership rights maturing up to the time of the sale of the excess shares are acquired by the Bank.

g) Shareholders' agreements known to UBI Banca in accordance with Art. 122 of the Consolidated Finance Act (pursuant to Art. 123 bis, paragraph 1, letter g) of the Consolidated Finance Act)

UBI Banca received a communication in relation to the constitution, on 28th May 2007, of an unofficial association named "Associazione Banca Lombarda e Piemontese" located in Brescia. An extract of an updated version of the main clauses of the relative by-laws was published in the daily newspaper "Il Giornale" on 24th January 2012.

While the members do not consider the association as qualifying as a shareholders' agreement pursuant to Article 122 of Legislative Decree No. 58/98, they have nevertheless fulfilled public disclosure obligations as required by the law in relation to some of the clauses of their by-laws, insofar as it may be necessary, in view of the legally binding nature of the decree mentioned and the consequences of failure to comply with it.

UBI Banca also received a letter on 21st November 2011 entitled "Communication pursuant to Art. 20, paragraph 2 of Legislative Decree No. 385/93 and to Art. 122 of Legislative Decree No. 58/98" in relation to the establishment of the association named FuturoUBI", located in Milan on 22nd September 2011. In that letter, the association declared that "*while it does not consider the association as qualifying as a shareholders' agreement pursuant to the above legislation, it has nevertheless fulfilled public disclosure obligations by publishing its by-laws on the website www.futuroubi.it*".

The following communications were also received:

- the constitution, on 23rd November 2007, of the association named "Gli Amici di UBI Banca", located in Bergamo, and report of compliance with disclosure obligations;
- the constitution on 24th January 2011 of an association called "Tradizione in UBI Banca", located in Cuneo.
- in a letter of 19th June 2012, the constitution of an association called "Amici della Banca Regionale Europea e del Gruppo UBI", located at Cuneo;
- the constitution, on 29th October 2012 of an association called "Insieme per UBI Banca", located in Milan;
- in a letter of 27th February 2013 the constitution of an association called "Associazione Soci UBI Centro-Sud", located in Rome;
- in a letter of 28th February 2013 the constitution of an association called "Associazione Soci Lombardi UBI Banca" also known as "ASSOLUBI", located in Brescia.
- on 15th March 2013 the constitution on 7th October 2011 of the "Associazione Azionisti Banche Popolari 2011"

On 26th July 2013 an application for admission to Registered Shareholder status was received from an association called "UBI Banca Popolare!" located in Bergamo and constituted on 8th May 2013.

The Bank has also received notifications from the "Associazione Azionisti UBI Banca", located in Bergamo.

Finally, the Bank learned from:

- a press release of the constitution on 10th November 2011 of the "Associazione dei cittadini e dipendenti soci di UBI Banca" located in Brescia;
- from news in the press of the constitution of the "Associazione Prealpina Azionisti di UBI Banca".

h) Change of control clauses (pursuant to Art. 123-bis, paragraph 1, letter h) of the Consolidated Finance Act) and Article of Association provisions concerning public tender offers to purchase (pursuant to Art. 104, paragraph 1-ter of the Consolidated Finance Act)

The shareholders' agreement currently in force signed by UBI Banca and the Prudential USA concerning the joint venture, UBI Pramerica SGR Spa ("SGR") grants rights to purchase to the parties (call options) if certain predetermined events occur.

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

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

A "Reciprocal options agreement" currently exists between UBI Banca and F & B Insurance Holdings S.A./N.V. ("F&B"), concerning the UBI Assicurazioni S.p.A. joint venture. Under that agreement, amongst other things, F&B holds options which may be exercised if predetermined events occur including a notification of change of control of UBI Banca. In this event, if a request is made by F&B, UBI Banca may exercise an option right to purchase (call option) the interest held by F&B in UBI Assicurazioni. If UBI Banca does not exercise that right, then F&B has a call option on the interest held by UBI Banca in UBI Assicurazioni. If F&B also does not exercise its call option, then the parties shall give a mandate to a major investment bank for the joint sale of the entire share capital of UBI Assicurazioni.

The Articles of Association make no provision with regard to Art. 104, paragraph 1-ter of the Consolidated Finance Act.

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

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

As concerns the purchase of treasury shares:

1) The shareholders meeting held on 30th April 2011 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf to repurchase, by 30th September 2011, a maximum of 1,200,000 treasury shares, to be assigned to the top management of the Group as part of an incentive scheme for a total maximum amount of €5,500,000 at a price per share of not less than the nominal value and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

In compliance with that resolution, a total of 1,200,000 ordinary shares of UBI Banca were purchased in the period running from 12/07/2011 until 13/07/2011.

Those shares were purchased at an average price of €3.6419 per share.

Following those purchases the UBI Banca held a total of 1,200,000 treasury shares.

2) the Shareholders' Meeting held on 28th April 2012 authorised the Management Board and the Chairman, Deputy Chairman and Chief Executive Officer, individually on its behalf, to proceed with the purchase (to be carried out by the date of the Shareholders' Meeting called upon to vote in accordance with Art 2364-bis No. 4 of the Italian Civil Code on the allocation of profit for the year ended 31st December 2012) of a maximum of 500,000 treasury shares to be granted to the "top management" of the Group as part of the Group incentive schemes, for a total maximum value of €1,750,000, at a price per share of not less than the nominal value of the shares and not more than 5% higher than the official price quoted in the market session prior to each individual purchase transaction.

A total of 500,000 ordinary shares of UBI Banca were purchased on 28th February 2013 in implementation of that shareholders' resolution.

Those shares were purchased at an average price of €3.4911 per share. The purchase transactions were performed on the regulated market in compliance with the limits set in the shareholders' authorisation, by the provisions of the law and EC Regulation 2273/2003 and by admissible market practices.

Following those purchases, UBI Banca holds a total of 1,700,000 treasury shares accounting for approximately 0.19% of the share capital.

l) Management and co-ordination activities (pursuant to Art. 2497 et seq of the Italian Civil Code)

The issuer is not subject to management and co-ordination activities within the meaning of article 2497 et seq of the Italian Civil Code.

* * *

As concerns possible further information:

- information required by Art. 123 bis, paragraph 1, letter i) of the Consolidated Banking Act is given in the section of this report on the remuneration of board members;
- information required by Art. 123 bis, paragraph 1, letter l) of the Consolidated Banking Act is given in the section of this report on the Supervisory Board and shareholders' meetings.

3. Compliance (pursuant to Art. 123 bis, paragraph 2, letter a) of the Consolidated Finance Act)

UBI Banca has adopted the Corporate Governance Code (available on the website www.borsaitalia.it), a document designed mainly for listed companies that have adopted a traditional governance model. Article 10 of that code states that if a two tier or single tier system of administration and control is adopted "the preceding articles apply only insofar as they are compatible, by adapting the individual provisions to the particular system adopted, in compliance with the objectives of good corporate governance, transparent reporting and the protection of investors and the market pursued by the Corporate Governance Code and in the light of the application criteria provided by this article".

The objective of this report, which has been prepared in accordance with Art. 123 bis of Legislative Decree No. 58/1998, is to furnish details of the manner in which the Code itself is applied in the Bank, with an account also given of those principles subject to full compliance and those which the Bank has decided not to comply with (sometimes only partially) on a "comply or explain" basis. This is partly because the Bank must consider its status as a co-operative bank which, as such, demands strict compliance with regulations contained in the Consolidated Banking Act and with the consequent supervisory instructions issued by Bank of Italy.

* * *

Neither the issuer nor its strategic subsidiaries are subject to foreign laws that influence the corporate governance structure of the issuer.

Details of corporate governance practices are given in the various sections of this report.

4. Supervisory Board

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

The Supervisory Board is composed of 23 members elected from among the registered shareholders with voting rights, including a Chairman and a Senior Deputy Chairman, appointed by a Shareholders' Meeting in compliance with Art. 45 of the Articles of Association and two Deputy Chairmen chosen by the Supervisory Board itself from among its members.

The members of the Supervisory Board shall remain in office for three financial years and they shall retire from office on the date of the shareholders' meeting convened in compliance with paragraph two of Art. 2364-bis of the Italian Civil Code.

The members of the Supervisory Board must be in possession of the requirements of integrity, and independence prescribed by the regulations in force. At least 15 of the Members of the Supervisory Board must be in possession of the requirements of professionalism required by the legislation currently in force for persons who perform the functions of directors of banks.

In particular, at least three members of the Supervisory Board must be chosen from amongst persons enrolled in the *Registro dei Revisori Contabili* (register of external statutory auditors) who have practiced as external statutory auditors for a period of not less than three years. Furthermore, the composition of the Supervisory Board must ensure, in compliance with the provisions of Law No. 120 of 12th July 2011, that a balance is maintained between genders for the period provided for by that law.

While mandatory regulations of the law, the Supervisory Authority or other regulations must be complied with, persons already holding the office of full statutory auditor, or who are members of other supervisory bodies in more than five listed companies and/or their parent

companies or subsidiaries, cannot hold office as a member of the Supervisory Board. If the cause of incompatibility just mentioned is not eliminated within 60 days of election or of communication of the fact to the person concerned, if it occurs subsequently, the Member of the Board is automatically removed from the position.

Members of the Supervisory Board are elected by a shareholders' meeting on the basis of lists in accordance with the provisions of the law and the Articles of Associations.

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

- a) either, directly by at least 500 Registered Shareholders who have the right to participate and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of such right as required by legislation in force, or by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days before the date set for calling the Shareholders' Meeting as stated in the notice of convocation;
- b) by the outgoing Supervisory Board on the basis of a proposal of the Appointments Committee and with the approval of at least 17 of the Supervisory Board's members, and supported, as stated in a), above, by at least 500 Registered Shareholders who have the right to participate in and vote in the Shareholders' Meeting called to elect the Supervisory Board, who provide documentary evidence of the right according to the legislation in force, and that is by one or more registered shareholders who represent at least 0.50% of the share capital, calculated on the basis of the share capital existing 90 days before the date set for calling the Shareholders' Meeting and to be indicated in the notice given to call the meeting.

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

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

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

Each Registered Shareholder may vote for one list only.

The election of the Supervisory Board shall be performed as follows:

- a) in the case of the presentation of more than one list and without prejudice to the provisions of the following letter b), 22 members of the Supervisory Board are taken from the list that obtains a majority of Registered Shareholders' votes in the order of preference stated on it;
- b) one member of the Supervisory Board is taken from the list with the second highest number of votes which is not connected within the meaning of the regulations in force with the list mentioned in letter b), and it is the name of the first person on that list. If that list has obtained at least 15% of the votes counted in the Shareholders' Meeting, in addition to the first name indicated on that list, a further two members of the Supervisory Board shall be taken from that list, and they shall be the second and third persons on that list. However, if that list has obtained at least 30% of the votes counted in the Shareholders' Meeting, in addition to the first name indicated on that list a further four members shall be taken from that list, and they shall be the second, third, fourth and fifth persons on that list. Consequently, 20 or 18 members respectively of the Supervisory Board shall be taken from the list that obtains a majority of Registered Shareholders' votes in the order of preference stated on it.
- c) if the minority list mentioned in letter b) should contain the names of only two candidates, the third and if necessary the fourth and fifth members of the board, where at least 30% of the votes are obtained, shall be taken from the majority list consisting of the persons not already elected on that list in order of preference stated on it.

If, after identifying the candidates to be taken from the two lists which received the majority of the votes on the basis of the order in which they are indicated on the lists to which they belong, the gender proportions required under Law No. 120 of 12th July 2011 are not complied with, then those members of the Supervisory Board taken last from the aforementioned lists whose appointment would violate the said law are considered not elected. In this event the number of those board members indicated on the same list to which they belong shall be appointed which allows compliance with the composition requirements for the Supervisory Board in accordance with Law No. 120 of 12th July 2011 and with the Articles of Association, again proceeding in the order in which those persons are indicated on the list to which they

belong. In particular, in this circumstance, the candidates to be appointed belonging to the gender that is less represented on the basis of the results of the vote will be taken from each list in proportion to the total number of candidates elected on each list according to the results of the voting. In this event, if the minority list pursuant to letter c) has not complied with the gender proportions established by Law No. 120 of 12th July 2011, the candidates to be appointed belonging to the less represented gender will be taken from the list that obtained the greatest number of votes only.

If only one list is validly proposed and this obtained the majority required for an ordinary Shareholders' Meeting, then all 23 members of the Supervisory Board shall be taken from that list.

The Shareholders' Meeting shall proceed by a relative majority vote to appoint those members of the Supervisory Board, who for any reason whatsoever could not be elected by means of the procedures mentioned in the preceding paragraphs or if no list at all is presented, again in compliance with the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and to the Articles of Association; in the event of a tied vote the candidate more senior by age is elected.

If two or more lists obtain an equal number of votes, those lists must be voted on again until they no longer receive an equal number of votes.

The positions of Chairman and Senior Deputy Chairman of the Board are reserved to the first and second members respectively on the list that obtains a majority of votes, or on the only list presented or to the members appointed as such by the Shareholders' Meeting if no list is presented at all.

If, during the course of the financial year, the Board lacks one or more members, where it is a case of replacing members elected in the majority list, the first candidate not elected on that list shall be appointed who guarantees compliance with the requirements for the composition of the Supervisory Board provided for by Law No. 120 of 12th July 2011 and the Articles of Association. In the absence of such a candidate, the appointment shall be by a relative majority vote with no list obligation, since the Supervisory Board itself may present candidates, if necessary, on the basis of proposals from the Appointments Committee.

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

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

- if only one board member has been appointed from the minority list, then the first candidate not elected on the list from which the member to be replaced was drawn shall be appointed, or, in the absence of such a candidate, the first candidate on any other minority lists there may be shall be taken on the basis of the number of votes received in descending order. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, then the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities;
- if a further two or four board members have been elected from the minority list, on the basis of the votes cast by the Registered Shareholders, the relative replacements shall be taken from the list from which the member to be replaced was drawn or in the absence of such a candidate from any other minority lists there may be, identified on the basis of the number of votes received in descending order and which have received, according to the case, 15% or 30% of the votes cast by the Shareholders' Meeting. In the absence of such candidates, the board members shall be drawn from the majority list or in the absence again of such candidates, or, if application of the above criterion means that the requirements for the composition of the Supervisory board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall proceed to decide by relative majority vote;
- if two or four board members belonging to the minority list have already been replaced, in accordance with the preceding clause, by drawing them from the majority list or by a relative majority vote of the Shareholders' Meeting to appoint them, as just described, the

replacement of a further minority board member is by the first candidate named on any other minority lists there may be, on the basis of the descending number of votes received by these. Should this not be possible or, if application of the above criterion means that the requirements for the composition of the Supervisory Board pursuant to Law No. 120 of 12th July 2011 and the Articles of Association are not met, the Shareholders' Meeting shall make the replacement in compliance with the principle of the necessary representation of minorities.

The replacement candidates, identified in accordance with the provisions of this article, must confirm that they accept their appointment and also make declarations that no cause for ineligibility and incompatibility exists and that they possess the requirements prescribed by law and by these Articles of Association for the office.

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

4.2. Composition and role (pursuant to Art. 123- *bis*, paragraph 2, letter d) of the Consolidated Finance Act)

Without prejudice to the responsibilities assigned by law and regulations to its internal committees, the functions of the Supervisory Board are set out in Art. 46 of the Articles of Association, on the basis of which the same Board:

- a) on the basis of proposals from the Appointments Committee, appoints and removes the members of the Management Board and its Chairman and Deputy Chairman, determining their remuneration, in compliance with Art. 22, paragraph 2, letter b), after consulting with the Remuneration Committee. It also determines, after consulting with the Remuneration Committee and in compliance with Art. 22, paragraph 2, letter b), the remuneration of the members of the Management Board vested with special functions, duties or powers or assigned to committees. Without prejudice to the provisions of article 32, paragraph 2, of the Articles of Association, and without effect for members of the Management Board who vacate their positions, the Supervisory Board appoints the members of the Management Board in the first meeting following its own appointment by a shareholders' meeting;
- b) on the basis of proposals from Management Board, shall set the general plans and strategic policies of the Bank and of the Group;
- c) approves the separate financial statements and the consolidated financial statements prepared by the Management Board;
- d) authorises the Management Board to exercise the authority to increase share capital or to issue convertible bonds that may have been granted by a Shareholders' Meeting pursuant to article 2443 and/or to article 2420-ter of the Italian Civil Code;
- e) performs supervisory functions in compliance with article 149, paragraphs one and three of Legislative Decree No. 58 of 24th February 1998;
- f) initiates liability actions against members of the Management Board;
- g) submits the statement to Bank of Italy pursuant to Article 70, paragraph 7 of Legislative Decree No. 385 of 1st September 1993;
- h) reports in writing to the Shareholders' Meeting called pursuant to Article 2364-*bis* of the Italian Civil Code on the supervisory activity performed, on omissions and irregularities observed as well as, in any other ordinary or extraordinary Shareholders' Meeting called, on matters considered to fall within its authority;
- i) informs the Bank of Italy without delay of all events or facts it may learn of in the performance of its duties, which might constitute a management irregularity or an infringement of banking regulations;
- l) expresses a binding opinion concerning the person in charge of preparing the corporate accounts pursuant to article 154-*bis* of Legislative Decree No. 58 dated 24th February 1998;
- m) on the basis of proposals submitted by the Management Board, decides on business and/or financial plans and budgets for the Bank and the Group prepared by the Management Board and on the strategic operations listed here below, but nevertheless without prejudice to the responsibility of the Management Board for its actions and while the aforementioned decision of the Supervisory Board shall not be necessary for the operations considered in points (iii), (iv), (v), (vi) and (vii), where these are operations for

which the main elements have already been defined in business plans already approved by the Supervisory Board itself:

- (i) transactions on the share capital, the issuance of convertible bonds and bonds cum warrants in shares of the Bank, mergers and demergers;
 - (ii) amendments to Articles of Association;
 - (iii) operations pursuant to Art. 36, paragraph two, letter b);
 - (iv) purchases by the Bank and by its subsidiaries of controlling interests in companies and transactions involving a reduction in directly or indirectly held investments in subsidiaries;
 - (v) purchases or disposals by the Bank and its subsidiaries of companies, business en bloc, business units, spin-offs, and investments or disinvestments which involve commitments where the amount for each transaction is greater than 4% of the supervisory capital eligible for the purposes of calculating the consolidated core tier one capital or affects the core tier one ratio by more than 50 basis points as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
 - (vi) purchases or disposals by the Bank and its subsidiaries of investments in companies that are not controlled, the amount of which for each transaction is greater than 1% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force, or which are significant from an institutional viewpoint or that of the sector nationally;
 - (vii) stipulation of strategically important trade, co-operation and corporate agreements, with account taken of the activities and/or volumes involved and/or of the nature of the partners and in relation to programmes and objectives contained in the Business Plan approved;
- n) expresses a non binding opinion with a vote in favour of at least 17 of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiary undertakings listed in article 36, paragraph 2, letter b) of the Articles of Association (Banca Popolare Commercio e Industria Spa, Banca Popolare di Bergamo Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Centrobanca Spa, Banco di Brescia Spa and Banca Regionale Europea Spa);
 - o) sets, on the basis of proposals from the Management Board, strategic guidelines and policies for the management and control of risks, constantly verifying that they are adequate and implemented by the Management Board;
 - p) on the basis of proposals from the Management Board, sets policies for the management of compliance risk and makes decisions for the creation of a regulatory compliance function;
 - q) formulates its considerations concerning the basic elements of the general architecture of the internal control system; assesses, with regard to those aspects that concern it, the efficiency and adequacy of the internal control system; expresses its opinion on the appointment and removal by the Management Board of the officer responsible for the internal control function and the officer responsible for the compliance function;
 - r) approves and periodically verifies the organisational administrative and accounting structure of the Bank, determined by the Management Board;
 - s) approves corporate regulations concerning its functioning and, in co-operation with the Management Board, approves reporting systems between corporate bodies as well as those with the internal control system;
 - t) approves remuneration policies for employees or associate workers not linked to the Bank by regular employee contracts;
 - u) on the basis of a proposal by the Chairman of the Supervisory Board, drafted in compliance with article 47, paragraph two letter h) of the Articles of Association, sets policies and takes decisions on projects for cultural and charitable initiatives and for the image of the Bank and the Group, with special reference to the enhancement of historical and artistic heritage, while it verifies that initiatives planned coincide with the objectives set;
 - v) decides on mergers and demergers pursuant to articles 2505 and 2505-*bis* of the Italian Civil Code;
 - z) exercises any other powers conferred by the legislation and regulations currently in force or by these Articles of Association.

The Supervisory Board also has exclusive powers, in compliance with article 2436 of the Italian Civil Code, for decisions concerning:

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

The Supervisory Board and its members shall exercise the powers set forth in Art. 151-*bis* of Legislative Decree No. 58 of 24th February 1998, pursuant to the terms and conditions provided therein.

* * *

The Supervisory Board, from 1st January 2013 until the Shareholders' Meeting held on 20th April 2013 which renewed the appointment of the Supervisory Board, was composed as follows:

1	Giuseppe	Calvi	Senior Deputy Chairman
2	Alberto	Folonari	Deputy Chairman
3	Mario	Mazzoleni	Deputy Chairman
4	Battista	Albertani	Member
5	Luigi	Bellini	Member
6	Mario	Cattaneo	Member
7	Silvia	Fidanza	Member
8	Enio	Fontana	Member
9	Carlo	Garavaglia	Member
10	Alfredo	Gusmini	Member
11	Pietro	Gussalli Beretta	Member
12	Giuseppe	Lucchini	Member
13	Italo	Lucchini	Member
14	Federico	Manzoni	Member
15	Enrico	Minelli	Member
16	Toti S.	Musumeci	Member
17	Sergio	Orlandi	Member
18	Giorgio	Perolari	Member
19	Sergio	Pivato	Member
20	Armando	Santus	Member
21	Roberto	Sestini	Member
22	Giuseppe	Zannoni	Member

The Chairman of the Supervisory Board, *Avv.* Corrado Faissola, passed away on 20th December 2012.

The UBI Banca Scpa Shareholders' Meeting of 20th April 2013 first appointed the Supervisory Board for 2013-2014-2015, and then proceeded to appoint Andrea Moltrasio as Chairman and Mario Cera as Senior Deputy Chairman.

On 23rd April 2013 the Supervisory Board appointed *Dott.* Alberto Folonari and *Dott.* Armando Santus as Deputy Chairmen.

The Shareholders' Meeting appointed the above members of the Supervisory Board, Chairman and Senior Deputy Chairman based on three lists presented as required by Article 45 of the Articles of Association:

- list proposed by the Supervisory Board on 22nd March 2013. The list had the support of 865 registered shareholders representing 76,227,494 shares accounting for 8.45% of the share capital of UBI Banca Scpa and contained the following candidates:

1	Andrea	Moltrasio	Chairman
2	Mario	Cera	Senior Deputy Chairman
3	Armando	Santus	Member

4	Gian Luigi	Gola	Member
5	Lorenzo Renato	Guerini	Member
6	Alberto	Folonari	Member
7	Alfredo	Gusmini	Member
8	Sergio	Pivato	Member
9	Mario	Mazzoleni	Member
10	Federico	Manzoni	Member
11	Marina	Brogi	Member
12	Enrico	Minelli	Member
13	Antonella	Bardoni	Member
14	Pierpaolo	Camadini	Member
15	Ester	Faia	Member
16	Alessandra	Del Boca	Member
17	Carlo	Garavaglia	Member
18	Letizia	Bellini Cavalletti	Member
19	Mario	Comana	Member
20	Franco	Bossoni	Member
21	Giacomino	Maurini	Member
22	Stefano	Gianotti	Member
23	Graziano	Caldiani	Member

- The “UBI Banca, ci siamo” list filed on 25th March 2013 by Mr Giorgio Jannone. That list had the support of 601 registered shareholders representing 7,372,268 shares accounting for 0.82% of the share capital of UBI Banca Scpa and contained the following candidates:

1	Giorgio	Jannone	Chairman
2	Piero	Bertolotto	Senior Deputy Chairman
3	Adele	Timo	Member
4	Valerio Renato	Gastoldi	Member
5	Paola	Corniani	Member
6	Vincenzo	Mascolo	Member
7	Giovanni	Soncini Soncini	Member
8	Minervini	Annamaria	Member
9	Vittorio	Dotti	Member
10	Giulio	Zonda	Member
11	Antonio	Porteri	Member
12	Ambrogina	Zanzi	Member
13	Roberto	Bolpagni	Member
14	Alberto	Facella	Member
15	Luciano	Franceschetto	Member
16	Angiolino	Legrenzi	Member
17	Stefano	Vedovato	Member
18	Marcello	Rosti	Member
19	Luca	Pizio	Member
20	Elena	Tosana	Member
21	Luigi	De Rossi	Member
22	Dario	Alfero	Member
23	Giuseppina Carla Maria	Nelli	Member

- The “UBI, banca popolare!” list filed on 25th March 2013 by Mr Marco Giacinto Gallarati. That list had the support of 700 registered shareholders representing 619,441 shares accounting for 0.07% of the share capital of UBI Banca Scpa and contained the following candidates:

1	Andrea Cesare	Resti	Chairman
2	Marco Giacinto	Gallarati	Senior Deputy Chairman
3	Maurizio	Zucchi	Member
4	Dorino Mario	Agliardi	Member
5	Luca Vittorio	Cividini	Member

6	Laura	Bertulesi	Member
7	Emilio	Gramano	Member
8	Marco	Balzarini	Member
9	Anna Loredana	Cassina	Member
10	Ignazio	Deleuse Bonomi	Member
11	Marco	Pesenti	Member
12	Simonetta	Mangili	Member
13	Giangiaco	Alborghetti	Member
14	Stefano	Franchini	Member
15	Daniele	Bonetti	Member
16	Beatrice	Mascheretti	Member
17	Luciano	Pezzoli	Member
18	Marco	Leali	Member

Votes:

- 7,318 votes in favour of the list presented by the Supervisory Board, being 53.5% of the votes cast at the Shareholders' Meeting;
- 4,693 votes in favour of the "UBI, banca popolare!" list, being 34.3% of the votes cast at the Shareholders' Meeting;
- 1,548 votes in favour of the "UBI BANCA – CI SIAMO!" list, being 11.3% of the votes cast at the Shareholders' Meeting.

In accordance with Art. 45 of the Articles of Association, 18 Board Members from the "list presented by the Supervisory Board" and five Board Members from the "UBI, banca popolare!" list were thus elected.

Again in accordance with the Articles of Association Andrea Moltrasio was elected Chairman of the Supervisory Board and Mario Cera Senior Deputy Chairman of the Supervisory Board, having been in first and second place respectively on the list that received most votes.

At the meeting held on 23rd April 2013 the Supervisory Board appointed *Dott.* Alberto Folonari and Notary *Dott.* Armando Santus as Deputy Chairmen and Board Member *Dott.* Alfredo Gusmini as Secretary.

The members of the Supervisory Board for 2013/2014/2015 are thus as follows:

1	Andrea	Moltrasio	Chairman
2	Mario	Cera	Senior Deputy Chairman
3	Alberto	Folonari	Deputy Chairman
4	Armando	Santus	Deputy Chairman
5	Alfredo	Gusmini	Secretary Member
6	Dorino Mario	Agliardi	Member
7	Antonella	Bardoni	Member
8	Letizia	Bellini Cavalletti	Member
9	Marina	Brogi	Member
10	Pierpaolo	Camadini	Member
11	Luca Vittorio	Cividini	Member
12	Alessandra	Del Boca	Member
13	Ester	Faia	Member
14	Marco Giacinto	Gallarati	Member
15	Carlo	Garavaglia	Member
16	Gian Luigi	Gola	Member
17	Lorenzo Renato	Guerini	Member
18	Federico	Manzoni	Member
19	Mario	Mazzoleni	Member
20	Enrico	Minelli	Member
21	Sergio	Pivato	Member
22	Andrea Cesare	Resti	Member
23	Maurizio	Zucchi	Member

The curricula vitae of the members of the Supervisory Board are available on the website of UBI Banca.

On 18th July 2013 *Dott.* Giorgio Jannone and other Registered Shareholders served a writ of summons on UBI Banca, which, briefly, asked it to declare:(i)that the only valid list for the appointment of members of the Supervisory Board of the Bank is the list presented by, among others, the same Registered Shareholder Jannone, following the ascertainment of irregularities in the other two lists which received the majority of the votes at the Shareholders' Meeting of 20th April 2013; or alternatively (ii) the invalidity of the shareholders' resolution relating to the appointment of company officers; or secondarily (iii) the invalidity of some votes made during a particular period of time while the Shareholders' Meeting was being held (at the stage when the votes commenced).

The Bank considers that the procedures preliminary to the shareholders meeting to check the lists presented were carried out correctly and that the proceedings of the shareholders' meeting were also carried out properly. It therefore judges the claims made in that summons to be without foundation.

* * *

Special regulations govern the functioning of the Supervisory Board concerning:

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

A special section of those regulations deals with reporting systems.

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

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

In order to facilitate attendance at board meetings the Articles of Association allow remote attendance through the use of appropriate audio/videoconference and/or teleconference connections.

During 2013 the Supervisory Board met 23 times and the average length of meetings was five hours.

We also report that the Supervisory Board has planned 20 meetings for 2014, of which five have already been held.

The Internal Control Committee has had ongoing meetings with the independent auditors, Deloitte & Touche SpA and reported on these to the Supervisory Board.

The Supervisory Board's report to the Shareholders' Meeting contains specific information on other mandates awarded to Deloitte & Touche and other companies in its network.

* * *

Following its appointment and on an ongoing basis, 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.

In this respect, considering also the particular nature of the Supervisory Board in the context of a two tier governance model, 20 the members of the Supervisory Board out of 23 meet the independence requirements of the Corporate Governance Code.

With reference to the principles and criteria referred to in Art. 3.C.1. at point b) of the Corporate Governance Code, Board Members Andrea Moltrasio, Mario Cera e Lorenzo Renato Guerini are not independent since for the previous three years they were senior officers in subsidiaries of UBI Banca.

In the first few months of 2013, in view of the appointment of a new Supervisory Board and Management Board, a report was prepared on the qualitative and quantitative composition of the Management Board and Supervisory Board deemed to be best. The results of this analysis have been published and distributed to the Registered shareholders.

Following its appointment by the Shareholders' Meeting, in May 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 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.

Considering that the new members of the Supervisory Board took office in April 2013, followed by the formation of the internal committees of the same Board, a proper and effective evaluation of the functioning of the Board and Committees, and of their size and composition, needs to be carried out after an appropriate period of activity, sufficient to provide suitable assessment criteria, including the recent changes in the membership of the body among the factors to be taken into account during the evaluation.

In this context, the Self-Assessment Process for 2013, 2014 and 2015 was launched in December 2013 - with an indication of the actions to be taken and the related schedule - and for the provision and implementation of a peer review system and process in 2014 and 2015 with the consultancy support of Egon Zehnder.

4.3. Chairman of the Supervisory Board

The Chairman of the Supervisory Board convenes – on his own initiative and, in any event, in the cases prescribed by Law or the by-laws – and chairs the meetings of the Board itself, setting the agendas, taking account of the proposals formulated by the Senior Deputy Chairman and the other Deputy Chairmen and ensuring that adequate information about the topics contained on the agenda are provided to all the members of the Supervisory Board.

The duties of the Chairman of the Supervisory Board are listed in article 47 of the Articles of Association.

5. Internal Committees of the Supervisory Board (pursuant to Art. 123 bis, paragraph 2, letter d) of the Consolidated Finance Act)

While it acknowledges the principle of collegial responsibility in performance of its duties, the Supervisory Board - in relation to its responsibilities, its composition and the characteristics of its members - decided to establish internal committees as follows:

- specific committees with proposal making, consultative and investigative functions in

compliance with Bank of Italy regulations, the recommendations of the Borsa Italiana Corporate Governance Code and supervisory authority instructions. These committees were established to allow the Supervisory Board to work more efficiently and effectively, and they are composed - as recommended by the Corporate Governance Code - of more than three members.

- Appointments Committee 6 members
 - Remuneration Committee 5 members
 - Internal Control Committee 5 members
 - Accounts Committee 4 members
- a Related and Connected Parties Committee composed of three members, in compliance with the provisions of: (i) "Regulations for UBI Banca Scpa related-party transactions" adopted in implementation of Art. 2391-*bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) "Regulations for operations with parties connected to the UBI Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties".

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

6. Appointments Committee

The Appointments Committee (members of which pursuant to Art. 49 of the Articles of Association include the Chairman of the Supervisory Board with the functions of Chairman and the Senior Deputy Chairman) was, until the appointment of new members to the corporate bodies, composed of the following members of the Supervisory Board:

- Giuseppe Calvi (Senior Deputy Chairman of the Supervisory Board)
- Alberto Folonari
- Carlo Garavaglia
- Federico Manzoni
- Mario Mazzoleni

and *Avv. Corrado Faissola* (Chairman of the Supervisory Board), who passed away on 20th December 2012.

Since 23rd April 2013 the Appointments Committee has been composed of the following members of the Supervisory Board:

- Andrea Moltrasio Chairman of the Supervisory Board
- Mario Cera Senior Deputy Chairman of the Supervisory Board
- Alberto Folonari
- Santus Armando
- Mario Mazzoleni
- Enrico Minelli

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

In compliance with the Articles of Association, the Appointments Committee's duties include the following:

- it identifies candidates for membership of the Supervisory Board to be proposed to the

Supervisory Board itself for submission to a Shareholders' Meeting;
In compliance with the Articles of Association, the Appointments Committee's duties include the following:

- it identifies candidates for membership of the Supervisory Board to be proposed to the Supervisory Board itself for submission to a Shareholders' Meeting;
- it identifies candidates for membership of the Management Board to be proposed to the Supervisory Board;
- it performs fact finding activity for the issue of a non-binding opinion which the Supervisory Board may express in accordance with article 46, paragraph one, letter n) of the Articles of Association with a vote in favour of at least 17 (seventeen) of its members on the candidates proposed by the Management Board to the position of Board Member and Statutory Auditor of the subsidiaries listed in article 36, paragraph two, letter b) of the Articles of Association.

In 2013, the Appointments Committee performed its duties with regard to decisions concerning the composition of the Supervisory Board and Management Board and the issue of a non-binding opinion by the Supervisory Board for appointments to corporate bodies of banks in the Group pursuant to Art. 36 of the Articles of Association. In 2013 the Appointments Committee also worked with the Supervisory Board to provide the report on the qualitative and quantitative composition of the Board, in order to implement the provisions issued by the Bank of Italy on 11th January 2012: "Applications of the Supervisory Provisions concerning the organisation and governance of banks". The Appointments Committee has also worked with the Supervisory Board to update the regulations of the Appointments Committee, in order to implement the changes in the relevant legislative and regulatory framework and consider the presence of management on the Management Board.

The Appointments Committee met eight times in 2013. The average length of meetings was approximately one hour.

Two meetings have already been held in 2014.

7. Remuneration Committee

Until the appointment of new members of the corporate bodies, the Remuneration Committee was composed of the following members of the Supervisory Board:

- | | | |
|------------|----------|----------|
| - Giuseppe | Calvi | Chairman |
| - Alberto | Folonari | |
| - Giuseppe | Lucchini | |
| - Toti S. | Musumeci | |
| - Giorgio | Perolari | |

Since 23rd April 2013 the Remuneration Committee has been composed of the following members of the Supervisory Board:

- | | | |
|-----------------|----------|----------|
| - Mario | Cera | Chairman |
| - Alessandra | Del Boca | |
| - Marina | Brogi | |
| - Andrea Cesare | Resti | |
| - Armando | Santus | |

Compliance of the appointment of the current Chairman of the Remuneration Committee with the provisions of the Borsa Italiana Corporate Governance Code.

With reference to the appointment of the Senior Deputy Chairman, Mario Cera (who for the previous three years had performed a senior role in a strategically significant subsidiary) to the position of Chairman of the Remuneration Committee, we report that this decision was taken immediately after the appointment of the Supervisory Board by the Shareholders' Meeting held

on 20th April 2013, in view of the efficient operational continuity of the Bank compared to the situation which saw the previous Senior Deputy Chairman of the Supervisory Board holding the position of Chairman of the Remuneration Committee. In this context, considering that four out of the five members of the Remuneration Committee are people who are serving as members of the Supervisory Board for the first time, it was considered appropriate not to comply, for this specific point only, with the requirements of Art. 6.P.3 of the Borsa Italiana Corporate Governance Code in order to ensure that the Bank continues to function in a full and efficient manner with specific reference: (i) to setting the remuneration of members of the Supervisory Board, (ii) to defining the remuneration policies for the Supervisory Board and deciding on the remuneration of members of the Management Board and the Chief Executive Officer and (iii) defining remuneration and incentive policies for the corporate bodies of companies in the UBI Group, its employees and associate workers not linked to the Group by regular employee contracts.

It is precisely the professional experience and knowledge of the Group that Mario Cera has acquired that were and are, together with his substantial and well-known independence of judgement, that are a suitable guarantee of the more efficient and appropriate functioning of the Committee in a particularly delicate context.

In relation to the reasons given above, the Supervisory Board has decided that its current composition must be considered provisional, pending an overall reconsideration of the governance and regulatory structure of UBI Banca and of its Articles of Association.

It is also scarcely necessary to point out that UBI Banca, as a co-operative that is not subject to control or situations involving significant groups of shareholders, shareholders' voting agreements, or major shareholders does not appear to be subject to particular risks of duress or a lack of independent judgement if the Chairman of the Remuneration Committee, who in any event has no personal interest or any relationship with other company officers, were to be considered to lack independence solely because of his previous experience within the Group itself.

The Remuneration Committee is governed by special regulations which determine its responsibilities and functioning in compliance with legal, regulatory and article-of-association provisions.

The Remuneration Committee formulates the following:

- recommendations for decisions which the Supervisory Board must submit to the shareholders for approval concerning the following: setting the remuneration for members of the Supervisory Board; setting policies for the remuneration of the Management Board; remuneration and incentive policies for the corporate bodies of Group companies and for company officers, employees and associate workers not bound to companies by employee contracts;
- opinions on the consistency of resolutions on remuneration and incentives with policy as approved by the Supervisory Board.

The Committee performs advisory functions and makes recommendations concerning remuneration for senior management as specified by Art. 26 of the Consolidated Banking Act and the relative regulations to implement it and for the officers of the internal control functions. It also has advisory duties with regard to setting the remuneration criteria for key personnel, which in the UBI Banca Group comprises "top management" and the "highest management level of the control functions" as defined in the remuneration and incentive policies of the UBI Banca Group.

The Committee also carries out those duties assigned to it by the provisions of the supervisory authority with regard to the remuneration and incentive policies and practices of banks and banking groups. The remuneration committee was provided with the information and gained access to corporate functions needed for the performance of its duties. The Committee is permitted to retain outside consultants to assist it in determining matters as required by the regulations.

The Remuneration Committee met 11 times in 2013 (the average length of the meetings was around two hours) concentrating mainly on the following fields:

- examination of recommendations made by the Supervisory Authority;
- examination and proposal for the distribution of the total amount agreed by the Shareholders' Meeting for setting the remuneration of the Chairman, the Senior Deputy Chairman and the Deputy Chairmen of the Supervisory Board, and the members of that Board who have been assigned particular responsibilities, powers or functions;

- examination and proposal for setting the remuneration to be awarded to the members, Chairman and Deputy Chairman of the Management Board, and to the Chief Executive Officer;
- fact finding work and the submission of recommendations to the Supervisory Board to verify the consistency of the remuneration recommended by the Management Board for the management bodies and senior management of subsidiaries with Group remuneration policies;
- remuneration and incentive policies for employees and associate workers not bound to companies by employee contracts: assessment work and the submission of proposals to the Supervisory Board;
- fact finding work and the submission of recommendations to the Supervisory Board to verify the consistency with Group remuneration policies of the remuneration scheme recommended by the Management Board for “top management” and the “highest management level of the control functions”, on the basis of financial instruments (shares of the listed Parent, UBI Banca), decided by the Management Board and submitted for the approval of the Shareholders' Meeting;
- fact finding work and the submission of recommendations to the Supervisory Board for the approval of the Report on Remuneration to be submitted for the approval of the Shareholders' Meeting;
- examination of the regulations for the incentive scheme for “top management” and the “highest management level of the control functions”: assessment work and the submission of recommendations to the Supervisory Board;
- verification of the trigger conditions and the performance objectives for the 2012 incentive scheme;
- verification of the compliance of the 2013 incentive schemes for UBI Pramerica SGR;
- examination and formulation of a proposal for the revision of the remuneration and incentives policies for 2014;
- declaration that the remuneration paid to members of the Boards of Statutory Auditors if they are acting as a Supervisory Body is compliant with the provisions Legislative Decree No. 231/2001;
- examination of the compliance of remuneration policy with the guidelines proposed by the Management Board concerning the remuneration of employees for positions held on the Boards of Group companies;
- verification that measures taken in relation to personnel categorised as "top management" and "highest management levels of the control functions": comply with remuneration and incentives policies;

With the support of Mercer, an independent consulting firm that has been part of the part of the Marsh & McLennan Group of Companies since October 2013, the Committee has also, in the context of the revision of remuneration and incentives policies, carried out checks and investigations into the level and appropriateness of the governing bodies of the Parent and, in particular, carried out various comparisons with market evidence and the previous situation, and the overall remuneration profile for senior management.

Compared to the overall picture presented by the consulting firm, the level of remuneration paid to members of the Board and senior management was shown to be more than in line with the market sector in question, and there were no points for attention or reasons to intervene. With particular regard to the pay multiple - an indicator relating the remuneration of senior management to that of the other categories of personnel - no thresholds or anomalies in the current remuneration policy were identified. With reference to the Chief Executive Officer, taking the size and consequent complexity of the position into consideration, it was found that among companies in the peer group used for the comparison, the Group has a balanced structure in terms of the relationship between the remuneration of the Chief Executive Officer and the average remuneration for that officer.

Three meetings have already been held in 2014.

8. Remuneration and Succession Planning

Supervisory Board

Shareholders set the remuneration of Supervisory Board members in addition to total remuneration for individuals with certain specific responsibilities, powers and functions. This amount is subsequently allocated by setting the remuneration of the Chairman, the Senior Deputy Chairman, the Deputy Chairmen and other members of the Supervisory Board with certain specific responsibilities, powers and functions pursuant to the Articles of Association or in accordance with Supervisory Board decisions requiring, among other things, participation in committees.

Management Board

In compliance with the Articles of Association, after first consulting with the Remuneration Committee, the Supervisory Board sets the remuneration of the Management Board and of its members to whom special offices, duties or powers have been assigned.

The maximum total fee payable to each member of the Management Board, with the sole exception of the Chairman and the Chief Executive Officer, for membership of the Management Board and the Governing Bodies of the Group banks and companies, is, as a rule, not more than 80% of the remuneration for the office of Chairman of the Supervisory Board and the Management Board;

The Chief Executive Officer and members of the Management Board classified as senior management of UBI Banca, included within the scope of key personnel, are eligible for forms of variable remuneration linked to results.

No attendance payments exist. No guaranteed bonuses or leaving bonuses exist for members of the Management Board. No member of the Management Board may unilaterally waive their right to part or all of their remuneration.

Indemnities for board members in the event of resignation, dismissal or termination of contract following a public tender offer [pursuant to Art. 123 - bis, paragraph 1, letter i) of the Consolidated Finance Act]

The Bank is under no contractual obligation to pay sums to Management Board and Supervisory Board members in the event of dismissal without cause or termination of employment as a result of a takeover.

The Remuneration Report, as required by Art. 123 *ter* of the Consolidated Finance Act, may be consulted for details of remuneration and incentives schemes in place in the UBI Banca Group.

Succession Planning

In 2011 UBI Banca put a structured process in place entitled “senior leadership succession”, designed to select and assess managers within the Group for consideration by the Appointments Committee, the Supervisory Board and the Management Board as potential candidates for senior executive positions and for those of Chief Executive Officer and General Manager in particular.

The “senior leadership succession” is a periodic process to assess the managerial skills and potential of each of the managers who fill high ranking roles in the Group.

Each manager is assessed by means of individual interviews conducted by a leading specialised firm (EZI) which also took a series of 360 degree references for each manager.

Each assessment contains an analysis of the strengths, areas for improvement and all round perception of each manager as well as a summary assessment of general potential and also specific potential for the selection of the best candidates for succession to the position of General Manager and/or Chief Executive Officer.

Each manager receives feedback on their strengths to be consolidated and areas for improvement to be developed. This feedback forms part of individual development plans designed to strengthen managerial quality at UBI Banca.

In cases of early or unexpected substitution of the General Manager and/or Chief Executive Officer, the results of the “senior leadership succession” process represent a point of reference for decisions relating to new appointments and for the assessment of potential candidates.

The results of the “senior leadership succession” process are discussed and validated by the Chairman of the Appointments Committee and the Chairman of the Supervisory Board and by

the Senior Deputy Chairman of the Supervisory Board jointly with the Chairman and Deputy Chairman of the Management Board.

UBI Banca has also had a structured “management appraisal” process in place since 2009, designed to enhance the leadership development of Group managers and to enable the selection of successors in the short and medium term for the key positions and/or for managers who report directly to the Chief Executive Officer and the General Manager.

The methodology, output and procedures of the “management appraisal” process are similar to those described above for the “senior leadership succession” process and they were carried out with advisory support from a leading specialised firm (EZI).

The results of the “management appraisal” process are validated by the Chief Executive Officer and by the General Manager and they are discussed with the Chairman and Deputy Chairman of the Management Board and with the Chairman and Senior Deputy Chairman of the Supervisory Board.

The succession plans are updated on a periodic basis in accordance with the procedures and methods described above.

9. Internal Control Committee

Until the appointment of new members of the corporate bodies, the Internal Control Committee was composed of the following members of the Supervisory Board:

- Sergio Pivato, as the Chairman (*)
- Luigi Bellini (*)
- Mario Cattaneo (*)
- Alfredo Gusmini (*)
- Italo Lucchini (*)

Since 23rd April 2013 the Internal Control Committee has been composed of the following members of the Supervisory Board:

- Sergio Pivato, as the Chairman (*)
- Pierpaolo Camadini
- Carlo Garavaglia (*)
- Gian Luigi Gola (*)
- Alfredo Gusmini (*)

(*) Enrolled in the *Registro dei Revisori Legali* (register of external statutory auditors).

The purpose of the Committee, which is governed by special regulations which determine its duties and how it functions, is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in those areas overseen by the Board as a Supervisory Body in accordance with regulatory requirements in force at the time.

The Committee's duties also include supporting the Supervisory Board with its supervisory functions pursuant to Art. 149, paragraphs one and three, of Legislative Decree No. 58 of 24th February 1998, having regard to the internal control system and other activities connected with the functions of the Supervisory Body and the following activities in particular:

Internal control system

- assessment of the efficiency and adequacy of the internal control system as a whole;
- assessment of the basic elements of the general architecture of the internal control system (powers, responsibilities, resources, information, and management of conflicts of interest);
- supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the Internal Capital Adequacy Assessment Process (ICAAP) with the regulatory requirements;
- non-binding opinion regarding the appointment and removal of the officer responsible for the internal control function and the officer responsible for the compliance function

(pursuant to Art. 46 letter Q of the Articles of Association), by submitting its own assessment of the identified candidates to the Supervisory Board;

- approval of the activities plan of the corporate control functions and examination of their reports on the activities carried out;
- verification of the proper performance of strategic control and management activities by the Parent in relation to Group member companies.

Other activities in support of the Supervisory Board oversight activities:

- assessment of the adequacy of the organisational and accounting structures of the Bank;
- communication to the Bank of Italy of events or facts which might constitute a management irregularity or an infringement of banking regulations pursuant to Art. 52 of the Consolidated Banking Act. Should the Committee become aware of circumstances that may be relevant pursuant to Art. 52 of the Consolidated Banking Act in the course of its activities, it shall inform the Supervisory Board of this immediately;
- reporting of management irregularities and violations of the regulations governing the provision of investment services;
- reporting of management irregularities and violations of the regulations governing the provision of investment services;
- opinion regarding the appointment and removal of the person in charge of preparing the financial reporting documents pursuant to Art. 154-*bis* of Legislative Decree No. 58 dated 24th February 1998, (and pursuant to Art. 46 letter Q of the Articles of Association), by submitting its own assessment of the identified candidates to the Supervisory Board;
- preparation of the report on supervisory activity performed, on omissions and on irregularities observed on the occasion of the Shareholders' Meeting called pursuant to Art. 2364-*bis* of the Italian Civil Code as well as for any other ordinary or extraordinary Shareholders' Meeting called.

The Committee performs its internal control and audit functions in accordance with Art. 19 of Legislative Decree No. 39 of 27th January 2010, specifically including the following:

- financial reporting processes;
- effectiveness of the system of internal control, internal audit and risk management;
- the external statutory audit of separate and consolidated accounts;
- the independence of the auditor, particularly with respect to the provision of non-audit services, assessing its professionalism and experience in order to ascertain its adequacy in relation to the size and operational complexity of the Bank.

The Management Board at its meeting of 9th July 2013 and the Supervisory Board at its meeting of 13th July 2013, approved the proposal, for the membership of the Supervisory Body of the Parent UBI Banca, pursuant to Legislative Decree No. 231/2001, to be the same as that of the Internal Control Committee - already formed within the Supervisory Board, pursuant to Art. 49 of the Articles of Association - and that, for the subsidiaries, the role of Supervisory Body should be conferred on the Board of Statutory Auditors. Detailed information relating to Supervisory Body and model of organisation, management and control pursuant to Legislative Decree No. 231/2001 is given in the relevant section of this report (section 11.3).

The Committee normally performs its duties using the information provided to the Supervisory Board in compliance with the relevant regulations and any additional information provided by the Chief Audit Executive, the Chief Risk Officer, the Compliance Officer, the Money Laundering and Financing of Terrorism Risks Officer, the Senior Officer Responsible for the preparation of corporate accounting documents and the external statutory auditor, as well as the results of the activities performed by the Supervisory Body pursuant to Legislative Decree No. 231/2001. In particular, for matters relating to accounting issues the Committee makes use of the investigations carried out by the Accounts Committee, and the joint presence of all the members of both committees in the Supervisory Board ensure that they are co-ordinated adequately. There are also appropriate forms of liaison between the Internal Control Committee and the entity responsible for auditing the accounts.

The Committee, by employing the services of the appropriate organisational units of the Bank, can proceed to inspections and controls at any time and exchange information with the control bodies of the companies of the Group with regard to the management and control systems and

to corporate activity. In particular, the Committee, when it considers it necessary, asks the Internal Audit Function to perform checks on specific areas. In accordance with Art. 43 of the Articles of Association, the Committee also activates the Internal Audit Function in response to extraordinary requests for inspections and/or investigations made by the Chief Executive Officer. The Committee reports on the activities and investigations it has carried out, including the tasks assigned to the Internal Audit Function, at meetings of the Supervisory Board, which its members (being members of the Supervisory Board) attend on a regular basis. In order to carry out its activities, the Committee may identify and make use of external consultants, at the Bank's expense.

The Committee works in close liaison with the corresponding bodies of the subsidiaries. At least one member of the Internal Control Committee attends meetings of the Management Board on a rotating basis in compliance with regulations in force. The Internal Control Committee met 27 times in 2013 (the average length of each meeting was approximately three hours) and all the meetings were properly minuted.

Each member was present at the following number of meetings: S. Pivato, 27 meetings; L. Bellini, 7 meetings; M. Cattaneo, 7 meetings (up to 17th April 2013); Dott. A. Gusmini, 25 meetings; Dott. I. Lucchini, 7 meetings (up to 17th April); Avv. P. Camadini, 19 meetings (since 14th May 2013); Dott. C. Garavaglia, 14 meetings (since 14th May 2013), Dott. G. Gola 19 meetings (since 14th May 2013). Members who were unable to attend a meeting gave reasons for their absence.

The Chief Risk Officer and the Chief Audit Executive attend the meetings of the Committee on a regular basis. The regulations of the Committee provide that *"if it is apparent from the matters on the agenda for discussion that this is advisable, the Chairman of the Supervisory Board may participate in the work of the Committee at his request or by invitation of the Chairman"*. This provision was not applied in 2013. In relation to the matters discussed under specific items on the agenda, and at the request of the Chairman of the Committee, representatives of UBI Banca and other Group companies, as well as outside professionals attending as consultants and representatives of the independent auditors have attended meetings as needed in 2013.

The Committee submits special six-monthly reports on the activities performed to the Supervisory Board, in which it gives its opinion on the adequacy of the internal control system of the Bank and its strategic subsidiaries. The Chairman of the Committee also notifies the Supervisory Board from time to time of areas that have been observed requiring improvement or attention, requesting the adoption of appropriate measures to strengthen internal controls and assessing their effectiveness over time, as well as reporting on activities performed in relation to specific matters that the Supervisory Board has asked the Committee to examine in greater detail, providing relevant information to support the work of the Supervisory Board.

In 2013 the Internal Control Committee concentrated mainly on the following activities:

- the most important issues concerning the internal control system of the Bank and the legislative framework, for the purpose of evaluating the adequacy of the same, as follows:
 - the main legislative and regulatory changes in areas relevant to the general architecture of the internal control system of the Group's system of internal controls, including the "New regulations for the prudential supervision of banks - Circular No. 263 of 27th December 2006 - 15th amendment of 2nd July 2013" issued by the Bank of Italy;
 - the changes introduced by the *Legge di Stabilità* (Stability Law – annual finance act) of 12th November 2011 concerning supervisory bodies, in relation to which it has launched specific investigations into the structure of the Group's supervisory bodies, submitting its own evaluations concerning the various planned solutions;
 - the development of the "Governance Plan" with the purpose of updating the overall framework, also taking into account the project to revise the Articles of Association of the Bank;
 - the changes made to the Group's Code of Conduct, in relation to the introduction of specific provisions to do with the protection and rights of customers and conflicts of interest with connected parties;

- the management of conflicts of interest and in particular, with reference to the subject of interlocking directorships, 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, notable among which are the merger of Centrobanca into the Parent and the operational stabilisation projects for the subsidiaries IW Bank and Prestitalia;
 - matters relating to the system of powers, the definition and attribution of responsibilities and the management of resources, such as amending signatory powers as a consequence of changes to the organisational structure of UBI Banca, remuneration and incentive schemes, changes in staff costs and loans granted to employees, focusing in particular on specific aspects of the “Plan for the optimisation and functioning of the Group” and the “Quality of human resources project”;
 - information flows, with particular regard to the frequency of reporting required by the organisational units responsible for controls and the implementation of new information flows from the Internal Control Committee and Internal Audit to senior management;
 - the activities of the Supervisory Bodies of the Group member companies, including specific meetings, with a particular focus on the areas affected by the New regulations for prudential supervision issued by the Bank of Italy and the use of advanced internal models adopted by the Group for measuring and managing credit and operational risks;
 - assessment of the adequacy of the organisational and accounting structures of the Bank, paying particular attention to the monitoring of processes relating to impairment losses on non-performing, impaired and restructured loans and receivables, taking into account evidence provided by the independent auditors and reports made by the Chief Financial Officer;
 - matters relating to anti-money laundering, with a particular focus on implementing 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 introduced by the provision issued by the Bank of Italy on 3rd April 2013 including measures relating to the appropriate verification of customers;
 - compliance (using, among other things, the reports produced) to monitor the progress of the initiatives relating to the relevant organisational and regulatory framework and those designed to strengthen compliance processes;
 - transparency, with particular reference to developments in monitoring compliance in this regard, pursuant to the specific project launched by the Parent;
 - the work of the UBI Banca Supervisory Body pursuant to Legislative Decree No. 231/01;
 - matters concerning the complaints management process;
 - activities to prepare for the UBI Banca Shareholders’ Meeting;
- supervision of the adequacy of the system for managing and monitoring risk and of the compliance of the Internal Capital Adequacy Assessment Process (ICAAP) with the regulatory requirements, monitoring in particular activities to extend the use of advanced methods to Group member companies, developments in the advanced measurement approach (AMA) model for operational risks 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 regular reports on the activities carried out (Internal Audit, Corporate Anti-Money Laundering Officer, Compliance, Risk Management, complaints and Supervisory Body);
 - the policy-setting and co-ordination activities of the Parent, with particular attention to its subsidiaries;
 - the provision of investment services, with regard to the process for the management and control of derivative products traded in the Group (with a focus on the system of authorisations and powers and on the reporting procedures adopted for management and accounting purposes) and the management of the proprietary securities portfolio;

- 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;
- 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;
- periodic reporting and specific reporting 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 at the Bank and its subsidiaries, including Bank of Italy monitoring of governance at UBI Banca and Bank of Italy monitoring of UBI Leasing and UBI Factor;
- an examination of the underlying causes of the main damaging events in the Group;
- on changes to the Internal Audit Function, in terms of this function’s structure, staff numbers and operational tools - particularly the aspects relating to the setting up of a system for the automatic assignment of ratings to Italian branches, in support of the remote monitoring activities performed by the Internal Audit Function - as well as the implementation of the Quality Assurance review carried out by an external company engaged by the Committee;
- on the appointment of the Officer responsible for the Internal Audit Function, in relation to which it has formulated its prior non-binding opinion on the proposed appointment submitted by the Management Board, in favour of the decisions taken by the Supervisory Board.

As concerns our activities in 2014 we report that, at the date of this report, the Internal Control Committee set the dates of its meetings until 31st December 2014, more specifically planning to hold 26 meetings, five of which had already been held at 6th March 2014.

10. Accounts Committee

Until the 2013 Shareholders’ Meeting, the Accounts Committee was composed of the following members of the Supervisory Board:

- Carlo Garavaglia – as the Chairman
- Mario Cattaneo
- Silvia Fidanza
- Sergio Orlandi

Since the newly-elected Supervisory Board took office on 23rd April 2013, the Accounts Committee has been composed of the following Board Members:

- Lorenzo Renato Guerini - as the Chairman
- Dorino Mario Agliardi
- Marina Brogi
- Federico Manzoni

The purpose of the Committee is to support the Supervisory Board by performing assessments, furnishing advice and submitting proposals in accordance with regulatory requirements, as may be in force from time to time, relating to the approval of financial statements and periodic reports. It expresses opinions designed to allow the Board itself to make decisions in a knowledgeable and informed manner.

The committee is, in that particular respect, required to provide the Supervisory Board with a factual and analytical understanding of such statements and reports. This is done through

fact finding activities performed on the accounts prior to the preparation of annual separate and consolidated financial statements or half year and quarterly reports. The committee then oversees the preparation of accounting documentation through the examination of figures and other relevant information as and when they become available. In order to do this the Committee:

- discusses accounting issues common to all Group member companies;
- examines accounting issues relating to individual Group member companies;
- acquires detailed knowledge of issues concerning the measurement of items in the accounts;
- acquires detailed knowledge of issues concerning the presentation of accounts;
- studies issues concerning supervisory regulations for banks, acquiring knowledge of technical and discretionary aspects.

The Supervisory Board may also ask the Committee to study specific issues within the scope of its responsibilities.

The Committee performs its duties using the information provided to the Supervisory Board in compliance with the relevant regulations and any additional information provided by the Senior Officer Responsible for the Preparation of Corporate Accounting Documents.

The Accounts Committee met 11 times in 2013. The average length of each meeting was approximately three hours.

The Accounts Committee focused on an examination of matters concerning the separate and consolidated financial statements of the Parent, the half year financial report and the quarterly reports to the end of March and September. In this context, the committee acquired detailed information, overseeing the preparation of the aforementioned documents on the basis of information furnished by the Officer Responsible for the Preparation of Corporate Accounting Documents, with a focus mainly on technical aspects of the accounts for which it was considered the involvement of the committee itself was appropriate. Particular attention was paid to the following:

- the most important accounting matters and their impact on the balance sheets of the Group and its main legal entities;
- the process and method used for the recognition of impairment losses on intangible assets, and in particular on goodwill, finite useful life intangible assets and equity investments;
- the loan loss rate, deteriorated loans and receivables and the trends for the related coverage rates, with a particular focus on the most significant positions and on impairment losses on loans, calculated either singly or collectively, including market comparisons;
- all the existing financial instruments, la composition and evaluation of the portfolio of proprietary securities and equity instruments, including financial derivative instruments;
- verification of the existence of contingent assets as defined by IAS 37;
- the state of the Group's tax litigation and the examination of the legal opinions provided on the most significant cases;
- deferred taxation and the regulatory developments in this regard, with particular reference to examination of the recoverability of deferred tax assets;
- the accounting effects of the introduction of new regulations (with particular reference to accounting standard IFRS 13) and tax legislation;
- the disclosure of the main aspects of financial statements and periodic financial reports;
- updates to the Group Accounting and Reporting Manual and the newsletters issued on the main changes relating to accounting;
- examination of responses to information requests made by the authorities in relation to accounting and financial statements;
- legislative and regulatory changes, including those at the consultation stage, concerning supervisory reporting and financial statements;

Three meetings have been held in 2014.

11. Related and Connected Parties Committee

The Related and Connected Parties Committee is required to perform the duties assigned to it: (i) "Regulations for UBI Banca Scpa related-party transactions" adopted in implementation of Art. 2391-*bis* of the Italian Civil Code and Consob requirements with respect to related parties adopted with Resolution No. 17221/2010 and subsequent amendments; (ii) "Regulations for operations with parties connected to the UBI Group", adopted in implementation of Title V, Chapter 5 of Bank of Italy Circular No. 263 of 27th December 2006 - 9th amendment of 12th December 2011, "New regulations for the prudential supervision of banks", containing measures concerning "risk assets and conflicts of interest with connected parties".

The "Regulations for UBI Banca Scpa related-party transactions" govern rules relating to the identification, approval and implementation of related-party transactions performed by Unione di Banche Italiane S.c.p.A., either directly or through its subsidiaries, in order to ensure their substantive and procedural fairness.

The Supervisory Board oversees compliance of the Regulations with the principles recommended in the Consob Regulation and also observance of the procedural and substantive rules contained in them and it reports in this respect to shareholders in accordance with Art. 153 of Legislative Decree No. 58 of 24th February 1998 (the "Consolidated Finance Act"). To achieve this, the Management Board provides the Supervisory Board, at least every quarter, with a list of all the related-party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations.

The "Regulations for operations with parties connected to the UBI Group" govern procedures for maintaining the integrity of decision-making processes in transactions with connected parties performed by Unione di Banche Italiane S.c.p.A., and by the members (banking or non-banking) of the banking group controlled by it.

The corporate bodies of UBI Group member companies that perform a strategic supervisory function supervise the proper application of the provisions of these regulations by the respective companies on an individual basis, with the support of the relevant functions. To achieve this, each of these bodies updates, at least every quarter, the list of all the connected-party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations.

In order, among other things, to enable the Parent to maintain constant compliance with the consolidated limit for risk assets, the Supervisory Board of UBI Banca supervises the compliance of these regulations with the principles stated in the Supervisory Provisions and the observance, at consolidated level, of the procedural and substantive rules contained in them, reporting on this to the Shareholders' Meeting in accordance with Art. 153 of the TUF (the "Consolidated Finance Act"). To achieve this the corporate bodies that perform a strategic supervisory function for the other UBI Group member companies send the Supervisory Board of the Parent the lists of all the connected-party transactions completed in the preceding quarter, including those not subject to a prior opinion from the Committee in accordance with these regulations, on a quarterly basis.

Until the 2013 Shareholders' Meeting, the Related and Connected Parties Committee was composed of the following members of the Supervisory Board:

- Federico Manzoni - as the Chairman;
- Silvia Fidanza;
- Sergio Orlandi;

Since the newly-elected Supervisory Board took office on 23rd April 2013, the Related and Connected Parties Committee has been composed of the following Board Members:

- Marco Giacinto Gallarati - as the Chairman;
- Antonella Bardoni;
- Enrico Minelli.

The Related and Connected Parties Committee met nine times in 2013 (the average length of the meetings was one hour) concentrating mainly on the following fields:

- - opinions on the existence of an advantage for UBI Banca in entering into contracts

- with related parties, and on the advantages and fairness of the relative conditions;
- opinions on the existence of an advantage for a subsidiary company in entering into contracts with connected parties, and on the advantages and substantial fairness of the relative conditions;
- examination and acknowledgement of the periodic receipt of the list of all the connected-party transactions performed, including those not subject to a prior opinion from the Related and Connected Parties Committee;
- examination and acknowledgement of the register of related-party transactions;
- verification of compliance with the individual limit for exposures to risk assets for a given single set of connected parties;
- examination and reading of the periodic financial report on related-party transactions in the interim management report.

Three meetings have already been held in 2014.

The Committee submits regular special reports to the Supervisory Board on the activities performed.

The way in which the Committee functions is governed by the regulations mentioned above, available on the website (www.ubibanca.it).

12. Management Board

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

The Management Board is composed of between a minimum of seven and a maximum of eleven members including a Chairman, a Deputy Chairman and a Chief Executive Officer. The members of the Management Board are appointed from among registered shareholders with voting rights by the Supervisory Board, on the basis of a proposal by the Appointments Committee, after their number has first been set, according to a criterion which, in compliance with Law No. 120 of 12th July 2011, ensures a balance between genders for the period provided for by that law.

The members of the Management Board shall remain in office for three financial years. Their term of office shall expire on the date of the Supervisory Board meeting convened to approve the financial statements relating to their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with article 46, letter a) of the Articles of Association and they may be re-appointed.

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

If the positions of one or more members of the Management Board become vacant, the Supervisory Board replaces them without delay, again on the basis of a proposal submitted by the Appointments Committee in compliance with the proportions established by Law No. 120 of 12th July 2011 for the purposes of ensuring balance between genders. The term of office of members appointed in this manner shall expire at the same time as that of those in office when they were appointed.

If for any reason the positions of the majority of the members originally appointed by the Supervisory Board become vacant, then the entire Management Board shall be considered as removed from office from the date of the appointment of new members. The latter shall remain in office for the remaining term of office that the original Board would have served.

At least one member of the Management Board must possess the requisites of independence set forth in Article 148, paragraph 3 of Legislative Decree No. 58 of 24th February 1998.

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

In compliance with instructions issued by the Bank of Italy on the organisation and corporate governance of banks, the Management Board consists mainly of executive members, consistent with the function of strategic supervision assigned to the Supervisory Board (see the details provided in summary table No. 3).

The members of the Management Board are in fact actively involved in the management of the Bank in compliance with policies approved by the Supervisory Board and submitted to it by the Management Board itself, which as specifically required by the Articles of Association performs its main activities exclusively on a collegial basis with no powers to delegate authority.

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

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

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

Up to 22nd April 2013 the Management Board was composed of the following members:

Emilio Zanetti	Chairman
Flavio Pizzini	Deputy Chairman
Victor Massiah	Chief Executive Officer
Giampiero Auletta Armenise	Member
Mario Cera	Member
Giorgio Frigeri	Member
Gian Luigi Gola	Member
Guido Lupini	Member
Andrea Moltrasio	Member
Franco Polotti	Member

On 23rd April 2013 the Supervisory Board set the number of members at nine, appointing *Rag.* Franco Poletti as Chairman and *Dott.* Giorgio Frigeri as Deputy Chairman, designating *Dott.* Victor Massiah as Chief Executive Officer, who was then appointed by the Management Board at their meeting on 23rd April 2013.

In accordance with the provisions of the regulations of the Appointments Committee the General Manager and Senior Deputy General Manager are members of the Management Board.

The Management Board is therefore currently composed of the following members:

Franco Polotti	Chairman
Giorgio Frigeri	Deputy Chairman
Victor Massiah	Chief Executive Officer
Silvia Fidanza	Member
Luciana Gattinoni	Member
Francesco Iorio	Member
Italo Lucchini	Member
Flavio Pizzini	Member
Elvio Sonnino	Member

The Chief Risk Officer regularly attends meetings of the Management Board and expresses a

mandatory but non-binding opinion on risks.

The *curricula vitae* of the members of the Management Board in office are available on the website of UBI Banca, while attachment A) lists the positions held by all the board members in companies listed in regulated markets, including foreign markets, and in financial, banking, insurance or large companies.

The members of the Management Board remain in office for three financial years, expiring on the date of the Supervisory Board meeting convened to approve the financial statements for 2016.

They remain in office in any event until a new Management Board is appointed in accordance with article 46, letter a) of the Articles of Association and they may be re-appointed.

As a general rule and with the exception of resolutions that must be passed by a qualified majority, the attendance of more than half the members in office is required for meetings of the Management Board to be valid.

The provisions of the "Internal regulations on the limits to the accumulation of positions by company personnel" adopted by the Parent in June 2009, subsequently modified by decisions taken by the Supervisory Board on 18th July 2012, and implemented by the banks in the Group, apply to the Management Board.

These regulations apply to members of the Management Board and the Supervisory Board of the Parent, to the board members and statutory auditors of the banks in the Group, without prejudice to compliance with mandatory legislation and regulations and the provisions of the supervisory authority, including regulations concerning the limits on the accumulation of positions by members of the supervisory bodies of listed issuers and companies with publicly distributed financial instruments, which the Group's regulations extend to cover all the statutory auditors of all the banks in the Group.

Those regulations state that not only are board members not permitted to accept more than five appointments in issuer companies that are not Group members, but also they may not accept other appointments as board members in companies in the Group and external to it, above a maximum limit of a total of six points, resulting from the application of a system of calculation that assigns weights to different types of position dependent on the class of company.

With regard to Groups of companies, for persons belonging to subsidiaries who also perform the same function in the Parent, the regulations allow a reduction by fifty percent of the weighting for the position occupied in the subsidiary company, in consideration of the synergies resulting from a knowledge of the facts and conditions that concern the entire group to which they belong and which therefore reduce, other conditions remaining the same, the commitment involved compared to that required for activities performed in other similar, but independent companies. Similarly, the regulations allow a reduction of thirty percent in the weighting for positions occupied by members of the Management Board of UBI Banca in companies in which the UBI Group holds a strategic investment, or in associates. There are also specific rules for the directors and statutory auditors designated by authorities and partners of the Group by virtue of shareholders' agreements and those who hold posts in the Parent company and subsidiaries of a group other than the UBI Group, for which positions held in the subsidiaries of the said outside group are exempt.

At the date of this report, an analysis of the accumulation of positions held by members of the Management Board of UBI Banca found a general situation compliant with the contents of the regulations.

Following its appointment and on an ongoing basis, in accordance with the relevant regulations in force, the Management Board successfully ascertained that the requirements for integrity, professionalism and independence were met by all its members.

In the first months of 2013, in view of the appointment of a new Supervisory Board and Management Board, a report has been made on the qualitative and quantitative composition of

the Management Board and Supervisory Board deemed to be best; the results of this analysis have been published and distributed to the Registered Shareholders.

Following the appointment of the Management Board by the Supervisory Board, the Management Board proceeded, in May - *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 Board, following a detailed analysis of the professional skills of its various members, evaluated and verified that the composition of the Management 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.

As for the Supervisory Board, considering that the new members of the Management Board took office in April 2013, a proper and effective evaluation of the functioning of the Board, and of its size and composition, needs to be carried out after an appropriate period of activity, sufficient to provide suitable assessment criteria, including the recent changes in the membership of the body among the factors to be taken into account during the evaluation.

In this context, the Self-Assessment Process for 2013, 2014 and 2015 was launched in December 2013 - with an indication of the actions to be taken and the related schedule - and for the provision and implementation of a peer review system and process in 2014 and 2015 with the consultancy support of Egon Zehnder.

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

The Management Board meets at least once a month and also at any time the Chairman considers it appropriate or when a request is made by five members. Meetings are held alternating between the city of Bergamo and the city of Brescia and once a year in the city of Milan.

The Management Board met 28 times in 2013 and the average length of meetings was approximately five hours.

In order to facilitate attendance at board meetings, article 34 of the Articles of Association allows remote attendance through the use of appropriate audio/videoconference and/or teleconference connections.

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

In compliance with Borsa Italiana regulations, in January UBI Banca announced its calendar of corporate events for 2014, to the market (and published it on its website), with the dates of board meetings for the approval of operating and financial results.

We also report that the Management Board has planned 28 meetings for 2014, of which eight have already been held.

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

The Chairman, after consulting with the Chief Executive Officer or on his request, may invite senior managers of the Group and/or external consultants to meetings to report on specific matters, or officers of Group member companies to report on matters in subsidiaries.

The functions of the Management Board are given in article 37 of the Articles of Association, according to which the Management Board is responsible for managing the Bank in compliance with the general guidelines and strategic policies approved by the Supervisory Board, with account taken of the proposals made by the Management Board itself. To achieve this, it performs all the operations necessary, useful or in any case advisable to implement the company objects, whether of an ordinary or extraordinary nature.

In addition to those matters that cannot be delegated by law and to those pursuant to the last paragraph of Article 36, the Management Board has exclusive responsibility for the following:

- setting the general programmes and strategic policies of the Bank and the Group, on the basis of proposals from the Chief Executive Officer, to be submitted to the Supervisory Board for approval
- granting and revoking the powers of the Chief Executive Officer. The selection of the member of the Management Board to whom powers are granted must be performed on the basis of a non binding proposal from the Supervisory Board, decided in turn, subject to a proposal by the Appointments Committee. If this proposal has not been made by the Appointments Committee with the quorum required by the relative regulations, the proposal submitted by the Supervisory Board to the Management Board shall be decided with the vote in favour of at least 17 members of the Supervisory Board. Revocation of the powers is decided by the Management Board with the vote in favour of at least eight members of the Management Board (or of all the members minus one, if the Management Board consists of seven or eight members), after consultation with the Supervisory Board;
- the formulation, on the basis of proposals from the Chief Executive Officer, of the business and/or financial plans and the budgets of the Bank and the Group to be submitted to the Supervisory Board for approval pursuant to Art. 2409-terdecies of the Italian Civil Code;
- the management of risk and internal controls, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46 of the Articles of Association;
- conferring, modifying or revoking authorisations and powers and assigning specific functions or authorisations to one or more board members
- the appointment and removal of the General Manager and other members of General Management, defining their functions and responsibilities and also the appointment of the senior management of the Group;
- the designation of members of the Board of Directors and of the Board of Statutory Auditors of the companies belonging to the Group, without prejudice to the provisions of the preceding article 36, paragraph two, letter e) of the Articles of Association;
- proposals concerning the acquisition or disposal of controlling investments in companies and the acquisition or disposal of non controlling investments where the amount is greater than 0.01% of the supervisory capital eligible for calculating the consolidated core tier one capital as stated in the latest report to the Bank of Italy in accordance with the regulations in force;
- opening and closing down branches and representative offices
- determination of the organisational, administrative and accounting structure of the Bank, to be submitted to the Supervisory Board for approval, and, without prejudice to the exclusive powers of the Supervisory Board pursuant to article 49 of the Articles of Association, setting up committees or commissions with advisory, investigative, controlling or coordinating functions, without prejudice to Art. 42, paragraph two of the Articles of Association;
- the approval and amendment of the regulations of the Bank and the Group, with exception made for the responsibilities and powers of the Supervisory Board pursuant to Art. 46. paragraph I, letter s) of the Articles of Association;
- determining the criteria for the co-ordination and management of Group member companies and also the criteria for implementing instructions issued by the Bank of Italy
- subject to the mandatory opinion of the Supervisory Board, appointing and removing the financial reporting officer, pursuant to article 154-*bis* of legislative Decree No. 58 of 24th February 1998, and determining the relative remuneration.
- preparing separate financial statements and consolidated financial statements for approval
- exercising the authority to increase share capital granted pursuant to Article 2443 of the Italian Civil Code, as well as to issue convertible bonds pursuant to Article 2420-*ter* of the Italian Civil Code, following authorisation by the Supervisory Board;
- obligations of the Management Board pursuant to articles 2446 and 2447 of the Italian Civil Code;
- formulation of merger or demerger plans;
- proposals for transactions pursuant to Art. 46, paragraph I, letter m) of the Articles of Association to submit to the Supervisory Board for approval;
- definition of criteria to identify related party transactions for which responsibility will lie with the board itself.

Special regulations govern the functioning of the Management Board concerning:

- the general organisation of the work of the Management Board;
- the preparation of agendas for meetings;

- procedures, timing and contents of documentation to be sent to members of the Management Board before board meetings, in order to allow members to act in an informed manner;
- performance of meetings;
- minutes and records of decision making processes;
- reporting on the decisions taken.

A special section of those regulations deals with reporting systems.

In compliance with the Articles of Association, after first consulting with the Remuneration Committee, the Supervisory Board sets the remuneration of the Management Board and of its members to whom special offices, duties or powers have been assigned.

The relative amounts are reported in detail in the Remuneration Report prepared in accordance with Art. 123 *ter* of the Consolidated Finance Act, which may be consulted.

12.4. Executive officers

Chief Executive Officer

The Management Board, in compliance with the Articles of Association, has conferred the following powers on the Chief Executive Officer:

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

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

Furthermore, on 23rd April 2013, the Management Board assigned duties to the Chief Executive Officer pursuant to Art. 43 *bis* of the Articles of Association with the support of the General Manager in connection with the overall design of internal control systems.

12.5. Chairman of the Management Board

The duties of the Chairman of the Management Board are listed in article 39 of the Articles of Association. More specifically the Chairman of the Management Board, who acts as the Bank's legally authorised representative and authorised signatory, performs the tasks that are typically carried out by the Chairman of a company's management body, which he performs by liaising with the other Article of Association regulated bodies where appropriate.

12.6. Other Executive Board Members

The members of the Management Board are actively involved in the management of the Bank in compliance with policies approved by the Supervisory Board and submitted to it by the Management Board itself, which as specifically required by the Articles of Association performs its main activities exclusively on a collegial basis with no powers to delegate authority.

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

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

12.7 Independent board members

In accordance with the Articles of Association, at least one member of the Management Board must possess the requirements of independence pursuant to Art. 148, paragraph 3 of Legislative Decree No. 58 of 24th February 1998, in compliance with Art. 147 *quater* of the Consolidated Finance Act.

Four independent members of the Management Board were identified pursuant to the aforementioned provisions: *Dott.ssa* Silvia Fidanza, *Dott.ssa* Luciana Gattinoni and *Dott.* Italo Lucchini.

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

13. The Board of Arbitrators

Appeal may be made to the Board of Arbitrators to settle any disputes that may arise between the Bank and/or registered shareholders over the interpretation or application of the Articles of Association and over any other resolutions or decisions taken by the governing bodies of the Bank concerning its business. It decides as a friendly arbiter by absolute majority vote. Without prejudice to the legislation and regulations currently in force, application to the Board of Arbitrators is not compulsory. Its decisions are not binding on the parties and do not constitute a hindrance to taking disputes before the courts or any other any authority with jurisdiction for settlement. The Board of Arbitrators regulates its own proceedings as it deems appropriate without being bound by procedural formalities. The Management Board and the General Manager or an employee designated by him are required to provide the arbitrators with all the information that they may request concerning disputes to be settled.

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

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

Grounds must be given for their removal.

If a full arbitrator vacates his position during his three year period of office, he is replaced by the most senior alternate member by age. If the chairman of the arbitrators vacates his position, the chairmanship is taken by the most senior full arbitrator by age for the remainder

of the three year period.

On 28th April 2012 the Shareholders' Meeting appointed the following Board of Arbitrators for the three year period 2012/2014:

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

Full arbitrator *Avv.* Mario Caffi passed away on 14th September 2013 and, in accordance with the Articles of Association, *Avv.* Attilio Rota took his place as Full Arbitrator.

The Shareholders' Meeting scheduled for 30th April 2014 in first call and 10th May 2014 in second call must appoint the statutory auditors.

14. General Management

The Management Board, in compliance with the Articles of Association, has appointed *Dott.* Francesco Iorio to the position of General Manager with the following functions and responsibilities:

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

The Management Board appointed *Dott.* Elvio Sonnino as Senior Deputy General Manager and the Deputy General Managers listed below who have been assigned various responsibilities in the Group:

- Rossella Leidi
- Giovanni Lupinacci (until 30th June 2013)
- Ettore Giuseppe Medda
- Pierangelo Rigamonti.

15. Internal control and risk management system

Internal controls

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

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

The process of assessing the internal control system and verifying its adequacy and effective functioning form part of the responsibilities of the corporate bodies which fulfil strategic supervision, control and management functions. In order to accomplish this, the Supervisory Board makes use of the Internal Control Committee which it forms directly itself (the composition, powers and functioning of the Internal Control Committee have already been examined in this report in the section specifically on that Committee).

In accordance with Art. 43-*bis* of the Articles of Association, the Management Board has assigned duties to the Chief Executive Officer, exclusively in support of the Management Board, with organisational, proposal-making and reporting functions on internal control matters, to be performed in close co-operation with the General Manager, in observance of the responsibilities of the Supervisory Board on those matters and decisions made by it.

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

As part of his duties, the Chief Executive Officer initiated the introduction of the "Principles for the organisation of the internal control system of the UBI Group", approved by the competent bodies in October 2008. The fundamental contents of these principles are designed for application on a permanent basis to all Group member companies and points of reference for the definition and implementation of all the components of the system of internal control, at both Group and individual company level.

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

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

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

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

- line controls (first level), the responsibility of the managers of organisational or process units, are integrated in the processes to which they belong or relate and are designed to ensure the proper performance of the activities relating to their mission at different hierarchical levels;
- risk controls (second level), the responsibility of specialist units (in particular: Risk Management, Compliance, Anti-Money Laundering and Financing of Terrorism, Senior Officer Responsible and Operational Control), whose objectives are to assist in the definition of risk measurement and assessment methods, to verify compliance with limits assigned to different operating functions and to verify that the operations of single production areas are consistent with the risk-return objectives set for them;
- internal audit (third level), performed by Internal Audit Function;

in addition to the strategic supervision performed by the Supervisory Board.

The first two types of control (first and second level), not only satisfy the requirements for reporting to the supervisory body, but are also closely related on a practical level to the daily exercise of their responsibilities in relation to internal controls by the management body and the general management.

More specifically, those responsible for second level controls are required to continuously identify, prevent and measure risk situations by adopting appropriate valuation models and to assist in the formulation of risk assumption and management policies with regard, amongst other things, to the maximum limits on exposure to them. Adequate reporting is provided to the Supervisory Board, the Management Board and the General Management on current and future exposure to operating risks which also includes a special *tableau de bord* useful, amongst other things, for monitoring and assessing the system of internal controls.

The current organisational structure includes a Chief Risk Officer, bringing together in one unit the Risk Management, Compliance, Anti-Money Laundering and Financing of Terrorism and Risk Governance Service. The customer care staff and Group rating units also report directly to the Chief Risk Officer.

The same organisational structure includes a Chief Financial Officer, with the role of Senior Officer Responsible, to whom the functions responsible for strategic planning, management controls and accounting controls and standards pursuant to Law No. 262 report.

The roles mentioned are assigned the following functions with respect to the General Regulations of the Bank:

- **Chief Risk Officer:** Responsible for implementation of governance policies and the risk management system, performing the control function and providing the corporate bodies with an overview of the various risks (credit, market, operational, liquidity, reputational, compliance etc.). He ensures the measurement and control of the exposure of the Group to different types of risk. In this respect he ensures the supervision and implementation of activities concerning risk management, partly by means of activities carried out by its own units. He contributes to the development and the diffusion of a control culture within the Group and oversees the detection and monitoring of potential failure to comply with legislation and regulations. He supports the Management Board, partly through regular attendance at its meetings, and senior management in the creation and maintenance of an effective and efficient System of Internal Controls and the formulation of risk and limits management policy proposals, more specifically it supports the Chief Executive Officer, who is responsible for promoting integrated risk control, among other things by providing regular reports and communications. He provides independent information to the corporate body responsible for strategic supervision, partly through regular attendance of the Internal Control Committee, by sending reports and intervening directly. He performs these activities together with the Chief Audit Executive of the Parent working on the assessment of the adequacy of the internal control system. He supervises the internal validation process, oversees the Group rating process and the evaluation of its capital adequacy with respect to public disclosure risks. Coordinates the units involved in the complex process of data entry and data quality. The Chief Risk Officer, under the overall supervision of senior management and within the fields for which he has specific responsibility, performs the co-ordination function for Group member companies;
- **Chief Financial Officer:** supervises Group planning and budget setting cycles and the development and management of the system of strategic departmental reporting. He oversees Capital Management and Capital Allocation activities by proposing operations to strengthen and allocate capital to senior management; He monitors macroeconomic developments with particular reference to key variables which have a direct or indirect impact on the operating and capital objectives of the Group. He oversees strategic and operational asset and liability management. He oversees the financial risk related to the interest rate of the banking book of the Group. He proposes formulas for the Group's liquidity strategy and lending policies. He formulates and issues guidelines, principles, methodologies and regulatory interpretations on accounting and financial reporting matters within the Group. In his role as Financial Reporting Officer he guarantees adequate levels of control and directs activities for compliance with Law No. 262/2005. He ensures supervision of accounting, tax, financial reporting and regulatory activities on a separate company (Bank and operating companies) and consolidated basis. He ensures supervision of processes to close accounts and perform periodic measurement for the preparation of the separate company and consolidated interim and annual financial statements, reporting Group and service company results to senior management on a regular basis. He ensures the adequacy of the management control system, overseeing the use of uniform methods within the operating companies, ensuring that proper management reports are provided for senior management, the competent functions of the Parent, the departments of the network banks and other operating companies, within the fields for which they are responsible. He reports on data for the Incentive and Bonus Scheme in relation to the capital and earnings elements. He oversees the implementation of policies, management tools and activities relating to corporate social responsibility for the Bank and the Group. He prepares compulsory periodic separate Parent and consolidated financial reports in compliance with the legislation and regulations in force. The Chief Financial Officer, under the overall supervision of senior management and within the fields for which he has specific responsibility, performs the co-ordination function for Group member companies;

The purpose of the Internal Audit Function (third level) is to make an independent assessment, in support of the Supervisory Board and Management Board, intended on the one

hand to check, with a view to third level checks, including on-site inspections, that its functioning and changes in risks are in accordance with the rules, and in the other to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the internal control system, reporting to the aforementioned corporate bodies on potential improvements that could be made, with particular reference to risk management policies and tools for risk measurement and control.

The “principal characteristics of the risk and internal control management systems in relation to financial reporting” pursuant to Art. 123 *bis* paragraph 2, letter b) of the Consolidated Finance Act are illustrated in attachment 1 to this report.

15.1 Chief of the Internal Audit Function

The Internal Audit Function is headed by the Chief Audit Executive, who reports to the Supervisory Board and has direct access to all the information required for his work and has no responsibility for any operational unit.

The role of the officer responsible for the internal control function was assigned to Mr Stefano Maria Tortelotti in July 2013.

In implementation of Bank of Italy supervisory provisions concerning the remuneration and incentive policies and practices of banks and banking groups, the Remuneration Committee, an internal committee of the Supervisory Board, has performed consultative and proposal making functions on the remuneration of the chief of the internal control function and directly oversees the proper application of the rules on remuneration for that role. In compliance with supervisory regulations and the Articles of Association, the Supervisory Board also verifies that the Chief Audit Executive has adequate resources to fulfil his duties.

The Internal Audit Function conducts auditing activities on UBI Banca and on subsidiaries which have delegated the internal auditing function to the Parent and more generally to the companies in the Group as the Parent. In relation to this area the Internal Audit Function performs checks, including on-site inspections, consistent with the international standards of the profession, the functioning and the adequacy of the internal control and risk management system, on the basis of a plan extending over a number of years. This three-year plan is based on the outcomes of the periodic assessments of the risks present in the various Companies and Group processes. The risk profiles are mapped taking into consideration: i) information received from second level control functions; ii) the outcomes of investigations into key company processes; iii) the result of the annual management control and risk self assessment (CRSA) for the respective companies that, together with fulfilling the control obligations required by current legislation and regulations are the main drivers for identifying priorities for action and the types of action that are most suitable for evaluating the various risk profiles assumed. The combined use of system analysis and functioning checks, among other things by appraising the capacity of the second level specialist functions to supervise risks in an adequate manner, thus makes it possible to evaluate the principal corporate processes, in part with a view to contributing to an increase in the degree of reliability and, as a consequence, the overall internal control system.

The activities plan is submitted to the Management and Control bodies of the subsidiaries and cumulatively by the Management and Control bodies of the Parent. To perform the activities provided for in this plan the Internal Audit Function makes use of internal resources and also of outside consultants for work of an extraordinary nature, whose work is guaranteed for 2013 by the provision of a specific budget.

In 2013, in compliance with the policies set and the relative regulations, the Internal Audit Function audited the proper functioning of risks and changes in them and it assessed the general functioning of the Group internal control system reporting to corporate bodies and to senior management on potential improvements that could be made to risk management policies and to measurement instruments and procedures.

More specifically, in consideration of the need to support the Supervisory Board in the performance of its duties under legislation and regulations, and also to assist the Management Board, it focused particularly, in relation to their importance, on organisational units and processes affected by the impact of regulations concerning risk management (business, operational and compliance risk) and it also gave advisory support to project activities in progress with an impact on the internal control system.

It also used specific system analyses to verify the reliability of IT systems, including those used for bookkeeping.

Finally, in relation to the specific duties assigned to the Internal Audit Function by Circular No. 263/06 and subsequent updates on supervisory regulations, in 2013 the Internal Audit Function completed auditing activity in accordance with regulations and/or requests made by the Supervisory Authority for the maintenance and extension of the authorisation and the adoption of advanced approaches for the measurement of credit and operational risk.

In addition to the specific report submitted to the Audit Contact and the General Management following the conclusion of the analysis, the results of auditing activities have been the object of regular reports to the Boards of Directors and Boards of Statutory Auditors of the Subsidiaries, presented on a cumulative basis to the Internal Control Committee and the Management and Supervisory Boards of the Parent. This report also provides an outline of the principle situations identified by the auditing activities and that state of progress of the actions taken to remedy them. In the event of particularly significant circumstances it has immediately provided appropriate information sent to the Management and Supervisory bodies and the executive Board Member responsible for the internal control system.

15.2. Executive board member responsible for the internal control system

On 23rd April 2013, the Chief Executive Officer was assigned duties pursuant to Art. 43 *bis* of the Articles of Association, with the support of the General Manager, with regard to the overall design architecture of internal control systems.

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

15.3 Organisational model pursuant to Legislative Decree No. 231/2001

UBI Banca has adopted its own "model of organisation, management and control" (hereinafter the "Model"), which complies with Legislative Decree No. 231/2001 and the relative legislation and regulations that apply and is based on principles that are already rooted in its governance culture and on the recommendations contained in the guidelines of the major trade associations (Italian Banking Association, *Confindustria* (Confederation of Italian Industry) etc.)

The Model is presented in the "*Document describing the organisational, management and control model of UBI Banca S.C.p.A.*" approved by the Management Board and Supervisory Board of UBI Banca. It is divided into two parts which contain the following:

- in the general part a description of:
 - the legislative framework;
 - the reality of the company (system of governance and organisational structure of UBI Banca);
 - the structure of the Model and the methodology chosen to define and update it;
 - identification and appointment of the supervisory body of UBI Banca, with specification of the relative powers, tasks and reporting systems;
 - the functioning of the disciplinary system and the relative penalties;
 - the training and communication plan to be adopted to ensure that people have a knowledge of the measures and regulations of the model;
 - criteria for updating the Model;
- in the special part, a description of:
 - the types of crime (and administrative violations) relevant for the purposes of the administrative liability of entities which the Bank had decided to take into consideration in view of the nature of its business;
 - sensitive processes/activities and the relative control procedures.

The types of violations (crimes and administrative violations) covered by the special part of the UBI Banca Model are as follows:

- crimes against public administrations;

- crimes consisting of forgery of coins, public credit notes, duty stamps, identification instruments and distinctive signs;
- corporate crimes;
- crimes of terrorism and subversion of democratic law;
- crimes against the person of individuals;
- the crime of market manipulation and those covered by “market abuse” regulations;
- transnational crimes;
- crimes relating to health and safety at the workplace;
- crimes consisting of the receipt, laundering and use of money, goods or benefits of illicit origin;
- computer crimes and illicit processing of data;
- crimes relating to organised crime;
- crimes against industry and commerce;
- crimes concerning the violation of copyright;
- environmental crimes;
- the crime of employing citizens of third party countries whose stay documents are irregular.

In application of the most recent changes in regulations and provisions for the prudential supervision of banks that require functional compatibility between control bodies and the Supervisory Body, in July 2013 the corporate bodies of UBI Banca decided to appoint the members of the Internal Control Committee to perform the function of the Supervisory Body.

The Supervisory Body reports to the corporate bodies on the adoption and effective implementation of the model, on the oversight of the functioning of that Model and on supervision of updates to the Model. It employs two separate lines of reporting to achieve this. The first is on a continuous basis directly to the Chief Executive Officer and the General Manager and the second consists of periodic reporting to the Management Board and the Supervisory Board.

UBI Banca, as the Parent, informs subsidiaries of the policies it has set in relation to trends in the development of the relevant regulations, suggesting the general criteria which subsidiaries may follow. In this context, in 2013 UBI Banca carried out an update of the Model, making it possible to take account of the introduction of new types of crime, and changes to external regulations in relation to the governance model and the structure of the Supervisory Bodies of the Parent and its subsidiaries. The Parent also supported the revision of the organisational models of Group companies by sending an updated version of the Model as a guideline for updating and customisation.

An extract of the UBI Banca Model entitled *"Summary of the document describing the organisational, management and control model of UBI Banca S.C.p.a."* is available on the website of the Bank.

15.4 Independent auditors

On 30th April 2011, on the basis of a reasoned proposal submitted by the Supervisory Board, and having received a favourable opinion from the Internal Control and Audit Committee, a Shareholders' Meeting appointed the independent auditors DELOITTE & TOUCHE Spa, with registered address at 25 Via Tortona, Milan. They have been engaged to perform the statutory audits of the separate company financial statements of UBI Banca and the consolidated financial statements of the UBI Banca Group, to verify that the corporate accounts are properly kept and that operating events are accurately recorded in those accounts, and also to perform a limited audit of the condensed interim consolidated financial statements of the UBI Banca Group for the years running from 2012 until 2020, setting the fees and the criteria for adjusting them during the period of the appointment.

Deloitte & Touche S.p.A. is enrolled with the Milan Company Registrar under No 03049560166, Milan R.E.A. (Administrative and Economic Reg.) No 1720239 and is a member of ASSIREVI (Italian association of auditors).

15.5 Chief Financial Officer and Senior Officer Responsible for the preparation of the corporate accounting documents

The Management Board appointed *dr.ssa* Elisabetta Stegher, with the favourable opinion of the Supervisory Board. She is the current Chief Financial Officer and Senior Officer Responsible for the preparation of corporate accounting documents pursuant to Article 154-bis of the Consolidated Finance Act, in possession of the requirements of professionalism required by the Articles of Association which, in addition to the requirements of integrity prescribed by the current regulations in force for persons performing administrative and management functions, also require qualities of professionalism with specific administrative and accounting expertise in the banking, finance, investment or insurance fields.

The following responsibilities have been conferred on that senior officer;

- to certify that market disclosures together with the related financial reports, including interim reports, are reliably based on the records contained in corporate documents and accounting records;
- to put adequate administrative and accounting procedures in place for the preparation of financial reports and all other financial disclosures;
- to certify – jointly with the Chief Executive Officer, by means of a specific report, attached to the separate financial statements, to the consolidated financial statements and to interim financial reports – the adequacy and effective application in the relative period of the procedures just mentioned and that the disclosures correspond to the records contained in the corporate accounting documents and records and provide a true and fair view of the capital, operating and financial position of UBI Banca and the Group.

The Senior Officer Responsible is also required to make special reports to the Chief Executive Officer, the Management Board, the Supervisory Board and the Internal Control Committee. The periodic reports must allow these bodies and officers to assess the adequacy and effective application of the administrative and accounting procedures of the Group and to verify that the powers and means conferred on this officer are appropriate.

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

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

With regard to the centralisation at the Parent of the management of administrative and accounting procedures pursuant to the provisions introduced by Law No. 262/2005, a System of Administrative and Financial Governance has been created for the network banks and some other subsidiaries of UBI Banca which, amongst other things, regulates internal controls for financial reports produced for listed issuers.

This “system” provides proper management of the various risks connected with financial reporting and it also confers adequate powers and means on the Senior Officer Responsible through a hierarchical system of certifications.

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

Certifications issued by subsidiaries are brought to the attention of the Management Board at a meeting for the approval of financial statements or interim financial reports and are then sent to the Parent before the Management Board meeting that approves the proposed separate Parent and consolidated financial statements or interim financial reports.

The hierarchical system of certification is further strengthened by a specific annual report on the adequacy and effective application of administrative and accounting procedures, issued for Group companies by an external independent consultant.

The System of Administrative and Financial Governance of UBI Group also includes a specific specialist unit in staff units under the Senior Officer Responsible, for the overall co-ordination of Group activities, and the definition and performance of assessments in support of certifications.

15.6 Co-ordination between those involved in the internal control and risk management system

With reference to the co-ordination between those involved in the internal control and risk management system, the Supervisory Board, the Management Board and Senior Management also currently benefit from an integrated overall outline of risks considered significant, identified by the control functions responsible for monitoring them and furnished using a tool developed in 2011 by the units reporting the Chief Risk Officer.

In 2014, in implementation of the “ New regulations for the prudential supervision of the internal control system”, a specific document is to be created, approved by the Supervisory Board of the Parent, to include a consistent revision of internal regulations, in which the following must be defined: (i) the duties and responsibilities of the various control bodies and functions, (ii) the reporting between the various functions and/or bodies and between them and the corporate bodies and, if there are areas of potential overlap or opportunities to develop synergies between control areas, (iii) the methods of co-ordination or co-operation in order to ensure that all the functions and bodies which perform control functions interact in a proper manner, avoiding overlap or gaps.

16. Interests of Board Members and related-party transactions

Transactions with representatives of the Bank, with representatives of Group member companies and with companies controlled by them – all of whom may qualify as related parties – are conducted under normal market conditions and for transactions relating to the senior managers of banks, the provisions of Article 136 of Legislative Decree No. 385/1993 (Consolidated Banking Act) are carefully complied with.

Special IT procedures have been introduced in this respect which, on the basis of declarations issued by representatives of companies, make it possible to identify in advance the potential assumption of a direct or indirect obligation of a representative and consequently subject the transaction to the procedures required by the aforementioned Art. 136 of the Consolidated Banking Act.

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

Consob Resolution No. 17221 of 12th March 2010, *subsequently amended by Resolution No. 17389 of 23rd June 2010*, has approved regulations in this connection (Consob Regulations). The new requirements regulate procedures for the approval of transactions entered into by listed companies and issuers with a broad shareholder base with parties that could create a conflict of interest. Such parties include major and controlling shareholders, members of administrative and controlling bodies and senior management and their immediate family members.

The key points of the new requirements are:

- a) they strengthen the role of independent board members at all stages of the decision-making process concerning related-party transactions;
- b) a regime of transparency;
- c) the introduction of detailed corporate governance regulations containing rules designed to ensure substantial and procedural integrity in related-party transactions (a special regime for companies which adopt a two tier system of governance).

The regulations in question apply, within the context of the UBI Banca Group, to UBI Banca as an issuer of listed shares.

As a result of the above, the competent bodies of the Bank have approved a set of regulations concerning related party transactions, available on corporate website, within the set time limits. Internal processes have also been developed to assure compliance with the new rules.

In implementation of Art. 53, paragraphs 4 *et seq.* of the Consolidated Banking Act and Inter-Ministerial Credit Committee Resolution No. 277 of 29th July 2008, on 12/12/2011 the Bank of Italy issued new regulatory measures regarding risk assets and conflicts of interest concerning parties connected to banks or banking groups. (including, amongst others, officers of UBI Banca and all the banks in the Group, the officers of UBI Leasing, and parties connected to those officers according to the definition given in the rules).

The main purpose of the regulations is to contain the risk that the closeness of some “connected parties” to the decision-making centres of the Bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, or other transactions that in any way relate to, those parties; to oversee these risks, UBI Group, in compliance with Bank of Italy provisions:

- monitors and ensures compliance with the specific prudential limits set by the supervisory regulations concerning risk assets undertaken towards connected parties by the Parent and Subsidiaries; in this regard a specific “Policy concerning internal controls on risk assets and conflicts of interest with related parties” has been approved, according to the procedures set out in the Bank of Italy provisions referred to above, and is attached to this Report (Attachment 2);
- employs special decision-making procedures that guarantee the integrity of decision-making processes in connected-party transactions, preventing any abuses that may be intrinsic to transactions with the said parties where there is a potential conflict of interest; these procedures have been implemented by special regulations, applicable to all the Group member companies and available on the website of the Bank.

Generally, in a similar manner to the provisions laid down for the Management Board by Art. 2391 of the Italian Civil Code, the Articles of Association also require the members of the Supervisory Board to report all interests which, either directly or through third parties, they may have in a determined transaction, stating the nature, the terms, origin and extent. The relative resolution of the Supervisory Board must give adequate reasons, explaining the interest of the Bank in the transaction, without prejudice to other provisions of the law or regulations which may apply.

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

17. Treatment of corporate information

In order to avoid the risk of improper disclosure of reserved information, the Management Board has approved procedures for managing privileged information to be disclosed to the public and for managing the register of persons with access to privileged information. A procedure has been developed for that purpose, to draw up security measures to be adopted, designed to guarantee maximum confidentiality of information and to define the procedures for handling and disclosing privileged information.

More specifically, these procedures govern how privileged information that relates directly to the Bank or its subsidiaries is disclosed to the public and at the same time it issues instructions to subsidiaries for them to promptly provide the Bank with the information required to fulfil disclosure obligations required by law.

In compliance with article 115-*bis* of the Consolidated Finance Act, the Bank has set up a register of persons who, on a permanent or occasional basis, have access to privileged information directly concerning UBI Banca.

This register is managed in the name of and on behalf of the Group member companies that have delegated the responsibility for keeping and maintaining their register to the Parent.

If, due to working or professional activities or the functions they perform, UBI Banca and/or a Group member company becomes aware of information concerning an external listed issuer, classified by the same as privileged, in accordance with applicable regulations, UBI Banca and/or the Group member companies will be listed in the register provided by that external listed issuer.

Whether or not UBI Banca and/or the other Group member companies are listed in the register of the external listed issuer, they will also be listed in the register held by UBI Banca.

18. Relations with registered and unregistered shareholders

UBI Banca plays particular attention to the continuous management of relations with shareholders, institutional investors and members of the national and international financial community and it guarantees systematic disclosure of reliable, exhaustive and timely information on the Group's activities, results and strategies.

The “Relationships with Registered Shareholders Service” and “Investor and Media Relations Area” are provided for this purpose. Information of significant importance to shareholders is also provided in special sections of the corporate website of the Bank (www.ubibanca.it).

The “Relationships with Registered Shareholders Service”, as part of the Corporate Affairs, Participation and Relations with the Authorities Area oversees all aspects of the Bank's relations with shareholders, assesses applications to become a Registered Shareholder, maintains the shareholders' register, in compliance with all company requirements, and also coordinates preparations for the Shareholders' Meetings of the Bank and all related activities.

The “UBI Club”, which is available for registered shareholders, offers a series of banking concessions and insurance cover: a current account at particularly attractive conditions and discounts on other products and services such as custody accounts, Qui UBI internet banking, safe deposit boxes and payment systems. The insurance cover is free of charge for registered shareholders and their families and consists of a family civil liability policy with a maximum liability limit of €100,000, an accident life or permanent invalidity policy for invalidity equal to or greater than 66%, a policy that pays a daily indemnity in case of hospitalisation caused by an accident and a safe withdrawal policy. The banking concessions are only for shareholders with current accounts at one of the banks in the UBI Group, whereas insurance cover is for all shareholders.

The Investor and Media Relations Area is responsible for managing relations with the financial community (institutional investors and financial analysts), in accordance with policies set by the senior management of the Bank, and for monitoring everything relating to the institutional communications of the Group.

As part of its institutional duties the Investor and Media Relations Area is responsible for providing clear, prompt and full information, using methods which include press releases, presentations, and the direct management of the Investor Relations and Press Section of the Bank's website. A total of 177 press releases were issued in 2013.

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

Shareholders' Meetings are either ordinary or extraordinary.

An ordinary shareholders' meeting:

- a) appoints and removes members of the Supervisory Board and sets the remuneration (also establishing amounts for attendance tokens) of the members of the supervisory board, as well as an additional total sum for the remuneration for those assigned particular offices, powers or functions, which is allocated in accordance with article 44 of the Articles of Association. It elects the Chairman and the Senior Deputy Chairman of the Supervisory Board according to the procedures set out in article 45 of the Articles of Association. Proper grounds must be given for the removal of members of the Supervisory Board;
- b) approves remuneration policies for members of the Management Board and remuneration and/or incentive schemes based on financial instruments;
- c) decides on the liability of the Members of the Supervisory Board and, pursuant to Art. 2393 and Art. 2409-*decies* of the Italian Civil Code, on the liability of the members of the Management Board, without prejudice to the concurrent liability of the Supervisory Board;
- d) decides on the distribution of profits, subject to the presentation of the financial statements and of the consolidated financial statements approved pursuant to Art. 2409-*terdecies* of the Italian Civil Code;
- e) appoints and dismisses the external statutory auditors responsible for auditing the accounts;
- f) approves the separate financial statements if the Supervisory Board fails to approve them or if this is requested by at least two thirds of the members of the Supervisory Board;
- g) decides on the other matters that fall within its competence either by law or by the Articles of Association.

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

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

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

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

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

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

Ordinary and Extraordinary Shareholders' Meetings may be convened by Registered Shareholders and shall be held without delay following the presentation of the request, giving the grounds and the agenda; the request must be signed by at least one twentieth of the Registered Shareholders in possession of voting rights on the date of the request.

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

Only persons who have been registered shareholders for at least 90 days from the date of entry in the shareholders' register may attend the meetings, exercise voting rights and be eligible for appointment to corporate bodies.

A registered shareholder is entitled to only one vote no matter how many shares are possessed. A registered shareholder is entitled to be represented by issuing a written proxy to another registered shareholder having the right to attend the Shareholders' Meeting. Proxies may not be granted to any members of the management or control bodies, or to employees of the Bank, or to any controlled companies or to any member of the management or control bodies, or employees of the aforesaid controlled companies, or to the firm of statutory auditors appointed or to the person responsible for the statutory audit of the Bank, or to parties to whom one of the other conditions of incompatibility apply according to the law.

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

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

As concerns proceedings in shareholders' meetings, the Bank has adopted regulations for shareholders' meetings, designed to govern the ordered and efficient functioning of meetings and to ensure that each registered shareholder has the right to speak on the items on the agenda.

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

In early 2013 equity markets were affected by a still uncertain and volatile context and it was not until the second part of the year that they showed a marked recovery, as a result of the first signs of recovery at European level and of the monetary policies implemented by central banks.

The UBI Banca share ended the trading day on 30th December 2013 at €4.924. The minimum and maximum prices for the year were €2.636 and €5.220. The stock market capitalisation of UBI Banca on 30th December 2013 (based on the official price) was €4.4 billion compared to €3.2 billion at the end of 2012, which placed UBI Banca in fifth position among Italian banking groups and in first position among "popular" banks. At European level, the UBI Group lies among the first 45 institutions by stock market capitalisation in the classification drawn up by the Italian Banking Association in its European Banking Report, which includes the countries of the European Monetary Union plus Switzerland.

Attachment A

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

(**) Companies belonging to the UBI Banca Group

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Franco POLOTTI	Chairman	<u>Chairman of the Management Board and Chief Executive Officer:</u> - O.R.I. Martin Spa <u>Deputy Chairman of the Management Board and Chief Executive Officer:</u> - Mar.Bea. Srl <u>Chief Executive Officer:</u> - Trafilati Martin Spa <u>General Partner:</u> F.B.G. di Polotti Franco e C. Snc <u>Board Member:</u> - Fondazione Banca San Paolo di Brescia - Opera per l'Educazione Cristiana - Arte e Spiritualità - Eco Fortis Srl - C.M. Srl
Giorgio FRIGERI	Deputy Chairman	Chairman of the Board of Directors: - UBI Pramerica SGR Spa (**) - Centrobanca Sviluppo e Impresa SGR Spa (**) Board Member: - UBI Sistemi e Servizi Scpa (**) Chairman: - Istituto Diocesano per il Sostentamento del Clero di Bergamo
Victor MASSIAH	Chief Executive Officer	Board Member: - Italian Banking Association (ABI) - Interbank Deposit Protection Fund
Silvia FIDANZA	Board Member	<u>Executive Officer:</u> - Fondo Condor Trade Srl <u>Chairman of the Supervisory Board:</u> - Befado S.p. z.o.o. (Polonia)
Luciana GATTINONI	Board Member	<u>Statutory Auditor:</u> - Italcementi Spa Bergamo (*) - Angelo Canevisio Spa - Domus Adiutrix Spa - Ganart Srl - Trafilerie Assi Spa - Metalmauri Trafilerie Spa <u>Alternate Auditor:</u> - Immobililegno Spa - Proposte Spa - Anita Srl
Francesco IORIO	Board Member	<u>General Manager (**):</u> - UBI Banca Scpa <u>Board Member:</u> - UBI Sistemi e Servizi Scpa (**) - Italian Banking Association (ABI)

continued

Name	Position held in the issuer	Positions held in other listed companies or in banking, financial, insurance or large companies
Italo LUCCHINI	Board Member	<p><u>Chairman of the Board of Directors:</u> Azienda Agricola Lodoletta Srl.</p> <p><u>Deputy Chairman of the Board of Directors:</u> - Italmobiliare Spa (*)</p> <p><u>Chief Executive Officer:</u> - Fondazione per la Storia Economica e Sociale di Bergamo – Istituto di Studi e Ricerche - Fondazione Famiglia Legler</p> <p><u>Board Member:</u> - Italcementi Spa Bergamo (*) - Fondazione Italcementi Cav. Lav. Carlo Pesenti - Fondazione A.J. Zaninoni - Fondazione Banca Popolare di Bergamo - Fondazione Bergamo nella Storia Onlus</p> <p><u>Chairman of the Board of Statutory Auditors:</u> - Immobileffe Spa - BMW Italia Spa - BMW Milano Srl - BMW Roma Srl - San Colombano Spa - Fedrigoni Spa - Alphabet Italia Fleet Management Spa</p> <p><u>Alternate Auditor:</u> - Fonderia di Torbole Spa</p>
Flavio PIZZINI	Board Member	<p><u>Chairman of the Board of Directors:</u> - Fondazione Borghesi Buroni</p> <p><u>Deputy Chairman of the Board of Directors:</u> - UBI Sistemi e Servizi Scpa (**)</p> <p><u>Board Member:</u> - Banco Popolare Commercio e Industria Spa (**) - Immobiliare Due Febbraio Srl - Fondazione Lambriana</p> <p><u>Chairman of the Board of Statutory Auditors:</u> - Impresa Tecnoeditoriale Lombarda Srl - Fondazione Opere Sociali - Fondazione Housing Sociale</p> <p><u>Member of the Board of Statutory Auditors:</u> - Fondazione Milano Famiglie 2012</p> <p><u>Single Auditor:</u> - Novaradio Srl</p> <p><u>Receiver:</u> - Bosa Srl in liquidazione</p>
Elvio SONNINO	Board Member	<p><u>Senior Deputy General Manager (**):</u> - UBI Banca Scpa</p> <p><u>Board Member (**):</u> - UBI Academy Soc. Cons. a r.l. - UBI Sistemi e Servizi Scpa - UBI Banca International Sa</p> <p><u>Chairman of the Governing Council:</u> - <i>Centro Studi Nazionale per il Controllo e la Gestione dei Rischi Aziendali</i> [National Study Centre for the Control and Management of Corporate Risks]</p>

Summary Tables

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE (as at 31st December 2013)

STRUCTURE OF THE SHARE CAPITAL

	NUMBER OF SHARES	percentage of share capital	Listed (indicate markets)/unlisted	Rights and obligations
Ordinary shares	901,748,572	100%	Milan – <i>mercato telematico azionario</i> (electronic stock exchange)	
Shares with limited voting rights	= =	= =	= =	
Shares with no voting rights	= =	= =	= =	

SIGNIFICANT INVESTMENTS IN THE SHARE CAPITAL

Declarant	Direct shareholder	Percentage (%) of ordinary share capital	Percentage (%) of voting share capital
Silchester International Investor Llp	No	5.001%	5.001%
Blackrock Incorporated (indirect - assets under management)	No	4.951%	4.951%
Cassa di Risparmio di Cuneo Foundation	Yes	2.230%	2.230%

TABLE 2: SUPERVISORY BOARD (appointed by Shareholders' Meeting on 20th April 2013 to held the office for the period 2013-2014-2015) AND COMMITTEES (appointed by the Supervisory Board on 23rd April 2013)

Position	Members	In office since	In office until	List (M/m) §	Independent as per Corporate Governance Code	Supervisory Board % (****)	Management Board % (****)	No. of positions **	Appointments Committee		Remuneration Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee	
									***	% (****)	***	% (****)	***	% (****)	***	% (****)	***	% (****)
Chairman	ANDREA MOLTRASIO	20/04/2013	AGM 2016	M		100		NA	X (1)	100								
Senior Deputy Chairman	MARIO CERA	20/04/2013	AGM 2016	M		100		NA	X (1)	100	X (1)	100						
Deputy Chairman	ALBERTO FOLONARI (appointed DC on 10/5/2007)	5/5/2007	AGM 2016	M	X	100		NA	X	100	X (2)	100						
Deputy Chairman	ARMANDO SANTUS ALBERTO FOLONARI (appointed DC on 23/4/2013)	28/04/2012	AGM 2016	M	X	100		NA	X (1)	100	X (1)	67						
Board Member	DORINO MARIO AGLIARDI (*)	20/04/2013	AGM 2016	m	X	100		NA							X (1)	100		
Board Member	ANTONELLA BARDONI	20/04/2013	AGM 2016	M	X	100		NA									X (1)	100
Board Member	LETIZIA BELLINI CAVALLETTI	20/04/2013	AGM 2016	M	X	100		NA										
Board Member	MARINA BROGI	20/04/2013	AGM 2016	M	X	100		4			X (1)	100			X (1)	100		
Board Member	PIERPAOLO CAMADINI	20/04/2013	AGM 2016	M	X	100	50 (°)	NA					X (1)	100				
Board Member	LUCA VITTORIO CIVIDINI	20/04/2013	AGM 2016	m	X	100		NA										
Board Member	ALESSANDRA DEL BOCA	20/04/2013	AGM 2016	M	X	100		NA			X (1)	100						
Board Member	ESTER FAIA	20/04/2013	AGM 2016	M	X	73		NA										
Board Member	MARCO GIACINTO GALLARATI	20/04/2013	AGM 2016	m	X	100		NA									X (1)	100

Continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES

Supervisory Board									Appoint-ments Committee		Remuner-ation Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee	
Position	Members	In office since	In office until	List (M/m) §	indep-ent	Supervisory Board % (****)	Managem-ent Board % (****)	No. of positions **	***	% (****)	***	% (****)	***	% (****)	***	% (****)	***	% (****)
Board Member	CARLO GARAVAGLIA*	1/4/2007	AGM 2016	M	X	87	10 (°)	NA	X (2)	100			X (1)	74	X (2)	100		
Board Member	GIAN LUIGI GOLA (*)	20/04/2013	AGM 2016	M	X	100	15 (°)	NA					X (1)	100				
Board Member	LORENZO RENATO GUERINI *	20/04/2013	AGM 2016	M		100		NA							X (1)	100		
Board Member - Secretary	ALFREDO GUSMINI *	24/4/2010	AGM 2016	M	X	100	36 (°)	NA					X	93				
Board Member	FEDERICO MANZONI*	1/4/2007	AGM 2016	M	X	100		NA	X (2)	100					X (1)	87	X (2)	100
Board Member	MARIO MAZZOLENI	1/4/2007	AGM 2016	M	X	100		NA	X	100								
Board Member	ENRICO MINELLI	28/04/2012	AGM 2016	M	X	96		NA	X (1)	100							X (1)	86
Board Member	SERGIO PIVATO*	1/4/2007	AGM 2016	M	X	100	7 (°)	5					X	100				
Board Member	ANDREA CESARE RESTI	20/04/2013	AGM 2016	m	X	100		NA			X (1)	100						
Board Member	MAURIZIO ZUCCHI	20/04/2013	AGM 2016	m	X	100		NA										
SUPERVISORY BOARD MEMBERS RETIRED IN 2013 DUE TO EXPIRY OF MANDATE AT THE 2013 AGM																		
Senior Deputy Chairman	GIUSEPPE CALVI	1/4/2007	20/04/2013	M	X	100		NA	X	100	X	100						
Board Member	BATTISTA ALBERTANI	10/5/2008	20/04/2013	M	X	87		NA										
Board Member	LUIGI BELLINI*	1/4/2007	20/04/2013	M	X	62	12 (°)	NA					X	87				

Continued TABLE 2: SUPERVISORY BOARD AND COMMITTEES

Supervisory Board									Appoint- ments Committee		Remuner- ation Committee		Internal Control Committee		Accounts Committee		Related and Connected Parties Committee	
Position	Members	In office since	In office until	List (M/m) §	indep enden t	Supervisory Board % (****)	Managem ent Board % (****)	No. of positions **	***	% (****)	***	% (****)	***	% (****)	***	% (****)	***	% (****)
Board Member	MARIO CATTANEO*	1/4/2007	20/04/2013	M	X	100	12 (°)	NA					X	87	X	100		
Board Member	SILVIA FIDANZA	24/4/2010	20/04/2013	M	X	100		NA							X	67	X	100
Board Member	ENIO FONTANA	1/4/2007	20/04/2013	M	X	87		NA										
Board Member	PIETRO GUSSALLI BERETTA	1/4/2007	20/04/2013	M	X	75		NA										
Board Member	GIUSEPPE LUCCHINI	1/4/2007	20/04/2013	M	X	25		NA			X	50						
Board Member	ITALO LUCCHINI*	1/4/2007	20/04/2013	M	X	87	0 (°)	NA					X	87				
Board Member	TOTI S. MUSUMECI	1/4/2007	20/04/2013	M	X	87		NA			X	100						
Board Member	SERGIO ORLANDI	1/4/2007	20/04/2013	M	X	100		NA							X	100	X	100
Board Member	GIORGIO PEROLARI	1/4/2007	20/04/2013	M	X	100		NA			X	100						
Board Member	ROBERTO SESTINI	1/4/2007	20/04/2013	M	X	87		NA										
Board Member	GIUSEPPE ZANNONI	24/4/2010	20/04/2013	m	X	87		NA										
Quorum required for the presentation of lists by registered shareholders for the last appointments at the Shareholders' Meeting of 23/4/2013 called upon to appoint the Supervisory Board: at least 500 registered shareholders who have the right to participate and to vote or one or more registered shareholders who represent at least 0.50% of the share capital. Quorum currently required for the presentation of lists by registered shareholders: 500 registered holders of voting shares with the right to participate in and vote at meetings or a number of registered shareholders who represent at least 0.50% of the share capital.																		
Number of meetings held during 2013			Supervisory Board: 23			Appointments Committee: 8		Remuneration Committee: 11		Internal Control Committee: 27		Accounts Committee: 11		Related and Connected Parties Committee: 9				

NOTES

(1) In office since 23/04/2013

(2) In Position until 20/04/2013

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

* Enrolled in the Register of External Statutory Auditors

** Number of appointments as management or supervisory/auditor board member held by the person pursuant to article 148-bis of the Consolidated Finance Act (inclusive of the position at UBI Banca scpa).

The full list of appointments, as required by Art. 144 *quinquiesdecies* of Consob's Issuers' Regulations, has been published by the Consob and made available on its website: www.consob.it.

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

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

TABLE 3 MANAGEMENT BOARD (appointed by the Supervisory Board in the meeting of 23rd April 2013)

Position	Members	In office since	In Office until	Independent (in accordance with Art. 147 <i>quater</i> of the Consolidated Finance Act) (**)	Executive	Percentage of attendance at meetings of the Management Board	Number of other positions (***)
Chairman	FRANCO POLOTTI (appointed Chairman on 23/4/2013)	10/05/2008	(*)		X	100	9
Deputy Chairman	GIORGIO FRIGERI (appointed Deputy Chairman on 23/4/2013)	2/4/2007	(*)		X	100	5
Chief Executive Officer	MASSIAH VICTOR (appointed Chief Executive Officer on 27/11/2008 with effect from 1/12/2008)	27/11/2008	(*)		X	100	2
Board Member	SILVIA FIDANZA	23/4/2013	(*)	X		100	2
Board Member	LUCIANA GATTINONI	23/4/2013	(*)	X		100	9
Board Member	FRANCESCO IORIO	23/4/2013	(*)		X	100	3
Board Member	LUCCHINI ITALO	23/4/2013	(*)	X		95	16
Board Member	PIZZINI FLAVIO	2/4/2007	(*)		X	96	11
Board Member	SONNINO ELVIO	23/4/2013	(*)		X	100	5
MANAGEMENT BOARD MEMBERS RETIRED IN 2013 DUE TO EXPIRY OF MANDATE							
Chairman	EMILIO ZANETTI	2/4/2007	23/04/2013		X	100	NA
Board Member	GIAMPIERO AULETTA ARMENISE	2/4/2007	23/04/2013		X	87	NA
Board Member	MARIO CERA	2/4/2007	19/04/2013		X	100	NA
Board Member	GIAN LUIGI GOLA	30/06/2010	19/04/2013	X		100	NA
Board Member	GUIDO LUPINI	27/04/2010	23/04/2013		X	100	NA
Board Member	ANDREA MOLTRASIO	27/04/2010	19/04/2013		X	100	NA

Number of meetings held during 2013: 28 meetings

* The members of the Management Board shall remain in office for three financial years (2013-2014-2015). Their term of office shall expire on the date of the Supervisory Board meeting convened to approve the financial statements relating to their last year in office. They remain in office in any event until a new Management Board is appointed in accordance with article 46, letter a) of the Articles of Association and they may be re-appointed.

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

*** Number of positions as management or supervisory/auditor board member held in other companies listed on regulated markets including foreign markets, in financial, banking or insurance companies or companies of significant dimensions. This report contains full details of the appointments (Attachment A).

Attachment 1

Principal characteristics of the risk and internal control management system in relation to the financial reporting process.

1) Introduction

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

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

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

The model developed was approved by the Management Board and the Supervisory Board on 15th January 2008 and 6th February 2008 respectively and then officially implemented in a specific set of regulations, issued with Group Communication No. 166 of 8th August 2008. This Group Communication also includes the “Methodological manual for compliance risk assessment pursuant to Law No. 262/2005” that was updated and then approved by the Management Board on 17th December 2012 and circulated in Group Circular 44 of 25th January 2013, with the aim of increasing the focus of the Senior Officer Responsible on the most critical areas by planning monitoring activities on the basis of the degree of risk assigned to the various relevant processes pursuant to Law No. 262/2005 (the risk driven process). The model adopted, the efficacy of which is the subject of constant monitoring, is based on the main reference frameworks recognised nationally and internationally for the development of adequate systems of internal controls for financial reporting, the COSO Framework¹ and the COBIT Framework², and it involves different areas described in detail in the section that follows.

2) Description of the main characteristics of risk and internal control management system in relation to financial reporting processes.

The system of controls for financial reporting is based on three fundamental pillars:

- the existence of an adequate internal control system at company level designed to reduce the risk of errors and improper conduct for the purposes of accounting and financial reporting, by verifying on an ongoing basis that adequate systems of governance and standards of conduct and adequate risk management processes are in place and that there are effective organisational structures, clear reporting systems and adequate IT and

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

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

communication systems. Verification at company level is performed by using a special tool known as “CLC Assessment”, which is based on the qualitative assessment of a series of risk factors considered essential for the soundness and reliability of an administrative and financial governance system;

- the development and maintenance of adequate processes to control the production of accounts and financial reports and subsequent verification over time that they are adequate and actually applied. This includes administrative and accounting procedures that guarantee reasonable certainty of the reliability of financial reporting, whether it relates to financial reporting processes in the strict sense of the term or to business and support processes considered nevertheless significant for the purposes of financial reporting;
- the development of controls on the management of technological infrastructures and software applications which regard financial and administrative processes and subsequent verification over time that they are adequate and actually applied.

a) Stages of the risk and internal control management system in relation to financial reporting processes

With regard to the development of adequate processes of control over the production of accounts and financial reports and the development of controls over the management of technological infrastructures, the framework adopted involves the following stages of analysis and investigation:

- identification of the **relevant scope of application** consisting of the companies in the UBI Banca Group, the accounts and processes considered significant on the basis of both quantitative parameters, in relation to operating and capital amounts in the financial statements, and qualitative parameters, in relation to the complexity of the business and the type or implicit risks; The method adopted by UBI Banca Group for the selection of the relevant scope requires the selection of significant variables derived, in sequential order, from:
 - selection of the significant companies;
 - selection of the significant accounts at Group level;
 - selection of the significant accounts at individual company level;
 - intersection of the significant accounts with processes, at individual company level;
- formalisation of the relevant processes and risks connected with financial reporting and related supervisory checks. This activity is designed to assess and document the processes identified as significant for the purposes of Law No. 262/2005 and also the risks connected with financial reporting and the relative controls set in place to oversee them. The production of these documents constitutes a preliminary condition for the subsequent verification of the adequacy of the internal control system;
- definition of the **area of investigation** of the reference year by planning annual assessment activities, planned on a six-monthly basis, in application of the risk driven Model referred to above, involving the assignment of a risk ranking to processes. On the basis of that Model, differentiated analysis approaches are defined, while always ensuring an appropriate level of supervision of the most significant processes, partly on the basis of qualitative elements inferred from:
 - anomalies found in previous analyses;
 - level of stability of the processes;
 - the analysis of anomalies found by other monitoring functions;
 - information acquired through interviews of the Chief Risk Officer, Chief Audit Executive and Chief Operating Officer held for this purpose;
- definition of the frequency of assessment processes, on the basis of the degree of risk assigned to the process, giving priority to processes that are considered to be at high risk but in any event ensuring, over the three year period, that all significant process are assessed, even if they are considered to be at low risk;
- risk measurement and the adequacy of the controls. The objective of that activity is to verify the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting, as well as how efficiently the controls have been designed and implemented. The activity consists of the following steps:
 - verification of the adequacy of the administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. This activity, known as “**risk and control assessment**”, carried out by monitoring the risks

associated with financial reporting procedures intrinsic to the life cycle of financial data, attributable to observance of “financial assertions” which international standards define as the requirements which each item in the financial statements must meet for compliance with legal obligations. “Financial assertions” therefore perform the function of an operational tool which guides the identification and assessment of the controls to perform, the absence or ineffectiveness of which can prejudice the achievement of veracity and accuracy in the representation of the capital, operating and financial position of the Group;

- valuation of the key controls for mitigation of financial reporting risks, identified and defined at the “risk and control assessment” stage. This activity, known as “test of design”, is intended to define the requirements of the key controls for mitigation of the risks of failure to comply with “financial assertions”. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
- verification of the effective and continuous application of controls. This stage, which consists of “effectiveness tests”, is designed to assess the effective application, in the accounting period, of administrative and accounting procedures employed in the preparation of financial statements and in all other financial reporting. In this stage, verification is performed of the implementation of the controls provided for by the system of documentation put in place during the stage when processes and procedures were formulated and introduced. This activity may bring to light concerns which require the preparation of appropriate corrective action plans;
- definition and monitoring of corrective action to be undertaken as a result of the verifications performed. The methodology involves the initiation, on the basis of the corrective action plans just mentioned, of a structured course of action which by means of specific monitoring action, leads to effective reinforcement of controls by the involvement and empowerment of the relative process owners and the consequent modification of the related internal system of regulations;
- assessment, on completion of the stages described above, of the overall degree of adequacy of the internal control system put in place to oversee financial reports produced relating to the reporting period for oversight activities. Final assessment is officially performed with a specific report that is submitted to the General Management and the Management Board.

b) Roles and functions involved

The operational stages described above are conducted by the specialist structure within the Parent, in staff units under the Senior Officer Responsible, and also with the support of various other corporate roles involved for various reasons in compliance with the specific requirements of Law No. 262/2005.

The following are involved:

- the Chief Operating Officer through the units reporting to him. the Organisation Area of UBI and of UBI Sistemi e Servizi Scpa are involved in the organisation and maintenance of document systems, designed to meet the requirements of assessing the adequacy and effectiveness of procedures that impact financial reporting;
- the other internal control functions (relating in particular to the Chief Audit Executive e Chief Risk Officer), in order to create organisational synergies and consistency in assessment across the various units concerned.

The roles and responsibilities of the stakeholders involved in the specific activities required by Law No 262/2005, as well as the relations between the Senior Officer Responsible and the various company personnel involved, with particular reference to the exchange of information between them, are defined by the specific Organisational Regulation which serves as follows:

- to clearly state the tasks and operational responsibilities of the Senior Officer Responsible and those of the other persons involved in the processes/activities for compliance with Law No 262/2005;
- to define the necessary reporting to the Senior Officer Responsible, and identify the units responsible for providing them, and their frequency and deadlines;
- to provide for the Senior Officer Responsible to have a functional role within the corporate governance of the Group

Furthermore, the administrative and financial governance model also employs a hierarchical certification system whereby the Executive Officers of individual companies and outsourcers of the UBI Banca Group, and the General Manager and first line staff of UBI Banca, provide the Chief Executive Officer and the Senior Officer Responsible of the Parent with internal certifications.

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

Attachment 2

Policy on internal controls to manage risk assets and conflicts of interest with regard to connected parties.

1. Introduction
2. Identification of sectors of activity and types of economic relationships
 - Criteria for the identification of sectors of activity and types of economic relationships
 - Mechanisms for the identification of sectors of activity and types of economic relationships
 - Significant Persons
3. Risk appetite
 - Consolidated and individual quantitative limits
 - Qualitative controls
 - Significant Persons
4. Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship
 - Introduction
 - Organisational roles
 - IT systems and procedures
 - Significant Persons
5. Guidelines for the establishment and governance of control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies
6. Powers and competences

1. Introduction

External regulatory environment

The Bank of Italy recently published guidelines on “Risk assets and conflicts of interest with regard to connected parties”¹ which require authorised banks in Italy to adopt appropriate organisational structures and internal control systems to monitor risk assets and conflicts of interest regarding connected parties.

Connected counterparty risk arises from the fact that “the closeness of persons to the decision-making centres of a bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, and other transactions with, those persons, which may result in possible distortions in the resource allocation process, the exposure of the bank to inadequately measured or monitored risks, and potential harm to depositors and shareholders”²

Supervisory regulations identify two types of controls against such risk:

- limits on regulatory capital designed to contain risk asset exposures³ to connected parties, differentiated according to their specific type⁴;
- procedures that ensure the integrity of decision-making processes in transactions with connected parties, safeguarding resource allocation and protecting third parties from expropriation practices⁵.

In this context, connected parties are defined in general terms as:

- related parties;
- parties associated with them⁶.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, strictly speaking, fall under the definition of connected parties but whose work could in any case have a significant impact on the bank’s risk appetite (e.g. “significant personnel”⁷), the legislation states that each banking group must adopt – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise.

Specifically, internal procedures must require the relevant personnel to declare their interests in individual transactions and for the management of such relationships to be assigned to a hierarchically superior level.

Internal regulatory environment

In order to implement the regulations on controls⁸, , the UBI Banca Group has adopted the “*Policy on internal controls on risk assets and conflicts of interest with regard to connected parties*”. This sets out the guidelines and rules for the adoption – by the Group as a whole and the individual banks and companies within it – of adequate organisational structures, internal control systems and specific policies to monitor these risks in the two areas defined above (prudential limits and decision-making processes).

The purpose of the guidelines and rules is to give the UBI Group effective control mechanisms and to identify the responsibilities of company bodies, the duties of the corporate functions and reporting regarding the prevention, correct management, mitigation and monitoring of potential conflicts of interest resulting from all relationships with connected parties, with a particular focus on recording them and monitoring changes in exposures to and transactions with them.

1 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5.

2 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section I.

3 Risk assets are considered net exposures as defined for the purposes of the regulations on concentration of risk (see Title V, Chapter 1, Section I, para. 3) and the “Instructions for compiling regulatory capital reports and capital ratios” (Circular No 155 of 18th December 1991), Section 5.

4 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section II Limits on risk assets.

5 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section III Decision-making procedures.

6 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section I Paragraph 3.

7 See para. 3.2 of the “Provisions on remuneration policies and practices in banks and banking groups” of 30th March 2011.

8 See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section IV.

Regarding the definition of “connected parties”, UBI Group’s [“Regulations for transactions with UBI Group connected parties”](#) sets out, in detail, the scope of what is meant by related parties and parties associated with them.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, strictly speaking, fall under the definition of connected parties but whose work could in any case have a significant impact on the bank’s risk appetite (e.g. “significant personnel”⁹), the UBI Banca Group has adopted – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise. Specifically, internal procedures must require the relevant personnel to declare their interests in individual transactions and for the management of such relationships to be assigned to a hierarchically superior level.

The definition of “significant personnel” encompasses the people defined as “Top management” in the [“UBI Banca Group remuneration and incentive policies”](#) document, as approved by the Supervisory Board.

Hereafter in the policy, these people are termed “Significant Persons”.

The actual practical implementation of the legislation and regulations, and of the guidelines set forth in the policy, must be adapted to the characteristics and strategies of the Group as a whole and of each bank and company within the Group, in accordance with the principle of proportionality, while ensuring precise compliance with the supervisory regulations.

In this context, the Parent approves and reviews internal policies on risk assets and conflicts of interest with regard to connected parties at least once every three years. The relative decisions are adopted following the procedures set forth in legislation and regulations¹⁰ and the various documents setting out internal control policies are communicated to shareholders via a specific report and kept available in case requested by the Bank of Italy.

The governing bodies of Group entities must have a knowledge of the risk profile and the risk management policies set by the senior management of the Parent. To this end, they must implement the contents of internal policies, company regulations and, in general, legislation and regulations, and they must contribute to its implementation, each according to their responsibilities, consistent with the reality of their companies and with the risk management strategies and policies decided by the senior management of the Parent.

Content and structure of the policy

In accordance with the regulations on internal controls on risk assets and conflicts of interest with regard to connected parties, the policy comprises the following chapters¹¹:

- *Identification of sectors of activity and types of economic relationships*, which, in line with the Group’s operating characteristics and strategies, sets out the rules and guidelines for identifying the sectors of activity and types of economic relationships where conflicts of interest could arise;
- *Risk appetite*, which establishes the maximum total acceptable risk asset exposure to all connected parties and the related organisational structures to effectively monitor compliance – ex ante and ex post – with this limit.
- *Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship*, which sets out specific and separate rules and guidelines for organisational roles and IT systems;

⁹ See para. 3.2 of the “Provisions on remuneration and incentive policies and practices in banks and banking groups” of 30th March 2011.

¹⁰ See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section III paragraph 2.2. “The bank’s management board, supervisory board and independent directors must be closely involved in drafting, amending and substantially adding to the procedures, and the main corporate functions affected must also have an input. Specifically:

- procedures are set by the body responsible for strategic supervision;
- the independent directors and the supervisory board provide a detailed and reasoned opinion on the overall suitability of the procedures to meet the objectives of the current policy; the opinions of the independent directors and supervisory board are binding for the decision of the body responsible for strategic supervision;
- the relevant internal units perform a thorough investigation, each in their own areas of responsibility, to check that the proposed solutions meet the various requirements of this policy.

The procedure described above is also followed for proposals, to be submitted to the shareholders’ meeting, to amend the articles of association if it is necessary to alter these provisions.”

¹¹ See Circular No. 263 of 27th December 2006 “New regulations for the prudential supervision of banks”, ninth update of 12th December 2011 – Title V – Chapter 5 – Section IV.

- *Guidelines for the establishment and governance of organisational control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies;*
- *Powers and responsibilities, which sets out the principles that the Management Board must follow when enforcing the risk assumption limits defined in this policy.*

2. Identification of sectors of activity and types of economic relationships

Criteria for the identification of sectors of activity and types of economic relationships

With reference to the sectors of activity and types of economic relationships, transactions with connected parties can cover any transaction involving the assumption of risk asset exposures¹², transfers of resources, services or obligations, regardless of whether or not consideration is due in return.

The Group has a “[Regulation on transactions with UBI Banca Group connected parties](#)” which sets out in detail:

- the definition of connected-party transactions;
- the distinctions between connected parties according to their greater or lesser significance and the size of the amount, and the identification of the quantitative and qualitative parameters used to classify the various types of transactions (e.g. quantitative indicators include the relevance indicator of the amount of the transaction¹³ and the regulatory capital, and the relevance indicator of the asset; qualitative indicators include organisational rules that determine which bodies take decisions over specific transactions);
- exclusions¹⁴.

Mechanisms for the identification of sectors of activity and types of economic relationships

Under the criteria set out in the preceding paragraph, the notion of transactions with connected parties could potentially cover all transactions and all kinds of economic relationships pertaining to sectors of activity – including those that do not imply risk asset exposures – that could give rise to conflicts of interest and can be carried out both by the Parent and by the individual banks and companies in the Group.

In this sense, given the variety and high number of transactions that fall within the scope of connected-party transactions, in order to monitor this risk thoroughly the Group must adopt¹⁵ procedures, processes, mechanisms and internal policies to ensure that any operator who enters into contact with a potential connected party – following a request to carry out any kind of transaction and prior to its execution – checks whether the counterparty is designated as a connected party in the Group database and, if the counterparty is a connected party, check whether the transaction is covered by one of the exclusions.

The guidelines for the identification process are set out in paragraph four.

In order to more accurately identify the areas where the guidelines are to be implemented in practice, the transactions that could generate conflicts of interest in relation to the Group’s operations and strategies can be split into ordinary banking activities (in the narrow sense) and extraordinary transactions (in the broad sense).

¹² Risk asset are considered net exposures as defined for the purposes of the regulations on concentration of risk, as described in Title V, Chapter 1, Section I, para. 3 of the Supervisory Regulations and the “*Instructions for compiling regulatory capital reports and capital ratios*” (Circular No 155 of 18th December 1991), Section 5.

¹³ For the relevance indicator of the amount, the amount may be the sum paid to/from the counterparty if cash was used, the fair value if financial instruments were used, or the maximum amount disbursable in the case of loans. Qualitative/organisational rules set by the Supervisory Board on the basis of the provisions of the articles of association or other legislation and regulations (the Civil Code, the supervisory code etc.) are deemed to be more significant.

¹⁴ In accordance with supervisory regulations (see Title V – Chapter 5 – Section I – Paragraph 3) the following are not considered to be connected-party transactions:

- transactions between members of a banking group if they are connected by a relationship of total control, including jointly;
- fees paid to the corporate officers, providing these are in line with the supervisory provisions on incentive and remuneration systems in banks;
- intra-group transfers of funds or of collateral carried out as part of the system to manage consolidated liquidity risk, including transactions relating to covered bonds, securitisations and similar transactions;
- transactions to be performed on the basis of instructions for the purposes of stability issued by the Bank of Italy, or on the basis of instructions issued by the Parent of the Group to carry out instructions issued by the Bank of Italy in the interests of the stability of the Group;

¹⁵ This activity also covers updating existing procedures, processes and mechanisms that widen the definition of connected parties (e.g. significant personnel).

The ordinary operations defined as UBI Banca Group banking activities (in the narrow sense) include, for example:

- granting credit¹⁶;
- funding activities;
- investment and ancillary services for financial and non-financial assets¹⁷;
- advisory services and assistance for customers and other counterparties;
- collection, payment and fund transfer services;
- opening typical banking relationships (e.g. current accounts) and applying and changing their economic conditions;
- operations relating to remuneration and incentives systems;
- ordinary activities relating to managing the acquisition and disposal of goods and services.

The extraordinary operations defined as UBI Group banking activities (in the broad sense) include, for example:

- extraordinary activities relating to managing acquisitions and disposals of goods and services, including the purchase, sale and leasing of real property.
- extraordinary transactions (e.g. buying equities, corporate transactions such as mergers, demergers by acquisition or demergers in the strict non-proportional sense, increases in share capital, etc.).

While this list is merely for illustrative purposes and cannot be considered an exhaustive illustration of the preceding paragraph, the internal regulations governing each of the areas indicated must be supplemented and amended in order to transpose the provisions of the supervisory regulations and the criteria and guidelines set out in this policy and the regulation on transactions with connected parties.

In particular, the processes, procedures and IT systems that govern management of individual transactions/relationships with connected parties at all stages of the relationship (e.g. initial decision, management, monitoring, etc.) must be identified and made official in the internal regulations on the subject.

Significant Persons

The guidelines, systems and rules set out in this section must also be properly applied following the minimum standards set forth in supervisory documents¹⁸ on significant persons, as defined in the introduction.

¹⁶ See the specific instructions on conflicts of interest between granting credit and investing in equities, as set out in the regulation on what shares banks may hold.

¹⁷ See the specific instructions on conflicts of interest in investment and ancillary services, as set out in the joint Bank of Italy-Consob regulation implementing article 6, paragraph 2-*bis* of the Consolidated Finance Act.

¹⁸ The legislation and regulations require that banks and banking groups' own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

3. Risk appetite

Consolidated and individual quantitative limits

The UBI Group and each bank in the Group intend to comply with the prudential limits on risk asset exposures to connected parties set forth in supervisory regulations. To that end, they have adopted mechanisms designed to ensure ongoing compliance with said limits.

The consolidated limits are reported in the table below.

Prudential limits on risk asset exposures to connected parties

(The limits related to the consolidated regulatory capital)

Senior managers	Investors with control or able to exercise considerable influence	Other investors and parties who are not investors	Parties subject to control or considerable influence
5%	Non-financial related parties		
	5%	7.50%	15%
	Other related parties		
	7.50%	10%	20%

At the individual level, each bank belonging to the UBI Banca Group may have risk asset exposures to connected parties totalling less than 20% of its own regulatory capital, regardless of the financial or non-financial nature of the connected party.

In order to calculate the individual limit, banks belonging to a banking group consider their risk asset exposures to all connected parties across the group.

Risk appetite – maximum limit of all exposures to all connected parties

In accordance with the supervisory regulations, UBI Banca Group establishes its risk appetite on an annual basis, which is made official via a specific internal regulation applying to the units responsible.

The following terms are defined in accordance with the provisions of the document "Risk appetite and the creation of value in the UBI Banca Group: interpretation and governance":

- **limit:** the maximum/minimum value of a quantifiable risk indicator, which is established by the Supervisory Board and binding on the actions of the Management Board. Generally speaking, if the policy does not provide any further specific rules, in the event that this limit is exceeded then the Supervisory Board must be promptly informed and an automatic ban enforced on assuming new risk positions or increasing existing risk positions; the Management Board may only take corrective action with the prior approval of the Supervisory Board or, in urgent cases, of its Chairman;
- **early warning threshold:** the maximum/minimum value of a quantifiable risk indicator, which is established by the Supervisory Board and, if exceeded, must be immediately notified to the Supervisory Board or its Chairman by the Management Board, which retains complete operating independence;
- **target:** the value – possibly referring to a quantifiable risk indicator – that the Management Board must aim for in its activities, and therefore in annual and multi-year plans. It is also possible to set a qualitative target. Divergence from the established targets is stated in the periodical reports sent between the Management Board and the Supervisory Board.

UBI Banca Group sets risk appetite towards connected parties in terms of:

- the maximum authorised credit towards all connected parties as a ratio against the total authorised credit to ordinary customers (nominal value);
- an early warning threshold and an absorbed capital limit (credit requirements) at consolidated level, as an expression of total consolidated Available Financial Resources¹⁹.

The values can be summarised as follows:

¹⁹ For the definition of Available Financial Resources, see "Risk appetite and the creation of value in the UBI Banca Group: interpretation and governance". The values attributed to the Available Financial Assets are not to be added to the amounts given in the "Credit risk management policy", of which they are simply a component.

Description of levels *		Value
Authorised credit limit (nominal value)	Total authorised credit for connected parties / total authorised credit for ordinary customers	≤ 2,75%
Early warning threshold for allocated capital (credit risk)	Internal capital absorbed / available financial resources	≤ 1,75%
Allocated capital limit (credit risk)	Internal capital absorbed / available financial resources	≤ 2,0%

(*) Figures used to calculate limits are updated to 30th September 2012

Levels of authorised credit and internal capital absorbed are checked on a quarterly basis, at the same time as supervisory reports are produced.

The Management Board is responsible for verifying the figure set out in this document and must report to the Supervisory Board regarding maintaining the indicator within below the established value.

Lastly, the Group assesses legal, reputational and conflict-of-interest risks related to dealing with connected parties, where relevant to business operations, as part of the Internal Capital Adequacy Assessment Process (ICAAP); specifically, if prudential limits are exceeded, as well as the initiatives described in the recovery schedule it also takes account of excesses in the process to determine total internal capital.

Qualitative controls

In order to ensure proper management and adequate monitoring of risk assets, the Group has adopted suitable controls and specific credit policies which cover the following subjects:

- procedures to identify connected parties, to record their details in Group IT applications, taking account of overlaps with IFRS connected parties, regulations on connected parties pursuant to Consob resolution 17221/2010 and Art. 136 of the Consolidated Banking Act regarding the proper storage of information and its amendment in the event of changes in connected parties;
- rules to determine the amount of exposure subject to limit checks in the event of the existence of risk mitigation guarantees (e.g. personal guarantees, guarantees with security, etc.);
 - rules to identify cases in which the assumption of additional risk assets should be accompanied by specific risk attenuation techniques provided by persons independent from the connected parties and whose value is not positively correlated with the creditworthiness of the borrower. The identification of such cases must be general in scope and refer to the amount of risk assets as a ratio of regulatory capital, transaction frequency and the nature of the relationship between the connected party and the bank or banking group;
 - processes to ensure effective management of limits on risk exposure to connected parties, to be evaluated both ex ante (when a new loan is under consideration or being amended) and ex post (during the monitoring phase);
 - rules on first level and second level monitoring and on periodic reporting, clearly identifying the organisational structures responsible. Regulations must also be drawn up on processes regarding prompt notification of the bodies responsible in the event that the defined limits are exceeded;
- the establishment of a process to ensure that risk asset exposures to connected counterparties are restored to within the limits if they are exceeded²⁰ under the rules set out in legislation and regulations²¹.

²⁰ For example, if it became a connected party after the relationship was established.

²¹ See Circular No. 263 of 27th December 2006 "New regulations for the prudential supervision of banks", ninth update of 12th December 2011 – Title V – Chapter 5 – Section II – Paragraph 3: "the Parent will prepare, within 45 days of the limit being exceeded, a recovery plan put forward by the management body and approved by the body responsible for strategic oversight, having consulted the body responsible for control. The recovery plan is sent to the Bank of Italy within 20 days of its approval, together with the documents containing the resolutions of the corporate bodies."

Significant Persons

The guidelines, systems and rules set out in this section must also be properly applied following the minimum standards set forth in supervisory documents²² on significant persons, as defined in the introduction.

4. Guidelines for the establishment and governance of organisational processes to identify and collect information on connected parties and to identify and quantify transactions with them at all stages of the relationship

Introduction

In order to comply with supervisory regulations on identifying and recording information about parties and identifying and quantifying transactions, the UBI Group has devised and adopted specific organisational processes to:

- identify connected parties, to record their complete details in Group IT applications, taking account of overlaps with IFRS connected parties, regulations on connected parties pursuant to Consob resolution 17221/2010 and art. 136 of the Consolidated Banking Act regarding the correct storage of information and its amendment in the event of changes;
- identify and quantify transactions with connected parties at all stages of the relationship, from the time that the transaction is requested and prior to its execution.

The rules and guidelines that the Group intends to follow in terms of organisational roles and IT systems and procedures are set out below.

Organisational roles

The responsibility for identifying existing relationships between counterparties – and between counterparties and the bank, or between the Parent and the Group companies – where the counterparty can be defined as a related or connected party, lies with the corporate function assigned to monitor business groups in order to assess major risks, as defined in the supervisory regulations.

To this end, the function responsible for identifying the counterparty as a connected party and the connected relationships must use all information available both internally (e.g. company databases and archives) and externally (the “Centrale rischi” central credit register, the “Centrale bilanci” central register of financial statements, etc), integrating and comparing them in order to ensure it has a complete overview of the business groups.

The activities relating to identifying a counterparty as a connected party must be carried out on an ongoing basis and ensure that information is up to date.

The function must also adopt suitable procedures for collecting, conserving and updating information on connected parties, and must make these procedures official by way of a specific internal regulation.

Lastly, particular attention is required in cases of relationships with business groups that use complex corporate structures or do not ensure total transparency with regard to their ownership and organisation structures (e.g. if they include offshore companies or use company vehicles or legal schemes that can obstruct the reconstruction of ownership or control structures).

IT systems and procedures

The Group has adopted IT systems that are in use across the entire banking group and accessible to all units, which make it possible to:

- record information about connected parties from the moment they are defined as such pursuant to the “[Regulation on transactions with UBI Banca Group connected parties](#)”;
- provide all banks in the Group with up-to-date information about Group connected parties;
- to record changes to them;
- to monitor – ex ante and ex post – the total amount of and changes in the associated risk assets, also considering the current value of any existing risk mitigation techniques.

Specifically, the Parent uses IT systems that make it possible to verify, at all times, compliance with the consolidated and individual limits on risk asset exposures to connected parties.

²² The legislation and regulations require that banks and banking groups’ own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

Significant Persons

The guidelines, systems and rules set out in this section must also be properly applied following the minimum standards set forth in supervisory documents²³ on significant persons, as defined in the introduction.

5. Guidelines for the establishment and governance of control processes for the correct measurement and management of risks assumed, and monitoring the design and implementation of internal policies;

In order to ensure that it has a system of controls that are in line with legislation and regulations, the UBI Group designs and adopts appropriate multi-level organisational control processes in accordance with the Group governance policy.

Three different levels of control units are responsible for ensuring correct measurement and management of risk exposures to connected parties and good design and implementation of internal policies, each according to the responsibilities assigned to them under corporate procedures, as indicated the relevant internal Group documentation, which must be updated and expanded to take account of the supervisory regulations and the rules and guidelines set forth in the policy.

Group controls are structured as follows:

- *first level controls* (i.e. line controls) designed to ensure the proper performance of the activities relating to their mission at different hierarchical levels. These are carried out by the unit managers (hierarchical controls), incorporated into procedures (procedural controls) or performed as part of back-office and/or staff activities; they are integrated into the processes to which they belong/pertain;
- *second level controls*, performed by specialist functions tasked with the ongoing identification, prevention and measurement of business risks, and providing periodic and specific reports, as a necessary basis for monitoring and assessing the system of internal controls;
- *third level controls*, performed by the internal audit function and leading to an objective judgment on the setup and functioning of the internal control system or parts thereof and, in particular, on the adequacy of risk controls assigned to specialist functions.

Specifically, the legislation and regulations require that:

- the risk management function is responsible for measuring the risks – including market risks – underlying relationships with connected parties, checking compliance with the limits attributed to the various structures and operating units, and monitoring each of their compliance with the risk appetite levels set out in internal policies;
- the compliance function verifies the ongoing existence and robustness of procedures and systems capable of ensuring compliance with all external and internal regulatory obligations;
- the internal audit function checks that internal policies are being followed, immediately reporting any failures to the supervisory body and the bank's senior management; it also provides periodic reports to corporate bodies regarding the overall exposure of the bank or banking group to risks deriving from transactions with connected parties and other conflicts of interest, where necessary proposing amendments to internal policies and organisational and control structures to improve monitoring of such risks;
- the independent directors of the Parent provide assessments, support and proposals on organisational matters and the performance of internal controls on all activities involving the assumption and management of risk exposures to connected parties and also perform general checks on the compliance of the activities with strategic and management guidelines. The Supervisory Board assigns the functions described in this paragraph to the current Consob Related Parties Committee, which is to be renamed the Related and Connected Parties Committee.

²³ The legislation and regulations require that banks and banking groups' own rules must at least require personnel to declare their interests in operations and for the management of such relationships (e.g. granting credit, entering credit litigation) to be assigned to a hierarchically superior level.

The processes, mechanisms and IT systems relative to the controls at every level – both procedural and hierarchical/functional – are identified and described for each business sector, naming the units responsible, and made official in the internal regulations governing the management and performance of the operations.

6. Powers and competences

The Supervisory Board is responsible for defining and adopting Group-wide strategies on risk exposures to connected counterparties and approving the Management Board's proposed methods for identifying and assessing risk, qualitative risk management indicators and quantitative information.

The Parent approves and reviews internal policies on risk assets and conflicts of interest with regard to connected parties at least once every three years. The documents setting out internal control policies are communicated to shareholders via a specific report and kept available in case requested by the Bank of Italy.

The Supervisory Board is responsible for amending and updating the policy, while the Management Board is responsible for the practical implementation of the individual rules and regulations.

Without prejudice to the boundaries set out above, the Management Board is responsible for the practical implementation of rules and limits established in internal regulations.

In order to ensure the utmost thoroughness of information, any proposals to amend this policy document submitted for the approval of the Supervisory Board must be accompanied by the documents referred to above, noting any changes necessary for the practical implementation of the new version of the policy document.

In the event of changes to the regulations implementing the rules and policy guidelines adopted by the Management Board, the new version of the regulations must be submitted to the Supervisory Board for information purposes; the new provisions will take effect 15 days after the Management Board sends the document to the Supervisory Board.

The Management Board is responsible for the full implementation of this policy.

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. 46, paragraph 1, letter h) of the Articles of Association*

This is a courtesy translation from the Italian which remains the definitive version.

Dear Registered 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. 46 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 2013.

UBI Banca is a “popular” bank with the legal status of a joint stock co-operative company. It has adopted a two tier system of management and control, which is considered better suited to the governance requirements of the Parent, UBI Banca, and at the same time as providing stronger protection for registered and unregistered shareholders, especially through the activity of the Supervisory Board, a body appointed directly by the registered shareholders and representing them.

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

- the **strategic supervision and control** functions, assigned to the Supervisory Board, which combines some of powers assigned by traditional systems to shareholders' meetings (approval of financial statements, appointment of the members of the management body and determination of the relative fees) and to boards of statutory auditors and assumes some "senior management" responsibilities, insofar as it is called upon to take decisions on proposals submitted to it by the Management Board on the business and/or financial plans and budgets of the Bank and the Group and also on strategic operations indicated in the 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 Scpa - attached to the 2013 Annual Report - provides detailed information on the two-tier system of corporate governance adopted.

* * *

On the basis of the three lists presented in accordance with article 45 of the Articles of Association, the Registered Shareholders of UBI Banca Scpa, in their meeting held on 20th April 2013, appointed the Supervisory Board for the period 2013-2014-2015, as well as the board's Chairman and Senior Deputy Chairman.

On 23rd April 2013, the Supervisory Board then appointed two deputy chairmen.

Following its appointment and on an ongoing basis, 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.

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 - decided to establish specific internal committees with the functions of fact finding and submitting proposals and advice.

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

* * *

Changes in the Articles of Association of UBI Banca

During 2013, UBI Banca began a process of fine tuning its corporate governance, which will include changes to the Bank's Articles of Association.

The Bank also adopted changes to the Articles of Association in response to changes in legislation.

In its meeting of 19th December 2013, the Supervisory Board approved a plan to change the Articles of Association, subject to authorisation by the Bank of Italy (in accordance with article 56 of the Consolidated Banking Act), which—taking account of changes in legislation and in Bank of Italy recommendations, as well as of other market trends—introduces significant changes by adapting the systems of governance so as to create an “integrated popular” bank based on *per capita* voting, but which is able to promote the balanced representation of registered shareholders. These changes seek to unite the concepts of efficiency and cost-effectiveness typical of a publicly listed company with a broad base of stable, institutional shareholders with the principles of democratic mutuality that have long been a distinguishing trait of co-operatives.

On 13th March 2014, the Bank of Italy authorisation in accordance with article 56 of the Consolidated Banking Act was received for such changes, which are now to be submitted to the shareholders in an extraordinary meeting.

The Supervisory Board also approved additional changes to the Articles of Association in response to changes in legislation.

In that regard, in relation to the authorisation issued by the Bank of Italy on 11th February 2014 in accordance with article 56 of the Consolidated Banking Act and in accordance with article 46 of the Articles of Association, on 13th February 2014 the Supervisory Board approved the amendment, as allowed by law, of article 8 and the amended article 15 of the Articles of Association with the purpose of implementing the measures concerning the eligibility and ineligibility of Registered Shareholders established under article 30, paragraph 5-*bis*, of the Consolidated Banking Act (as introduced by Decree Law No. 179 of 18th October 2012, as amended and converted into Law No. 221 of 17th December 2012).

For a description of these changes to the Articles of Association, see the report on the Corporate Governance and Ownership Structure of UBI Banca Scpa.

* * *

Basel 2 project

The Supervisory Board has verified with regard to risk policies and the related organisational aspects, that the Group possesses advanced and fully effective systems for the management of risk. In accordance with prevailing laws and regulations, the risk-control system governs all of the guidelines of the system of internal controls, which is a set of organisational standards, regulations and methodologies that all of the companies of the Group must follow, in order to enable the Parent to exercise strategic guidance and control over operations and various technical aspects in an efficient, effective manner.

In that regard, it should be noted that the Bank of Italy has formally authorised the UBI Group to use the advanced internal rating-based (AIRB) approach for the corporate supervisory segment and the advanced measurement approach (AMA) for the following areas of the company: credit risk, network banks and Centrobanca; operational risk, network banks, Centrobanca, UBI Banca and UBIS.

On 19th July 2013, the Bank of Italy formally authorised the Group to use the internal rating-based (IRB) approach to calculate the capital requirements for credit risk on the portfolio of small and medium enterprises included in the SME retail segment and on positions backed by residential properties for the network banks and UBI Banca beginning with the supervisory reports as at 30th June 2013. On 26th July 2013, the UBI Group notified the Supervisory Authority of the extension of the use of the AMA approach to IW Bank and to the activities of the former Banca 24-7, which has been merged into UBI Banca, for the purposes of calculating the capital requirements for operational risks.

As a result of all of the above, the Group is required to fulfil the usual obligations of periodic disclosure concerning aspects of a qualitative and quantitative nature both for operational risks and for credit risks.

With regard to the **second pillar**, the ICAAP report as at 31st December 2013 is to be filed with the supervisory authority in April 2014, and it will include first pillar risks, second pillar risks specified by regulations, and risks identified independently by the Group. The structure of the report gives details of the following: strategic lines of development and the forecast horizon considered by the Group business plan; a description of corporate governance, organisational structures and systems of control related to ICAAP; exposure to risks, methods of measuring and aggregating them and stress tests; the components, estimates and methods of allocating internal capital; the relationship between internal capital, supervisory requirements and supervisory capital; and finally the self assessment of ICAAP, which identifies areas for further growth in the methodological model as well as process areas where improvement is possible.

Public disclosures, in accordance with the provisions of prudent supervision (i.e. the **third pillar**), are provided on the Bank's web site as required by applicable laws and regulations. This consists of information on capital adequacy, exposure to risks and the general characteristics of the systems designed to identify, measure and manage them. The information to be provided favours greater transparency in the ways in which banks manage risk.

* * *

Remuneration and incentives policies

In its meeting of 4th March 2014, as recommended by the Remuneration Committee, the Supervisory Board approved the update to the remuneration and incentives policy of the UBI Group for 2014, without prejudice to the powers of the Registered Shareholders concerning the remuneration policy for members of the Management Board and the incentives plan for key personnel based on financial instruments, as well as concerning the possibility of increasing the ratio of variable to fixed remuneration of 1:1 up to a maximum of 2:1 for certain, justified situations.

As concerns the 2014 incentives scheme for key personnel specifically, which calls for the determination of a portion of the variable component of remuneration by allocating ordinary shares of the Parent, UBI Banca, the Supervisory Board, as proposed by the Remuneration Committee and given the maximum number of shares to be allocated under the scheme, agrees with the mechanism of using treasury shares in order to implement the scheme.

As proposed by the Remuneration Committee, the Supervisory Board moved to submit the remuneration policies for the Management Board to the Registered Shareholders for approval. These policies establish that: the fees paid to the Chairman of the Management Board are to be the same as those paid to the Chairman of the Supervisory Board; if the Chairman of the Management Board takes up positions in other Group banks or companies, he may receive total further remuneration of not more than 30% of the remuneration set for the position of Chairman of the Supervisory Board; the maximum total fee payable to each member of the Management Board, with the sole exception of the Chairman and the Chief Executive Officer, for membership of the Management Board and the Governing Bodies of the Group banks and companies, is, as a rule, not more than 80% of the remuneration for the office of Chairman of the Supervisory Board and of the Management Board; given that they are considered "key personnel", the Chief Executive Officer and the members of the Management Board who are also senior management of UBI Banca may receive variable remuneration based on performance targets; there are to be no attendance payments; there are no guaranteed bonuses (except as envisaged by law and limited to the first year of employment) or leaving bonuses for members of the Management Board; no member of the Management Board may unilaterally decide to waive their right to a part or all of their remuneration.

Furthermore, and in line with the proposal of the Remuneration Committee, the Supervisory Board moved to submit to the Registered Shareholders for approval the increase in the ratio of variable to fixed remuneration up to a maximum of 2:1 for a limited number of positions within Asset Management.

Based on the observations of the Remuneration Committee, the Supervisory Board has expressed approval of the Group's remuneration and incentives policies and their consistency

with the proposal to submit the 2014 incentives scheme based on financial instruments (which calls for the determination of a portion of the variable component of remuneration for key personnel by allocating ordinary shares of the Parent, UBI Banca) for approval by the Registered Shareholders.

As proposed by the Remuneration Committee, the Supervisory Board has also approved the remuneration report, which fulfils the requirements of both supervisory regulations and the Italian Consolidated Finance Act, for which the Management Board had, on 11th March, submitted a proposal concerning the information required under Article 123-ter, paragraph 4(b), of said act.

The above decisions were then adopted in accordance with supervisory measures concerning remuneration and incentives policies and practice for banks and banking groups, as issued on 30th March 2011, taking account of the updates to said measures (a document for which was available for public viewing until 12th January 2014) aimed largely at implementing the changes introduced by way of Directive 2013/36/EU (i.e. “CRD 4”), which was approved on 26th June 2013 and the implementation deadline of which was 31st December 2013.

Finally, in accordance with the proposal of the Remuneration Committee, the Supervisory Board moved to submit to the Registered Shareholders for approval the policy for the calculation of the additional fees to be paid to the Supervisory Board members on the Internal Control Committee for their role on the Supervisory Body in accordance with Legislative Decree 231/2001 as a result of changes in the “Model 231” of UBI Banca. This policy calls for assigning the responsibilities of this Supervisory Body pursuant to Legislative Decree 231/2001 to a specific committee, which, for UBI Banca, is the Internal Control Committee established, in accordance with article 49 of the Articles of Association, within the Supervisory Board.

Strategic and organisational change in the Group

During the year and in the first part of 2014, work continued and was completed on a series of initiatives aimed at simplifying and rationalising the Group’s organisation and activities, as approved by the Supervisory Board within the scope of its responsibilities.

The following are of particular note:

- the reorganisation and streamlining of the Group’s structure, including the merger of Centrobanca S.p.A. into UBI Banca and the sale of Banque de Dépôts et de Gestion;
- further measures to rationalise the Group’s branch network and continuation of the initiatives concerning commercial processes that began in 2012;
- enhancement of the guidance and coordination of the Parent over the product companies, particularly as concerns the revision of the governance model with the centralisation of the roles of Chief Risk Officer and the Chief Financial Officer of the Group’s lender companies (i.e. UBI Leasing, Prestitalia and UBI Factor), which is to be implemented gradually beginning in March 2014.

Capital management operations have also been activated within the scope of the optimisation of capital instruments in anticipation of the application of the Basel 3 regulations, as described in greater detail in the report accompanying the financial statements.

These activities are also listed under point 1 of this report below.

* * *

The system of internal controls

The document “Report on the Corporate Governance and Ownership Structure of UBI Banca Scpa” 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, on 2nd July 2013, the Bank of Italy issued new measures concerning systems of internal controls, information systems and business continuity (Prudential Supervision of Banks – Circular No. 263 of 27th December 2006 – update No. 15).

These measures introduce significant changes to prevailing regulations so as to provide banks with a system of internal controls that is thorough, appropriate, functional and reliable, while also regulating the role of corporate bodies in the system of internal controls, the role of the corporate control functions, the outsourcing of company functions, information systems and business continuity.

In response to the above, UBI Banca began a specific project involving all of the Group companies as well as the Group's senior management.

In its meeting of 14th January 2014, based on the opinion of the Internal Control Committee, the Supervisory Board approved the self-assessment report (containing the gap analysis concerning the expected changes in legislation and an indication of the steps to be taken, along with a timeline of the intervention needed in order to ensure compliance with the measures), which is to be sent to the Supervisory Body by 31st January 2014.

The interventions specified are to be carried out in accordance with the timetable specified by the new measures (i.e. beginning on 1st July 2014).

* * *

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 2013 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.

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.

A full and exhaustive review of transactions of greater significance during the year is contained in the Management Report for the 2013 Consolidated Financial Statements. The main initiatives undertaken are mentioned here.

During 2013 and the first part of 2014, a series of actions were undertaken which sought to simplify and streamline the Group's structure and its areas of business. The most important of these actions, which were, where applicable, approved by the UBI Banca Supervisory Board, may be summarised as follows:

- the merger of Centrobanca into UBI Banca effective as of 6th May 2013;
- the sale of Banque de Dépôts et de Gestion on 29th November 2013;
- action taken to streamline the branch network of the Group.

Also worthy of note in this regard are the various capital management transactions executed in anticipation of the application of the Basel 3 regulations, including the following actions implementing the systems for calculating capital requirements and optimising the capital instruments held:

- the authorisation issued by the Bank of Italy in July 2013 regarding the request to use the AIRB approach for the retail segment;
- repayment of the loan entitled "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*", also in July 2013;

- the repurchase of lower tier-two subordinated bonds and the waiving of the right to early redemption of other lower tier-two subordinated debt;
- the redemption of preference shares approved at the end of December 2013, which is to be carried out in 2014.

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. The Group approved in-house regulations regarding related party transactions within the time limits set by Consob, in which it defined internal processes that will assure compliance with Consob requirements.

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 link 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 ScpA related parties and those governing transactions of the UBI Group with related parties have been issued.

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

The Supervisory Board oversees compliance of the aforementioned rules with applicable laws and regulations and reports to the Registered 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, including those not subject to the prior opinion of the committee in accordance with the rules.

In 2013, the UBI Banca Group always remained within the limits specified under supervisory regulations.

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

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.

4. On 30th April 2011, the Registered 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 2013 separate and consolidated financial statements on 21st March 2014. 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 2013, the Supervisory Board received no expressly qualified reports from the Registered 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 Registered 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 shareholder 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 considers that the procedures preliminary to the shareholders meeting to check the lists presented were carried out correctly and that the proceedings of the shareholders' meeting were also carried out properly. It therefore judges the claims made in that summons to be without foundation. The Bank has taken legal action to defend its rights before the courts.

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. A specific project has been developed in order to improve the model for handling complaints. By assigning responsibility for the guidance and co-ordination of the network banks and product companies to the units of the Parent, this model aims to ensure greater uniformity in strategy and to standardise conduct, including by establishing formal guidelines concerning the key issues. 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.

7. The fees shown below were paid to the independent statutory auditors Deloitte & Touche Spa for the financial year 2013, in accordance with the law.

Type of service (figures in thousands of euro)	Deloitte & Touche Spa	
	UBI Banca Scpa	Other UBI Banca Group companies
Audit services	971	1,260
Certification services	997	23
Other services	-	-
Total	1,968	1,283

All 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 2013, in accordance with the law.

Type of service (figures in thousands of euro)	Companies of the Deloitte & Touche Spa Network	
	UBI Banca Scpa	Other UBI Banca Group companies
Audit services	-	307
Certification services	-	-
Other services	350	49
<i>methodological support for mapping rating systems</i>	131	
<i>methodological support for the development of a remote rating system for the commercial network</i>	219	
<i>other</i>	-	49
Total	350	356

All 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. 49 of the Articles of Association, performs supervisory functions pursuant to article 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 has examined the periodic reports concerning money laundering as prepared by the UBI Banca officer responsible for overseeing such matters, along with the related observations of the Internal Control Committee. In particular, based in part on the favourable views expressed by the Internal Control Committee, in December the Supervisory Board approved the new strategic guidelines and policies for the governance of the risks of money laundering and of funding terrorism, which have been amended in response to related changes in laws and regulations. In the same way, the proposed change to the frequency of monitoring customers based on their level of money-laundering risk was also approved.

With regard to the updates proposed during the period by the Management Board concerning the programme for the issuance of covered bonds, the Supervisory Board has taken note of the report of the Compliance unit and the observations of the Internal Control Committee and has confirmed the decisions made in previous meetings regarding: the approval of the assessments of the objectives and the related legal and reputational risks; approval of the control procedures formulated; the favourable opinion on the compliance of the programme's activities with the legislation and supervisory provisions and on the impact of the activities on the capital and operating equilibrium of the Bank.

The Supervisory Board, acting on a recommendation of the Appointments Committee, as required by Art. 46 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 36 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.

In accordance with prevailing supervisory regulations, on 17th April 2013, based on the opinion of the Internal Control Committee and having examined the curriculum vitae of the party concerned, the Supervisory Board approved the decision of the Management Board concerning the appointment of the individual responsible for overseeing efforts to combat money laundering for UBI Banca and for the Group and for reporting suspicious transactions by UBI Banca.

Again in implementation of supervisory regulations in force, on 11th July 2013, having examined the curriculum vitae of the party concerned and in agreement with the views expressed by the Internal Control Committee, the Supervisory Board expressed its own approval of the appointment of the new Chief Audit Executive in accordance with article 46, point (q), of the Company Articles of Association.

10. The Supervisory Board met 23 times in 2013. 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 38 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 an Accounts Committee.

The current Chairman of the Remuneration Committee is not an independent board member given that, in previous years, he has been a key member of a subsidiary of strategic importance, although he has no personal interest in or relations of any kind with other members 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 indications of the Code of Corporate Governance in order to ensure full and effective continuity in the Bank's operations. Nonetheless, it should also be noted that the other four members of the committee do meet the requirements of independence.

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

In 2013, the Appointments Committee met eight times; the Remuneration Committee, eleven times; the Internal Control Committee, 27 times; the Accounts Committee, eleven times, and the Related Parties Committee met nine times.

In order to provide constant reporting on operating events and as required by Art. 49 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 28 times in 2013.

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 and the 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 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.

With regard to the organisation of the Parent, following the merger of Centrobanca into UBI Banca effective from 6th May 2013, the competent corporate bodies approved the consequent changes to the organisational structure in relation to UBI Banca and, where applicable, UBI Sistema Servizi now conducting all of the activities that were once performed by Centrobanca. In particular, commercial, lending and financing activities have been assigned to specific units of the Parent, some of which have been newly established for such purpose. In addition, the areas related to control and support units – such as risk control, administration, planning and control, corporate and legal affairs, human resources, organisation and administrative services – have been assigned to the respective units of UBI and UBI.S.

In July 2013, the Supervisory Board expressed its approval of the changes to UBI Banca's Model 231, which calls for the functions of the Supervisory Body to be assigned to a specific body. In the case of UBI Banca, the body selected is the Internal Control Committee of the Supervisory Board, established in accordance with article 49 of the Articles of Association. For the subsidiary banks, this body is their respective Boards of Statutory Auditors. In addition, in January 2014, the Supervisory Board examined the changes to the document describing UBI Banca's model of organisation, management and control as defined by Legislative Decree 231/01, which were made in order to update the Model 231 by including new infractions and with adaptations to changing external and internal regulations. Based on the considerations of the Internal Control Committee, the Supervisory Board then approved the updated model and noted that they required analyses of any gaps in company regulations or organisation.

Effective from 1st November 2013, a number of aspects of functional lines of reporting have been formalised concerning the staff unit that reports to the Supervisory Board, the Chief of General Affairs and Equity Investments and the staff unit that reports to the Management Board as allocated within the area of Corporate Affairs, Equity Investments and Relations with the Authorities.

In December, the Supervisory Board expressed approval of the initiatives aimed at further enhancing the mechanisms of governance of the Parent over the product

companies in line with the actions previously implemented in order to further increase the efficacy of management and coordination activities. The initiatives defined will promote standardisation and greater integration of governance and control systems throughout the Group. The revision of the governance model particularly features the centralisation of the roles of Chief Risk Officer and the Chief Financial Officer of the Group's lender companies (i.e. UBI Leasing, Prestitalia and UBI Factor), which is to be implemented gradually beginning with UBI Leasing in March 2014.

In March 2014, the Supervisory Board approved a revision to the organisation of the Parent, which calls for a revision of Management Control under the Chief Financial Officer in line with the effects of the centralisation of the aforementioned product companies and the expansion of the scope of operations following the mergers carried out by the Group (i.e. Banca 24/7 and Centrobanca).

13. The Supervisory Board has approved the assessment of the adequacy of the system of internal controls conducted by the Internal Audit Function at the end of 2013 and has taken note of the assessment of the overall adequacy of the configuration of the system of internal controls of UBI Banca as the Parent as expressed by the Internal Audit Function, taking account of the changes to the organisation of the Bank and the other companies of the Group and the projects designed to strengthen the oversight mechanisms in place. Of particular note among the actions implemented in 2013 are: efforts to enhance the overall framework of control implemented in relation to the issues that emerged from the audits conducted by the supervisory authorities; the extension of application of the advanced approaches for measuring and managing credit and operational risks; the continuation of work that began in response to the recommendations of the EBA and the efforts to optimise risk-weighted assets (RWAs); the strengthening of oversight activities designed to consolidate policy-making and control over the companies of the Group; the advanced projects regarding the control units of the Parent, which began in response to the gap analysis conducted in accordance with the new regulations for the prudential supervision of banks.

The Group's calendar of projects for 2014 includes further initiatives aimed at optimising the mechanisms for governing risks and for strengthening the general functioning of the system of internal controls, including in relation to the implementation of the aforementioned new supervisory regulations, which have been taken into account as part of the assessment expressed.

The areas for improvement will be fully overseen on an ongoing basis.

In this regard, the opinion of the Internal Control Committee is that the organisation of the system of risk management and internal controls of UBI Banca, as the Parent, are essentially adequate.

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 taken note of the main areas for improvement that have emerged.

In addition, the Supervisory Board has examined the annual report of the Supervisory Body pursuant to Legislative Decree 231/2001 for the year 2013.

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. 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 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 Supervisory Board has paid due attention to the strategic and organisational profiles of a number of product companies.

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 2013 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 2013.

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 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 Accounts Committee and the Internal Control Committee held meetings between the end of 2013 and the first months of 2014 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 2013.
17. UBI Banca Scpa 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 Scpa 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 Registered Shareholders and the market with an analysis of the system of corporate governance adopted by UBI Banca Scpa. 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 mutual banks, which must strictly comply with the provisions of the Consolidated Banking Act and applicable supervisory instructions.
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 Registered 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 2013 Consolidated Financial Statements. Furthermore the Supervisory Board did not use its powers to convene a Shareholders' Meeting or a meeting of the Management Board.
19. To complete the activity performed, the Supervisory Board has no proposals to make within the meaning of Art. 153, paragraph 2 of the Consolidated Finance Act, while

details of opinions and decisions concerning the separate and consolidated financial statements are given at the end of this report.

* * *

Dear Registered Shareholders,

The criteria followed in the management of the Bank to achieve its mutual objects, as established by Art 2545 of the Italian Civil Code, are clearly evident and observable in the activities of the Bank and of the Group as a whole.

UBI Banca is a major player in the network of economic and social relations of the communities in which it operates, consistent with its key objectives and the values and principles of its Code of Ethics. With reference in particular to the mutual objects inherent in its institutional model, the Bank provides concessions for its Registered Shareholders and organises commercial and philanthropic initiatives for the less advantaged groups in the local economic and social communities which it serves.

With regard to the first aspect, UBI Banca provides UBI Club, a set of banking and insurance concessions for its Registered Shareholders, while its active participation in the economic and social development of local communities is supported by its network of branches and its commercial activity heavily oriented towards serving families, small to medium-size businesses and nonprofit organisations.

Within the scope of the efforts of community investment and philanthropy, UBI Banca, the network banks and the foundations created by the Group contribute to the work of hundreds of organisations and associations, both church associated and others, spread throughout the community through a variety of social, cultural, environmental, scientific and solidarity initiatives. In accordance with their articles of association, most of the network banks allocate a share of their profits to this activity and to the endowment capital of foundations established within the Group.

* * *

Finally, the Supervisory Board informs the shareholders that in a meeting held on 26th March 2014, 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 2013 of Unione di Banche Italiane Scpa, 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 earnings;
- the proposal for the shareholders to declare a dividend of €0.06 on each of the ordinary shares outstanding as at the ex-dividend date.

26th March 2014

The Supervisory Board