

**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**

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 2014.

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;
- 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 2014 Annual Report - provides detailed information on the two-tier system of corporate governance adopted.

UBI Banca is a "popular" bank incorporated in the form of a joint stock co-operative company. For the sake of completeness, it should also be noted that, given the co-operative nature of the banks involved, the mutual banking segment is subject to legislative reforms. On 24th January 2015, Decree Law No. 3 regarding urgent measures for the banking and investment system (which came into effect on 25th January 2015) was published in the Italian Official Journal on 24th January 2015. This legislation also includes provisions regarding changes to the current governance of mutual banks. As of the date of this report, this decree is currently undergoing the process for conversion into law.

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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 article 45 and two Deputy Chairmen chosen by the Supervisory Board itself from among its members. The members of the Supervisory Board, as appointed by the Shareholders' Meeting on 23rd April 2013, shall remain in office for three financial years and 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.

Following its appointment and in accordance with the relevant regulations in force, the Supervisory Board successfully ascertained that the requirements for integrity, professionalism and independence were met by all its members. The Board also conducted a self-assessment of its size, composition and functioning, as well as of the committees

established within it as part of the scheduled self-assessment process for 2013, 2014 and 2015.

As specifically concerns the procedures for evaluating the requirement of independence, it should be noted that, prior to the approval of this report, the Supervisory Board conducted an up-to-date verification of the requirement of independence, while also assessing, in compliance with Bank of Italy provisions concerning corporate governance, the lending positions held with the Group by each Member. All of the Members of the Board – based on declarations by each and on the information available to the Bank – have met the requirements of independence as defined by Art. 148, paragraph 3 of the Consolidated Finance Act and in accordance with Bank of Italy supervisory provisions with regard to corporate governance (Circular No. 285).

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

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

It should also be noted that the Board has assigned the supervisory functions specified under Art. 19 (regarding internal control and audit committees) of Legislative Decree No. 39 of 27th January 2010 to its Internal Control Committee. The Board has also granted this committee the functions of a Supervisory Body in accordance with Legislative Decree No. 231/2001 concerning the “administrative liability of entities”.

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Changes in the Articles of Association of UBI Banca

During 2014, UBI Banca began a process of fine tuning its corporate governance, which will include changes to the Bank's Articles of Association. Taking account of changes in legislation, the instructions of the Bank of Italy, and other market trends, the changes, as approved by the Supervisory Board on 13th February and by the Shareholders' Meeting on 10th May 2014 within the scope of their respective responsibilities, have introduced adaptations to the governance mechanisms by creating an “integrated mutual bank” based on per capita voting, but which is able to promote the balanced representation of registered shareholders.

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.

In 2014, the Supervisory Board updated the rules for its Appointments Committee in order to adapt them to the provisions of the Articles of Association introduced by resolution of the Shareholders' Meeting of 10th May 2014 and to the supervisory provisions concerning the organisation and corporate governance of banks as issued by the Bank of Italy in May 2014. The new regulations were published in a specific section of UBI Banca's corporate website.

On 7th May 2014, the Bank of Italy, as part of its Circular No. 285, issued the new supervisory provisions for the corporate governance of banks, which update the related regulations previously issued in 2008 in order to meet the needs of:

- o ensuring the transposition of the provisions of European legislation, particularly Directive 2013/36/EU (CRD IV) and the guidelines issued by the EBA in 2011 regarding internal governance;
- o clarifying and reinforcing the rules regarding a number of aspects that emerged from practical experience, co-ordinating them with the clarifications and application guidelines provided to the banking sector, ensuring harmony with other provisions issued in the meantime or currently being revised within the scope of work related to the transposition of CRD IV.

On 18th November 2014, also in relation to Circular No. 285, the Bank of Italy issued new

provisions regarding remuneration and incentive policies and practices, which included aspects affecting articles of association in relation to shareholder responsibilities concerning remuneration and incentives.

In relation to the above, it should be noted that work has begun to amend the Articles of Association in response to the aforementioned Bank of Italy supervisory provisions concerning corporate governance and remuneration and incentive policies and practices.

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Implementation of the European banking union

On 1st January 2014, the new European framework (Basel 3) came into effect, whereas the launch of the Single Supervisory Mechanism (SSM) on 4th November 2014 assigned specific tasks to the ECB concerning the prudent supervision of banks and calls for direct ECB supervision over the 120 largest banks (13 of which are Italian) in co-operation with the national supervisory authorities of participating countries.

In order to prepare for the launch of the SSM, a comprehensive assessment was concluded in October 2014 with a view to improving the transparency of the financial statements of banks and to increasing confidence in the solidity of the banks subject to single European supervision.

For UBI Banca, all phases of this comprehensive assessment pointed to the existence within the Group of significant surplus capital compared with the established thresholds.

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Remuneration and incentive policies

In our meeting of 3rd February 2015, as proposed by the Remuneration Committee, the Supervisory Board approved the update to the remuneration and incentive policies of the UBI Group for 2015.

The remuneration policies have been substantially revised, both in form and in substance, in order to bring them in line with the latest in best practices in terms of simplicity, efficacy and adequacy. In particular, one of the key features of the new policies is the introduction of a system of long-term incentives for members of management that have the greatest impact on governance and business.

The 2015 Policies take particular account of adapting to the new supervisory provisions for banks with regard to remuneration and incentive policies and practices issued by the Bank of Italy in November 2014 in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 (also known as “CRD IV”) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

Based on the observations of the Remuneration Committee, the Supervisory Board has expressed approval of the Group’s remuneration and incentive policies and their consistency with the proposal to submit the 2015 incentive scheme for key personnel (which calls for the determination of a portion of the variable component of remuneration by granting ordinary shares of the Parent, UBI Banca) for approval by the shareholders.

As proposed by the Remuneration Committee, the Supervisory Board also moved to submit the remuneration and incentive policies for the Supervisory and Management Boards to the shareholders for approval.

The Board also approved the presentation of a specific proposal to the shareholders regarding procedures for determining compensation to be paid in the event of early termination of employment or leaving office before the end of one's term.

The above decisions were then adopted in accordance with supervisory provisions concerning remuneration and incentive policies and practice for banks and banking groups, as issued on 18th November 2014.

On 3rd October 2014, within the scope of sector-wide action, the Bank of Italy reported the start of assessments aimed at evaluating the remuneration and incentive policies and

practices in place within the UBI Banca Group. The outcome of these assessments were presented by the supervisory authority on 11th March 2015.

Strategic and organisational change in the Group

During the year and in the first part of 2015, 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:

- corporate reorganisation efforts and simplification of the Group's structure, particularly with the merger of the companies IW Bank (online banking) and UBI Banca Private Investment (financial advisory network) with the goal of synergistically integrating the online model with that of the financial advisors in line with the current market landscape;
- finalisation of partnerships in the distribution of life and non-life insurance products;
- further measures to rationalise the Group's branch network and continuation of the initiatives concerning commercial processes;
- full implementation of enhancement of the policy-making and co-ordination role 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, Compliance, and the Chief Financial Officer of the Group's lender companies (i.e. UBI Leasing, Prestitalia and UBI Factor).

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

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

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 during the year was the action taken to implement the new provisions issued by the Bank of Italy on 2nd July 2013, effective as of 1st July 2014, concerning systems of internal controls, information systems and business continuity (*Vigilanza prudenziale delle Banche* – Circular No. 263 of 27th December 2006 – update No. 15).

These provisions introduced important changes with respect to the regulatory framework in force in order to furnish banks with a complete, adequate, functional and reliable system of internal controls, by regulating, amongst other things, the following: the role of corporate bodies within the internal control system; the role of corporate control functions, the outsourcing of corporate functions, the IT system and operational continuity.

The self-assessment report sent to the Bank of Italy in January 2014 described the results of the gap analysis conducted and the adaptation measures identified. These measures were implemented in the second stage of the project, which began in February 2014 and was progressively implemented in line with the deadlines established by applicable legislation.

The required regulatory compliance actions were carried out before the deadline set (1st July 2014), with particular reference to the following:

- internal control system – regulates guidelines, roles, duties and responsibilities of the corporate bodies and control functions of the Parent and its subsidiaries and also the relative co-ordination procedures;
- outsourcing of corporate functions – regulations for decision-making processes, controls and the relative lines of reporting, as well as the main roles and responsibilities of the persons involved;
- risk appetite framework (RAF): definition of the main roles and responsibilities assigned to the units involved in activities to define, implement and monitor the RAF;
- RAF training processes and approval and the main reporting lines between the Group units involved;

- compliance, risk control and internal audit: update and establishment of the main roles and responsibilities, the processes and the lines of reporting of these functions;
- business continuity – update of the Operational Continuity Programme in compliance with the new provisions.

Work to implement the new legislation took place in the second half of the year and included the following:

- System of Internal Controls: co-ordination of the control functions, with a particular emphasis on the sharing of operational aspects and the definition of the reporting calendar regarding the system of internal controls;
- Outsourcing company functions: appointment of the Contacts for Outsourced Activities and launch of the new operating processes;
- Risk Appetite Framework (RAF): updating risk appetite in conjunction with the budget process and changes in internal regulations in line with the new process;
- Compliance: updating methodologies and implementation of the new specialist measures (e.g. fiscal and labour law);
- Risk Control: definition of methodologies and mechanisms for second-level credit controls and for the assessment of IT risk;
- Internal Audit: adaptation of methodologies and of the scope of the activity.

In the same way, the provisions of the General Corporate Regulations were also updated.

With regard to the provisions of Chapter 8 (Information Systems), which came into effect on 1st February 2015, decisions were made in early 2015 regarding completion of the actions needed in relation to the ICT function, logical security, the governance date, management of change and of accidents, IT risk, and ICT compliance.

The Supervisory Board constantly monitors developments in the area, including through the Board's internal committees.

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In compliance with **Consob Communication No. 1025564 of 6th April 2001** and subsequent amendments to it, specific information is given below on the supervisory activities performed by the Supervisory Board in 2014 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 2014 Consolidated Financial Statements. The main initiatives undertaken are mentioned here.

During the year, 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 IW Bank SpA (online banking) into UBI Private Investment (financial advisory network), given their converging, complementary operating models. The merger, which was authorised by the Bank of Italy by way of a Provision of 27th February 2015, is expected come into effect on 25th May 2015 and calls for the

- surviving entity of the merger to be named IW Bank SpA, thereby maintaining the current trademark;
- finalisation of partnerships for the distribution of life and non-life insurance products. In this context and within the scope of the reorganisation of the joint venture in the area of the distribution of life insurance products, UBI Banca has agreed to repurchase non-controlling interests in Group banks at values that are in line with the fair value of the share holdings;
- full sale of the capital in UBI Gestioni Fiduciarie, a “dynamic fiduciary” company, within the scope of the broader programme of disposing of non-core businesses;
- actions to redefine the Group’s organisation and distribution structure, including the continuation of actions concerning the commercial value chain, aimed at reducing operating costs, maximising company efficiency and maintaining profitability.

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 12th December 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 and connected 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 2014, 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 2014 separate and consolidated financial statements on 6th March 2015. 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 2014, the Supervisory Board received no expressly qualified reports from the shareholders such as those envisaged under Article 2408 of the Italian civil code. Having said that, on 18th July 2013, UBI Banca was served a writ of summons by Giorgio Jannone and other 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. It therefore judges the claims made in that summons to be without foundation. 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. In a hearing of 19th June 2014, the Investigating Magistrate, having considered the preliminary questions raised by UBI Banca concerning the legitimacy of the parties to be relevant, ordered a court-appointed expert to verify whether the necessary quorum to challenge the shareholders’ resolution mentioned above had existed.

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.

We also report that with a letter of 30th April 2014, the Consob (Italian securities market authority) has launched proceedings in accordance with article 195 of the Consolidated Finance Act relating to Members of the Supervisory Board – in office from 2009 until 30th April 2014, with the exception of Members Agliardi, Cividini, Gallarati, Resti and Zucchi – concerning a report of a possible violation of article 149 of the Consolidated Finance Act in relation to reporting on corporate governance. The relative defence documents, to which all the Supervisory Board members in receipt of the notification adhered, were submitted to the Consob within the time limits set.

On 14th May 2014, as ordered by the Bergamo Public Prosecutor's Office, searches were conducted of the UBI Banca Group in response to claims dated 2012 (by Jannone and Lannutti, and related mainly to the matters concerning UBI Leasing and UBI Factor) and to a claim dated July 2013 made to the Supervisory Authority, acquired by the Prosecutor's Office (by Members of the Supervisory Board Agliardi, Cividini, Gallarati, Resti and Zucchi) regarding the alleged existence of shareholder agreements that were not reported to the competent authorities. The Group provided maximum co-operation with the *Guardia di Finanza* (finance police).

A request has been submitted – at the end of 2014 – for a six-month extension (until 29th June 2015) in the deadline for concluding the preliminary investigation.

The Group has already provided answers and clarifications at the time to the competent supervisory authorities on the matters contained in the reports and no new events have occurred to report, nor is there any additional news.

On 11th February 2015, the Bergamo Public Prosecutor's Office, through the *Guardia di Finanza*, served members of UBI Banca and other companies of the Group with search warrants within the scope of an investigation launched following the provision of 14th May 2014 issued by said authority. The alleged infraction concerns Art. 2636 of the Italian Civil Code (which regards undue influence over shareholders) in relation to the meeting of shareholders of 20th April 2013, which led to the appointment of the UBI Banca Supervisory Board for the period 2013-2014-2015.

In consideration of their nature, it is considered that the procedures initiated by the Consob and the Public Prosecutor's Office of Bergamo can have no repercussions on Group assets.

The Internal Auditing unit has conducted specific investigations of the matters involved in these measures and has kept the Internal Control Committee constantly apprised.

7. The fees shown below were paid to the independent statutory auditors Deloitte & Touche Spa for the financial year 2014, 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	968	1,274
Certification services	1,082	50
Other services	-	-
Total	2,050	1,324

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 2014, 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	-	315
Certification services	-	18
Other services	60	-
Total	60	333

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. 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 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. With regard to the internal regulations on limits to the number of positions held by senior managers of the bank, the Supervisory Board has issued an opinion as to whether two senior managers of Group companies have surpassed these limits, noting that it is in the Group's interest for these parties to hold positions on the boards of the subsidiary banks. The accumulation of positions within the Parent is in line with regulations.

10. The Supervisory Board met 21 times in 2014. 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. 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 2014, the Appointments Committee met four times; the Remuneration Committee, 14 times; the Internal Control Committee, 27 times; the Accounts Committee, ten times, and the Related Parties Committee met twelve 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 29 times in 2014.
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 periodic meetings with the those functions in the Bank involved in the system of internal controls and with the independent auditors, during the course of regular exchanges of information. Based on these meetings, we feel that the principles of proper management have been consistently applied and respected.
12. The Supervisory Board acquired information through channels which included the Internal Control Committee and it oversaw, within the scope of its responsibilities, the adequacy of the organisational structure of the Bank.
- With regard to the organisation of the Parent, in March 2014, the Supervisory Board approved the changes to the UBI Banca General Corporate Regulations primarily to account for the effects of efforts to strengthen the Parent's co-ordination over the product companies, so as to promote homogeneity and greater integration, at the Group level, of the systems of governance and control with the changes to the model of governance, which involved a centralisation of the functions of CRO, Compliance and CFO of the lender companies, i.e. UBI Leasing, Prestitalia and UBI Factor. The Board, with the help of its committees, has constantly monitored the progressive implementation of this strengthening process.
- As a result, the General Corporate Regulations were then supplemented to account, in particular, for the changes in regulations – following the resolutions of the Supervisory Board of 1st July 2014 – given that, on that same date, the new regulations for the prudential supervision of banks regarding systems of internal controls, information systems, and business continuity (see Bank of Italy Circular No.

263 of 27th December 2006, 15th update of 2nd July 2013) came into effect. The General Corporate Regulations were also supplemented in order to take account of the changes to the organisational structure during the period, which affected areas that included the Chief Audit Executive, the Chief Lending Officer, the Chief Business Officer, the Chief Risk Officer, and the Chief Financial Officer.

In October 2014, the Supervisory Board approved a new configuration concerning the Chief Audit Executive that takes account of: changes resulting from the new regulations for the prudential supervision of banks; the need for a renovated methodological and operational configuration of activities following certification by the Internal Auditing Function of compliance with the International Standards for the Professional Practice of Internal Auditing; and the changes to the scope of the Group companies involved and to the related processes.

The Supervisory Board, through the Internal Control Committee, has also monitored developments with Internal Auditing in terms of the function's structure, staff and operating tools – particularly as concerns aspects related to the implementation of an automated system of rating Italian branches in order to support the remote auditing efforts of Internal Auditing – as well as the Quality Assurance Review of internal auditing conducted by an external firm (PricewaterhouseCooper), which had a positive outcome and was looked at further by the Supervisory Board.

13. An assessment of the adequacy of the internal control system is conducted each year by Internal Auditing and takes account of the evaluations by the other control functions of the company. The outcome of this assessment is presented to the Supervisory Board for the appropriate verifications, which are conducted with the support of the Internal Control Committee.

With regard to internal controls, the Supervisory Board has also made decisions concerning implementation of the provisions of the Bank of Italy (see Circular No. 263/2006, 15th update) regarding systems of internal controls, information systems and business continuity, as explained in the related section of this report.

The Supervisory Board has examined the periodic reports of the second and third-level internal control functions, 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 is a recipient of the annual report of the Supervisory Body pursuant to Legislative Decree 231/2001 for the year 2013.

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

The following are the primary activities conducted by this committee in 2014 regarding the most significant issues concerning the Bank's system of internal controls, which sought to assess the adequacy of this system and the related regulatory context, including:

- the main changes to laws and regulations in areas affecting the overall architecture of the Group's system of internal controls, such as the 6th May 2014 update to Bank of Italy Circular No. 285/2013 regarding corporate governance, the July 2014 update to the Code of Corporate Governance and the convergence towards the Single Supervisory Mechanism, in relation to which the committee monitored the phases of the comprehensive assessment of leading banks by the ECB in conjunction with the local supervisory authorities;
- the development of "Project 263" aimed at adapting the overall system of internal controls to account for the new regulations for prudential supervision established in the 15th update to Bank of Italy Circular No. 263/2006 in terms of the organisational structure and overall system of internal policies and regulations;
- the management of conflicts of interest and, in particular, situations in which persons appointed to office in the network banks surpass the threshold of positions held and, with regard to interlocking, the annual verification of the lack of any causes of incompatibility of the Members of the Management Board and of the Senior Officer Responsible for preparing the company accounting documents;

- the organisation and structure of the Bank and its subsidiaries, including in relation to the changes in consolidated companies – such as the planned merger of IW Bank into UBI Banca Private Investment, the International Strategy Project, and the UBI World Project -- and information concerning executives and senior management of the Bank and its subsidiaries;
- issues concerning the system of powers, the definition and assignment of responsibilities, and the management of human resources – such as the systems of remuneration and incentives, trends in personnel costs, training efforts by UBI Academy, and the project “Human Resources Quality”;
- the reporting lines , particularly as concerns reporting by the control functions to senior management and the periodic reporting prepared by the units responsible for control activities, including in relation to the co-ordination of the organisation’s control functions as defined within the scope of the UBI Banca Group’s Policies for the System of Internal Controls;
- the activities of the control units of the Group companies, including by way of specific meetings and with a particular emphasis on the areas affected by the Bank of Italy’s new regulations for prudential supervision, the use of advanced internal models adopted by the Group for measuring and managing credit and operational risk, and convergence towards the Single Supervisory Mechanism;
- 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 in force;
- the Compliance function, taking note – in part through the reports produced – of the progress of initiatives concerning the organisation and related regulations and of initiatives aimed at enhancing the compliance process and, in particular, at centralising within the Parent the compliance functions of UBI Leasing, Prestitalia, and UBI Factor. A similar process of centralisation also concerned the Risk Control Function;
- transparency, usury and privacy, particularly as concerns developments in the mechanisms controlling related compliance in relation to the specific projects launched by the Parent;
- matters concerning the complaints management process;
- activities to prepare for the UBI Banca Shareholders’ Meeting.

14. The Supervisory Board assessed and oversaw the adequacy and efficiency of the administration and accounting system and its reliability in recording operating events faithfully, partly by means of internal committees of the Board. This was performed by holding specific meetings with the functions in the Bank involved in the internal control system and with the independent auditors, by acquiring adequate reports from other corporate bodies of the bank and from the heads of the respective functions, by examining corporate documents and by analysing the results of the work performed by those persons. Within the scope of evaluating the system of internal controls and based in part on the information provided by the 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. In addition to what has been reported above in the section concerning strategic and organisational developments for the Group, it should also be noted that, during the year, the functions of Chief Risk Officer, Compliance and Chief Financial Officer of the Group's lender companies were centralised. Various initiatives also involved Prestitalia and UBI Factor with the goal of improving their accounting functions, including the adoption of information systems specifically calibrated for their respective businesses.

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 2014 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 2014.

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 and the Accounts 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 2014 and in the first months of 2015 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 for the year ended 31st December 2014.
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 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 provisions. In this regard, it should be noted that the current chairman of the Remuneration Committee is not an independent as defined by the Code of Corporate Governance, 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. It is, however, emphasised, that the remaining four members of the Committee possess the requirements of independence.
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 2014 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.

In terms of the first of these aspects, UBI Banca provides UBI Club members with a series of banking incentives and insurance coverage, while active involvement in the economic and social development of the various communities is based on commercial activities that feature a keen focus on serving households, small and medium enterprise, and non-profit 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 11th March 2015, 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 2014 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;
- a proposal to replenish the loss for the year by charging it to the share premium reserve;
- the proposal to the Shareholders' Meeting to distribute a dividend of €0.08 on each of the ordinary shares outstanding, excluding treasury shares, drawn from the extraordinary reserve.

11th March 2015

THE SUPERVISORY BOARD