Interim financial report

as at and for the half year ended 30th June 2017

Translation from the Italian original which remains the definitive version

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint Stock Company
Head Office and General Management: Piazza Vittorio Veneto 8, Bergamo (Italy)
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 14th July 2017: Euro 2,843,075,560.24 fully paid up

www.ubibanca.it

Contents

Key

The following abbreviations are used in the tables:
- dash (-): when the item does not exist;
- not significant (n.s.): when the phenomenon is not significant;
- not available (n.a.): when the information is not available;
- a cross "X": when no amount is to be given for the item (in compliance with Bank of Italy instructions).

All figures are given in thousands of euros, unless otherwise stated.

UBI Banca: company officers

Honorary Chairmen (*)	Gino Trombi Emilio Zanetti

Supervisory Board
(Appointed by a Shareholders' meeting of 2nd April 2016)

Chairman	Andrea Moltrasio
Senior Deputy Chairman	Mario Cera
Deputy Chairman	Pietro Gussalli Beretta
Deputy Chairman	Armando Santus
	Francesca Bazoli
	Letizia Bellini Cavalletti
	Pierpaolo Camadini
	Ferruccio Dardanello (**)
	Alessandra Del Boca
	Giovanni Fiori
	Patrizia Michela Giangualano
	Paola Giannotti
	Lorenzo Renato Guerini
	Giuseppe Lucchini
	Sergio Pivato

Management Board
(appointed by the Supervisory Board on 14th April 2016)

Chairwoman	Letizia Maria Brichetto Arnaboldi Moratti
Deputy Chairman	Flavio Pizzini
Chief Executive Officer	Victor Massiah (***)
	Silvia Fidanza
	Osvaldo Ranica
	Elvio Sonnino
	Elisabetta Stegher

General Management

General Manager	Victor Massiah (***)
Senior Deputy General Manager	Elvio Sonnino
Deputy General Manager	Frederik Geertman
Deputy General Manager	Rossella Leidi

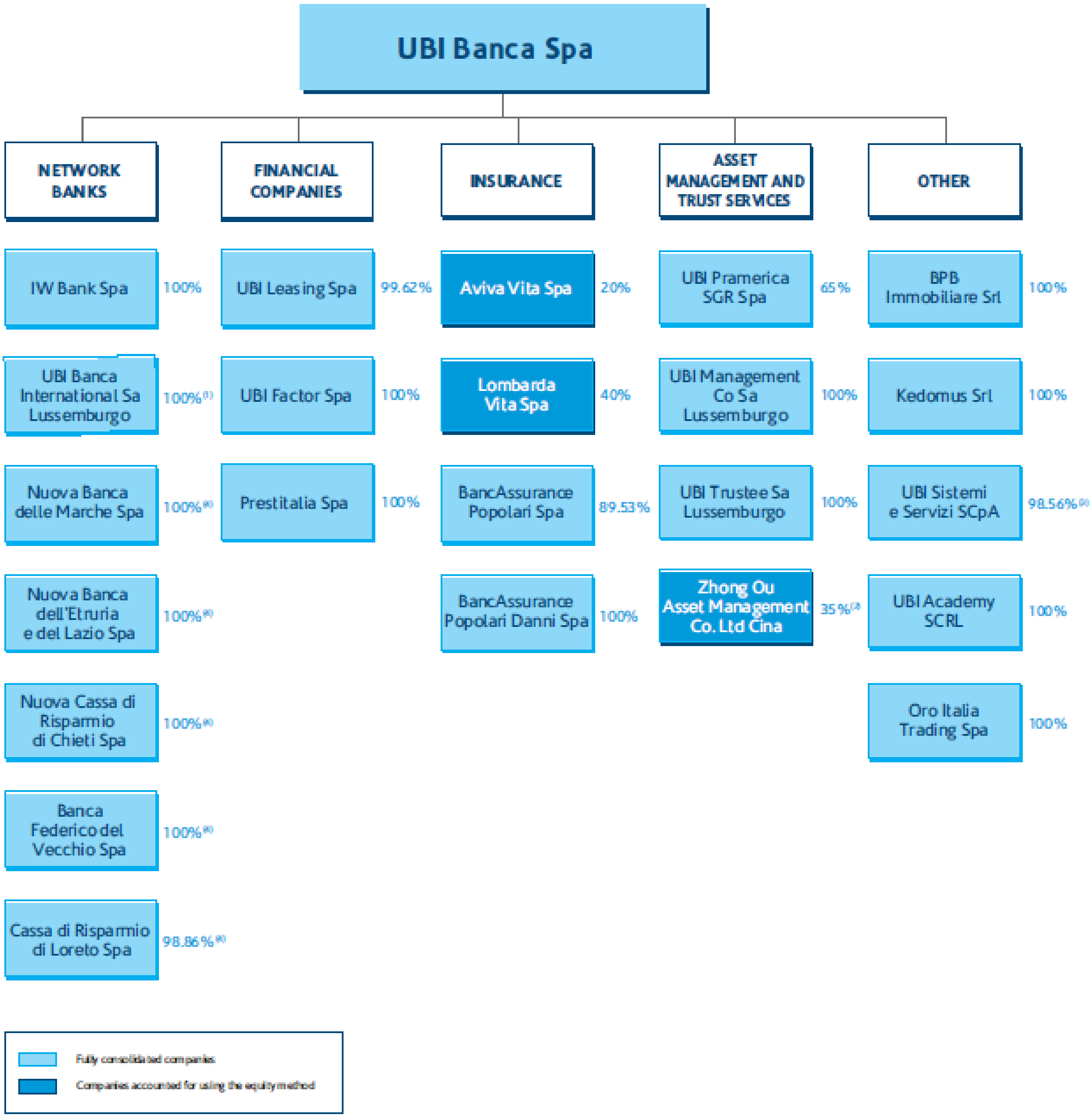
Senior Officer Responsible in accordance with Art. 154 *bis* of the Consolidated Finance Act	Elisabetta Stegher
Independent Auditors	DELOITTE & TOUCHE Spa

(*) Former honorary chairmen of Banco di Brescia Spa and Banca Popolare di Bergamo Spa respectively.
(**) Appointed by an Ordinary Shareholders' Meeting held on 7th April 2017 to fill a vacancy on the Supervisory Board following the resignation of Gian Luigi Gola in December 2016. The Board Member will remain in office until the expiry of the term of office of the original board member replaced and that is until the Shareholders' Meeting that will be held after the end of the financial year 2018.
(***) Appointed Chief Executive Officer and General Manager by the Management Board on 15th April 2016.

* * *

Reference is made with regard to the corporate governance system adopted by UBI Banca and to the roles, responsibilities, composition, functioning and powers of the governing bodies in particular, to the detailed illustration contained in the "Report on Corporate Governance and Ownership Structure (in accordance with Art. 123-bis of the Consolidated Finance Law)" attached to the 2016 Annual Report and also to the corporate governance section of the Group's corporate website www.ubibanca.it.

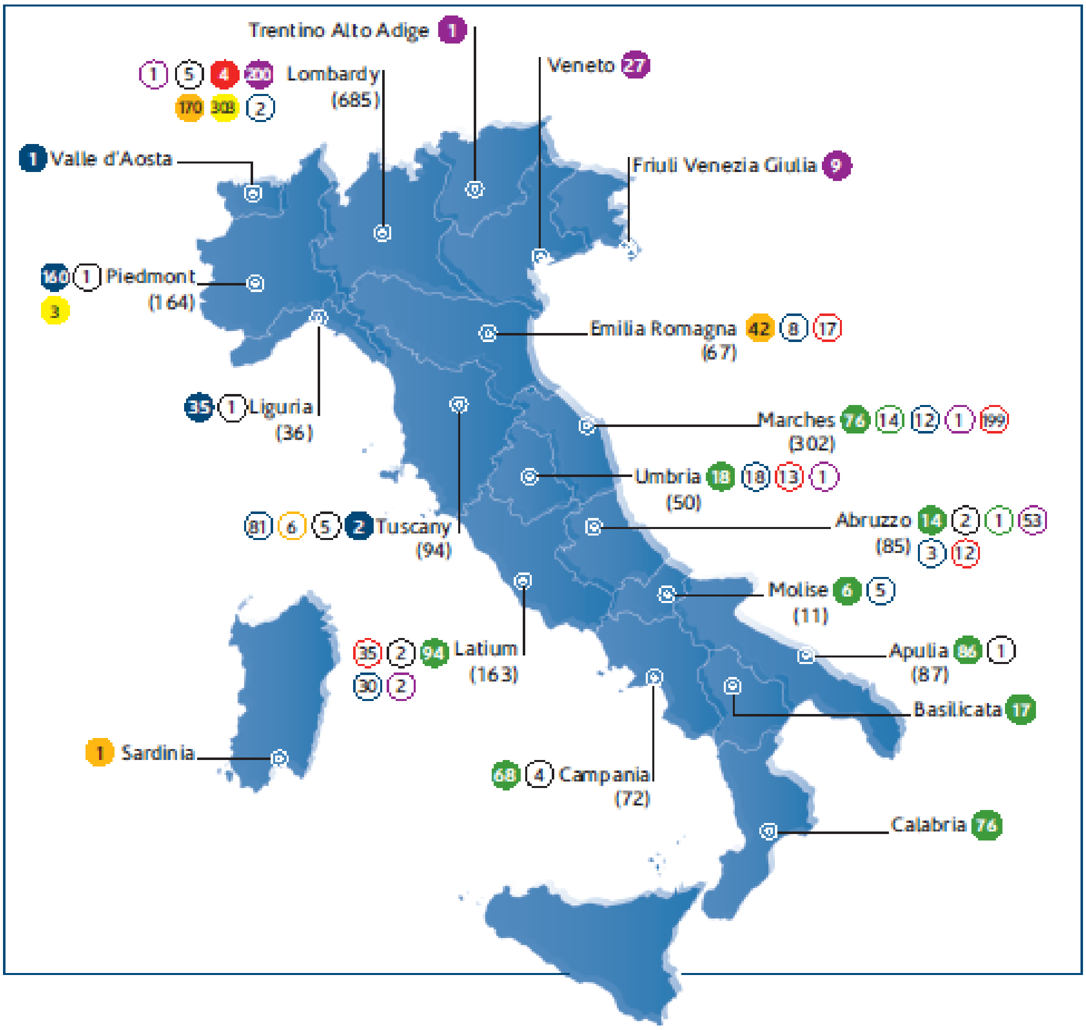
UBI Banca Group: the main investments as at 30th June 2017



(1) On the basis of the agreement signed on 28th April 2016, the disposal is expected to be concluded once the preparatory activities for the disposal are completed and therefore not before the end of 2017.
(2) In June 2015 one third of the stake held was classified within assets held for disposal in accordance with IFRS 5.
(3) The remaining 1.44% is held by Cargeas Assicurazioni Spa (the former UBI Assicurazioni Spa).
(4) The banks acquired on 10th May 2017 will be gradually merged by incorporation into the Parent as from October 2017.

The percentages relate to the total interests held (direct and indirect) by the Group in the entire share/quota capital.

UBI Banca Group: branch network as at 30th June 2017



Branches in Italy	1,948
UBI Banca Spa	4
UBI Banca Spa - North West Macro Geographical Area	198
UBI Banca Spa - Milan Emilia Romagna Macro Geographical Area	213
UBI Banca Spa - Bergamo and West Lombardy Macro Geographical Area	306
UBI Banca Spa - Brescia and North East Macro Geographical Area	237
UBI Banca Spa - Central South Macro Geographical Area	455
Nuova Banca delle Marche Spa	276
Cassa di Risparmio di Loreto Spa	15
Nuova Banca dell'Etruria e del Lazio Spa	159
Banca Federico del Vecchio Spa	6
Nuova Cassa di Risparmio di Chieti Spa	58
IW Bank Spa	21

Branches abroad **6**

UBI Banca Spa
Nizza, Mentone, Antibes (France), Munich (Germany), Madrid (Spain)

UBI Banca International Sa (Luxembourg)
Luxembourg

International presences

UBI Factor Spa
Krakow (Poland)

UBI Management Co. Sa
Luxembourg

Zhong Ou Asset Management Co. Ltd
Shanghai (China)

UBI Trustee Sa
Luxembourg

Representative offices
São Paolo (Brazil), Moscow, Mumbai, Hong Kong, Shanghai, Dubai, New York, Casablanca.

UBI Banca Group: key figures and performance indicators[1]

	30.6.2017 (*)	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
STRUCTURAL INDICATORS										
Net loans and advances to customers/total assets	70.2%	72.8%	72.2%	70.3%	71.2%	70.1%	76.8%	78.0%	80.1%	79.0%
Direct funding from customers/total liabilities	73.3%	75.8%	78.1%	76.5%	74.5%	74.6%	79.2%	81.8%	79.5%	80.0%
Net loans and advances to customers/direct funding from customers	95.7%	96.1%	92.4%	91.9%	95.5%	94.0%	97.0%	95.4%	100.8%	98.7%
Equity *(inclusive of profit/loss)* /total liabilities	7.4%	8.0%	8.5%	8.1%	8.3%	7.4%	6.9%	8.4%	9.3%	9.1%
Assets under management/indirect funding from individual customers	64.7%	66.5%	61.1%	57.1%	55.2%	54.3%	51.2%	54.6%	53.2%	53.1%
Financial leverage ratio *(total assets - intangible assets)/(equity inclusive of profit/loss + equity attributable to non-controlling interests - intangible assets)*	16.0	15.0	13.2	14.0	14.7	17.0	18.5	19.3	17.1	17.3
PROFIT INDICATORS										
ROE *(net profit)/(equity inclusive of profit/loss)*	7.8%	n.s.	1.2%	2.4%	2.4%	0.8%	3.9%	1.6%	2.4%	0.6%
ROTE *[net profit/tangible equity (equity inclusive of profit/loss - intangible assets)]*	9.5%	n.s.	1.4%	2.9%	3.4%	1.2%	5.9%	3.1%	4.6%	1.2%
ROA *(net profit/total assets)*	0.58%	n.s.	0.10%	0.19%	0.20%	0.06%	0.27%	0.13%	0.22%	0.06%
The cost:income ratio *(operating expenses/operating income)*	66.6%	69.0%	64.5%	61.8%	62.3%	64.3%	69.5%	70.6%	64.4%	63.9%
Staff costs/operating income	41.2%	40.9%	38.4%	38.2%	37.9%	39.0%	41.4%	41.5%	37.5%	38.8%
Net impairment losses on loans/net loans to customers *(loan losses)*	0.60%	1.91%	0.95%	1.08%	1.07%	0.91%	0.61%	0.69%	0.88%	0.59%
Net interest income/operating income	42.9%	48.0%	48.4%	53.3%	50.9%	52.8%	61.7%	61.3%	61.5%	68.7%
Net fee and commission income/operating income	43.8%	42.8%	38.6%	36.0%	34.5%	33.5%	34.7%	33.9%	31.1%	33.3%
Net result on financial activities/operating income	8.6%	4.9%	8.6%	5.9%	9.4%	7.3%	0.2%	1.0%	3.2%	-5.9%
RISK INDICATORS										
Net bad loans/net loans to customers	4.30%	4.87%	5.07%	4.70%	3.89%	3.18%	2.49%	1.91%	1.36%	0.88%
Net impairment losses on non-performing loans / gross non-performing loans *(coverage for non-performing loans)*	46.28%	45.08%	38.64%	38.56%	41.60%	42.60%	43.31%	48.69%	51.57%	54.58%
Coverage for bad loans, gross of write-offs of positions subject to bankruptcy proceedings and the relative impairment losses (2)	59.17%	58.48%	52.25%	53.36%	56.05%	57.63%	59.06%	63.62%	66.10%	
Net non-performing loans/net loans and advances to customers	8.97%	9.84%	11.45%	11.10%	10.53%	8.73%	6.30%	5.17%	4.62%	2.40%
CAPITAL RATIOS Basel 3 phased-in from 31 3 2014 (3)										
Tier 1 ratio *(Tier 1 capital after filters and deductions/RWAs)*	11.42%	11.48%	12.08%	12.33%	13.23%	10.79%	9.09%	7.47%	7.96%	7.73%
Common Equity Tier 1 ratio *(CET1 capital after filters and deductions/RWAs)*	11.42%	11.48%	12.08%	12.33%	12.60%	10.29%	8.56%	6.95%	7.43%	7.09%
Total capital ratios *(total own funds/RWAs)*	14.06%	14.10%	13.93%	15.29%	18.91%	16.01%	13.50%	11.17%	11.91%	11.08%
Total own funds (figures in thousands of euro)	9,728,418	8,389,105	8,545,017	9,441,598	11,546,144	12,203,619	12,282,153	10,536,200	10,202,555	9,960,812
of which: Tier 1 capital after filters and deductions	7,907,737	6,829,283	7,408,894	7,615,265	8,075,247	8,263,720	8,276,278	7,047,888	6,816,876	6,944,723
Risk weighted assets (RWAs)	69,216,563	59,483,864	61,344,866	61,762,588	61,045,600	76,589,350	91,010,213	94,360,909	85,677,000	89,891,825
INCOME STATEMENT, BALANCE SHEET FIGURES (in thousands of euro), **STRUCTURAL DATA** (numbers)										
Profit (loss) for the period/year attributable to the shareholders of the Parent	696,045	(830,150)	116,765	(725,767)	250,830	82,708	(1,841,488)	172,121	270,099	69,001
Profit (loss) for the period/year attributable to the shareholders of the Parent before the impact of the Business Plan (previously redundancy expenses and impairment)	102,720	(565,812)	182,774	233,230	314,550	184,581	349,373	177,293	289,022	88,810
(Profit) loss for the year/period attributable to the shareholders of the Parent normalised	129,995	(474,357)	195,132	146,537	100,220	97,324	111,562	105,116	173,380	425,327
Operating income	1,738,983	3,119,499	3,370,864	3,409,630	3,437,292	3,526,311	3,438,339	3,496,061	3,906,247	4,089,739
Operating expenses	(1,158,233)	(2,153,466)	(2,175,181)	(2,108,222)	(2,141,798)	(2,266,660)	(2,389,626)	(2,468,564)	(2,514,347)	(2,611,348)
Net loans and advances to customers	94,228,583	81,854,280	84,586,200	85,644,223	88,421,467	92,887,969	99,689,770	101,814,829	98,007,252	96,368,452
of which: net bad loans	*4,049,559*	*3,987,303*	*4,287,929*	*4,025,079*	*3,437,125*	*2,951,939*	*2,481,417*	*1,939,916*	*1,332,576*	*848,671*
Net non-performing loans	*8,452,239*	*8,055,608*	*9,688,549*	*9,508,105*	*9,312,273*	*8,105,174*	*6,279,884*	*5,261,129*	*4,532,234*	*2,315,913*
Direct funding from customers	98,474,600	85,166,013	91,512,399	93,207,269	92,603,936	98,817,560	102,808,654	106,760,045	97,214,405	97,591,237
Indirect funding from customers	95,829,633	82,116,612	79,547,957	75,892,408	71,651,786	70,164,384	72,067,569	78,078,869	78,791,834	74,288,053
of which: assets under management	*62,043,961*	*54,631,219*	*48,567,539*	*43,353,237*	*39,553,848*	*38,106,037*	*36,892,042*	*42,629,553*	*41,924,931*	*39,430,745*
Total funding from customers	194,304,233	167,282,625	171,060,356	169,099,677	164,255,722	168,981,944	174,876,223	184,838,914	176,006,239	171,879,290
Equity attributable to the shareholders of the Parent *(inclusive of profit/loss)*	9,956,158	8,989,578	9,981,862	9,804,048	10,339,392	9,737,882	8,939,023	10,979,019	11,411,248	11,140,207
Intangible assets	1,715,241	1,695,973	1,757,468	1,776,925	2,918,509	2,964,882	2,987,669	5,475,385	5,523,401	5,531,633
Total assets	134,279,535	112,383,917	117,200,765	121,786,704	124,241,837	132,433,702	129,803,692	130,558,569	122,313,223	121,955,685
Branches in Italy	1,948	1,524	1,554	1,668	1,725	1,727	1,875	1,892	1,955	1,944
Total staff at the end of the period *(actual employees in service + workers on agency leasing contracts)*	22,122	17,560	17,716	18,132	18,337	19,090	19,407	19,699	20,285	20,680
Average total staff (4) (actual employees in service + workers on agency leasing contracts)	20,849	16,494	16,756	17,462	17,625	18,490	18,828	19,384	20,185	20,606
Financial advisors	767	787	824	713	671	672	713	786	880	924

(*) The figures as at and for the period ended 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. The figures for previous periods on the other hand are based on historical data and therefore on the UBI Banca "Stand-Alone" Group.

The notes to the table are reported on the following page.

(1) The indicators have been calculated using the reclassified figures contained in the section "Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules" in the Interim Consolidated Management Report.

The profit indicators for the first half of 2017 have been calculated by annualising the profit for the period relating to the Parent. Badwill has not been annualised, in consideration of the exceptional nature of that accounting item.
In consideration of the loss recorded, profit indicators have not been given for 2016 because they hold little significance.
The profit indicators for 2014 and 2011 were calculated on profit for the year before redundancy expenses and impairment losses.

Account has been taken with regard to the Alternative Performance Measures reported in this financial report and in particular in the Interim Consolidated Management Report of the ESMA guidelines issued on 5th October 2015, which the Consob incorporated in its supervisory practices (Communication No. 0092543 of 3rd December 2015). Those guidelines became applicable from 3rd July 2016.
Furthermore, on 18th August 2016, the Management Board approved the new UBI Banca Group guidelines on the identification of non-recurring items.

Information on the share has been summarised in a specific section of this interim report.

(2) The coverage for bad loans inclusive of write-offs as at 31st December 2015 has been restated because financial accounting data has been used since that date; the percentages shown for previous periods, however, remain of a management accounting nature.

(3) Capital ratios as at 31st December 2013 and as at 31st December 2012 were calculated according to AIRB Basel 2 rules and relate to the following ratios respectively:
- the Tier 1 ratio *(Tier 1 capital/risk weighted assets);*
- the Core Tier 1 ratio after specific deductions from the Tier 1 capital *(Tier 1 capital net of preference shares and savings or privileged shares held by non-controlling interests/risk weighted assets)*;
- the Total capital ratio *(regulatory capital + Tier 3/risk weighted assets).*

For previous periods the figures were calculated according to the Basel 2 standard rules.

(4) Part time employees have been calculated within total average staff numbers according to convention on a 50% basis.

The rating

The ratings assigned to the UBI Banca Group by the main international agencies are given below.

Following the announcement and the subsequent stipulation of a contract to acquire three of the four Target Bridge Institutions formed in November 2015 by the Resolution Fund, on 24th January 2017 **Moody's** confirmed its ratings with a stable outlook.

MOODY'S	
Long-term Bank deposits rating (I)	Baa2
Short-term Bank deposits rating (II)	Prime-2
Baseline Credit Assessment (BCA) (III)	ba2
Long-term Issuer Rating (IV)	Baa3
Long-term Counterparty Risk Assessment (V)	Baa2(cr)
Short-term Counterparty Risk Assessment (V)	Prime-2(cr)
Outlook	Stable
RATINGS ON ISSUES	
Senior unsecured rating	Baa3
Subordinated debt	Ba3
Covered Bonds (First Programme – residential mortgages)	Aa2

(I) The ability to repay long-term deposits (with original maturity of one year or more) in local currency.
(Aaa: best rating – C: default)

(II) The ability to repay short-term deposits (with original maturity of 13 months or less) in local currency.
(Prime-1: highest quality – Not prime: not classifiable within any of the prime categories)

(III) The BCA is not a rating but an opinion on the intrinsic financial strength of the bank in the absence of external support
(Aaa: best rating – C: default)

(IV) Rating on the ability of the issuer to honour senior debt and bonds
(Aaa: best rating – C: default)

(V) The counterparty risk (CR) assessment is not a rating but an opinion on the likelihood of a default on certain senior operating obligations and other contractual commitments entered into by the bank
[Aaa(cr): best rating – C (cr): Default]
[P-1 (cr): best rating – Not prime (cr): not classifiable within any of the prime categories]

On the basis of the announcement to present a binding offer for what were then the three Bridge Banks, on 13th January 2017 **S&P Global Ratings** confirmed all its ratings with a stable outlook.
The ratings were again confirmed in a periodic annual revision on 4th May 2017.

S&P GLOBAL RATINGS	
Short-term Issuer Credit Rating (i)	A-3
Long-term Issuer Credit Rating (i)	BBB-
Stand-Alone Credit Profile (SACP) (ii)	bbb-
Outlook (long-term rating)	Stable
RATINGS ON ISSUES	
Senior unsecured debt	BBB-
Subordinated debt	BB

(i) The issuer credit rating reflects the agency's opinion of the intrinsic creditworthiness of the bank combined with an assessment of the potential for future support that the bank might receive in the event of default (from government or from the group to which it belongs).
Short-term: ability to repay short-term debt with a maturity of less than one year (A-1: best rating – D: default)
Long-term: ability to pay interest and principal on debt with a maturity of longer than one year
(AAA: best rating – D: default)

(ii) The SACP is a rating of the intrinsic creditworthiness of the bank in the absence of external support (from government or from the group to which it belongs). It is calculated on the basis of an "anchor SACP", which summarises economic and industry risk for the Italian banking sector. This is then adjusted to take account of bank-specific factors such as capitalisation, market positioning, exposure to risk and the funding and the liquidity situation, which are also assessed from a comparative viewpoint.

On 20th February 2017, **Fitch Ratings** downgraded its long-term rating (Long-term Issuer Default Rating) by one notch from "BBB" to "BBB-", and it's Viability Rating from "bbb" to "bbb-". It's Negative Outlook remained unchanged, as a reflection of the weak economic context in Italy.

The reason for this downgrade, in Fitch's opinion, was the impact of non-performing loans on capital, considered high from a forward-looking viewpoint because, according to this agency, the targets set in the 2019/2020 Business plan to reduce them were not sufficiently ambitious.
Notwithstanding this, the Group is continuing to implement the plan well ahead of the original schedule and it has already achieved significant reductions in its non-performing assets (in both gross and net terms), also because of the reductions in new entrances from performing status.

Furthermore, on 21st April 2017, this agency downgraded its rating on long-term Italian sovereign debt by one notch, bringing it down from "BBB+" to "BBB" with a Stable Outlook.

FITCH RATINGS	
Short-term Issuer Default Rating (1)	F3
Long-term Issuer Default Rating (2)	BBB-
Viability Rating (3)	bbb-
Support Rating (4)	5
Support Rating Floor (5)	NF (No Floor)
Outlook (Long-term Issuer Default Rating)	Negative
RATINGS ON ISSUES	
Senior unsecured debt	BBB-
Subordinated debt	BB+

(1) The ability to repay debt in the short-term (less than 13 months) (F1+: best rating – D: default)
(2) The ability to promptly meet financial commitments in the long-term, independently of the maturity of individual obligations. This rating is an indicator of the probability that an issuer will default.
(AAA: best rating – D: default)
(3) An assessment of a bank's intrinsic strength in the event that it cannot rely on forms of external support (aaa: best rating - f: default).
(4) A rating of the likelihood of possible external support (from the state or large shareholders) if the bank finds itself in difficulty.
[1: high probability of external support – 5: no reliance may be placed on any possible support (as is the case for European banks subject to the BRRD resolution regime)]
(5) This rating gives additional information, closely linked to the Support Rating, in that for each level of the Support Rating it identifies the minimum level which the Issuer Default Rating could reach if negative events were to occur (No Floor for European banks subject to the BRRD resolution regime).

In consideration of the increased probability that under the BRRD regime (Directive for the recovery and resolution of banks) all subordinated debts are used, together with capital, to absorb losses, on 13th January 2017 **DBRS** placed the subordinated securities issued by 27 European banking groups (including UBI Banca) with a rating of one notch below the intrinsic assessment under review with possible negative implications. This review, which was extended on 29th March 2017, was concluded on 9th June. UBI Banca's subordinated debt rating (previously "under review with negative implications") was therefore reduced by one notch to "BBB (low)" from the previous "BBB" with a negative trend.

Again on 13th January this agency revised its Italian sovereign debt rating, downgrading it from "A (low)" to "BBB (high)" with a Stable Trend.

As concerns, on the other hand, the acquisition of the three Bridge Banks, on 20th January the agency confirmed all its ratings for UBI Banca, modifying the trend from stable to negative to take account of the potential risks, including execution risks, connected with the operation.

On 14th July 2017, DBRS announced a series of actions on European issuers designed to standardise the "nomenclature" of its long and short-term ratings of banking organisations. None of these actions gave rise to changes to the ratings assigned.
More specifically the following new rating areas were introduced, with a distinction between long and short-term and the separation between "debt" and "deposits" (which could in future lead to assessment of these liabilities in different terms and therefore with possible different ratings): Long-term Issuer rating, Long-term Senior Debt, Long-term Deposits, together with the corresponding Short-term Issuer rating, Short-term Debt and Short-term Deposits.

The table below gives UBI Banca's ratings, which are unchanged compared with the past.

DBRS	
Long-term Issuer rating (I) the	BBB (high)
Short-term Issuer rating *(new rating)* (I)	R-1 (low)
Long-term Senior Debt (II)	BBB (high)
Short-term Debt (II)	R-1 (low)
Long-term Deposits *(new rating)* (III)	BBB (high)
Short-term Deposits *(new rating)* (III)	R-1 (low)
Intrinsic Assessment (IV)	BBB (high)
Support Assessment (V)	SA3
Long-Term Critical Obligations rating	A
Short-Term Critical Obligations rating	R-1 (low)
Trend (all ratings)	Negative
RATINGS ON ISSUES	
Senior unsecured	BBB (high)
Subordinated debt	BBB (low)
Covered Bonds (First Programme – residential mortgages)	AA (low)
Covered Bonds (Second Programme – commercial mortgages)	A

(I) The issuer rating is not a rating on issues but on the issuer, because it is an assessment of its creditworthiness. The rating is assigned on a long-term basis using the long-term rating scale and on a short-term basis using the relative scale. In the banking sector, the Issuer Rating represents the final rating on the credit worthiness of a bank which incorporates both the Intrinsic Assessment and possible considerations regarding external support.
LTIR - AAA: highest credit quality – C: very highly speculative
STIR - R-1 (high): highest credit quality – R-5: very highly speculative

(II) The ability to repay long-term debt (maturing in more than one year), or short-term debt.
LTSD - AAA: highest credit quality – C: very highly speculative
STD - R-1 (high): highest credit quality – R-5: very highly speculative

(III) The ability to repay long-term deposits (maturing in more than one year) and short-term deposits.
LTD - AAA: highest credit quality – C: very highly speculative
R-1 (high): highest credit quality - R-5: very highly speculative

(IV) The Intrinsic Assessment (IA) is a rating of the intrinsic financial strength of a bank in the absence of external support. It assesses a bank's intrinsic fundamentals in five areas: commercial network, earnings capacity, liquidity and funding, risk profile and capitalisation.
AAA: best rating – C: worst rating

(V) External support assessment (Group to which it belongs or government) in case of need.
SA1: internal support from the group to which it belongs; SA2: external support (government); SA3: no external support; SA4: potential support to the group to which it belongs.

INTERIM CONSOLIDATED MANAGEMENT REPORT

AS AT AND FOR THE PERIOD ENDED 30TH JUNE 2017

Gruppo UBI Banca

The macroeconomic scenario[1]

The macroeconomic scenario benefited during the first half from the consolidation of the global recovery, driven by a positive trend for investments. Nevertheless, the general framework continued be affected by geopolitical variables:

- repeated terrorist attacks on a large-scale;
- repeated missile tests by North Korea in a climate of growing international discord;
- heightened tensions between Russia and United States starting from the difficulty in solving the Syrian question;
- the diplomatic crisis between the Gulf states;
- the halt to negotiations for the entrance of Turkey to the European Union following the outcome of the referendum in April on presidential powers.

Further risk factors affecting growth are to be seen in the uncertainties over the future development of United States economic and commercial policies and over the results of the Brexit negotiations:

- *after over six months since the unexpected rise of Donald Trump to the White House it is still not clear if and exactly when the new United States president will succeed in implementing his election campaign programme designed to increase protectionism and support growth through increasing investments in infrastructures and pursuing an expansionary fiscal policy. While he has not adopted other measures to restrict free trade after abandoning the Trans Pacific Partnership (TTP)*[2]*, Trump continues to question multilateral agreements between countries, which also makes international co-operation in other spheres*[3] *more complex. The initial difficulties encountered by the new administration in its plans to approve a health reform and the internal political scandals in which the President has been involved risk compromising the credibility of the new executive, increasing fears of a possible slowdown in the launch of the reforms that had been announced;*
- *at the end of March, nine months after the referendum held for the United Kingdom to exit the European Union and after obtaining Parliamentary approval*[4]*, the government officially invoked Art. 50 of the Lisbon Treaty, which lays down the procedure to follow when a member state decides to leave the EU. Notification of that decision to the European Council resulted in the official start of a complex negotiating process with uncertain outcomes, the long-term impacts of which on the United Kingdom's*[5] *and the Euro Area's economies will depend on the new trade and financial structure that results from it. The UK Prime Minister unexpectedly decided to hold an early general election at the beginning of June with the objective of strengthening the British government's leadership in the management of Brexit negotiations. Notwithstanding the very encouraging opinion polls for Theresa May, the Tory vote was much lower than expected and they were obliged to forge alliances with other political forces in order to form a government. Even though this result was interpreted as a strong sign of political weakness in view of the negotiations with Brussels, the United Kingdom continued with its intention to take back control of its borders and limit European integration, as a prelude to the difficult task of reaching an agreement in the short term.*

In Europe the defeat of populist parties in the Dutch and French elections helped reduce the risk of the EU disintegrating, as it stemmed the advance of Eurosceptic positions. Nevertheless, substantial points of discord between member countries in the management of migration remain.

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1 Prepared on the basis of data available as at 24th July 2017.

2 During his election campaign, Trump said he would revise all foreign trade treaties in order to replace multilateral agreements with bilateral arrangements, claiming that he could obtain better conditions for American industry with significant impacts on the internal labour market. Even though the President officially abandoned the Trans Pacific Partnership (TTP) when he took office in the White House on 20th January, he has not so far followed through with his intentions to renegotiate Nafta (the trade agreement with Mexico and Canada) and introduce a tax on all imports (known as the "Border Tax Adjustment"). The most accredited hypothesis is that protectionist measures targeted at certain products and countries will be taken, such as those currently being studied by the Department of Commerce on steel and aluminium imports from China.

3 Recently the President confirmed that the United States was leaving the Paris agreement on climate signed by over 190 countries in December 2015, thereby officially dropping the American commitment to limit the glasshouse effect globally.

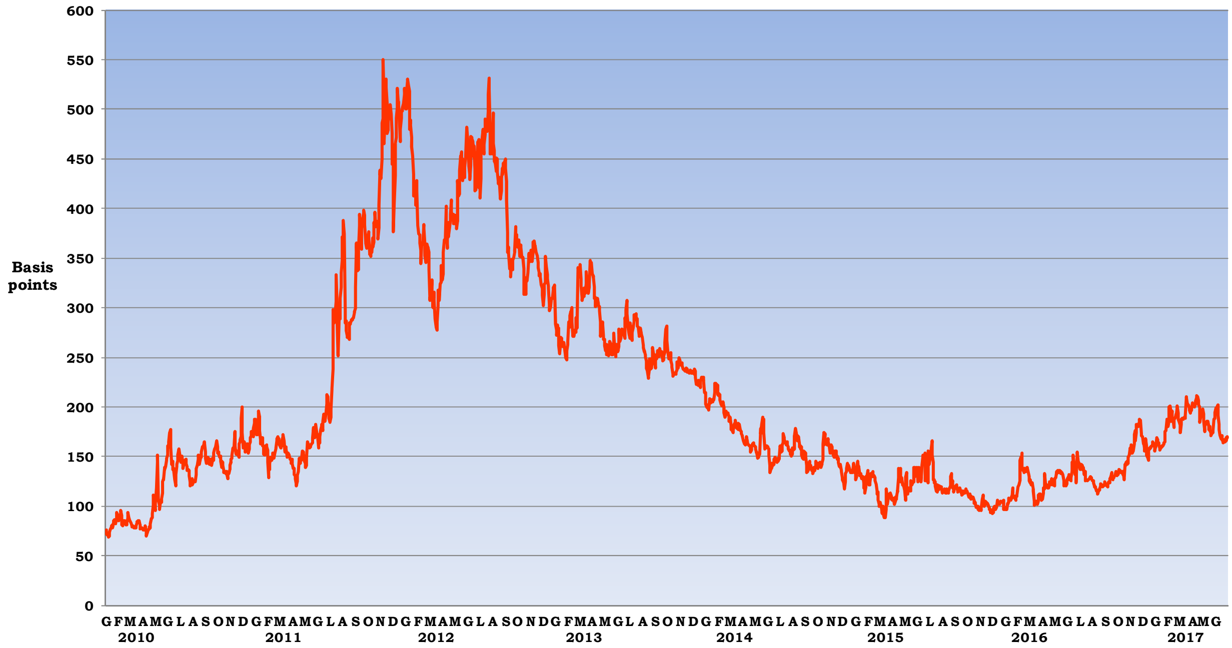
4 On 24th January 2017 the British Supreme Court upheld a decision of the High Court made on 3rd November 2016, which established the need for a vote in Parliament to authorise notification of Brexit under Art. 50 of the Lisbon Treaty.

5 Against a background of a slowdown in the pace of the country's growth and increasing inflation, to-date the Bank of England has confirmed its programme of quantitative easing and does not seem to have any intention of increasing interest rates in the short term.

Italy, which in this area is carrying the main burden of taking in immigrants on the continent, saw the prospect of early elections recede after a failed attempt to reach agreement on election laws. Furthermore, the rescue in June of important crisis-hit banks helped reduce the risk perceived by investors over the vulnerability of the Italian banking system[6].

Fluctuations in the spread between ten-year BTPs and the equivalent German Bunds grew, affected by uncertainty over the results of elections in Europe and tensions related to the Italian political situation. However, following the return of confidence in the solidity of the EU and the greater stability of the government in Italy, the spread fell back to the same level as in January at 169 basis points at the end of the first half.

Ten-year BTP-Bund spread



Source: Thomson Financial Reuters

In view of the slow, but progressively stronger recovery, the main central banks continued to pursue accommodative monetary policies, notwithstanding a further increase in the divergence between policies in the United States and Europe in the first half of 2017.

As concerns the European Central Bank, the measures decided at the end of 2016 were confirmed as follows in a meeting:

- *the extension of the end of the quantitative easing programme until at least the end of 2017 and in any case until inflation in the euro area is in line with the monetary policy goal (approximately 2%), with a reduction in monthly purchases to €60 billion from €80 billion before, starting in April 2017[7]. In order to prevent the extension of the programme from running into a shortage of assets to purchase, the Governing Council of the ECB confirmed new technical parameters for the programme which, from January 2017, made it possible to also carry out operations on assets with a minimum remaining life of one year and, if necessary, allowed purchases of securities with a yield to maturity of less than the rate on deposits held with the ECB;*
- *keeping the rate on principal refinancing operations unchanged at the record low of 0% (down from 0.05% in December 2015), while the rate on deposits held by banks with the ECB remained at -0.40%.*

6 On 21st April 2017, the rating agency Fitch downgraded its rating on long-term Italian sovereign debt from BBB+ to BBB with a stable outlook. This decision reflected uncertainty over the political ability of the country to sustain reform efforts, the failure to reduce public debt and the persistent weakness of the banking system, notwithstanding recent action taken to support the banking sector. The downgrade by this American agency followed that carried out by DBRS in January, which cut its rating on sovereign debt from A (low) two BBB (high), with a stable outlook.

7 On 7th July 2017 a total of €1.623 billion of government securities, €223 billion of covered bonds, €24 billion of ABS and €99 billion of corporate bonds had been purchased.

On 29th March 2017 the last of four targeted longer-term refinancing operations (TLTRO IIs)[8] was settled that had been decided in March 2016 by the ECB in order to strengthen monetary policy transmission and stimulate a greater propensity to lend. The total funds acquired in the four auctions came to €740 billion (€331 billion net of voluntary repayments of the funding still outstanding obtained from the first series of TLTROs). Bank of Italy counterparties were allotted a total of €241 billion (€128 billion net).

In June the Federal Reserve confirmed its confidence in the improvement in the American economy and in a stronger labour market as it raised its reference rates by 25 basis points for the second time in three months, with a further intervention planned for an equal amount during the year. At the same time this central bank announced its intention to gradually reduce its portfolio of assets by the end of the year by not reinvesting the proceeds from maturing securities putting a cap on this that will be gradually raised from $10 billion to $50 billion over the course of twelve months. However, no indications have been given regarding the size of the balance sheet at the end of this normalisation phase.

The Bank of Japan left its reference rate unchanged in negative territory (-0.10%), as it continued with its expansionary policy focused on control of interest rates for different maturities, instead of on a monetary-based target (confirmed at 80 thousand billion yen per year), which may be varied in order to control the yield curve (Qualitative and Quantitative Easing, QQE).

Monetary policies remain mainly accommodative[9] in major emerging countries, with the exception of China.

On **foreign exchange** markets the appreciation of the dollar against major international currencies seems to have come to a halt in the first half of 2017, primarily due to the emergence of doubts over the size and timing of measures to support the United States economy.
On the other hand, a relaxation of tensions in the European political climate, stronger economic growth in the area and the continuation of expansionary support by the ECB resulted in a generalised appreciation of the euro.
As shown in the table, sterling, already weakened by Brexit-related risks, depreciated further at the end of the first half as a result of the British elections.

The main exchange rates and oil (Brent) and commodities prices

	Jun-17 A	Mar-17 B	Dec-16 C	% change A/C	Sept-16 D	Jun-16 E
Euro/Dollar	**1.1423**	1.0649	1.0513	8.7%	1.1238	1.1104
Euro/Yen	**128.34**	118.63	122.87	4.5%	113.87	114.65
Euro/Yuan	**7.744**	7.3313	7.2992	6.1%	7.4941	7.3796
Euro/Franc CH	**1.0944**	1.0682	1.0700	2.3%	1.0917	1.0836
Euro/Sterling	**0.8767**	0.8483	0.8519	2.9%	0.8659	0.8341
Dollar/Yen	**112.35**	111.38	116.87	-3.9%	101.33	103.25
Dollar/Yuan	**6.7793**	6.8832	6.9430	-2.4%	6.6685	6.6459
Futures - Brent *(in $)*	**48.77**	53.53	56.82	-14.2%	49.05	49.72
CRB Index *(commodities)*	**174.78**	185.88	192.51	-9.2%	186.32	192.57

Source: Thomson Financial Reuters

The table also shows a negative trend for the **commodities** price index (-9.2% in the six-month period), which primarily reflects a fall in energy prices. In fact the agreement on cuts to oil production reached at the end of 2016[10] produced only a temporary effect to raise the price of Brent. The price started to fall again at the beginning of March, to end the first of half below $50 per barrel (down 14.2% on December), on the back of a reduction in world inventories and a recovery in production in the United States, Nigeria and Libya, while OPEC countries and Russia continued to make cuts to the supply. The falls in prices in the spring also regarded non-energy commodities and industrial metals in particular.

8 As with previous operations, this will also have a four-year maturity. The interest rate, which will be the same as that on principal refinancing operations, may be reduced on the basis of the loans granted by each counterparty, down to that on deposits held with the central bank that are currently negative. As already reported at the time of the first operation in June 2016, the possibility for banks to transfer funds obtained from previous TLTROs to the new TLTRO IIs was provided for, benefiting from the more attractive conditions of the latter both in terms of the cost and due to the absence of early repayment requirements in the event of failure to reach the benchmark.

9 In the first half of 2017 the Central Bank of Brazil decreased its official rate four times (75 bp in January and February and 100 bp in April and May) in response to lower inflation, bringing it down to 10.25%, while the Russian Central Bank cut its reference rate on three occasions (25 bp in March, 50 bp in April and 25 bp in June) to now stand at 9%. In India the monetary authorities left the repo rate unchanged at 6.25%, while in China the upward trend for interest rates on the interbank and bond markets in progress since the end of 2016 continued, partly the result of tighter regulatory requirements for banks and non-financial companies, even though the People's Bank of China maintained the current reference rate at 4.35%.

10 The agreement signed in December 2016 between OPEC producers and those not belonging to the cartel was aimed at reducing daily crude production to 32.5 million barrels from January 2017. Under the agreement, OPEC agreed to reduce daily crude production by 1.2 million barrels, while for countries outside the cartel the cut was 600 thousand barrels, half of which made by Russia alone, the second largest world producer. Libya and Nigeria were the only countries exempted from the agreement, while, following the removal of international sanctions in 2015, Iran was given permission to increase production until it reaches a preset daily quota. The agreement was extended in May until the end of March 2018.

The trends described above brought **inflation** down in major industrialised countries to levels lower than those reached between the end of 2016 and the first months of 2017. In emerging countries on the other hand, except for China, prices continued to record greater fluctuations, even though they are rapidly returning to levels close to those targeted by the respective Central Banks.

* * *

According to the International Monetary Fund's latest forecasts,[11] the **world economy** will grow by 3.5% in 2017, slightly faster than a year before (+3.2%) and it will again remain uneven across different geographical areas (+4.6% in emerging areas; +2% in advanced countries). Despite the lower expectations for growth in the USA compared with the period immediately before the elections, the business cycle is firming up overall as a consequence of stronger positive signals from Europe, characterised by less political uncertainty, and from emerging countries due to Russia's and Brazil's exit from recession and a return to more dynamic performance by the Chinese economy.

Actual and forecast data: industrialised countries

Percentages	Gross domestic product			Consumer prices			Unemployment			Deficit (+) Surplus (-) Public sector *(% of GDP)*			Reference interest rates	
	2016	2017(1)	2018(1)	2016(2)	Jun-17(3)	2017(1) (2)	2016(2)	Jun-17(3)	2017(1) (2)	2016	2017(1)	2018(1)	Dec-16	Jul-17
United States	1.6	**2.1**	2.8	1.3	**1.6**	1.9	4.9	**4.4**	4.4	5.0	**4.5**	4.5	0.50-0.75	**1.00-1.25**
Japan	1.0	**1.1**	1.0	-0.1	**0.4**	0.3	3.1	**3.1**	3.1	4.9	**6.1**	5.9	-0.1-0	**-0.10-0**
Euro Area	1.8	**1.9**	1.7	0.2	**1.3**	1.6	10.0	**9.3**	9.0	1.5	**1.2**	1.0	0.00	**0.00**
Italy	*0.9*	***1.2***	*1.0*	*-0.1*	***1.2***	*1.5*	*11.7*	***11.3***	*11.4*	*2.4*	***2.1***	*1.9*	-	-
Germany	*1.9*	***1.9***	*1.8*	*0.4*	***1.5***	*1.8*	*4.1*	***3.9***	*3.9*	*-0.8*	***-0.9***	*-0.8*	-	-
France	*1.2*	***1.5***	*1.4*	*0.3*	***0.8***	*1.3*	*10.1*	***9.6***	*9.5*	*3.4*	***3.1***	*2.7*	-	-
Portugal	*1.4*	***2.3***	*2.0*	*0.6*	***1.0***	*1.8*	*11.2*	***9.4***	*10.6*	*2.0*	***1.2***	*0.9*	-	-
Ireland	*5.2*	***4.8***	*3.8*	*-0.2*	***-0.6***	*0.4*	*7.9*	***6.4***	*6.5*	*0.6*	***0.3***	*0.0*	-	-
Greece	*-0.1*	***0.4***	*1.4*	*0.0*	***0.9***	*1.1*	*23.6*	***22.5***	*21.9*	*-0.7*	***-0.3***	*-0.3*	-	-
Spain	*3.2*	***2.8***	*2.0*	*-0.3*	***1.6***	*2.2*	*19.6*	***17.7***	*17.7*	*4.5*	***3.2***	*2.2*	-	-
United Kingdom	1.8	**1.5**	1.3	0.7	**2.9**	3.0	4.9	**4.5**	4.4	3.0	**2.6**	2.6	0.25	**0.25**

(1) Forecasts
(2) Average annual rate
(3) The latest available information has been used, where data had not been published as at the 30th June 2017

Source: Prometeia and official statistics

The **United States economy** is struggling to pick up steam. In the first quarter GDP increased quarter-on-quarter by +1.4% annualised (+2.1% in the last quarter of 2016), driven by a positive contribution from consumption, although falling significantly, and by non-residential investments, against a negative contribution from inventories and a virtually nil contribution from exports.

Quarter-on-quarter results for the second quarter seem to suggest an acceleration in growth, driven by domestic demand.

The labour market continues to send encouraging signals with an unemployment rate which reached 4.4% in June, the lowest in ten years (4.7% at the end of 2016). Now that the effect of energy prices has run its course, inflation fell to 1.6% from a peak of 2.7% reached in February (2.1% in December). Core inflation, however, net of foodstuffs and energy products, stood at 1.7% (2.2% at the end of 2016).

The negative balance of trade increased to $233.1 billion between January and May (up 13.1% on the same period in 2016), affected by increases in the deficits with China, Japan and other emerging economies in Asia, as well as by a worsening of the trade balance with OPEC countries which became negative.

11 Updated in July 2017.

Actual and forecast data: the principal emerging countries

Percentages	Gross domestic product 2016	2017(1)	2018(1)	Consumer prices 2016(2)	Jun-17(3)	Reference interest rates Dec-16	Jul-17
China	6.7	**6.6**	6.2	2.0	**1.5**	4.35	**4.35**
India	7.9	**7.1**	7.4	4.9	**2.2**	6.25	**6.25**
Brazil	-3.6	**0.6**	1.9	8.7	**3.0**	13.75	**10.25**
Russia	-0.2	**1.3**	2.4	7.1	**4.3**	10.00	**9.00**

(1) Forecasts

(2) Average annual rate

(3) The latest available information has been used, where data had not been published as at the 30th June 2017

Source: Prometeia, IMF and official statistics

Year-on-year growth in **Chinese** GDP was stable at 6.9% in both quarters of 2017, lending support to signs of recovery for this economy, which is committed to the difficult transition from a development model centred on investments to one based on consumption.
The strength of the recovery was confirmed by the year-on-year performance of the main indicators of domestic demand and those of industrial production (+6.9%; 7.4% for manufacturing) and retail consumer goods (+10.4%) in particular.
As concerns the balance of trade, year-on-year figures for exports (+8.5%) and imports (+18.9%) returned to positive territory in the first half to give a surplus of $185.1 billion which helped support currency reserves, which stood at $3,057 billion at the end of June, a third of which were stably invested in United States Treasuries.
After the low reached in February (0.8%) inflation rose to 1.5% in June (2.1% at the end of 2016).
The outlook for the country's growth is one of a gradual slowdown, consistent with the profile outlined by the authorities to absorb existing economic and financial imbalances[12].

In the first three months of the year the **Japanese economy** replicated its pace of expansion recorded at the end of 2016, with quarter-on-quarter growth in GDP of 0.3%, the aggregate result of an improvement in retail consumption after stagnation in the last quarter and a positive contribution from net exports and fixed investments, while inventories contracted[13].
A moderate recovery seems to emerge from the initial figures for the first quarter. The June Tankan survey found a generalised improvement in the confidence of companies, while industrial production recorded positive year-on-year performance from the beginning of the year (+6.5% in May), compared with month-on-month figures that are still fluctuating (-3.6% in May; +4% in April).
The unemployment rate stood at 3.1% in May (in line with December); inflation remained weak at 0.4% (0.3% at the end of 2016).

Growth is strengthening in the **Euro Area**. GDP increased 0.6% quarter-on-quarter between January and March, accelerating compared with the last three months of 2016 (+0.5%), driven by consumption and investments, against nil contributions from inventories and net exports.
The available data seems to show this trend continuing in the spring, partly the result of an environment containing less political uncertainty following the results of European elections. The €-coin indicator calculated by the Bank of Italy – which provides an estimate of core trends for European GDP – remained at high levels, which confirms the continuation of a phase of robust expansion for the Euro Area.
Figures for industrial output, which has increased month-on-month since February, recorded growth of 1.3% in May, reflecting trends for the main economies (+1.4% for Germany; +1.9% for France; +1.6% for Spain; +0.7% for Italy). The year-on-year trend has also improved since the beginning of the year, recording +4% in May.
The slow improvement in the labour market is continuing, with the unemployment rate down to 9.3% in May (9.6% at the end of 2016), although it still includes particularly critical situations in Greece (22.5% in March) and in Spain (17.7%). Inflation, which reached 2% in February, fell to 1.3% in June, dampened above all by energy prices (1.1% in December). In that same month core inflation, net of foodstuffs and energy products, stood at 1.1%, again remaining at low levels (0.9% at the end of 2016).

Within the Euro Area, the **Italian economy** also recovered strength, although growth continued to remain lower than that of other countries in the area. The quarter-on-quarter growth in GDP was 0.4% in the first quarter, accelerating slightly compared with the previous

12 In May the rating agency Moody's downgraded its rating for China from Aa3 to A1, raising the outlook from negative to stable, due to risks related to large rises in private debt.

13 In contrast to American isolationism, a trade agreement of principle was signed at the beginning of July between Europe and Japan to eliminate most duties and trade barriers currently existing between the two countries over a fair period of time.

quarter (+0.3%), driven by positive contributions from consumption and inventories, against negative contributions from the balance of trade and gross fixed investments.
On the basis of the available data, GDP would seem to have replicated its first-quarter performance in the second quarter.
After a temporary fall in January, the seasonally adjusted industrial production index returned to growth year-on-year (+2% in February; +2.9% in March; +0.9% in April), to stand at +2.8% in May, the aggregate result of opposing trends for the various sectors. The largest increases were seen in the "fabrication of means of transport" sector (+7.3%), the "other manufacturing industries" sector (+6.7%) and the "fabrication of machinery and equipment" sector (+5%), while the main decreases regarded "mineral extraction activities" (-18.8%) and the "fabrication of electrical equipment" sector (-5%).
Notwithstanding the disappearance of incentives for new recruits and an increase in participation on the labour market, the unemployment rate fell to 11.3% in May (11.8% in December). On the other hand, the unemployment rate for the 15 to 24 age group was 37% (38.8% in December)[14].
However, the overall figure continues to be cushioned by the presence of state income benefits, which between January and June saw a reduction in year-on-year state lay-off and redundancy benefits: 191.4 million hours authorised compared with 343.8 million hours in the same period of 2016 (-44.3%), the result of a generalised fall in the various components, (-28.1% in ordinary benefits; -51.3% in extraordinary benefits; -33.5% in exceptional benefits).
Inflation, as measured by the harmonised consumer price index, fell to 1.2% in June (+0.5% in December), after remaining at higher levels in the first four months of the year (+2% in April).
The balance of trade recorded a surplus of €14.6 billion in the first five months of the year (+€18.7 billion in the same period of 2016), due to a substantial surplus on the balance for non-energy products, approximately two thirds of which is stably attributable to plant and equipment, which more than offset the energy deficit (-€14.3 billion). The overall surplus was driven by higher volumes of trade, with imports growing 11.7% and exports 8% year-on-year over the five-month period, as a result of stronger performance on markets outside the EU[15].
With regard to public finances, on 11th April the government approved the "2017 Economy and Finance Document" (EFD) which estimated a debt to GDP ratio for the current year basically unchanged at the same level as last year (132.6%), while the deficit to GDP ratio – originally estimated to fall to 2.3% from 2.4% in 2016 – was revised further downwards to 2.1%. This result was achieved thanks to additional corrective measures (accounting for 0.2% of GDP) drawn up in view of discussions with the European authorities in order to avoid the start of EU infringement procedures for excessive deficits.

* * *

After a good start to the year, the positive phase for **financial markets** continued into the second quarter. World growth performed soundly and, together with central bank monetary policies, helped to reduce the risks of financial instability. Nevertheless, the drop in the price of crude, the continuing uncertainties over American economic policies and global geopolitical tensions lowered performance in the first months of the year. As shown in the table, while the American stock market reached new record highs, prices in Europe benefited from an upwards revision of GDP and above all from a reduction in political risks, except for the London stock exchange which was affected at the end of the first half by the results of the British elections. The recovery in share prices in Italy was driven primarily by prices for banking shares following, amongst other things, greater capital strength in the sector and the formulation of action to be taken for crisis hit banks.

14 This figure gives young people unemployed as a percentage of total young people in employment and seeking employment.
15 As already reported, in February the European Parliament voted in favour of a comprehensive economic and trade agreement (CETA) between the EU and Canada, which concluded the process of European ratification and allowed the agreement to provisionally come into force in September, while waiting for each member state of the union to ratify it in order to come fully into effect. Under the CETA, the EU and Canada are committed to ensuring that economic growth, social development and protection of the environment go hand-in-hand, thereby creating a new global reference framework for future trade agreements.

The principal share indices in local currency

	Jun-17 A	Mar-17 B	Dec-16 C	% change A/C	Sept-16 D	Jun-16 E
Ftse Mib *(Milan)*	**20,584**	20,493	19,235	7.0%	16,401	16,198
Ftse Italia All Share *(Milan)*	**22,746**	22,568	20,936	8.6%	18,033	17,775
Xetra Dax *(Frankfurt)*	**12,325**	12,313	11,481	7.4%	10,511	9,680
Cac 40 *(Paris)*	**5,121**	5,123	4,862	5.3%	4,448	4,237
Ftse 100 *(London)*	**7,313**	7,323	7,143	2.4%	6,899	6,504
S&P 500 *(New York)*	**2,423**	2,363	2,239	8.2%	2,168	2,099
DJ Industrial *(New York)*	**21,350**	20,663	19,763	8.0%	18,308	17,930
Nasdaq Composite *(New York)*	**6,140**	5,912	5,383	14.1%	5,312	4,843
Nikkei 225 *(Tokyo)*	**20,033**	18,909	19,114	4.8%	16,694	15,576
Topix *(Tokyo)*	**1,612**	1,513	1,519	6.1%	1,343	1,246
MSCI emerging markets	**1,011**	958	862	17.3%	903	834

Source: Thomson Financial Reuters

The MSCI index – an indicator of performance by emerging countries – recorded an increase of 17.3% over six months, achieved mainly in the first quarter. Subsequently, the conditions on the financial markets in these areas, which were calm overall, were affected by volatility resulting from heightened geopolitical tensions. In July, prices on Chinese stock markets fell sharply as a result of fears over the possible introduction of the restrictive measures by the authorities designed to reduce risks in the financial sector[16].

* * *

An improvement in the economic situation allowed the **banking system** to consolidate signs of a recovery for lending and of improvement in credit quality, while the trend for funding became marginally positive again.

On the basis of the first estimates published by the Italian Banking Association[17], at the end of June the year-on-year rate of change in *direct funding* (deposits of residents and bonds) recorded slight growth of 0.4% compared with a contraction of 0.5% in December.

Within the aggregate the increase in other types of funding, and that is all types of funding other than bonds (+4.3% compared with +4.8% in December[18]) only partially offset the strong contraction in bond funding (-14.2% compared with -17.9% at the end of 2016[19]), which continues to be affected both by the abundant and competitive liquidity injected into the banking system by the ECB using TLTROs and short-term lines of financing and also by the trend by customers to prefer liquidity and/or to replace maturing securities with forms of assets under management.
As shown by detailed Bank of Italy data for May[20], other types of funding benefited mainly from a strong increase in current account deposits (up 8.6% on May 2016), against a continuous reduction in term deposits with maturities up to two years (-21%).
Data for May published by the Bank of Italy[21] shows that *loans to residents belonging to the private sector* increased year-on-year by 1% (+1.1% in December) showing, in terms of borrowers, a continuation of the positive trend for households compared with still marginal changes for non-financial companies, notwithstanding the increasingly more attractive supply conditions.
The growth in lending to households (+2.5% compared with +1.9% in December) mainly regarded consumer credit and to a lesser extent home purchase mortgages, while for companies the trend, which was basically stable compared with December (+0.3% compared with +0.2% at the end of 2016), remained weak and was affected by investment figures.
According to early Italian Banking Association reports, again in June the annual change in loans to private sector residents was +1%[22].

16 In order to maintain financial stability in the country and to avoid systemic risks, the Chinese authorities decided to set up a government committee to allow greater co-operation and shared goals between the central bank and market, banking and insurance regulatory authorities. The priority of the new prudential oversight body will be to create new rules to curb the effects of excessive leverage and reduce indebtedness especially in state-controlled companies.
17 Italian Banking Association, Monthly Outlook, *Economia e mercati Finanziari-Creditizi*, July 2017.
18 The changes were calculated by excluding amounts relating to disposals of loans and transactions with central counterparties from deposits.
19 The changes were calculated by excluding the portion included within the investments in the securities portfolio from bond funding.
20 Supplement to the Statistics Bulletin "*Banche e moneta: serie nazionali*", July 2017.
21 Supplement to the Statistics Bulletin "*Banche e moneta: serie nazionali*", July 2017. The growth rates for lending have been adjusted by the Bank of Italy to take account of securitisations and other loans disposed of and written off the balance sheets of banks.
22 The change was calculated by the Italian Banking Association consistent with the criterion used by the Bank of Italy mentioned in the preceding footnote.

From the viewpoint of risk, signs of a reduction in new inflows of non-performing loans are being confirmed. In May *bad loans to the private sector gross of impairment losses*[23] totalled €201.7 billion. They were slightly up compared with December (+0.6%) and were still up year-on-year (+1.1% compared with +0.1% at the end of December 2016). The total stock consisted of €54.3 billion of exposures to households (unchanged year-on-year; +1% compared with December) and €144 billion of exposures to businesses (+1.3%; +0.5%).

The ratio of *gross bad loans to the private sector/private sector loans* was therefore 12.56% (12.32% at the end of December).

Net bad loans fell to €76.5 billion, a contraction of 11.9% compared with €86.8 billion at the end of 2016 and of 9.9% year-on-year. The ratio of *net bad loans to total loans* fell as a consequence to 4.38% (4.89% at the end of the year).

On the basis of the "Financial Stability Report" published by the Bank of Italy in April, gross non-performing loans (bad loans, unlikely-to-pay loans and exposures past due) stood at €349 billion at system level in 2016, accounting for 17.3% of total gross loans to customers (€2,017 billion)[24]. Net of impairment losses, total non-performing loans amounted to €173 billion accounting for 9.4% of total net exposures (€1,830 billion). Coverage, measured as the ratio of impairment losses to gross non-performing loans, stood at 50.6%, while that for bad loans was 62.3% compared with 32.6% for unlikely-to-pay loans and 19.4% for exposures past due and/or in arrears.

Securities issued by residents in Italy held in the portfolios of Italian banks amounted to €725 billion in May, unchanged compared with December, but down by 1.1% over twelve months.

This trend primarily reflects that for investments in Italian government securities (€385.6 billion), down €23.7 billion year-on-year, attributable to both short-term and medium to long-term securities. On the other hand, "other certificates" (€331.4 billion) grew €16.2 billion, mainly in the bonds issued by banks component (+€11.2 billion), which accounted for 64.8% of the total.

As concerns business with households and non-financial companies, the *average interest rate on bank funding from customers* calculated by the Italian Banking Association [25] (which includes the yield on deposits, bonds and repurchase agreements in euro) fell to 0.95% (0.99% at the end of 2016), while the *weighted average interest* rate on loans in euro reached a record low of 2.76% (2.85% in December).

23 Supplement to the Statistics Bulletin "*Banche e moneta: serie nazionali*", July 2017.
24 Loans to customers also included non-current assets and disposal groups held for sale.
25 Italian Banking Association, Monthly Outlook, *Economia e mercati Finanziari-Creditizi*, July 2017.

Significant events in the first half of 2017

The acquisition of the New Banks

On 11th January 2017, the Supervisory Board, on the basis of a proposal from the Management Board, decided to approve and submit a binding offer to the Resolution Fund to purchase 100% of the share capital of Nuova Banca delle Marche (in possession, to-date, of 98.86% of Cassa di Risparmio di Loreto), Nuova Banca dell'Etruria e del Lazio (in possession, amongst other things, of 100% of Banca Federico del Vecchio) and Nuova Cassa di Risparmio di Chieti (the "New Banks" originally referred to as the "Target Bridge Institutions"), constituting three of the four Bridge Banks formed following intervention by the Resolution Fund in November 2015 for which a business, financial and operating rationale was identified, designed for the potential creation of value for the UBI Banca Group.

The offer, valid until 18th January 2017 inclusive, was accepted by the Directors of the Bank of Italy, in their capacity as the managers on behalf of the Resolution fund, who on that same day approved the signing of the contract for the sale of the Banks to UBI Banca, which occurred at the same time.

The sales contract involved the purchase being subject to a series of suspensive conditions, including the following:

(i) obtaining the required authorisations from the competent authorities in accordance with their respective areas of responsibility (more specifically, the Bank of Italy/European Central Bank, the Italian Competition Authority and the Institute for the Supervision of Insurance);
(ii) the disposal without recourse, to be completed before the closing date, of approximately €2.2 billion of gross non-performing loans;
(iii) the approval by a Shareholders' meeting of UBI Banca of an increase in the share capital for up to a maximum of €400 million;
(iv) The implementation and conclusion of the recapitalisation by the Seller of the Target Bridge Institutions for an amount initially estimated at €450 million, but which on conclusion of the procedures laid down for that purchase in the purchase and sale agreement came to €713 million.

The sales contract also involved a limitation of the risks taken by verifying prior compliance with certain "Significant Parameters" (details of which are given in the consolidated management report in the 2016 Annual Report).

During the first months of the year, all the activities preparatory to the conclusion of the acquisition were therefore set in motion.
First of all the necessary authorisation applications were submitted to the following: the Bank of Italy/European Central Bank (specifically for the acquisition of the banks and for the increase in the share capital of UBI Banca); the Institute for the Supervision of Insurance (for the purchase, indirectly, of the controlling interests held by Nuova Banca dell'Etruria e del Latium in BancAssurance Popolari Spa and in BancAssurance Popolari Danni Spa); the Italian Competition Authority (for the concentration resulting from the acquisition of the banks).
Authorisation was issued on 4th April by the insurance institute, it was also received from the competition authority on 12th April and that for the acquisition of the Target Bridge Institutions was received from the Bank of Italy/ECB on 28th April.

In view of the conclusion of the operation, on 5th May the Management Board and the Supervisory Board approved an update of the 2019/2020 Business Plan presented to markets on 11th May, details of which are given in the section "The 2017-2020 Business Plan update to take account of the acquisition of the New Banks".

Following the satisfaction of the suspensive conditions to which implementation of the purchase and sale contract, signed with the Bank of Italy on 18th January 2017, was subject and the verification of the Significant Parameters, UBI Banca therefore proceeded to the purchase of 100% of the share capital of the three Banks[1].

The deal was closed on 10th May 2017, preceded on that same date by the purchase without recourse by the Atlante II Fund of €2.2 billion of non-performing loans held by Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti.
This transaction was the first for Atlante II, a fund created in 2016 solely for the purchase of non-performing loans from Italian banks.

As concerns verification of compliance with the significant parameters, inclusive also of recognition of specific provisions, the consolidated financial position of the three banks as at 31st December 2016 showed the following:

- equity on a pro forma basis of approximately €1,050 million, higher than the minimum required (€1,010 million);
- a CET1 ratio of greater than 9.1%.

In implementation of the agreements, the parties to them are currently verifying the actual level of the contractual financial parameter of the equity of the three Banks as at the closing date, with the expectation of being able to conclude that process within the necessary technical time available.

Again on 10th May, at the time of the closing, shareholders' meetings of the New Banks were held which proceeded, amongst other things, in ordinary session to appoint new boards of directors designated by UBI Banca, and also, in extraordinary session, as agreed under the contract of 18th January 2017, to approve changes to the respective names of the companies and to transfer the registered addresses to Bergamo, as part of a broader revision of their articles of association. The full set of amendments to the respective articles of association (inclusive of the new company names: Banca Adriatica Spa for Nuova Banca delle Marche, Banca Tirrenica Spa for Nuova Banca dell'Etruria e del Lazio and Banca Teatina Spa for Nuova Cassa di Risparmio di Chieti) will become effective from the date on which they are filed with the competent company registrars, once the required authorisation has been obtained from the Bank of Italy/ECB.
On that same date the shareholders' meeting of Banca Federico del Vecchio was held which amongst other things proceeded in ordinary session to appoint a new board of directors designated by UBI Banca and in extraordinary session to amend its articles of association in line with the general approach adopted within the UBI Banca Group as a whole.
As concerns the Cassa Di Risparmio di Loreto on the other hand, a shareholders meeting was held on 17th May 2017 to appoint a new board of directors and make the aforementioned amendments to also standardise its articles of association.

* * *

On 10th and 11th May 2017 respectively, the Management Board and the Supervisory Board of UBI Banca approved, for that which concerned them, the merger project for the mergers into the Parent, UBI Banca, of Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio, Nuova Cassa di Risparmio di Chieti, Banca Federico del Vecchio and Cassa di Risparmio di Loreto, to be carried out in more than one operation. In the days that followed a similar resolution was also passed by the competent bodies of the banks to be merged.
In view of the very many activities, especially of an IT nature, needed to implement the entire integration project, it was decided to carry it out in three steps: the first regarding Nuova Banca delle Marche and Cassa di Risparmio di Loreto, planned for October 2017; the second, which involves Nuova Banca dell'Etruria e del Lazio and Banca Federico del Vecchio, programmed for November 2017; and the third relating to Nuova Cassa di Risparmio di Chieti, scheduled for February 2018.

1 In view of the conclusion of the acquisition, with three separate provisions issued on the same day as the closing, the Bank of Italy declared the end of "bridge bank" status for Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti in accordance with Art. 44, paragraph 1, letter a) of Legislative Decree No. 180/2015 because the National Resolution Fund had disposed of the 100% stake it held in the share capital of those banks.

On 25th May 2017 an application was submitted to the Bank of Italy/ECB for the merger of the five banks to be merged and for possible changes to UBI Banca's share capital as a result of the merger of Cassa di Risparmio di Loreto: the relative authorisation was issued on 3rd August.

The 2017-2020 Business Plan (update of the 2019/2020 Business Plan to take into account the acquisition of the New Banks)

As already mentioned above, on 5th May 2017 the Management Board and the Supervisory Board of UBI Banca approved an update to the 2019/2020 Business Plan for the period 2017-2020.

From 27th June 2016 (the date on which the 2019/2020 Business Plan was approved) until 5th May 2017, the Group completed important organisational and other changes as follows: the adoption of a single operating structure, the Single Bank, ahead of the original schedule and at the same time it has rationalised its corporate governance, with the acquisition of non-controlling interests; the evolution of the distribution model (with the reorganisation of commercial activities, lending and geographical coverage provided by macro areas and local departments); the recognition of most of the one-off costs connected with the implementation of the plan itself (the reduction of overheads has already seen the first mass closures of branches and cuts to staff); as well as an increase in loan provisions with the consequent absorption of the provision shortfall.

The update, which confirmed the same business model and strategic guidelines defined in the previous "stand-alone" version, therefore started from a strong baseline which enables the estimated targets to be achieved and it is extended to include the perimeter of the banks acquired in the new configuration resulting from the integration of those banks into UBI Banca.

More specifically the 2017-2020 Business Plan is based on confirmation of the four key cornerstones:

1) extension of the Single Bank organisational model to include the New Banks;
2) evolution of the commercial approach by:
   - an integrated multi-channel approach (to be completed by the end of 2017), both to enable customers to access the bank continuously and operate without distinction on all the available channels and also to allow the bank to reach customers with targeted commercial proposals;
   - the formulation of a dedicated strategy based on single customer segments ("Individuals and Households", "Affluent and Private Banking" and "Business" segments), in consideration of market trends;
3) the structural strengths:
   - the quality of our assets and adequate coverage for problem loans;
   - continuation and acceleration of activity to rationalise overall costs;
4) maximisation of key profitability and efficiency indicators, but with respect for a balanced capital and financial structure.

Focus on the New Banks perimeter

The underlying logic for the integration of the New Banks can be summarised as follows:

- completion of the IT migration to the UBI Banca platform by February 2018 with the first migration planned for October 2017;
- roll-out of the strategic and operational guidelines and the UBI Banca business model in the New Banks as follows:
  - full integration in the UBI Banca branch network (-140 branches planned in the New Banks over the course of the plan);

- repricing of short-term funding which accounts for approximately 90% of the total funding of the New Banks at UBI Banca levels. The negative mark down on the Euribor one-month rate is expected to reduce in the perimeter from 172 bps to 12 bps;
- a significant reduction in the operating expenses of the New Banks (-€200 million euro approximately in 2020 compared with 2016) through an increase in overall productivity which will also involve a reduction in the respective staff numbers (-1,569 staff, -32% compared with 2016) and optimisation of other administrative expenses;
- a reduction in loan losses through the adoption of best practices and the UBI Banca organisational model, starting on "day one" of the IT migration. Loan losses for the New Banks are expected to fall to 87 basis points in 2020;
- an application to roll out UBI Banca's internal models on credit and operational risk to the New Banks by the end of the first half of 2018.

The 2017-2020 "Combined Entity" Business Plan

The 2017-2020 Business Plan estimates growth in net profit to approximately €919 million in 2019 and to approximately €1,117 million in 2020. The value creation target should bring ROTE up to 11% in 2019 and to 12% in 2020. In terms of dividends, the distribution of approximately 40% of the recurring net profit of the Combined Entity is envisaged over the plan period.

The growth in profits is enabled by all the main components of the income statement (revenues, expenses and lending) by means of:

i) an evolved commercial approach on a customer segment basis and evolution of the Group's distribution model, taking an integrated multi-channel approach, with the consequent simplification of the geographical distribution network, enabled initially by the transformation into a Single Bank. In detail, the following is planned over the course of the plan:
   - the closure of approximately 270 branches (in addition to those already closed as part of the creation of the Single Bank) of which approximately 140 in the New Banks perimeter (see the subsequent sub-section entitled "Trade union information" for further details);
   - the refurbishment of approximately 700 branches and the implementation of precise formats (flagship, full and light branches) with specific targeted modules to improve local market coverage and the migration towards digital channels;

ii) growth in volumes based on trends already in progress in 2016, estimated as follows:

The Balance Sheet of the Combined Entity

Figures in billions of euro	2016	2019	2020	CAGR 2016-2019	CAGR 2016-2020
Net loans to customers (net of the CCG)	94.2	97.3	100.1	1.1%	1.5%
of which performing loans (net of the CCG)	*84.9*	*88.8*	*92.0*	*1.5%*	*2.0%*
of which non-performing loans[1]	*9.3*	*8.5*	*8.1*	*-3.0%*	*-3.1%*
Direct funding from ordinary customers	85.2	75.0	74.3	-4.2%	-3.4%
Indirect funding	89.6	114.8	124.4	8.6%	8.5%
of which assets under custody	*30.8*	*26.6*	*26.7*	*-4.9%*	*-3.6%*
of which assets under management and insurance products	*58.8*	*88.3*	*97.7*	*14.5%*	*13.5%*
Total funding (direct + indirect)	174.8	189.8	198.7	2.8%	3.2%
Institutional funding	14.8	23.7	27.8	16.9%	17.0%
Interbank funding (ECB)	10.0[2]	10.0	8.5	0.0%	-4.0%
Proprietary securities portfolio	19.2	17.7	15.2	-2.6%	-5.7%

1 The corresponding gross amounts: €14.3 billion at the end of 2016, €13.3 billion at the end of 2019 and €12.9 billion at the end of 2020.
2 Increased to €12.5 billion as at 29th March 2017.

- growth in net loans (excluding reverse repurchase agreements with the *Cassa di Compensazione e Garanzia* [CCG – a central counterparty clearing house]) from €94.2 billion in 2016 to approximately €97.3 billion in 2019 and to over €100 billion in 2020 with a CAGR of 1.1% and 1.5% respectively, which reflects estimated growth in GDP of less than 1% over the course of the plan;

- in terms of financing growth, this will be supported by institutional funding in particular, envisaged to rise from €14.8 billion at the end of 2016 to €23.7 billion in 2019 and to €27.8 billion at the end of 2020;
- total funding from ordinary customers (direct and indirect) increases from €174.8 billion at the end of 2016 to approximately €189.8 billion in 2019 and to almost €200 billion in 2020. Within the item, assets under management and insurance products are expected to grow significantly from €58.8 billion in 2016 to €88.3 billion in 2019 and to €97.7 billion in 2020, enabled also by the following:
  - by the partial transformation of direct funding (bank bonds) into assets under management, partly with a view to protecting customers, consistent with the bail-in rules, and by the conversion of assets under custody;
  - by an increase in distribution capacity in the “Affluent & Private Banking” segment as a result, amongst other things, of the recruitment of new private bankers;
  - by leveraging on IW Bank Private Investments, which will be strengthened;
  - by focusing on the insurance/pension component in the “Individuals and Households” and “Affluent & Private Banking” segments;
  - by accelerating the use of new technologies (Big Data and Advanced Analytics) to determine a targeted range of products and services;

iii) growth in operating performance that reflects the Group’s structural strengths:

The income statement of the Combined Entity

Figures in millions of euro	2016	2019	2020	CAGR 2016-2019	CAGR 2016-2020
Operating income	3,592	4,102	4,459	*4.5%*	*5.6%*
of which net interest income	*1,708*	*2,040*	*2,263*	*6.1%*	*7.3%*
of which net fees and commissions	*1,523*	*1,790*	*1,912*	*5.5%*	*5.9%*
Operating expenses	(3,166)	(2,445)	(2,356)	*-8.3%*	*-7.1%*
of which staff costs	*(1,914)*	*(1,471)*	*(1,404)*	*-8.4%*	*-7.5%*
of which other administrative expenses	*(1,006)*	*(801)*	*(780)*	*-7.3%*	*-6.2%*
Net operating income	426	1,657	2,103	*57.3%*	*49.0%*
Net impairment losses on loans	(2,471)[1]	(612)	(567)	*-27.7%*	*-23.1%*
Net profit[2]	(1,861)	919	1,117	*n.s.*	*n.s.*
The cost:income ratio	88%	60%	53%	*n.s.*	*n.s.*
Loan loss rate (basis points)	n.s.[1]	63	57	*n.s.*	*n.s.*

1 The impairment losses on loans of the Combined Entity in the 2016 include the absorption of UBI Banca’s provision shortfall and the losses incurred from the disposal of the non-performing loans of the New Banks. The loan loss rate was therefore 262 basis points.

2 Inclusive of the absorption of the provision shortfall, the reversal of badwill arising from the purchase of the New Banks and the use of deferred tax assets.

N.B.: the results take account of the new ACE (allowance for corporate equity) regulations

The increase in profitability will be achieved through the three income statement components, revenues, expenses and loan losses, where the latter are expected overall to provide the greatest contribution in the improvement to ROTE as follows:

- growth in operating income is expected, and growth in net interest income in particular will result totally from a reduction in the cost of funding, while the contribution from fee and commission income will take place mainly in relation to growth in indirect funding;
- following, amongst other things, the transition to a Single Bank and the roll-out of that model to the New Banks, operating expenses are forecast to further reduce to approximately €2.35 billion at the end of the plan, notwithstanding the inclusion of a strong investment programme (integrated multi-channel services, new platforms for corporate clients and tools for private bankers, refurbishment of approximately 700 branches, etc.), most of which is already present in the UBI Banca “stand alone” plan.
  Net of non-recurring items, operating expenses will benefit from synergies amounting to over €300 million, falling from €2.64 billion in 2016 to €2.34 billion in 2020.
  In detail:
  a) staff costs are expected to fall constantly to a level of approximately €1.4 billion at the end of the plan, with strong generation turnover and a reduction of around 3,000 in staff numbers, as a result of:
     - around 4,000 staff leaving, of which roughly 600 freed by the Single Bank project;
     - approximately 900 new recruits, in addition to around 200 recruited in the second half of 2016 to ensure an influx of new expertise to support the evolving commercial approach.

     Staff costs also include important action to enhance and develop staff including, but not only, leverage on training (with almost half a million man/days over the course of the plan), an increase in flexible working already successfully experimented in recent years (smartworking and work-life balance measures) and an increase in variable remuneration in relation to the increase in the Group's profitability;

b) other administrative expenses, also expected to fall, will benefit from savings resulting from the Single Bank organisational structure, including those related to a reduction in branch numbers. In addition to this, savings will be made above all from the optimisation of operating processes and from the renegotiation of supply contracts, which will offset natural growth in costs over the course of the plan.

The combined effect of growth in revenues and reduced costs will produce an improvement in the cost:income ratio from around 60% in 2019 to approximately 52.8% in 2020;

- in terms of credit quality and loan losses, the Group has high credit quality, which will be further enhanced over the course of the plan as a result of:
  a) a focus on the organisational structure, with a further improvement in credit recovery capacities, with regard to the following in particular:
     - bad loans, centralised management already in place since 2009 with over 130 staff has been confirmed;
     - other problem loans, the Single Bank has facilitated evolution towards centralised management and the introduction of a problem loan account manager reporting directly to the Chief Lending Officer;
  b) the reinforcement of monitoring tools with the introduction of evolved performance information (e.g. big data);
  c) the use of a Re.O.Co. (Real estate owned Company) to support the realisation of the value of real estate collateral, already in operation at the end of 2016.

  It is envisaged that this action, together with the reduction in new inflows of non-performing loans now in progress for over four years in the Group, will lead to a further improvement in the already historically high level of credit quality to allow the following to be achieved during the plan period:
  - a reduction in gross non-performing loans to approximately €12.9 billion in 2020;
  - a decrease in the loss loan rate to approximately 0.57% in 2020;
  - an improvement in coverage of non-performing loans of around 47% (inclusive of write-offs) in 2020;
  - a fall in the Texas ratio to 87% in 2020.

Furthermore, badwill and the use of tax benefits arising from the prior year losses of the New Banks will contribute to the result for the period:

a) with regard to badwill, this must be allocated within 12 months of the closing date on the basis of the international financial reporting standard IFRS3 (business combinations).

For the purposes of drawing up this Business Plan, the preliminary estimate[2], already made when the acquisition was announced, has been updated. The results of that update, again preliminary, involve the recognition of badwill through profit and loss as at the acquisition date amounting to approximately €600 million, against book equity of the New Banks, inclusive of an estimate of expected losses in 2017 up until the transfer of control, of approximately €1,010 million. Allocation of the remaining portion is envisaged, amounting to approximately €410 million, to non-performing loans in order to bring their book value up to the presumed fair value and to other items, such as direct funding and provisions for risks and charges. The release of these items through profit and loss is assumed according to convention to be over a five-year period for loans and over three years for other items;

b) as concerns on the other hand the use of prior year tax credits, as part of the acquisition operation, potential tax benefits were identified arising from the prior-year losses of the New Banks, which were transferred to the UBI Banca Group on the basis of favourable replies to specific private letter applications received from the tax authorities.

Because the deferred tax assets in question are not "qualified", which means that their recoverability depends on the actual certainty of there being sufficient taxable income,

2 See the section "Explanatory notes – Accounting policies" in this report for an update on the measurement methods and the process employed for allocating the cost of the business combination.

an approach was adopted which involves recognition through profit and loss, limiting the analysis of the recoverability to a finite time frame. Over the course of the plan a total of approximately €550 million of deferred tax assets have been recognised in the income statement. For regulatory capital purposes it will also be possible to use additional tax benefits after 2020;

iv) harmonious growth of profits and capital and structural balance ratios.

The Business Plan presents harmonious growth of the Group also following the integration of the New Banks and it confirms the industrial value of the acquisition.

The objectives set allow sustainable profitability over time and stronger capital ratios, contributed to in the short-term by the increase in the share capital carried out by UBI Banca and in future by growth in profits, with structural balance and risk indicators well above existing and expected regulatory requirements and the targets set by Group policies.

The plan benefits from a safety buffer consisting of the DTAs from the New Banks.

The execution is also supported by a medium to long-term incentive scheme approved by a Shareholders' Meeting of UBI Banca on 7th April 2017. This involves a direct investment by "Identified Staff", up to a preset maximum amount and consistent with defined "pay-mix" levels, by purchasing UBI Banca shares with their own funds, 50% of which cannot be sold until 31st December 2019, while the remaining 50% cannot be sold until 31st December 2020. The bonus, paid in UBI shares, considered one of the most appropriate instruments for aligning the interests of shareholders with those of management, is calculated as a multiplier of the investment made on the basis of Group performance measured over the two reference periods to 31st December 2019 and to 31st December 2020.

Profitability and structural balance indicators

	2016 "Stand-Alone"	2019	2020
CET1 ratio (fully loaded)	11.2%	12.3%	13.5%
Total Capital Ratio (fully loaded)	14.1%	15.8%	17.0%
Leverage ratio (fully loaded)	5.6%	5.6%	6.2%
MREL (Minimum Requirement for own funds and Eligible Liabilities)	33.4%	27.1%	31.5%
NSFR (Net Stable Funding Ratio)	>100%	>100%	>100%
LCR (Liquidity Coverage Ratio)	>100%	>120%	>120%
Texas ratio	109%	98%	87%
Return on Tangible Equity	n.s.	11%	12%

N.B.: the CET1 ratio includes the impacts resulting from the implementation of IFRS 91, the model change, the new rules on write-offs, etc.

1 The Business Plan projections include the impacts resulting from the entrance into force of IFRS 9. On the date of first application (1st January 2018), a negative impact on capital of between €210 million in €250 million gross is estimated. Following the application of regulatory measures, the impact on capital ratios is negligible.

Trade union information

On 15th June 2017 information was sent to trade union organisations on the update of the 2019-2020 Business Plan, relating to the period 2017-2020, and in particular with regard to the merger of the New Banks[3].

The Merger of the latter will involve the integration of these into the UBI Banca Group's current organisational model consistent with the activities already managed today, by means of the following steps:

- the centralisation of the New Bank's governance, control and support activities, with the transfer, amongst other things, to UBI Banca organisational units of human resources, organisation, management and control of administrative expenses and oversight of management and corporate and legal affairs;
- a revision of the structure of geographical coverage and rationalisation of local units, also with the identification of new operating models for branches relating to the entire Group. Given the high concentration of the branches of the acquired banks in the Central Italy, with a relative presence by the Group, two new Macro Geographical Areas (MGAs) will be created in these areas, bringing the total number of MGAs up from five to seven, with the creation at the same time of new Local

3 As already reported, a Memorandum of Intent was signed on the 11th December 2016 with trade unions in relation to the Group's 2019/2020 Business Plan presented in June 2016.

Departments, the number of which will rise from the current 36 to 47. Indicative plans also exist to create a "Corporate Centre" for each of the new Local Departments, in addition to the 38 centres already in existence;
- improved credit governance, by simplifying the distribution process and placing a greater focus on management of problem and bad loans;
- the centralisation of internal control oversight, while maintaining control activities in the Macro Geographical Areas to carry out first level controls;
- concentration and standardisation of "ICT and Back Office" functions (information technology, logistics, security, purchasing and back office).

As concerns branches, the closure of approximately 270 branches is envisaged over the course of the plan, starting from the last quarter of 2017 and indicatively by the end of 2018, of which:
- 140 from the branch networks of the New Banks, broadly at the time of the respective merger operations. Approximately 80 of these will regard Nuova Banca delle Marche, 40 Nuova Banca dell'Etruria e del Lazio and 20 Nuova CariChieti;
- 130 from the current branch network of the UBI Banca Group, which already includes approximately 100 closures effected in November 2016, starting with the first stage of the Single Bank Project.

In order to make it possible to adopt UBI Banca's organisational model, it will also be necessary, prior to the mergers, to carry out the following operations within the Group:
- the centralisation at Prestitalia Spa by the New Banks of salary backed loans (by the block transfer in accordance with Art. 58 of the Consolidated Banking Law). This operation was approved by UBI Banca's Management Board on 18th July and by the Board of Directors of that company on 2nd August 2017;
- the transfer to UBI Leasing Spa of activities currently carried out by Nuova Banca delle Marche and Nuova Banca dell'Etruria e del Lazio. This operation which will take place by means of the contribution of the respective lines of business was approved by UBI Banca's Management Board and by the Boards of Directors of those companies on 18th and 19th July 2017 respectively;
- the transfer of "ICT and Back Office" activities to UBI.S, with effect from the first day of the month following that of the merger of each of the New Banks, by the transfer of the relative operations from UBI Banca to UBI.S.

In order to ensure consistency between the organisational structure defined for the Group and the general economic scenario, which requires, amongst other things, action to contain costs, it was necessary to redefine the labour force as a whole, also in view of the "Project to integrate the New Banks", the "Branch Plan" and the introduction of new organisational models for branches in the context of a continuous decrease in business and branches caused by the spread of multi-channel activities.

To summarise, changes in staff numbers involve a reduction, over the course of the Business Plan with respect to 31st December 2016, by approximately 3,000 staff (of which 1,569 related to reductions in the New Banks) net of new recruits, as summarised in the table below.

	31/12/2016	Estimate of natural attrition	Redun-dancies already decided (Solidarity Fund)	Possible further redun-dancies (Solidarity Fund)	Other initiatives of the plan	Estimate of recruits (inclusive of natural attrition replace-ments)	2020 estimate (approx.)
UBI Group (Combined Entity)	22,518	-400	-1,832	-341	-1,318	878	19,505
of which: New Banks	*4,958*						

More specifically, "Solidarity Fund Redundancies" will involve 2,173 staff and may affect all Group companies. It is underlined that this number includes both voluntary redundancies relating to the "Stand-Alone" UBI Banca Group perimeter (1,300 staff under the Trade Union Memorandum of Intent of 11th December 2016, of which 572 had already taken place at the end of the first half) and those resulting from agreements signed by the New Banks (532 staff[4], of which 445 still to take place as at 30th June).
"Other Business Plan initiatives" relate, on the other hand, to action taken to rationalise non-core activities and processes for the Group, including by means of deconsolidation/disposal initiatives, the results of which and the related synergies will require the identification of

4 The subsequent section "human resources" may be consulted in this respect for further information.

appropriate solutions in the presence of repercussions, amongst other things, on employment, on the basis of the respective timing and connected planned implementations.

Ownership of the employment relationships currently existing with the merged banks will be transferred to UBI Banca from the date of effect of the mergers, in accordance with Art. 2112 of the Italian Civil Code, with no interruption and with maintenance of the rights resulting from those same employment relationships.
Meetings with individual trade unions, inclusive of those representing the acquired banks, started at the beginning of July 2017 and continued on a weekly basis throughout July.
In addition to the Business Plan objectives, the subject of the new supplementary Group agreement also formed part of the negotiations.

With regard to the latter, on 26th July 2017 the Group signed an agreement with all trade unions which completed the path begun with the Trade Union Memorandum of Intent of 11th December 2016. The following was carried out in this respect:

- *completion of the harmonisation in a single agreement of the supplementary company agreements still existing relating to UBI Banca, to the banks now merged into the Parent and to UBI.S.;*
- *acceptance of approximately 700 applications for adherence to the "solidarity fund" (the remaining quota with respect to the redundancies already defined resulting from the implementation of the Single Bank Project) submitted under the redundancy plan contained in the aforementioned December Memorandum of Intent, which involved voluntary redundancies for at least 1,300 employees as already reported above.*
  These additional redundancies are planned for the period between 1st September 2017 and 31st March 2018, ahead of schedule with regard to the Business Plan targets (the relative expenses had already been totally recognised in 2016).
  These redundancies will make it possible to implement generation turnover and also to support youth employment, with the recruitment of 250 new staff by the end of 2018 and also by the confirmation of temporary contract positions (100 approx.) currently existing in the Group as permanent.

The share capital increase

On 7th April 2017, a Shareholders' Meeting, held in extraordinary session, approved a proposal to confer an authorisation on the Management Board to increase the share capital by a maximum amount of €400 million.

More specifically, the resolutions passed with a vote in favour of 99.8% of the share capital in attendance authorised the Management Board, pursuant to Art. 2443 of the Italian civil code, to increase the share capital by payment, in one or more tranches, by 31st July 2018, subject to prior approval by the Supervisory Board, by a total maximum amount of €400 million, inclusive of any share premiums, by the issue of ordinary shares with no nominal value and being of the same class as those already outstanding, to be offered as an option to rights holders, with the broadest powers to establish, from time to time and in observance of the above limitations, the procedures, the terms and the conditions of the operation, inclusive of the issue price and comprising any share premiums and dividend entitlements.
The effect of the resolution, and therefore the authorisation mentioned, is subject to the acquisition by UBI Banca of the entire share capital of the former Nuova Banca delle Marche Spa, the former Nuova Banca dell'Etruria e del Lazio and the former Nuova Cassa di Risparmio di Chieti by the ultimate deadline of 31st July 2018, while it remains in any event necessary to acquire prior authorisation from the Bank of Italy/European Central Bank.
At the same time, an amendment to Art. 5 of the articles of Association was approved with the insertion in a new paragraph of the authorisation of the Management Board to increase the share capital within the time limits reported above and also conferring on the Chairman and Chief Executive Officer, jointly and severally, and with the power to sub-delegate, all and the fullest powers to take all action required to implement that which had been resolved.

On 22nd May, in accordance with articles 4(1)(d) and 9(1) of Regulation (EU) No. 1024/2013, the European Central Bank authorised the inclusion of the newly issued shares in the Common Equity Tier 1 capital.

On 6th June 2017 the Management Board of UBI Banca, subject to prior authorisation by the Supervisory Board, approved a resolution to start the exercise of the authorisation pursuant to

Art. 2443 of the Italian Civil Code conferred on it by a Shareholders' Meeting held on the 7th April.

On the following 8th June the Management Board, again subject to prior authorisation by the Supervisory Board, set the final conditions for the share capital increase and also the calendar for the offering of options to shareholders with rights to them on the new shares to be issued. The launch of the Option Rights Offering and its terms and conditions were subject to the issue of the relative authorisations required by the regulations currently in force[5].
More specifically, the share capital increase was to involve the issuance of 167,006,712 ordinary shares of UBI Banca, with no nominal amount stated, of the same class of the UBI Banca ordinary shares already outstanding and with normal dividend entitlement, to be offered as an option to shareholders of UBI Banca with the right to them, at a ratio of six newly issued shares for every 35 shares held, at a subscription price of €2.395 for each new share, to be recognised entirely as share capital, for a maximum amount of €399,981,075.24.
The subscription price of the new ordinary shares issued under the Option Rights Offering incorporated a discount of approximately 26.1% on the theoretical ex-rights price (TERP) of UBI Banca shares calculated following methodologies in use on that date, on the basis of the official stock market price on the 7th June 2017.
The calendar for the Option Rights Offering was as follows:

- the option rights for the subscription of newly issued ordinary shares of UBI Banca to be exercised, on penalty of expiration, from 12th June until 27th June 2017 (inclusive);
- the option rights could be traded on the *Mercato Telematico Azionario* ("MTA" – electronic stock exchange) organised and managed by Borsa Italiana S.p.A., from 12th June until 21st June 2017 (inclusive).

On the 9th June the Consob approved the Prospectus (Registration Document, Information Note and Summary Note) for the Option Rights Offering and admission to trading on the *Mercato Telematico Azionario* (electronic stock exchange – organised and managed by Borsa Italiana Spa) of the ordinary shares of UBI Banca resulting from the increase in the share capital (rights issue), which on that same day the Bank made available to the public at its registered office as well as on its corporate website www.ubibanca.it.

In order to ensure the success of the operation, on 8th June 2017 an underwriting agreement was signed with Credit Suisse as the Sole Global Co-ordinator and Bookrunner[6].
On the 11th June 2017, UBI Banca appointed Banca IMI (Intesa Sanpaolo Group), Banco Santander and Mediobanca as additional underwriters and Co-Bookrunners, who therefore joined the underwriting agreement signed with Credit Suisse, and agreed severally, but not jointly, to subscribe any newly issued Shares of UBI Banca that may have remained unsubscribed on conclusion of the Stock Market Offering for a maximum amount equal to the countervalue of the Option Rights Offering.

* * *

During the period of the Option Rights Offering, which began on 12th June and ended on 27th June 2017, 967,529,640 rights were exercised for the subscription of 165,862,224 shares, accounting for 99.31% of the total 167,006,712 shares offered for a countervalue of €397,240,026.48.

The remaining 6,676,180 rights not exercised during the subscription period, which gave the right to subscribe 1,144,488 shares, corresponding to 0.69% of the total shares offered, for a value of €2,741,048.76, were traded and entirely sold on the stock market by UBI Banca through IW Bank, in accordance with Art. 2441, paragraph 3 of the Italian Civil Code in the first trading session held on 30th June 2017.

5 The issue by the Consob of a provision to approve the Prospectus (Registration Document, Information Note on the financial instruments and Summary Note)) for the Option Rights Offering and for admission of the newly issued UBI Banca shares to quotation on the MTA.

6 On 11th January 2017, Credit Suisse Securities (Europe) Ltd and Morgan Stanley & Co. International Plc acting as the Joint Global Coordinators signed a pre-underwriting agreement with UBI Banca according to which they made a commitment (under conditions in line with market practices for similar operations) to sign an underwriting agreement for the subscription of any new shares issued that may not have been taken up on conclusion of the auction of unexercised rights, for a maximum amount equal to the value of the share capital increase.
The pre-underwriting agreement lost its effect when the underwriting agreement itself was signed on 8th June 2017 between UBI Banca and Credit Suisse.

Exercise of the unexercised rights purchased on the stock market and the relative shares took place through authorised intermediaries who are members of the Monte Titoli S.p.A. centralised system by 5th July 2017, with the same value date.

The final results of the share capital increase were therefore published on 5th July. With account also taken of shares already subscribed in the Option Rights Offering period, a total of 167,006,652 ordinary shares were subscribed accounting for over 99.99% of the newly issued ordinary shares of UBI Banca for a countervalue of €399,980,931.54.

In accordance with the terms of the underwriting agreement, Credit Suisse, Banca IMI, Banco Santander and Mediobanca, in their capacity as underwriters, subscribed the remaining 60 shares resulting from the 350 unexercised rights for a countervalue of €143.70 .
The total amount of the share capital increase, amounting to €399,981,075.24, resulting from the issue of 167,006,712 ordinary UBI Banca shares, was stated entirely as share capital.

In compliance with the provisions of Art. 2444 of the Italian Civil Code, certification of the full subscription of the share capital increase, with an indication of the amount of the new share capital - equal to €2,843,075,560.24 divided into 1,144,244,506 ordinary shares with no nominal value -, was filed on 7th July 2017 with the Company Registrar of Bergamo, who made an amendment to it on the following 14th July.

Implementation of the 2019/2020 Business Plan

▪ The Single Bank

The complex Single Bank project was completed in the first half well ahead of the original schedule.
The merger of the seven network banks into UBI Banca took place in two stages:

- the first regarded Banca Popolare Commercio e Industria and Banca Regionale Europea, with the signing on 15th November 2016 of two separate merger deeds which took effect with regard to third parties from 21st November 2016 (from 1st January 2016 for accounting and tax purposes). At the same time as the BRE merger deed was signed, UBI Banca concluded the purchase of the saving shares and the privileged shares held by the Fondazione Cassa di Risparmio di Cuneo, in implementation of an agreement signed with that foundation on 27th June 2016 and disclosed to the market on that same date[7];
- the second stage involved all the remaining network banks (Banca Popolare di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica) with the signing on 2nd February 2017 of four separate merger deeds (one for each network bank, exception being made for the signing of a single merger deed for BBS and BVC), which took effect with regard to third parties from 20th February 2017 (from 1st January 2017 for accounting and tax purposes).

  From an operational viewpoint, the second wave of migration onto UBI Banca's IT system was also brought successfully to conclusion, which ensured that all the branches migrated were fully operational right from the first day of business. The operation regarded a total of approximately 1,150 branches and operating facilities, 8.3 million customer registrations, 2.45 million current accounts and 1.47 million securities custody deposits and it involved approximately 6,000 employees in the preparatory and post migration stage.

  Details of the related changes in UBI Banca's share capital are given in the section on the Scope of consolidation in the Notes to the condensed interim financial statements, which may therefore be consulted.

7 UBI Banca purchased all the privileged shares of BRE not owned by UBI Banca (50,473,189 shares) and all the savings shares of BRE owned by the Fondazione Cassa di Risparmio di Cuneo (18,240,680 shares), which previously held 24.904% of BRE's share capital, for a total price of €120 million. With that agreement, UBI Banca has also agreed with that foundation that it may keep certain prerogatives related to BRE and the geographical area in which it operates.

Changes to the organisational structure of UBI Banca

As already illustrated in the Annual Report, following the announcement of the 2019/2020 Business Plan, UBI Banca's organisational structure was revised with a view to strengthening the overall business and operating model and simplifying Group structure in conjunction with the discontinuation of its federal model and the merger of the network banks into the Parent.

After the first actions taken in 2016, when the second stage of the migration was completed, the organisational structure of UBI Banca underwent further transformations (on 20th February and on the following 3rd April 2017) which regarded the following:

- the completion of the distribution structure divided into Macro Geographical Areas (MGAs), with the creation of three new MGAs: Bergamo and West Lombardy, Brescia and the North East, Central and Southern Italy (the latter receiving the distribution network units of Rome, initially belonging to the Milan and Emilia Romagna MGA);
- in the Remote Channels Area that reports to the Chief Commercial Officer, the revision of the organisational structure involved the transfer of activities already performed by other UBI Banca and UBI Sistemi e Servizi units. More specifically with respect to the Contact Centre, management of customer support was centralised following an approach based on the full integration of customer contact channels and with regard to the management of the former Banca 24/7 management of this was transferred to those units responsible for remote channels;
- a change in the configuration of the "Private & Corporate Unity" units to become Corporate Centres distribution network units responsible for the management of the corporate clients of the Macro Geographical Areas;
- the creation of new Top Private Banking Centres into which staff who covered those clients within the former Private & Corporate Unity units were transferred at the same time as the second and last migration wave of the aforementioned network banks into UBI Banca;
- the transfer of the management of authorities' treasury activities, previously managed by UBI.S, to the Commercial Operations Service that reports to the Chief Commercial Officer;
- with a view to further strengthening credit management by units reporting to Chief Lending Officer[8]:
    - completion of the centralisation of units managing problem loans (unlikely-to-pay loans) existing in the former network banks, with the reorganisation of these on a geographical level at the same time and the breakdown of the exposures into portfolios for specialist account managers;
    - the centralisation of Loan Arrears Support activities, originally carried out by UBI Sistemi e Servizi, at the newly formed Loan Regularisation Service that reports to the Credit Policies and Monitoring Area;
- the transfer of personnel administration, previously carried out by UBI.S, to the Human Resources Area in order to ensure direct supervision of these activities.

At the same time as the above-mentioned actions were undertaken, UBI Banca's organisation chart also underwent changes at the level of the Chief General Counsel. Legal services to support operations connected with investment services and extraordinary operations were also strengthened by the creation of a new service named "Legal Financial Affairs and Extraordinary Operations" reporting directly to the Chief General Counsel, into which activities already existing in the Legal Affairs and Litigation were transferred. This new unit enables the following:

- improvement of legal activities to support transactions carried out by the units under the Chief Wealth and Welfare Officer and the Chief Commercial Officer for those matters for which they are responsible;
- centralised and specialist management of all legal aspects connected with extraordinary operations.

* * *

8 See also in this regard the information given in the subsequent section entitled "The Strategic Non-performing Loans Plan".

While waiting to roll out the Single Bank model at the recently acquired New Banks, at the time of their entrance to the Group changes were also made to the internal sets of regulations (regulations and operating rules) of the Parent and of the New Banks with the introduction of the following:

- *regulations designed to detail procedures for policy-making, control and co-ordination between the Parent and the New Banks in order to regulate organisational impacts;*
- *memorandums to introduce specific functional lines of reporting by which management, co-ordination and control activities are carried out by UBI Banca in its capacity as the Parent, thereby extending the model already in place in the Group to include subsidiaries.*

Regulation for the management of UBI Banca's charitable donations

The revision of UBI Banca's organisational model which accompanied the implementation of the Single Bank also involved the process to manage activities connected with the Group's charitable donations.
In November 2016, the Supervisory Board laid down specific guidelines on this matter which regarded the centralised management of the articles of association-related fund (pursuant to Art. 44.3 of UBI Banca's Articles of Association) and criteria for distributing the availability of funds among the Macro Geographical Areas (MGAs).
The "Regulation for the process to manage UBI Banca's charitable donations" was drawn up on the basis of these guidelines, the final version of which was approved by the Supervisory Board on 14th February 2017, after prior examination by the Management Board.
The approval of that regulation constituted the preparatory stage for a 2017 annual plan of intervention by UBI Banca, approved by the Supervisory Board on 7th March after preliminary assessment by the Appointments Committee.

On the basis of the new organisational model, charitable donations made by the Group will be carried out as follows:

- for the more far-ranging interventions (inter-regional), mainly by the Supervisory Board;
- for those of a more specifically local nature, by the individual MGAs concerned, or by the "historical" foundations supported for many years by the former network banks[9], through their endowments, which may be added to by donations from the Group.

With a view to ensuring more effective relations with local communities, five Local Operational Teams have been planned initially where each MGA Manager will be accompanied by a specifically designated Member of the Supervisory Board with experience in the local area concerned.

▪ UBI Welfare

UBI Welfare is a new service launched by UBI Banca (the first bank to operate in the welfare sector with its own range of services) in March 2017, targeted at both large corporates and SMEs who want to introduce company welfare programmes.

Consistent with its mission as a community Bank, UBI Banca has always supported corporate development processes, also providing advisory services on tax concessions and services and financial instruments specially designed to grasp growth opportunities from time to time. In the same way, UBI Welfare intends to make special welfare solutions available to assist companies with their company well-being and to become more competitive.

Company welfare is an innovative instrument designed to meet the needs of workers and their families by supplementing public services in the fields of health, pensions, education, leisure time and protection in order to better reconcile working and family life. It represents an important opportunity for companies and their employees because it can help improve productivity, corporate climate, levels of worker satisfaction and the ability of companies to attract and retain talent. The tax concessions provided under the 2016 *Legge di stabilità* (annual finance law) and the 2017 Budget Law[10] can be used to eliminate the tax wedge

9 Fondazione Banca Popolare di Bergamo ONLUS, Fondazione UBI per Varese ONLUS, Fondazione Banca San Paolo, Fondazione CAB - Istituto di Cultura Giovanni Folonari, Fondazione Banca Popolare Commercio e Industria ONLUS.
10 In order to increase the competitiveness of Italian companies, the 2016 *Legge di Stabilità* ("stability law" – annual finance law) and the 2017 *Legge di Bilancio* ("Budget Law" – law to approve government accounts) introduced significant tax benefits on bonuses

completely, thereby making companies more competitive and increasing the purchasing power of their employees.

The service designed by UBI Banca provides companies with full assistance in the implementation of their own welfare plans and a platform for managing results bonuses, with degrees of flexibility and customisation able to respond to all types of requirement and companies of all sizes.

Once the pilot stage was successfully concluded, marketing of UBI Welfare was introduced throughout the Bank's distribution network with support from "Welfare Specialists" (new expert roles to assist businesses in this area) and the first welfare plans were launched with corporate clients. In addition, a digital campaign was launched to contact companies with good results, including in particular companies operating in the metal machinery sector interested in welfare solutions for the simple and immediate payment of small sums to their employees. Customer relationship and development activities also continued with the main employers' associations giving very positive feedback in terms of appreciation and interest in the proposals. This led to the signing of the first collaboration agreements with them.

Finally, the UBI Welfare Observatory commenced its activities with technical co-ordination provided by ADAPT, a postgraduate school specialising in industrial and labour relations, founded in 2000 by Professor Marco Biagi. The first results are expected by the end of the year.

UBI Banca's aim is to build a welfare ecosystem able to meet the needs of companies, people and communities by creating a true and genuine "proximity" network in which companies and third sector operators in the community can become suppliers of welfare services, a network of well-being as supplementary protection with respect to the welfare state.

▪ The Other Projects

The other initiatives included in the "Transformation Plan" of the Business Plan are proceeding and they are regularly monitored and reported on to senior management in order to constantly assess the achievement of the expected results and that these initiatives comply with the Business Plan's goals.

The Non-Performing Loan Strategic Plan

In view of the increase in the non-performing loans of European banks, in September 2016 the European Central Bank issued the document "Draft guidance to banks on non-performing loans" with the aim of making banks subject to direct supervision aware of the importance of formulating a strategy to reduce their stocks of these loans. To achieve this, each individual bank was required to draw up an operating plan for submission to the authority by the end of the first quarter of each year.
On the basis of the results of a public consultation conducted in the period September-November, on 20th March 2017 the European Central Bank published the final version of its guidelines on non-performing loans (Non-Performing Loans - NPL), which marked an important step forward in the management of NPLs in the entire euro area. The document contains measures, processes and best practices that banks are urged to apply in their treatment of non-performing positions and which will form part of continuous dialogue with the supervisory authority.
The authority hopes for the formulation of ambitious but realistic strategies and has added, with respect to the draft document published, various details on operations to transfer risk and on requirements to measure guarantees. The most significant aspects regard implementation times and the availability of

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linked to results (i.e. for increases in productivity, profitability, quality, efficiency and innovation) that are paid by companies in the private sector and also on workers' profit-sharing schemes as follows:
- the application of a 10% flat rate tax to replace IRPEF (personal income tax) and the relative additional personal income taxes;
- complete elimination of the tax wedge if employees choose to receive their productivity bonuses or share of profits not in cash, but in the form of company welfare services, with advantages both for the companies and for the employees.

several options for banks (amongst which the disposal of loans is only one of the possible paths to follow) alongside credit recovery, debt cancellation or recourse to servicing actions.

In compliance with the provisions of ECB documents, starting in 2017 the UBI Banca Group formulated guidelines for the management of problem loans set out in the document entitled "RAF - Credit risk management policy", with which it also introduced risk-based monitoring and a Strategic NPL Plan which was submitted to the Supervisory Authority on 17th March 2017.

In recent years the Group has made important investments both in resources and tools dedicated to the management of non-performing loans.
Encouraged by the positive performance of credit recovery on bad loans and the improvement recorded in 2016 for exposures classified as unlikely-to-pay, the Group's strategy to reduce NPLs consists mainly of an internal approach which leverages on making existing controls even stronger by means of the following:

- a pro-active management approach that anticipates the presumable deterioration of credit, by strengthening the early warning system and introducing management on an industrial scale of the renegotiation processes at the first signs of arrears by means of a specialist team for these activities[11];
- the introduction of a business unit – separate from ordinary lending processes – to specialise in the management of unlikely-to-pay loans (drawing on the experience and expertise acquired with managing bad loans), with direct monitoring by customer segment by specialist staff and by recourse to outsourcing for "small amounts";
- the proactive management of real estate collateral to benefit from the direct and induced effects[12] of Re.O.Co.'s activities, the Group's newly formed property company;
- the introduction of the selective disposal of NPLs in "small amount" portfolios (e.g. consumer and POE [small economic operator] loans) and selected disposals (e.g. "single name") on positions backed by "commercial real estate" collateral, also in consideration of the expected improvement in the property market.

In respect of the above, on 3rd April the newly created "Credit Policies and Monitoring Function" came into operation on the staff of the Credit Policies and Monitoring Area with the task of overseeing activities to manage the actions and targets of the NPL Strategic Plan and the new activities introduced by the ECB.
The new unit's duties are as follows:

- to provide support for the annual update of the aforementioned plan and to identify additional action to take to achieve its goals;
- overall monitoring of results, the state of progress with initiatives and the results of individual actions, with an analysis of any failures to meet the plan's targets.

The plan submitted to the ECB – on the UBI Banca Group "Stand-Alone" perimeter – furnishes details of the strategy formulated to manage problem loans deployed for the period 2017-2021 and through those actions it aims at an overall reduction in total gross non-performing loans of approximately €2.7 billion, down from €12.5 billion at the end of 2016 to €9.8 billion forecast at the end of 2021, with a parallel decrease in their percentage of total gross loans from 14.4% to 10.4%.
Total gross non-performing loans are expected to stand at €10.2 billion at the end of 2020, €850 million less than the amount estimated in the 2019/2020 Business Plan (€11 billion).

The targets set on the basis of the Group's new perimeter as part of the update to the 2017-2020 Business Plan, as given in a special sub-section of this section, cannot be considered as an update to the NPL Strategic Plan because that will be presented in the first quarter of 2018 at the time of the annual update requested by the ECB.

11 See also in this respect the information reported in the previous sub-section on changes to the organisational structure of UBI Banca.
12 The direct effects are those auctions won by Re.O.Co. while the induced effects are those won by third parties.

Resolutions approved by a Shareholders' Meeting of UBI Banca

On 7th April 2017 a General Meeting of the Shareholders of UBI Banca was held under the chairmanship of Andrea Moltrasio (the Chairman of the Supervisory Board), convened in both extraordinary and ordinary session to resolve on the items on the agenda.
The Chairwoman of the Management Board, Letizia Moratti, reported on the performance and results achieved in 2016 as approved by the Supervisory Board on the preceding 7th March.

In the ordinary session the Shareholders' Meeting acted with regard to the items on the agenda as follows:

1. with the vote in favour of 93.1% and the abstention of 5.8% of the share capital present, it approved the proposal to replenish the losses for the year by drawing on the share premium reserve and to distribute a dividend of €0.11 per share drawn from the extraordinary reserve, as proposed by the Management Board in consideration of the adequate capitalisation of the Group according to the parameters established by Basel 3 rules and in compliance with a communication from the European Central Bank dated 13th December 2016 on dividend distribution policies. The dividend will be paid on the 974,205,820 ordinary shares outstanding, net of treasury shares held in portfolio, to give a maximum dividend payout of €107,162,640.20 with ex dividend date, record date and payment dates of 22nd, 23rd and 24th May 2017, against coupon No. 19;
2. with the vote in favour of 92.4% and the abstention of 6.1% of the share capital present, it appointed Ferruccio Dardanello as a Member of the Supervisory Board, in order to fill a vacancy on the Board following the resignation of a member in December 2016. The Board Member elected will remain in office until the expiry of the term of office of the current Supervisory Board and that is until the Shareholders' Meeting that will be held in accordance with article 2364-*bis* of the Italian Civil Code, after the end of the financial year 2018;
3. it approved the first section of the Remuneration Report, prepared for public disclosure purposes, in compliance with regulations in force and made available to the public in accordance with the law. That first section contains the main information on the following: the decision-making processes for remuneration schemes, the main features, the means by which remuneration is linked to results, the main performance indicators employed, the reasons behind the choice of variable remuneration schemes and the other non-monetary schemes;
4. it adopted, as proposed, remuneration and incentive policies for members of the Supervisory Board and members of the Management Board;
5. it approved remuneration schemes based on financial instruments, in order to pay a quota of the short-term (annual) and long-term (multi-year) variable component of remuneration for "Key Personnel" and to pay the productivity bonus (known as the "Company Bonus") for 2017 for all employee personnel and it also approved the resulting proposals to authorise the purchase of treasury shares at the service of those schemes, as follows.
   - *for the 2017 short-term incentive scheme for "Identified Staff" the payment of a variable component of remuneration by means of the grant of ordinary UBI Banca shares for a maximum amount of approximately €3.5 million and possibly also quotas and shares of UCITS established by UBI Pramerica SGR Spa and by UBI Management Company Sa to the "Key Management Personnel" of UBI Pramerica;*
   - *for the long-term incentive scheme for the period 2017-2019/2024 reserved for "Identified Staff", the grant of ordinary UBI Banca shares for a maximum amount over the time frame of the scheme of approximately €16.4 million;*
   - *with regard to the productivity bonus for 2017 for all employee personnel, the grant of ordinary UBI Banca shares for a maximum amount of €18 million;*
6. again on the subject of remuneration, having acknowledged a proposal submitted by the Supervisory Board, substantially along the same lines as that approved by the 2016 Shareholders' Meeting, it approved terms for setting the criteria and maximum limits on the number of years of remuneration and the relative payment procedures to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office;

7. lastly, having taken note of the proposal by the Supervisory Board and in consideration of the current legislation on the matter, it approved the determination of the ratio of variable to fixed remuneration up to a maximum of 2:1 for "Identified Staff" belonging to the Investments Area of the asset management company UBI Pramerica SGR S.p.A., the application of which for 2017 is planned for six positions.

In the extraordinary session, the Shareholders' Meeting approved the increase in the share capital by a maximum of €400 million for which reference is made to the specific sub-section in this section.

ECB Sensitivity Analysis

On 28th February the ECB launched a specific stress test on banking book interest rate risk entitled "Sensitivity analysis of IRRBB – Stress Test 2017", because this had been identified as one of the main risks to which banks subject to direct supervision are exposed.
The purpose of the stress test this year is to provide the ECB with sufficient information to understand the sensitivity of assets and liabilities in the banking book and net interest income to changes in interest rates. The hypothetical shocks applied are taken from the standards defined by the Basle Committee for banking supervision in the document "Standards – Interest rate risk in the banking book" published in April 2016 (changes in the level and shape of the yield curve).
By analysing the influence of six hypothetical interest rate shocks on banks, the exercise focuses on changes in the economic value of assets and liabilities in the banking book and also on the performance of net interest income generated by those assets and liabilities. The banking book considered includes assets and liabilities that are not related to the trading activities of banks.
The exercise also aims at examining how behavioural models used by intermediaries influence risk measurement, because behaviour may change in response to changes in interest rates.
There will be no public disclosure of the individual results of the stress test that UBI has submitted to the ECB since the beginning of April, but after a period of "Quality Assurance", which is to say verification of their consistency, which took place in the period April-June, these results will mainly be considered as part of the supervisory review and evaluation process (SREP), contributing to calibrate "Pillar 2 guidance". The results are being discussed as part of the SREP dialogue between banks and joint supervisory teams currently in progress.

Developments in the regulatory framework

Activity to monitor the release of new regulations by all the different regulatory authorities revealed no particular changes sufficient to make significant changes to the existing regulatory framework.

We report the following in the domestic framework:

- the entry into force on 14th April 2017 of Legislative Decree No. 38 of 15th March 2017 on the "Implementation of the framework decision No. 2003/568/GAI of the Council, dated 22nd July 2003, on the fight against corruption in the private sector", published in Official Journal No. 75 of 30th March 2017.
  That Decree makes amendments to Chapter IV, Title XI of Book V of the Italian Civil Code (more specifically Art. 2635 on corruption between private individuals was amended and articles 2635-*bis* and 2635-*ter* were introduced) and to Art. 25-*ter* of Legislative Decree No. 231/2001 on the administrative liability of institutions.
  All the necessary compliance activities were promptly commenced in this respect, including modifications to the "Model of organisation, management and monitoring pursuant to Legislative Decree No. 231/2001" adopted by UBI Banca;
- the approval by the government of Legislative Decree No. 90 of 25th May 2017, to implement Directive EU 2015/849 (c.d. Anti-Money Laundering Directive IV).

That Decree which entered into force on 4th July 2017 regards the prevention of the use of the financial system for the purposes of laundering money originating from criminal activities and the finance of terrorism. It also regards amendments to Directives 2005/60/EC and 2006/70/EC, implements Regulation (EU) No. 2015/847 concerning the informative data that accompanies the transfer of funds and repeals Regulation (EC) No. 1781/2006. One of the Decree's more important aspects is that it establishes a register of the actual owners of legal persons and trusts in order to increase transparency and provide the authorities with effective instruments in the fight against money-laundering and the finance of terrorism. The measure also rationalises all the formalities to be carried out by parties in the financial system, eliminating bureaucracy and technicalities concerning procedures for the storage of data and documents which are considered excessive with respect to requirements for the uniform and standard application of EU law and, as such, are potentially anti-competitive.

As concerns, on the other hand, changes concerning the European financial market, we report that with "Government Act" No. 413 of May 2017 the Italian government submitted the draft of Legislative Decree concerning updates to national legislation to implement the provisions of 2014/65/EU (MiFID II) and Regulation EU 600/2014 (MiFIR) for an opinion. In this context the intervention by the ESMA is of great interest. On 2nd June 2017 it published its "Final report on product governance guidelines to safeguard investors", containing product governance guidelines as part of MiFID II on the assessment of target markets by producers and distributors of financial products.

As already reported, MiFID II introduces a change in the regulatory approach which previously focused on the delivery of products and services. It lays down product governance requirements in order to improve investor protection by regulating all stages of the life cycle of products or services and to ensure that companies that produce and distribute financial instruments and structured deposits act in their clients' interests. This will apply from 3rd January 2018 and will require significant changes to the business approach taken with clients.

The distribution network, positioning, digital innovation and payment cards

The branch network of the Group

As a result of the acquisition of the New Banks, the UBI Group's distribution network as at 30th June 2017 consisted of 1,954 branches, of which 1,948 operating in Italy, distributed as reported in the table, having fallen to 1,953 at the date of this report[1].

In terms of the UBI Banca Group stand-alone perimeter, as already reported, at the end of the first half the branch network consisted of 1,440 branches (1,434 in Italy), down by 90 compared with the end of 2016. That change is attributable to the following:

- action taken to streamline the distribution network following the completion in February of the second stage of the Single Bank Project, which led to the closure of 69 branches (6 of the former BPB, 35 of the former BBS, 5 of the former Carime, 14 of the former BVC and 9 of the former BPCI) and of 13 mini-branches (2 of the former BPB, 9 of the former Carime and 2 of the former BVC), while 52 branches were transformed into mini-branches (16 of the former BPB, 23 of the former BBS, 7 of the former BVC and 6 of the former BPCI) and 7 mini-branches of the former Carime were converted into branches[2];
- further closures of eight mini-branches in the first six months of the year as follows: Frosinone (at the air and naval military base) in January, Succivo in April, Jesi (at New Holland), Offagna at Pozzuoli (at the air and naval academy) in May, Gallarate, Marone and Busto Arsizio in June.

The branch network of the UBI Banca Group in Italy and abroad

number of branches	30.6.2017
UBI Banca Spa	1,418
of which North West Macro Geographical Area (1)	*201*
of which Milan Emilia Romagna Macro Geographical Area (2)	*213*
of which Bergamo and West Lombardy Macro Geographical Area	*306*
of which Brescia and North East Macro Geographical Area	*237*
of which Central South Macro Geographical Area	*455*
of which branches comprised within Macro geographical areas (3)	*6*
IW Bank Spa	21
UBI Banca International Sa - Luxembourg	1
Total Stand-Alone UBI Banca Group	**1,440**
Nuova Banca delle Marche Spa	276
Cassa di Risparmio di Loreto Spa	15
Nuova Banca dell'Etruria e del Lazio Spa	159
Banca Federico del Vecchio Spa	6
Nuova Cassa di Risparmio di Chieti Spa	58
Total New Banks	**514**
TOTAL	**1,954**
Total Branches in Italy	***1,948***
Financial advisors IW Bank Spa (4)	**767**

(1) The figures are inclusive of 3 foreign branches.
(2) The figures do not include the 12 units which specialise exclusively in pawn credit.
(3) The figures are inclusive of 2 foreign branches.
(4) The figures also include the financial advisors belonging to IW Bank Spa's Wealth Management Area

We also report that the transfer to UBI Banca of two foreign branches in Munich (Germany) and Madrid (Spain) belonging to UBI Banca International Sa took effect on 1st April, in preparation for its disposal.

As concerns, on the other hand, the New Banks perimeter, we report the closure, with effect from 1st June 2017, of five Nuova Cassa di Risparmio di Chieti branches[3].

As already reported in the sub-section on changes in UBI Banca's organisational structure, the implementation of the Single Bank Project was accompanied by the completion of changes to the Group's distribution model outlined in the 2019/2020 Business Plan. In detail:

- the branches were divided into five Macro Geographical Areas (MGAs): North West, Milan Emilia Romagna, Bergamo and West Lombardy, Brescia and the North East, Central and Southern Italy;

1 The slight change that occurred compared with the end of the first half, relating to July, is the result of the closure of a mini-branch at Saronno in the Bergamo and West Lombardy Macro Geographical Area.
2 Details of the closures carried out with effect from 20th February 2017 are given in the section "The distribution network and market positioning" in the consolidated management report of the 2016 Annual Report which may be consulted.
3 Lanciano and Monteodorisio (Chieti); Pescara, Via Alento 117; Rome, Viale Castro Pretorio 114; Perugia, Via della Valtiera 9.

- the new Top Private Banking (TPB) Division (a specialist point of reference for "Top Private Banking" clients[4]) has become fully operational together with the new Corporate & Investment Banking (CIB) Division which operates as:
  - the exclusive manager for Large Corporate Groups by means of an innovative team of experts, the Global Relationship Managers (GRM), single points of client contact for complex, ordinary and extraordinary operations;
  - a supplier of evolved products and services for Mid Corporate clients[5] for which the CIB plays a product design role for extraordinary operations: mergers and acquisitions, access to capital markets and structured finance;
- the 123 centres, consisting of 46 Private and Corporate Banking Units (PCUs) and 77 "Corners", which at the end of 2016 formed the "UBI Banca Private & Corporate Unity" division, fell in the first quarter to 104 facilities (38 PCUs and 66 "Corners"[6]). Staff responsible for assisting "Top Private Banking" customers were transferred into 22 newly formed "Top Private Centres" and 40 Corners, already operational as at 31st March 2017, reporting to the Top Private Banking Manager. With the transfer of the remaining Private Bankers into branches, from 3rd April 2017 the PCUs and the relative "Corners" were converted into Corporate Centres belonging to the Macro Geographical Areas[7].

Corporate Centres and Top Private Banking Centres

	30.6.2017
Corporate Centres (*)	***38***
North West Macro Geographical Area	4
Milan Emilia Romagna Macro Geographical Area	7
Bergamo and West Lombardy Macro Geographical Area	7
Brescia and North East Macro Geographical Area	6
Central South Macro Geographical Area	14
"Corners"	***66***
North West Macro Geographical Area	5
Milan Emilia Romagna Macro Geographical Area	11
Bergamo and West Lombardy Macro Geographical Area	20
Brescia and North East Macro Geographical Area	13
Central South Macro Geographical Area	17
Total	**104**
Top Private Banking Centres	**22**
"Corners"	**40**
Total	**62**

(*) The figure does not include three UBI Banca units operational since 6th May 2013 and dedicated to corporate clients only.

The merger of the recently acquired banks will involve their integration in the Group's current organisational model with the consequent revision of branch network coverage and rationalisation of the branches. Given the high concentration of the branches of the acquired banks in central regions of Italy, where the Group has a relatively high presence, the distribution network will be revised both in terms of Macro Geographical Areas and consequently also of the Local Departments to give the best possible commercial coverage and at the same time guarantee adequate close contact with local communities.

Finally, geographical market coverage continues to be provided also by a network of 767 financial advisors belonging to IW Bank Spa (787 at the end of 2016), currently undergoing a process to rationalise the associated portfolios managed.

The international presence

At the date of this report, the international presence of the UBI Banca Group was structured as follows:

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4 The Top Private Banking Division manages private banking clients with financial wealth (direct and indirect funding) of greater than €1 million.

5 Large Corporate: clients with at least €250 million of sales turnover; Mid Corporate: clients with sales turnover of between €50 million and €250 million.

6 With effect from 20th February 2017 6 PCUs and 13 Corners were closed and 3 PCUs were converted into Corners and one Corner into a PCU:

- FORMER BANCA POPOLARE DI BERGAMO: 2 PCUs closed (Brescia 39 Via A. Gramsci, Bergamo 8 Piazza Vittorio Veneto) and 4 "Corners" [Gavirate 2 Piazza della Libertà (PCU Varese North), Milan 22 Corso Italia (PCU Milan), Caravaggio 1 Piazza Garibaldi (PCU Dalmine), 29 Seregno Via Medici da Seregno (PCU Monza)]; conversion of PCU at Saronno, 10 Via Pietro Micca into a Corner;
- FORMER BANCO DI BRESCIA: 2 PCUs closed (Bergamo 10/12 Via Silvio Pellico and Rome 108B Via Vittorio Veneto) and the Bergamo "Corner" at 113 Via Palma il Vecchio; conversion of the South Lombardy PCU at Cremona 137 Via Mantua into a Corner;
- FORMER BANCA CARIME: conversion of PCU at Foggia 198C Viale Ofanto into a Corner;
- FORMER BANCA DI VALLE CAMONICA: PCU closed at Franciacorta a Lovere 43 Via Gregorini;
- FORMER BANCA POPOLARE DI ANCONA: 8 "Corners" closed [Rome 78 Viale Buozzi (Rome PCU), Termoli Via Abruzzi and Ascoli Piceno 42 Viale indipendenza (Pescara PCU), Senigallia 70 Via Giovanni Marchetti and Jesi 1 Corso Matteotti (Jesi PCU), Osimo 4 Piazza Comune (Civitanova PCU), Campobasso 86 Via Vittorio Veneto and Caserta 20 Piazza Vanvitelli (Aversa PCU); conversion of PCU in Naples at 3 Via Petronio into a Corner;
- UBI Banca (former bpci): PCU closed in Rome at 21 Corso Vittorio Emanuele II.

7 At the date of this report "Corners" had fallen to 65 following the termination of business in July at the Concesio Corner linked to the Brescia and North East Corporate Centre.

- one foreign bank, UBI Banca International Sa (with headquarters in Luxembourg), for which an agreement to sell was signed in April 2016, the finalisation of which is expected once the relative preparatory activities have been completed, which include acquisition of the necessary authorisations by the buyer;
- five foreign branches of UBI Banca, three of which in France (Nice, Menton and Antibes), resulting from the merger of the former Banca Regionale Europea and two in Munich and Madrid respectively, transferred to UBI Banca on 1st April 2017, originally belonging to UBI Banca International Sa;
- representative offices in San Paolo of Brazil, Mumbai, Shanghai Hong Kong, Moscow, Dubai, New York and Casablanca;
- equity investments (mainly controlling interests) in three foreign companies: UBI Trustee Sa (Luxembourg), UBI Management Co. Sa (Luxembourg) and Zhong Ou Asset Management Co. Ltd (China);
- one branch of UBI Factor Spa in Krakow in Poland;
- 37 commercial co-operation agreements with foreign banks (covering over 50 countries)[8] – in addition to three "trade facilitation" agreements with the European Bank for Reconstruction and Development (EBRD), the International Financial Corporation (IFC) and the Asian Development Bank (ADB) – and also a "product partnership" in the Middle East and in Asia to guarantee effective assistance on all the principal markets in those areas for our corporate clients.

The positioning of the Group

The table summarises the market positioning of the UBI Group in its configuration resulting from the acquisition of the New Banks, at both national and regional level and in provinces where a more significant presence exists.
The figures are based on the latest available data from the Bank of Italy: 30th June 2017 for branches and 31st December 2016 for balance sheet items.

Market share in terms of branches at national level stood at 6.9%, with an appreciable increase in market coverage in the regions of central Italy due to the high concentration of the branches of the acquired banks in that area.
Furthermore, the Group continues to have a substantial presence in Milan (8.2%) and in Rome (7%), with shares of higher than 10% in as many as 21 Italian provinces.
National market share of conventional funding – which does not include bonds – stood at 4.6%, while the share for loans was 6.2%.

As a result of the characteristics of the two original banking groups, in some areas where the Group's presence is stronger, it continues to have a market share of conventional funding and/or lending that is greater than the percentage of branches.

UBI Banca Group: market shares(*)

	30.6.2017	31.12.2016 aggregate	
	Branches	Deposits (**) (***)	Lending (***)
North Italy	**6.1%**	**5.2%**	**6.2%**
Lombardy	**12.3%**	**8.5%**	**8.8%**
Prov. of Bergamo	*22.4%*	*30.7%*	*37.1%*
Prov. of Brescia	*20.4%*	*27.8%*	*29.5%*
Prov. of Como	*5.8%*	*5.7%*	*8.1%*
Prov. of Lecco	*6.0%*	*5.2%*	*9.3%*
Prov. of Mantua	*4.4%*	*3.8%*	*3.6%*
Prov. of Milan	*8.2%*	*3.9%*	*4.5%*
Prov. of Monza Brianza	*9.0%*	*7.7%*	*10.2%*
Prov. of Pavia	*13.2%*	*13.6%*	*11.6%*
Prov. of Sondrio	*6.0%*	*1.4%*	*4.5%*
Prov. of Varese	*24.2%*	*28.2%*	*21.3%*
Piedmont	**7.1%**	**4.9%**	**4.4%**
Prov. of Turin	*2.8%*	*1.9%*	*2.0%*
Prov. of Alessandria	*11.3%*	*7.2%*	*9.3%*
Prov. of Cuneo	*20.3%*	*18.3%*	*15.1%*
Prov. of Novara	*2.7%*	*3.2%*	*5.5%*
Liguria	**4.5%**	**3.8%**	**6.6%**
Prov. of Genoa	*3.9%*	*3.1%*	*5.9%*
Prov. of Imperia	*5.0%*	*2.8%*	*8.1%*
Prov. of La Spezia	*6.6%*	*10.0%*	*6.5%*
Prov. of Savona	*3.9%*	*2.8%*	*8.7%*
Emilia Romagna	**2.3%**	**1.2%**	**2.3%**
Prov. of Rimini	*8.2%*	*4.6%*	*7.5%*
Prov. of Bologna	*2.2%*	*0.9%*	*2.1%*
Prov. of Piacenza	*4.2%*	*2.8%*	*3.5%*
Central Italy	**10.2%**	**3.6%**	**7.5%**
Marches	**30.8%**	**40.5%**	**37.1%**
Prov. of Ancona	*33.7%*	*43.9%*	*49.3%*
Prov. of Macerata	*41.2%*	*59.5%*	*41.3%*
Prov. of Pesaro and Urbino	*30.0%*	*34.9%*	*26.2%*
Prov. of Fermo	*26.0%*	*27.4%*	*29.9%*
Umbria	**10.5%**	**6.8%**	**9.0%**
Prov. of Perugia	*12.3%*	*7.6%*	*9.9%*
Prov. of Terni	*4.4%*	*3.5%*	*5.5%*
Latium	**6.9%**	**1.2%**	**4.7%**
Prov. of Rome	*7.0%*	*1.1%*	*4.7%*
Prov. of Viterbo	*15.1%*	*12.9%*	*11.3%*
Tuscany	***4.4%***	**3.4%**	**1.9%**
Prov. of Arezzo	19.3%	*21.7%*	*16.8%*
Prov. of Florence	3.6%	*2.0%*	*0.8%*
Prov. of Siena	5.8%	*2.8%*	*1.2%*
Prov. of Grosseto	4.9%	*4.9%*	*2.4%*
Prov. of Livorno	3.2%	*3.3%*	*2.5%*
South Italy	**8.8%**	**7.5%**	**6.7%**
Calabria	**17.7%**	**19.8%**	**13.1%**
Prov. of Catanzaro	*11.1%*	*14.2%*	*9.0%*
Prov. of Cosenza	*20.8%*	*26.9%*	*17.2%*
Prov. of Crotone	*15.2%*	*10.9%*	*8.0%*
Prov. of Reggio Calabria	*20.6%*	*15.7%*	*10.9%*
Prov. of Vibo Valentia	*12.5%*	*24.6%*	*17.6%*
Abruzzo	***14.8%***	**12.8%**	**12.7%**
Prov. of Chieti	32.5%	*34.0%*	*26.0%*
Prov. of L'Aquila	4.6%	*2.8%*	*1.6%*
Prov. of Pescara	11.8%	*9.2%*	*12.6%*
Prov. of Teramo	7.6%	*3.1%*	*6.9%*
Molise	**8.8%**	**6.5%**	**10.1%**
Prov. of Isernia	*21.4%*	*17.8%*	*20.7%*
Prov. of Campobasso	*5.2%*	*3.2%*	*7.2%*
Basilicata	**7.6%**	**10.3%**	**7.5%**
Prov. of Potenza	*7.2%*	*11.2%*	*8.2%*
Prov. of Matera	*8.2%*	*9.0%*	*6.4%*
Apulia	**7.1%**	**6.4%**	**4.7%**
Prov. of Bari	*9.3%*	*7.6%*	*5.0%*
Prov. of Brindisi	*9.3%*	*7.5%*	*6.0%*
Prov. of Barletta Andria Trani	*5.4%*	*6.2%*	*4.6%*
Prov. of Taranto	*8.4%*	*7.1%*	*5.2%*
Campania	**5.2%**	**3.9%**	**4.6%**
Prov. of Naples	*5.0%*	*3.5%*	*4.0%*
Prov. of Caserta	*7.5%*	*6.5%*	*9.0%*
Prov. of Salerno	*5.7%*	*4.9%*	*5.1%*
Total Italy	**6.9%**	**4.6%**	**6.2%**

(*) Source Bank of Italy: Statistics Database for share of branches; "matrix reports" for the balance sheet items.
(**) Current accounts, certificates of deposit, savings deposits. Bonds are excluded.
(***) Market share by location of the branch. The matrix report for lending refers to item 58335 02 relating to total loans for the private sector and it includes gross bad loans.

8 The number of these agreements rose to 37 following the signing of two "Master Risk Participation Agreements" concluded in February and March with the Wells Fargo Bank and with Santander Bank for the purpose of increasing mutual collaboration in the areas of customer assistance and commercial operations.

Digital innovation

The UBI Banca Group continued in the first half of the year with its activities to develop and implement digital services, which regarded both the introduction of new services and the development and enhancement of functionalities already provided on the web and on mobile phones. In detail:

- the start of online marketing of the BluAuto policy, a key insurance product of the Group for automobiles. Customers can acquire a tailor-made estimate completely independently by using internet banking services and then proceed simply and transparently to the purchase of the policy in a small number of steps. Software has also been developed which in the second quarter will allow expiring policies to be renewed just as easily;
- the commercial launch of Digital Loan, which allows customers to apply online completely independently and at any time of day or on any day of the year for a personal loan with the grant and credit of the amount borrowed to their current account at the same time, if the relative conditions are met. Development activities have also been commenced which in the second half of the year will lead to the UBI Banca Group acting proactively to make customised loans to targeted customers with specific lending needs;
- the release into production in June of innovative procedures for recognising new clients by using web videos, which now goes hand in hand with the "traditional" procedure using credit transfers. This new solution has been designed mainly for the acquisition of customers new to banking and for young people in particular. And in fact an agreement has been reached with the universities of Bergamo and Bari to use that method for the identification of students who will be enrolled at the universities in the second half of 2017 and who will become holders of the Group's Enjoy Card.
- the continuous development of internet banking functions and the constant quest to improve the user experience of personal and "small economic operator" (POE) customers, for example with the introduction of: methods for using "F24 Elide" and "F24 Simplified" tax payment forms using apps; consultation of direct debits (SDDs) both using apps and the web; the ability to carry out the main payment transactions on the website directly using a search engine and a wizard which makes it even easier and faster to manage payments; the availability of the "trading desk" function a dedicated online trading platform which enables those who trade on the stock market to manage their trading and investments more efficiently; the opportunity for merchants to access dedicated tools for the management of the "Easy City" service directly from the Qui UBI Affari internet banking service, etc.;
- constant updates to the Corporate Digital Banking[9] service with the introduction of special functions dedicated to UBI Banca clients (e.g. payments in real time using "MAV" and "RAV" payment by advice systems for automobile tax, telephone recharges, etc.);
- the introduction in April, in the field of remote selling for specific "UBI On Line" operators, to send a contract proposal for some products available for purchase online directly through a customer's internet banking service, thereby making it easier for customers themselves to purchase solutions of interest to them;
- the introduction of new "Hybrid" credit cards which allows holders to pay for single uses of the card in instalments[10] or completely independently, from the internet banking services using the UBI PAY and Qui UBI Banking apps, or with UBI On Line support as well as in branches. The cost of payment by instalment consists of a fixed monthly commission which depends on the amount of the transaction and the length of the repayment schedule. The Hybrid credit card is also available in customisable versions thanks to sports partnerships that UBI Banca has signed with Juventus Football Club, NBA and Millemiglia;
- the evolution of the UBI PAY[11] app by means of the following:
  - experimentation of the "Jiffy" payment service for payments to companies. More specifically, collaboration with partners has started to experiment with innovative user experiences, in order to simplify the purchase experience;
  - implementation of consultation and payment functions for the Hybrid credit cards;

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9 Corporate Digital Banking is a service specially designed for corporate clients who have greater demands for the management of their company business, while Qui UBI Affari remains mainly for use by POEs. The new service provides access to standard functions provided for by "Customer to Business Interaction" regulations, including multi-bank and multi-company mode use, and it also allows use of "value added" services dedicated exclusively to relations held with UBI Banca Group banks (e.g. "my accounts"). This allows UBI Banca to be present on the market with a structured and differentiated range of products and services.

10 Uses of amounts comprised between €250 and €5 thousand.

11 UBI PAY consists of a simple app, available for the three major mobile operating systems (Android, iOS and Windows Phone) and it allows users to: send funds to and request them from anyone on their telephone contacts over the Jiffy network, with an extremely easy-to-use user interface, comparable to sending an SMS; make online purchases with eCommerce Merchants using MasterPass, rendering the check-out process extremely simple; manage ones Hybrid credit card and access Easy City offers, published by merchants adhering to the service. In order to use UBI PAY, customers must be first registered for the services either at their local branch or online, have a Qui UBI internet banking account on which at least one of the services is activated and have either a pre-paid Enjoy card or be a current account holder with UBI Banca.

- the introduction of Multi-IBAN functionalities, which make it possible to connect more than one IBAN to Jiffy, even if they are held with different banks, and choose a default IBAN for the receipt of cash. It is also possible to activate the "Send cash" service in the app by linking it with a current account IBAN or an Enjoy card;
- the release of "Request Cash" and "Split the Bill" functionalities which make it possible for a user to request refunds from other UBI PAY users and/or other users who have subscribed to Jiffy through one of the banks belonging to the circuit by knowing only the cell phone number of the person, which can be found rapidly from the cell phone contacts and also to generate as many requests for cash as people amongst whom the bill must be split, and even making it possible to send the requests only to those connected on the Jiffy circuit;
- the development of the "Easy City" initiative [12] thanks to the introduction of new functionalities that allow merchants to send specific offers of products and services to customers, profiled on the basis of their personal information or behaviour, and to send part of the proceeds to nonprofit organisations of interest to them;

• enhancement of the POS terminal range to provide merchants with cutting-edge solutions based on the latest technologies such as for example POS Wi-Fi terminals.

Launched in 2016, the long-term rental service dedicated to UBI Banca customers is consolidating the progress it has made, partly through a process of acquiring new contacts. From 2017 branches have been equipped with a "Rental Specialists" unit, which follows applications with the support of new tools such as stock management and trade-in functions.
Finally the "Online loans specialists" service[13] has been improved with the aim of ensuring continuity and support for customers, with management of the loan application process and grant stages in collaboration with branches. The online sale of the loan products and development of activities to propose products to targeted clients is also monitored.

Various advertising initiatives, including digital initiatives, have been implemented to support activities carried out by the Group. We report the main campaigns in chronological order: *"We are one of your supporters"*, started in the last quarter of 2016 and concluded in February 2017, with the aim of leveraging on sports partnerships (Juventus Football Club, NBA, Volley Bergamo Foppapedretti and FISI) and stimulating applications for the respective prepaid Enjoy cards, available also through remote selling; "*Official partner of your projects*", started at the end of February and concluded at the end of April, designed to strengthen the UBI Banca Group's positioning close to people in their everyday plans, with loans that can be applied for even on Qui UBI Internet Banking; "*Everything in its own time*", currently in progress, designed to advertise the new Hybrid product, even for non-customers, with particular attention to its innovative functionality for the payment of single purchases in instalments; "*Digital Mortgages*", a digital only initiative for mortgages, with the specific aim of acquiring new contacts to pass to specialists. The particular channels used are SEM (Search Engine Marketing, to intercept traffic from search engines), DEM (Direct Email Marketing, mainly on external databases) and Native ADV (advertising positioned on editorial contents).
Finally, in order to incentivise use of UBI Banca's new digital services and enhance them, videos have been produced which describe the Group's new services and its specific functions.

Further important developments took place in the first half of 2017 as follows:

• a revision of the UBI PAY approach in order to make the services immediately usable by all UBI Banca customers as well as by others, allowing subscription in the app also to non-customers and payments to merchants;
• the start of the large-scale replacement of personal Libra credit cards with the corresponding new Hybrid version;
• the introduction of customised versions of the Hybrid, Enjoy and Enjoy One cards with dedicated graphic designs, thanks to the partnership with Atalanta Bergamasca Calcio football team;
• the continuous release of internet banking upgrades and apps for individuals, companies and Corporate Digital Banking, such as for example fingerprint access to UBI Banca apps for the android operating system, the ability to directly renew BluAuto policies and further improvements to the online loan application process;
• the continuation of projects to assess big data advanced analytics, consistent with the provisions of the 2017-2020 Business Plan.

12 "EasyCity" is a service designed to increase the business of merchants belonging to it. They can in fact use it to publish their own virtual shop window together with special offers (discounts/coupons).
13 The "Online loan specialists" also support IW Bank's mortgage product.

The continuous development and technological improvement of direct channels is not only a strategic tool for the acquisition of new customers and the management of relationships with the existing customer base, but at the same time it also reduces operating costs. Furthermore, proper management of product and process innovation is particularly appreciated also by customers, as confirmed by the results achieved in the first five months of the year for the stand-alone UBI Banca Group's multi-channel customers which grew 4.5% to over 1.70 million (1.65 million in December 2016). This performance continues to be driven by the positive trend for Qui UBI internet banking (+4.0% with 1,427,000 customers signed up compared with 1,371,000 before) and Qui UBI Affari, for which users at the end of May came close to 199 thousand, up on over 193 thousand in December 2016 (+2.6%).

Payment cards[14]

Despite the difficult economic environment, the UBI Banca Group continues to be very active in the payment card business, on the one hand seeking the most innovative and up-to-date technological solutions and, on the other, through effective advertising initiatives to support the products and services offered.

The range of cards and payment tools currently offered by the Group satisfies the requirements of all types of user, both individual and business. Similarly, the range of devices that allow card payments to be accepted (POS terminals) is complete and meets the highest security standards. In detail:

- *individual customers can choose between debit cards, flexible credit cards (i.e. with the choice between either repayment of the balance or in instalments) and revolving and prepaid cards (which also come with an IBAN);*
- *business customers, on the other hand, are offered business and corporate cards which vary according to the credit limit and the services as well as a complete range of technologically advanced payment acceptance systems (which include both physical and virtual POS terminals).*

Considered as a whole, at the end of May 2017 customers of the stand-alone UBI Banca Group were current holders of over 733 thousand credit cards issued by UBI Banca and CartaSi, largely unchanged compared with December 2016 (+0.8%).

Growth in prepaid cards continued successfully with the total reaching almost 617 thousand cards, up 5.8% over five months, driven by both the Enjoy card (up 1.5% to over 349 thousand cards) and above all by the Like card (up 12.1% to approximately 268 thousand cards).

Debit cards issued by the Group numbered approximately 1.82 million, almost unchanged compared with December 2016 (+0.1%).

At the end of May the POS terminals installed by the UBI Banca Group came to over 76 thousand, up 1.9% on December. Transaction volumes also increased, especially those on the Visa and Mastercard networks, recording growth of around 11% compared with the first five months of 2016.

The UBI PAY service has received over 290 thousand subscriptions (+21.5% compared with the end of 2016), while the Easy City service has over 6.2 thousand merchants on the map (+3.2%).

14 The data relates to the "stand-alone" UBI Banca Group (former network banks + IW Bank).

Human resources

The composition of Group staff and changes in the first half

Group staff

Number	Employees actually in service 30.6.2017 A	Employees actually in service 31.12.2016 B	Employees actually in service Changes A-B	Employees on the payroll 30.6.2017 C	Employees on the payroll 31.12.2016 D	Employees on the payroll Changes C-D
UBI Banca Spa*	14,476	14,415	61	15,464	15,778	-314
IW Bank Spa	309	305	4	296	293	3
UBI Banca International Sa	62	88	-26	60	84	-24
TOTAL FOR BANKS	**14,847**	**14,808**	**39**	**15,820**	**16,155**	**-335**
UBI Sistemi e Servizi SCpA	1,650	2,044	-394	847	862	-15
UBI Leasing Spa	203	207	-4	207	208	-1
Prestitalia Spa	168	170	-2	87	89	-2
UBI Pramerica SGR Spa	154	154	0	120	120	0
UBI Factor Spa	141	144	-3	120	124	-4
BPB Immobiliare Srl**	52	4	48	52	4	48
UBI Academy SCRL	13	15	-2	-	-	-
UBI Trustee Sa	6	6	-	5	5	-
UBI Management Company Sa	5	5	-	4	4	-
Kedomus Srl	5	3	2	-	-	-
Centrobanca Sviluppo Impresa SGR Spa***	-	-	-	-	-	-
TOTAL	**17,244**	**17,560**	**-316**	**17,262**	**17,571**	**-309**
Workers on staff leasing contracts	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL STAND-ALONE UBI BANCA GROUP STAFF	**17,244**	**17,560**	**-316**	**17,262**		
Nuova Banca delle Marche Spa****	2,649			2,645		
Nuova Banca dell'Etruria e del Lazio Spa****	1,416			1,421		
Nuova Cassa di Risparmio di Chieti Spa****	514			512		
Cassa di Risparmio di Loreto Spa ****	116			116		
Banca Federico Del Vecchio Spa****	88			83		
Etruria Informatica Srl****	39			43		
BancAssurance Popolari Spa****	38			38		
BancAssurance Popolari Danni Spa****	8			8		
Assieme Srl ****	5			5		
Oro Italia Trading Spa****	5			2		
TOTAL UBI BANCA GROUP STAFF	**22,122**			**22,135**		
TOTAL FTE STAFF	*21,441.9*					
On secondment outside the Group						
- out	*20*	*18*	*2*			
- in				*7*	*7*	*-*
TOTAL WORKFORCE*****	**22,142**	**17,578**		**22,142**	**17,578**	

* The mergers of the seven network banks into UBI Banca Spa were concluded in November 2016 and in February 2017.

** At the end of the first half, BPB Immobiliare staff also included personnel appointed on seasonal contracts that were not banking industry contracts: 48 as at 30th June 2017 and 49 as at 30th June 2016.

*** As at 30th June 2017, as also on the comparative reporting dates, two persons were working at the company, who were on partial secondment from other Group companies and were therefore not counted among employees actually in service.

**** Following the closing of the deal for the acquisition of the New Banks, which took place on 10th May, the companies indicated were included in the consolidation with effect from 1st April 2017.

***** The line shows the total staff numbers of the UBI Banca Group as at the 30th June 2017, while the figures for 31st December 2016 relate to the stand-alone Group (prior to the acquisition of the New Banks).

The table above gives details for each company of the actual distribution of ordinary employees (workers on permanent and temporary contracts and on apprenticeship contracts) within the Group as at 30th June 2017, adjusted to take account of secondments from and to other entities within or external to the Group (column A). A comparison is given with figures for December 2016 for the stand-alone Group (column B), restated on a consistent basis. Column C, on the other hand, gives details for each company of the number of employees on the payroll as at 30th June 2017: for the stand-alone Group a comparison is given with the situation at the end of 2016, also restated on a consistent basis (column D).

At the end of the first half of 2017 the total staff of the UBI Banca Group numbered 22,122, of which 4,878 attributable to the inclusion of the New Banks and companies acquired within the scope of consolidation.

In terms of full time equivalents (FTEs), on the other hand, and that is with account taken of the part-time worker effect, Group staff numbered 21,441.9.

Staff numbers for the stand-alone UBI Banca Group at the end of the first half (considered in terms of staff on the payroll) included the effect of 666 staff who left during the period, mainly under the "2019/2020 Business Plan Trade Union Memorandum of Intent" signed on the 11th December 2016 which involved 622 voluntary redundancies[1] in the first organisational restructuring stage, which was 92% complete[2] (572 redundancies) as at 30th June 2017. Consistent with commitments entered into by the Group in recent years, new recruits were appointed involving 357 staff, with a view to generation turnover and support for youth employment, which partially offset those staff who left.

As concerns, on the other hand, the New Banks acquired, 56 staff left in the second quarter on the basis of both agreements signed in March and April 2017 (which involved 359 voluntary redundancies) and agreements signed previously (for a remaining 173 redundancies). As at 30th June 2017, 445 staff were still waiting to leave.

The following trends emerged at individual bank and company level during the first half:

- *staff numbers at UBI Banca increased by 61 following the centralisation of operations carried out for the implementation of the 2019/2020 Business Plan[3];*
- *BPB Immobiliare recorded the recruitment of 48 seasonal staff;*
- *staff numbers at UBI Sistemi e Servizi reduced by 394 mainly due to the centralisation at UBI Banca of activities carried out in some units previously belonging to that company: the Contact Centre, Personnel Administration, Loan Arrears Support and Local Authority Treasury Management[3];*
- *staff numbers at UBI Banca International fell by 26 as consequence of the transfer to UBI Banca of foreign branches at Munich and Madrid, which took place with effect from 1st April 2017;*

In terms of type of contract for staff on employee type contracts, staff on temporary contracts as at 30th June 2017, which included apprentices and the seasonal workers at BPB Immobiliare mentioned above, accounted for 1.6% of the total workforce on the payroll.

The percentage of employee workers on part-time contracts at the end of first half was 12.4%, while that of female personnel was 42.1%.

Employees on the payroll

Number	30.6.2017
Total employees	**22,135**
of which permanent	21,787
on temporary contracts	227
apprentices (*)	121

(*) An apprenticeship is a contract for young people between the ages of 18 and 29, by which they acquire a qualification through training at work which provides them with specific occupational skills. The duration of the currently existing contracts in the UBI Banca Group is 24 months.

The composition of banking staff by rank, details of which are given in the table, was more or less in line with that of the UBI Banca Group before the acquisitions.

Composition of staff in Group Banks* by rank

Number	30.6.2017	%
Senior managers	388	1.8%
Middle managers 3rd and 4th level	3,581	16.2%
Middle managers 1st and 2nd level	5,212	23.5%
3rd Professional Area (office staff)	12,639	57.1%
1st and 2nd Professional Area (other staff)	315	1.4%
TOTAL FOR BANKS	**22,135**	**100.0%**

* The figures shown are for the staff of UBI Banca, IW Bank, UBI Banca International, Banca Adriatica, Banca Tirrenica, Banca Teatina, Cassa di Risparmio di Loreto and Banca Federico del Vecchio

1 The 600 redundancies planned during the first stage of the Business Plan were added to by 22 redundancies relating to excess applications received under the April 2016 Agreement, accepted in the December 2016 Memorandum of Agreement.
2 The remaining 50 staff will leave gradually during the course of the rest of the year.
3 See the preceding section "Significant events in the first half of 2017" for further information.

Trade union relations

As already reported on in the section “Significant events in the first half of 2017” which may be consulted, discussions with trade unions during the period involved the following: on the one hand negotiations in connection with the second part of the redundancy plan under the 2019/2020 Business Plan as well as the completion of the harmonisation of supplementary company employment contracts for the stand-alone UBI Banca Group; and on the other hand operations for the merger of the three New Banks.

Training

Training activity conducted in the stand-alone UBI Banca Group in the first six months of 2017 totalled over 50,000 person days and was directed mainly to support the initiatives and projects of the 2019/2020 Business Plan with a focus on the following key points;

- to ensure that all roles in the distribution network have appropriate specialist technical knowledge with tailor-made training that complies with MiFID II, MCD (Directive on residential mortgages) and IVASS (the insurance authority) regulations. More specifically, a MiFID II training course was started in preparation for the “qualification” of staff who provide investment advisory services;
- to broaden and train managerial abilities in order to encourage team spirit and share excellence behaviours and actions through “Top Team” events specially for “chief” personnel and their respective teams and for the recently formed macro geographical areas. Team coaching and individual coaching was also organised for managers on supervision and training of abilities in accordance with the UBI Banca model;
- to encourage “organisational well-being” through the completion of training courses already in progress and the start of a second stage in the classroom, with the involvement of branch and central management roles, together with the supply of online training for all employees dedicated to wellness subjects;
- to diffuse a culture of the certification of professional roles through the start of specific certification programmes (CIA and CRMA) for a Group of audit staff, a training programme to prepare for Financial Advisor examinations and an advanced compliance course;
- to contribute to the development of talented staff, with the conclusion of an MIP Masters course in “Management of banking companies” for 28 young people; enhancement of experiences and across-the-board expertise with the start of reverse mentoring, experience, energy and work-family balance sessions.

Initiatives have also been carried out as part of the change management project relating to procedures, products, the commercial model and so on to support the mergers of the New Banks: these required approximately 10,500 person days of training.

Approximately 1,900 days of training (inclusive of classroom and remote courses) were delivered to the financial advisors of IW Bank Private Banking Investments, mainly on insurance and compulsory regulatory subjects (anti-money laundering, the administrative liability Decree Law No. 231, etc.) as well as on behavioural and asset protection subjects.

As shown in the table, the over 50,000 person days of training delivered by the stand-alone UBI Banca Group were added to by a little less than 10,500 person days provided by the New Banks. The latter focused on training mainly on insurance (4,347 days), regulations (2,188 days) and operations (1,962 days).

Training by subject area in the first half of 2017

Subject area	Classroom	Remote training	Internship	Total person/days of training	%
Insurance	3,247	9,134	33	12,414	20.5%
Commercial and Finance	13,759	63	3,264	17,086	28.2%
Credit	2,478	30	363	2,871	4.7%
Managerial-Behavioural	4,240	1,953	-	6,193	10.2%
Regulatory	1,849	7,324	7	9,180	15.2%
Operational and other subjects	2,600	5,074	5,170	12,844	21.2%
TOTAL	**28,173**	**23,578**	**8,837**	**60,588**	**100.0%**

In the second half of the year, in addition to the continuation of the projects mentioned above, with the extension of the MiFID II training course to include the New Banks, the following new initiatives are planned to:

- strengthen and assist with distribution network role behaviours;
- diffuse the "Digital Transformation" with the development of a platform dedicated to innovative services and products;
- implement training initiatives to encourage a managerial approach (Managers' Academy);
- coach managerial abilities through the creation of a "New Training Platform".

Internal communication

By leveraging on an increasingly greater overall awareness of digitalisation processes, in the first half of 2017 internal communication (the Company Multichannel Experience Area) encouraged the sharing of news, projects and company strategies, with the aim, amongst other things, of reinforcing a sense of Group identity in employees.

The gradual release of the Digital Workspace (the Group's new corporate intranet) occurred between January and May. With its new architecture it is now more in line today with the more competitive standards in the sector, providing a single corporate network to achieve the following: sharing of professional experience and know-how; dissemination of virtuous behaviours; support for training activities; connecting people; conveying corporate information, guaranteeing the maximum visibility to corporate strategies and the development of internal processes, by using innovative tools; promotion of collaboration.

The intranet homepage hosted numerous publications of news and videos, most of which created with the use of internal resources, creativity and tools. Corporate communications regarded results and financial statements. Commercial communications on the other hand covered various initiatives (project implementations or releases; the launch of partnerships and new commercial agreements, etc.).

In order to improve engagement of the distribution network, special purpose initiatives were carried out for public and sponsorship events including corporate voluntary work projects with nonprofit clients and participation in television programmes in special dedicated sections.

Communications in the human resources area focused on a personnel development programme. Its first convention was held on 15th March entitled "People at the centre".

The convention "UBI Top Private" was organised in May at Palazzo Mezzanotte (the headquarters of Borsa Italiana) and in June the "Convention UBI Global Transaction Banking" was held at the Corrado Faissola Hall in Brescia, with a video link to all staff who work at the UBI Banca Group's foreign establishments. Both events were held to present the new organisational structure of units to encourage networking and collaboration.

As concerns the product companies:

- a company newsletter was launched at UBI Leasing in January, while the final event of the mentoring project was held in May;
- an event format was created at UBI Systemi e Servizi for continuous updates and motivation on the coming mergers of the New Banks.

With regard to communication campaigns, Cyber Awareness activities recommended by the ECB are continuing with the production of a video on various issues divided into different episodes.

The corporate voluntary work initiative "Donate one day" was reproposed with a large variety of charitable projects started at national level which involved over 1,000 staff and 70 nonprofit organisations.

The traditional annual convention of the BPB-CV and BPCI retired personnel associations was held in March at the Monza motor racing track, at which an update was given on the Group's strategies and on the 2016 consolidated results by UBI Banca's Chief Executive Officer.

On the publications front, the hardcopy magazine "YOUBI Almanac" was produced, as it is every year (also published online in the "Digital Workspace"), a preview version of which was distributed to shareholders who attended the UBI Banca Shareholders' Meeting held on 7nd April.

The week following the Shareholders' Meeting, a "Shareholders' Meeting Special" was published on UBILife and in the Digital Workspace, with interviews of the Chief Executive Officer and the Chairs of the boards.

A series of musical events in the cities of Milan, Turin, Bergamo, Brescia, Jesi and Bari were organised to celebrate "Ten years of the UBI Banca Group" in collaboration with the La Scala of Milan Academy. In addition to Group senior management and staff, major customers of UBI Banca and representatives of city institutions attended the evening events with over 7,000 people attending altogether.

Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules

Reclassified consolidated balance sheet

	Figures in thousands of euro	30.6.2017	31.12.2016 *Aggregate*	Changes	% changes
	ASSETS				
10.	Cash and cash equivalents	2,986,091	3,219,180	-233,089	-7.2%
20.	Financial assets held for trading	671,482	881,457	-209,975	-23.8%
30.	Financial assets designated at fair value	161,374	218,743	-57,369	-26.2%
40.	Available-for-sale financial assets	11,128,949	13,516,860	-2,387,911	-17.7%
50.	Held-to-maturity investments	5,993,150	7,327,544	-1,334,394	-18.2%
60.	Loans and advances to banks	8,793,116	4,820,974	3,972,142	82.4%
70.	Loans and advances to customers	94,228,583	93,769,311	459,272	0.5%
80.	Hedging derivatives	425,087	466,715	-41,628	-8.9%
90.	Fair value change in hedged financial assets (+/-)	-13,717	39,398	-53,115	n.s.
100.	Equity investments	245,758	254,384	-8,626	-3.4%
110.	Technical reserves of reinsurers	516	369	147	39.8%
120.	Property, plant and equipment	1,815,457	1,844,592	-29,135	-1.6%
130.	Intangible assets	1,715,241	1,719,950	-4,709	-0.3%
	of which: goodwill	*1,465,260*	*1,468,808*	*-3,548*	*-0.2%*
140.	Tax assets	4,245,141	4,393,975	-148,834	-3.4%
150.	Non-current assets and disposal groups held for sale	6,455	5,681	774	13.6%
160.	Other assets	1,876,852	1,645,992	230,860	14.0%
	Total assets	**134,279,535**	**134,125,125**	**154,410**	**0.1%**
	LIABILITIES AND EQUITY				
10.	Due to banks	16,530,503	14,458,089	2,072,414	14.3%
20.	Due to customers	70,112,391	70,989,458	-877,067	-1.2%
30.	Debt securities issued	28,362,209	32,268,779	-3,906,570	-12.1%
40.	Financial liabilities held for trading	710,665	861,478	-150,813	-17.5%
50.	Financial liabilities designated at fair value	39,017	40,329	-1,312	-3.3%
60.	Hedging derivatives	183,463	279,455	-95,992	-34.3%
80.	Tax liabilities	243,275	243,771	-496	-0.2%
100.	Other liabilities	5,226,358	2,520,157	2,706,201	107.4%
110.	Post-employment benefits	376,866	422,230	-45,364	-10.7%
120.	Provisions for risks and charges:	747,427	751,965	-4,538	-0.6%
	a) pension and similar obligations	140,033	145,373	-5,340	-3.7%
	b) other provisions	607,394	606,592	802	0.1%
130.	Technical reserves	1,723,643	1,675,012	48,631	2.9%
140.+170.+180. +190.+ 200.	Share capital, share premiums, reserves, valuation reserves and treasury shares	9,260,113	11,393,077	-2,132,964	-18.7%
210.	Non-controlling interests	67,560	82,644	-15,084	-18.3%
220.	Profit (loss) for the period/year	696,045	-1,861,319	n.s.	n.s.
	Total liabilities and equity	**134,279,535**	**134,125,125**	**154,410**	**0.1%**

The reclassified balance sheet as at 30th June 2017 includes the figures in the accounts of the New Banks (and the companies they control) which entered the scope of consolidation from 1st April 2017.
In order to allow an examination of balance sheet items on a half yearly basis in consistent terms, the statement in question reports the comparative period as at 31st December 2016 restated on an "aggregate" basis in order to take account of figures relating to the New Banks, which are presented in terms that are fully in line with the tables used to support the commentary contained in the subsequent sections.

Reclassified consolidated quarterly balance sheets

Figures in thousands of euro		30.6.2017	30.6.2017 *of which Stand-Alone UBI Banca Group*	31.3.2017 *Stand-Alone UBI Banca Group*	31.12.2016 *Stand-Alone UBI Banca Group*	30.9.2016 *Stand-Alone UBI Banca Group*	30.6.2016 *Stand-Alone UBI Banca Group*	31.3.2016 *Stand-Alone UBI Banca Group*
	ASSETS							
10.	Cash and cash equivalents	2,986,091	478,913	476,835	519,357	490,884	476,840	506,194
20.	Financial assets held for trading	671,482	537,750	627,034	729,616	677,514	681,543	966,772
30.	Financial assets designated at fair value	161,374	126,000	190,448	188,449	189,638	188,641	194,738
40.	Available-for-sale financial assets	11,128,949	7,888,779	8,475,803	9,613,833	14,144,698	15,417,870	15,699,461
50.	Held-to-maturity investments	5,993,150	5,993,150	7,274,195	7,327,544	3,403,798	3,452,886	3,445,469
60.	Loans and advances to banks	8,793,116	7,716,568	4,850,605	3,719,548	4,108,062	3,930,021	3,591,309
70.	Loans and advances to customers	94,228,583	83,185,416	84,521,597	81,854,280	82,010,978	83,906,862	84,072,553
80.	Hedging derivatives	425,087	420,207	424,061	461,767	792,164	791,268	714,946
90.	Fair value change in hedged financial assets (+/-)	-13,717	-28,478	10,591	23,963	68,955	63,857	61,469
100.	Equity investments	245,758	245,733	254,842	254,364	260,220	253,719	259,545
110.	Technical reserves of reinsurers	516	-	-	-	-	-	-
120.	Property, plant and equipment	1,815,457	1,621,477	1,637,718	1,648,347	1,652,607	1,659,827	1,673,882
130.	Intangible assets	1,715,241	1,675,884	1,686,920	1,695,973	1,688,282	1,685,184	1,747,089
	of which: goodwill	*1,465,260*	*1,465,260*	*1,465,260*	*1,465,260*	*1,465,260*	*1,465,260*	*1,465,260*
140.	Tax assets	4,245,141	2,900,453	2,982,254	3,044,044	2,981,776	3,006,517	2,790,272
150.	Non-current assets and disposal groups held for sale	6,455	6,455	5,811	5,681	64,401	63,883	70,283
160.	Other assets	1,876,852	1,454,884	924,423	1,297,151	832,951	1,081,317	895,255
	Total assets	**134,279,535**	**114,223,191**	**114,343,137**	**112,383,917**	**113,366,928**	**116,660,235**	**116,689,237**
	LIABILITIES AND EQUITY							
10.	Due to banks	16,530,503	16,591,881	16,665,755	14,131,928	13,800,894	13,691,017	11,495,105
20.	Due to customers	70,112,391	56,772,071	56,443,308	56,226,416	53,789,291	55,460,078	56,527,759
30.	Debt securities issued	28,362,209	25,420,265	27,562,538	28,939,597	30,794,003	32,064,830	33,124,613
40.	Financial liabilities held for trading	710,665	674,704	722,633	800,038	584,324	612,314	610,468
50.	Financial liabilities designated at fair value	39,017	-	-	-	-	-	-
60.	Hedging derivatives	183,463	147,050	195,586	239,529	1,100,804	1,110,942	1,000,034
80.	Tax liabilities	243,275	211,333	229,327	232,866	243,662	241,596	427,460
100.	Other liabilities	5,226,358	4,226,761	2,726,147	1,962,806	2,750,791	3,230,328	2,476,949
110.	Post-employment benefits	376,866	297,657	306,523	332,006	343,160	339,679	337,289
120.	Provisions for risks and charges:	747,427	471,875	466,939	457,126	587,569	591,468	255,392
	a) pension and similar obligations	140,033	65,807	69,230	70,361	72,347	73,527	68,981
	b) other provisions	607,394	406,068	397,709	386,765	515,222	517,941	186,411
130.	Technical reserves	1,723,643	-	-	-	-	-	-
140.+170. +180.+ 190.+ 200.	Share capital, share premiums, reserves, valuation reserves and treasury shares	9,260,113	9,241,896	8,906,575	9,819,728	9,644,117	9,629,328	9,877,656
210.	Non-controlling interests	67,560	56,837	50,769	72,027	482,826	475,640	514,451
220.	Profit (loss) for the period/year	696,045	110,861	67,037	-830,150	-754,513	-786,985	42,061
	Total liabilities and equity	**134,279,535**	**114,223,191**	**114,343,137**	**112,383,917**	**113,366,928**	**116,660,235**	**116,689,237**

The reclassified balance sheet as at 30th June 2017 includes the figures in the accounts of the New Banks (and the companies they control) which entered the scope of consolidation from 1st April 2017.
In order to allow a consistent reading of the quarterly balance sheets a column as at 30th June 2017 has also been inserted with figures for the Stand-Alone UBI Banca Group that is fully in line with the previous comparative periods.

Reclassified consolidated income statement

Figures in thousands of euro		1H 2017 A	*of which Stand-Alone UBI Banca Group*	*of which New Banks 2nd Quarter*	*Allocation of Badwill*	1H 2016 *Stand-Alone UBI Banca Group* B	Changes A-B	% changes A/B	FY 2016 *Stand-Alone UBI Banca Group* C
10.-20.	Net interest income	745,200	690,690	53,570	900	765,572	(20,372)	(2.7%)	1,497,891
	of which: effects of the purchase price allocation	*(6,710)*	*(6,710)*	-	-	*(10,475)*	*(3,765)*	*(35.9%)*	*(19,707)*
	Net interest income excluding the effects of the PPA	*751,910*	*697,400*	*53,570*	*900*	*776,047*	*(24,137)*	*(3.1%)*	*1,517,598*
70.	Dividends and similar income	10,043	5,922	4,121	-	8,599	1,444	16.8%	9,678
	Profits of equity-accounted investees	10,598	10,597	1	-	11,950	(1,352)	(11.3%)	24,136
40.-50.	Net fee and commission income	761,395	714,240	47,160	-	667,453	93,942	14.1%	1,335,033
	of which performance fees	*7,213*	*7,213*	-	-	*5,534*	*1,679*	30.3%	*26,349*
80.+90.+ 100.+110.	Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	148,757	151,332	(2,576)	-	82,589	66,168	80.1%	153,711
150.+160.	Net income from insurance operations	4,145	-	4,138	-	-	4,145	-	-
220.	Other net operating income/expense	58,845	53,559	5,461	-	52,243	6,602	12.6%	99,050
	Operating income	**1,738,983**	1,626,340	111,875	900	**1,588,406**	**150,577**	**9.5%**	**3,119,499**
	Operating income excluding the effects of the PPA	***1,745,693***	*1,633,050*	*111,875*	*900*	***1,598,881***	***146,812***	***9.2%***	***3,139,206***
180.a	Staff costs	(716,892)	(634,312)	(82,579)	-	(639,098)	77,794	12.2%	(1,275,306)
180.b	Other administrative expenses	(366,039)	(317,302)	(49,823)	955	(327,326)	38,713	11.8%	(734,654)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(75,302)	(70,123)	(9,415)	4,235	(71,730)	3,572	5.0%	(143,506)
	of which: effects of the purchase price allocation	*(3,914)*	*(3,914)*	-	-	*(6,672)*	*(2,758)*	*(41.3%)*	*(10,624)*
	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets excluding the effects of the PPA	*(71,388)*	*(66,209)*	*(9,415)*	*4,235*	*(65,058)*	*6,330*	*9.7%*	*(132,882)*
	Operating expenses	**(1,158,233)**	(1,021,737)	(141,817)	5,190	**(1,038,154)**	**120,079**	**11.6%**	**(2,153,466)**
	Operating expenses excluding the effects of the PPA	***(1,154,319)***	*(1,017,823)*	*(141,817)*	*5,190*	***(1,031,482)***	***122,837***	***11.9%***	***(2,142,842)***
	Net operating income	**580,750**	604,603	(29,942)	6,090	**550,252**	**30,498**	**5.5%**	**966,033**
	Net operating income excluding the effects of the PPA	***591,374***	*615,227*	*(29,942)*	*6,090*	***567,399***	***23,975***	***4.2%***	***996,364***
130.a	Net impairment losses on loans	(282,628)	(286,861)	(10,237)	14,470	(1,206,373)	(923,745)	(76.6%)	(1,565,527)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(98,805)	(93,415)	(5,391)	-	(50,467)	48,338	95.8%	(130,057)
190.	Net provisions for risks and charges	(5,352)	(11,441)	6,089	-	(26,657)	(21,305)	(79.9%)	(42,885)
240.+270.	Profits from the disposal of equity investments	612	375	237	-	1,603	(991)	(61.8%)	22,969
	Pre-tax profit (loss) from continuing operations	**194,577**	213,261	(39,244)	20,560	**(731,642)**	**926,219**	**n.s.**	**(749,467)**
	Pre-tax profit (loss) from continuing operations excluding the effects of the PPA	***205,201***	*223,885*	*(39,244)*	*20,560*	***(714,495)***	***919,696***	***n.s.***	***(719,136)***
290.	Taxes on income for the period/year from continuing operations	(79,413)	(72,813)	281	(6,799)	176,440	(255,853)	n.s.	182,388
	of which: effects of the purchase price allocation	*3,516*	*3,516*	-	-	*5,684*	*(2,168)*	*(38.1%)*	*10,048*
330.	(Profit) loss for the period/year attributable to non-controlling interests	(12,444)	(12,297)	(147)	-	17,272	(29,716)	n.s.	1,267
	of which: effects of the purchase price allocation	*190*	*190*	-	-	*1,030*	*(840)*	*(81.6%)*	*1,696*
	Profit (loss) for the period/year attributable to the shareholders of the Parent before the Business Plan and other impacts excluding the effects of the PPA	*109,638*	*135,069*	*(39,110)*	*13,761*	*(527,497)*	*637,135*	*n.s.*	*(547,225)*
	Profit (loss) for the period/year attributable to the shareholders of the Parent before the Business Plan and other impacts	**102,720**	128,151	(39,110)	13,761	**(537,930)**	**640,650**	**n.s.**	**(565,812)**
180.a	Redundancy expenses net of taxes and non-controlling interests	(2,285)	-	(2,285)	-	(207,679)	(205,394)	(98.9%)	(207,783)
210.	Impairment losses on brands net of taxes and non-controlling interests	-	-	-	-	(37,936)	(37,936)	(100.0%)	(37,936)
180.b	Single Bank project expenses net of taxes and non-controlling interests	(6,106)	(6,106)	-	-	(3,440)	2,666	77.5%	(15,541)
200.	Impairment losses on property, plant and equipment net of taxes and non-controlling interests	-	-	-	-	-	-	-	(3,078)
180.b	Bridge Bank Project expenses net of taxes and non-controlling interests	(11,184)	(11,184)	-	-	-	11,184	-	-
265.	Negative consolidation difference	612,900	-	-	612,900	-	(612,900)	-	-
340.	**Profit (loss) for the period/year attributable to the shareholders of the Parent**	**696,045**	110,861	(41,395)	626,661	**(786,985)**	**1,483,030**	**n.s.**	**(830,150)**
	Total impact of the purchase price allocation on the income statement	*(6,918)*	*(6,918)*	-	-	*(10,433)*	*(3,515)*	*(33.7%)*	*(18,587)*

The reclassified income statement for the first half of 2017 includes the figures for the New Banks (and the companies they control) which entered the scope of consolidation from the 1st April 2017.
The comparative figures relate to the Stand-Alone UBI Banca Group, in consideration of the fact that relative significance of the income statement figures for the New Banks is not sufficient to alter the original income structure of the Group.
In consideration of the modest relative size of the consolidation entries, a column giving details has not been presented and therefore the sum of the columns is not the same as the consolidated figure for the first half of 2017.

Reclassified consolidated quarterly income statements

Figures in thousands of euro		2017 2nd Quarter	2017 2nd Quarter of which Stand-Alone UBI Banca Group	2017 1st Quarter Stand-Alone UBI Banca Group	2016 4th Quarter Stand-Alone UBI Banca Group	2016 3rd Quarter Stand-Alone UBI Banca Group	2016 2nd Quarter Stand-Alone UBI Banca Group	2016 1st Quarter Stand-Alone UBI Banca Group
10.-20.	Net interest income	398,013	343,503	347,187	364,765	367,554	377,972	387,600
	of which: effects of the purchase price allocation	*(3,340)*	*(3,340)*	*(3,370)*	*(3,362)*	*(5,870)*	*(4,859)*	*(5,616)*
	Net interest income excluding the effects of the PPA	*401,353*	*346,843*	*350,557*	*368,127*	*373,424*	*382,831*	*393,216*
70.	Dividends and similar income (expense)	7,998	3,877	2,045	(59)	1,138	8,076	523
	Profits of equity-accounted investees	6,789	6,788	3,809	5,197	6,989	6,698	5,252
40.-50.	Net fee and commission income	410,534	363,379	350,861	346,188	321,392	330,307	337,146
	of which performance fees	*3,990*	*3,990*	*3,223*	*18,291*	*2,524*	*3,223*	*2,311*
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	83,397	85,972	65,360	47,367	23,755	66,875	15,714
150.+160.	Net income from insurance operations	4,145	-	-	-	-	-	-
220.	Other net operating income/expense	29,956	24,671	28,889	22,047	24,760	25,538	26,705
	Operating income	**940,832**	**828,190**	**798,151**	**785,505**	**745,588**	**815,466**	**772,940**
	Operating income excluding the effects of the PPA	***944,172***	***831,530***	***801,521***	***788,867***	***751,458***	***820,325***	***778,556***
180.a	Staff costs	(396,313)	(313,733)	(320,579)	(321,521)	(314,687)	(319,311)	(319,787)
180.b	Other administrative expenses	(199,694)	(150,957)	(166,345)	(241,245)	(166,083)	(155,526)	(171,800)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(40,207)	(35,028)	(35,095)	(37,511)	(34,265)	(35,688)	(36,042)
	of which: effects of the purchase price allocation	*(1,971)*	*(1,971)*	*(1,943)*	*(1,912)*	*(2,040)*	*(3,383)*	*(3,289)*
	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets excluding the effects of the PPA	*(38,236)*	*(33,057)*	*(33,152)*	*(35,599)*	*(32,225)*	*(32,305)*	*(32,753)*
	Operating expenses	**(636,214)**	**(499,718)**	**(522,019)**	**(600,277)**	**(515,035)**	**(510,525)**	**(527,629)**
	Operating expenses excluding the effects of the PPA	***(634,243)***	***(497,747)***	***(520,076)***	***(598,365)***	***(512,995)***	***(507,142)***	***(524,340)***
	Net operating income	**304,618**	**328,472**	**276,132**	**185,228**	**230,553**	**304,941**	**245,311**
	Net operating income excluding the effects of the PPA	***309,929***	***333,783***	***281,445***	***190,502***	***238,463***	***313,183***	***254,216***
130.a	Net impairment losses on loans	(147,826)	(152,059)	(134,802)	(191,773)	(167,381)	(1,051,034)	(155,339)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(82,663)	(77,273)	(16,142)	(79,204)	(386)	(50,719)	252
190.	Net provisions for risks and charges	2,108	(3,981)	(7,460)	(12,684)	(3,544)	(20,289)	(6,368)
240.+270.	Profits from the disposal of equity investments	496	259	116	21,027	339	1,201	402
	Pre-tax profit (loss) from continuing operations	**76,733**	**95,418**	**117,844**	**(77,406)**	**59,581**	**(815,900)**	**84,258**
	Pre-tax profit (loss) from continuing operations excluding the effects of the PPA	***82,044***	***100,729***	***123,157***	***(72,132)***	***67,491***	***(807,658)***	***93,163***
290.	Taxes on income for the period from continuing operations	(40,407)	(33,807)	(39,006)	20,669	(14,721)	210,792	(34,352)
	of which: effects of the purchase price allocation	*1,758*	*1,758*	*1,758*	*1,742*	*2,622*	*2,732*	*2,952*
330.	(Profit) loss for the period attributable to non-controlling interests	(6,362)	(6,215)	(6,082)	(8,298)	(7,707)	24,672	(7,400)
	of which: effects of the purchase price allocation	*95*	*95*	*95*	*221*	*445*	*509*	*521*
	Profit (loss) for the period attributable to the shareholders of the Parent before the Business Plan and other impacts excluding the effects of the PPA	*33,422*	*58,854*	*76,216*	*(61,724)*	*41,996*	*(575,435)*	*47,938*
	Profit (loss) for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**29,964**	**55,396**	**72,756**	**(65,035)**	**37,153**	**(580,436)**	**42,506**
180.a	Redundancy expenses net of taxes and non-controlling interests	(2,285)	-	-	114	(218)	(207,234)	(445)
210.	Impairment losses on brands net of taxes and non-controlling interests	-	-	-	-	-	(37,936)	-
180.b	Single Bank project expenses net of taxes and non-controlling interests	(1,489)	(1,489)	(4,617)	(7,638)	(4,463)	(3,440)	-
200.	Impairment losses on property, plant and equipment net of taxes and non-controlling interests	-	-	-	(3,078)	-	-	-
180.b	Bridge Bank Project expenses net of taxes and non-controlling interests	(10,082)	(10,082)	(1,102)	-	-	-	-
265.	Negative consolidation difference	612,900	-	-	-	-	-	-
340.	**Profit (loss) for the period attributable to the shareholders of the Parent**	**629,008**	**43,825**	**67,037**	**(75,637)**	**32,472**	**(829,046)**	**42,061**
	Total impact of the purchase price allocation on the income statement	*(3,458)*	*(3,458)*	*(3,460)*	*(3,311)*	*(4,843)*	*(5,001)*	*(5,432)*

The reclassified income statement for the second quarter of 2017 includes the figures for the New Banks (and the companies they control) which entered the scope of consolidation from the 1st April 2017.
In order to allow a consistent reading of the quarterly income statements a column for the period ended 30th June 2017 has also been inserted with figures for the Stand-Alone UBI Banca Group that are fully in line with the previous comparative periods.
The figures for the comparative periods have not been restated in consideration of the relative significance of the income statement figures for the New Banks, which are not sufficient to alter the original income structure of the Group.

Reclassified consolidated income statement net of the most significant non-recurring items

Figures in thousands of euro	1H 2017 A *net of non-recurring items*	*of which Stand-Alone UBI Banca Group net of non-recurring items*	1H 2016 B *Stand-Alone UBI Banca Group* *net of non-recurring items*	Changes A-B	% changes A/B
Net interest income (including the effects of the PPA)	745,200	690,690	765,572	(20,372)	(2.7%)
Dividends and similar income	10,043	5,922	8,599	1,444	16.8%
Profits of equity-accounted investees	10,598	10,597	11,950	(1,352)	(11.3%)
Net fee and commission income	761,395	714,240	667,453	93,942	14.1%
of which performance fees	*7,213*	*7,213*	*5,534*	*1,679*	*30.3%*
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	92,820	95,395	82,589	10,231	12.4%
Net income from insurance operations	4,145	-	-	4,145	-
Other net operating income/expense	58,845	53,559	52,243	6,602	12.6%
Operating income (including the effects of the PPA)	**1,683,046**	**1,570,403**	**1,588,406**	**94,640**	**6.0%**
Staff costs	(716,892)	(634,312)	(639,098)	77,794	12.2%
Other administrative expenses	(366,039)	(317,302)	(327,326)	38,713	11.8%
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (including the effects of PPA)	(75,302)	(70,123)	(71,730)	3,572	5.0%
Operating expenses (including the effects of the PPA)	**(1,158,233)**	**(1,021,737)**	**(1,038,154)**	**120,079**	**11.6%**
Net operating income (including the effects of the PPA)	**524,813**	**548,666**	**550,252**	**(25,439)**	**(4.6%)**
Net impairment losses on loans	(282,628)	(286,861)	(1,206,373)	(923,745)	(76.6%)
Net impairment losses on other financial assets and liabilities	(9,546)	(4,156)	(50,467)	(40,921)	(81.1%)
Net provisions for risks and charges	(5,352)	(11,441)	(26,657)	(21,305)	(79.9%)
Profits from the disposal of equity investments	612	375	1,603	(991)	(61.8%)
Pre-tax profit (loss) from continuing operations (including the effects of the PPA)	**227,899**	**246,583**	**(731,642)**	**959,541**	**n.s.**
Taxes on income for the period from continuing operations	(85,460)	(78,860)	176,440	(261,900)	n.s.
(Profit) loss for the period attributable to non-controlling interests	(12,444)	(12,297)	17,272	(29,716)	n.s.
Profit (loss) for the period attributable to the shareholders of the Parent	**129,995**	**155,426**	**(537,930)**	**667,925**	**n.s.**

The normalised reclassified income statement for the first half of 2017 includes the figures for the New Banks (and the companies they control), which entered the scope of consolidation from the 1st April 2017.
The comparative figures relate to the Stand-Alone UBI Banca Group, in consideration of the fact that the relative significance of the income statement figures for the New Banks is not sufficient to alter the original income structure of the Group.

Following the approval of the new UBI Banca Group guidelines for the identification of non-recurring items, which occurred on 18th October 2016, the summary statement has been revised with regard to the figures for the comparative period and these therefore differ from the information published in the interim financial report for the period ended the 30th June 2016.

Reclassified consolidated income statement net of the most significant non-recurring items: details

Figures in thousands of euro	1H 2017	2017/2020 Business Plan: Allocation of Badwill	2017/2020 Business Plan: Profit on the disposal of HTM securities	2017/2020 Business Plan: Bridge Bank Project expenses	2017/2020 Business Plan: Single Bank Project expenses	2017/2020 Business Plan: Redundancy expenses	Other non-recurring items: Impairment losses on the Atlante Fund	1H 2017 *net of non-recurring items*	1H 2016 *Stand-Alone UBI Banca Group*	2019/2020 Business Plan: Redundancy expenses	2019/2020 Business Plan: Brand impairment	2019/2020 Business Plan: Single Bank Project expenses	1H 2016 *Stand-Alone UBI Banca Group net of non-recurring items*
Net interest income (including the effects of the PPA)	745,200							745,200	765,572				765,572
Dividends and similar income	10,043							10,043	8,599				8,599
Profits of equity-accounted investees	10,598							10,598	11,950				11,950
Net fee and commission income	761,395							761,395	667,453				667,453
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	148,757		(55,937)					92,820	82,589				82,589
Net income from insurance operations	4,145							4,145	-				-
Other net operating income/expense	58,845							58,845	52,243				52,243
Operating income (including the effects of the PPA)	**1,738,983**	**-**	**(55,937)**	**-**	**-**	**-**	**-**	**1,683,046**	**1,588,406**	**-**	**-**	**-**	**1,588,406**
Staff costs	(716,892)							(716,892)	(639,098)				(639,098)
Other administrative expenses	(366,039)							(366,039)	(327,326)				(327,326)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (including the effects of PPA)	(75,302)							(75,302)	(71,730)				(71,730)
Operating expenses (including the effects of the PPA)	**(1,158,233)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,158,233)**	**(1,038,154)**	**-**	**-**	**-**	**(1,038,154)**
Net operating income (including the effects of the PPA)	**580,750**	**-**	**(55,937)**	**-**	**-**	**-**	**-**	**524,813**	**550,252**	**-**	**-**	**-**	**550,252**
Net impairment losses on loans	(282,628)							(282,628)	(1,206,373)				(1,206,373)
Net impairment losses on other financial assets and liabilities	(98,805)						89,259	(9,546)	(50,467)				(50,467)
Net provisions for risks and charges	(5,352)							(5,352)	(26,657)				(26,657)
Profits from the disposal of equity investments	612							612	1,603				1,603
Pre-tax profit (loss) from continuing operations (including the effects of the PPA)	**194,577**	**-**	**(55,937)**	**-**	**-**	**-**	**89,259**	**227,899**	**(731,642)**	**-**	**-**	**-**	**(731,642)**
Taxes on income for the period from continuing operations	(79,413)		18,499				(24,546)	(85,460)	176,440				176,440
(Profit) loss for the period attributable to non-controlling interests	(12,444)							(12,444)	17,272				17,272
Profit (loss) for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**102,720**	**-**	**(37,438)**	**-**	**-**	**-**	**64,713**	**129,995**	**(537,930)**	**-**	**-**	**-**	**(537,930)**
Redundancy expenses net of taxes and non-controlling interests	(2,285)					2,285		-	(207,679)	207,679			-
Impairment losses on brands net of taxes and non-controlling interests	-							-	(37,936)		37,936		-
Single Bank Project expenses net of taxes and non-controlling interests	(6,106)				6,106			-	(3,440)			3,440	-
Bridge Bank Project expenses net of taxes and non-controlling interests	(11,184)			11,184				-	-				-
Negative consolidation difference	612,900	(612,900)						-	-				-
Profit (loss) for the period attributable to the shareholders of the Parent	**696,045**	**(612,900)**	**(37,438)**	**11,184**	**6,106**	**2,285**	**64,713**	**129,995**	**(786,985)**	**207,679**	**37,936**	**3,440**	**(537,930)**
ROE (Profit annualised/(Equity + Profit for the period)) Badwill not annualised	7.8%							2.6%	n.s.				n.s.
Cost:income ratio (including the effects of PPA)	66.6%							68.8%	65.4%				65.4%
Cost:income ratio (excluding the effects of PPA)	66.1%							68.3%	64.5%				64.5%

The normalised reclassified income statement for the first half of 2017 includes the figures for the New Banks acquired (and the companies they control) which entered the scope of consolidation from the 1st April 2017.
The comparative figures relate to the Stand-Alone UBI Banca Group, in consideration of the fact that the relative significance of the income statement figures for the New Banks is not sufficient to alter the original income structure of the Group.

Following the approval of the new UBI Banca Group guidelines for the identification of non-recurring items, which occurred on 18th October 2016, the detailed statement has been revised in the section relating to the comparative period and this therefore differs from the information published in the interim financial report for the period ended the 30th June 2016.

Reconciliation schedule for the period ended 30th June 2017

Items	RECLASSIFIED INCOME STATEMENT (Figures in thousands of euro)	1H 2017 Mandatory consolidated financial statements	Reclassifications: Tax recoveries	Profit of equity-accounted investees	Depreciation for improvements to leased assets	Net income from insurance operations	2017/2020 BP Redundancy expenses	2017/2020 BP Single Bank Project expenses	2017/2020 BP Bridge Bank Project expenses	1H 2017 Reclassified consolidated financial statements
10.-20.	Net interest income	753,464				(8,264)				745,200
70.	Dividends and similar income	10,473				(430)				10,043
	Profits (losses) of equity-accounted investees	-		10,598						10,598
40.-50.	Net fee and commission income	761,562				(167)				761,395
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	156,746				(7,989)				148,757
150.+160.	Net income from insurance operations	(10,245)				14,390				4,145
220.	Other net operating income/expense	169,731	(115,685)		2,339	2,460				58,845
	Operating income	**1,841,731**	**(115,685)**	**10,598**	**2,339**	**-**	**-**	**-**	**-**	**1,738,983**
180.a	Staff costs	(719,177)					2,285			(716,892)
180.b	Other administrative expenses	(507,607)	115,685					9,099	16,784	(366,039)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(72,963)			(2,339)					(75,302)
	Operating expenses	**(1,299,747)**	**115,685**	**-**	**(2,339)**	**-**	**2,285**	**9,099**	**16,784**	**(1,158,233)**
	Net operating income	**541,984**	**-**	**10,598**	**-**	**-**	**2,285**	**9,099**	**16,784**	**580,750**
130.a	Net impairment losses on loans	(282,628)								(282,628)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(98,805)								(98,805)
190.	Net provisions for risks and charges	(5,352)								(5,352)
240.+270.	Profits from the disposal of equity investments	11,210		(10,598)						612
	Pre-tax profit from continuing operations	**166,409**	**-**	**-**	**-**	**-**	**2,285**	**9,099**	**16,784**	**194,577**
290.	Taxes on income for the period from continuing operations	(70,997)						(2,958)	(5,458)	(79,413)
330.	Profit for the period/year attributable to non-controlling interests	(12,267)						(35)	(142)	(12,444)
	Profit for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**83,145**	**-**	**-**	**-**	**-**	**2,285**	**6,106**	**11,184**	**102,720**
180.a	Redundancy expenses net of taxes and non-controlling interests	-					(2,285)			(2,285)
180.b	Single Bank project expenses net of taxes and non-controlling interests	-						(6,106)		(6,106)
180.b	Bridge Bank Project expenses net of taxes and non-controlling interests	-							(11,184)	(11,184)
265.	Negative consolidation difference	612,900								612,900
340.	**Profit for the period attributable to the shareholders of the Parent**	**696,045**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**696,045**

Reconciliation schedule for the period ended 30th June 2016

Items	RECLASSIFIED INCOME STATEMENT (Figures in thousands of euro)	1H 2016 *Stand-Alone UBI Banca Group* Mandatory consolidated financial statements	Reclassifications: Tax recoveries	Profit of equity-accounted investees	Depreciation for improvements to leased assets	Redundancy expenses (2019/2020 Business Plan and adjustments pursuant to 23 12 2015 Agreement)	Brand impairment (2019/2020 Business Plan)	Single Bank Project expenses (2019/2020 Business Plan)	1H 2016 *Stand-Alone UBI Banca Group* Reclassified consolidated financial statements
10.-20.	Net interest income	765,572							765,572
70.	Dividends and similar income	8,599							8,599
	Profits of equity-accounted investees			11,950					11,950
40.-50.	Net fee and commission income	667,453							667,453
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	82,589							82,589
220.	Other net operating income/expense	161,568	(111,432)		2,107				52,243
	Operating income	**1,685,781**	**(111,432)**	**11,950**	**2,107**	**-**	**-**	**-**	**1,588,406**
180.a	Staff costs	(963,115)				324,017			(639,098)
180.b	Other administrative expenses	(444,003)	111,432					5,245	(327,326)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(132,477)			(2,107)		62,854		(71,730)
	Operating expenses	**(1,539,595)**	**111,432**	**-**	**(2,107)**	**324,017**	**62,854**	**5,245**	**(1,038,154)**
	Net operating income	**146,186**	**-**	**11,950**	**-**	**324,017**	**62,854**	**5,245**	**550,252**
130.a	Net impairment losses on loans	(1,206,373)							(1,206,373)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(50,467)							(50,467)
190.	Net provisions for risks and charges	(26,657)							(26,657)
240.+270.	Profits from the disposal of equity investments	13,553		(11,950)					1,603
	Pre-tax loss from continuing operations	**(1,123,758)**	**-**	**-**	**-**	**324,017**	**62,854**	**5,245**	**(731,642)**
290.	Taxes on income for the period from continuing operations	306,134				(107,153)	(20,836)	(1,705)	176,440
330.	Loss for the period attributable to non-controlling interests	30,639				(9,185)	(4,082)	(100)	17,272
	Loss for the period attributable to the shareholders of the Parent before the Business Plan impact	**(786,985)**	**-**	**-**	**-**	**207,679**	**37,936**	**3,440**	**(537,930)**
180.a	Redundancy expenses net of taxes and non-controlling interests	-				(207,679)			(207,679)
210.	Impairment losses on brands net of taxes and non-controlling interests	-					(37,936)		(37,936)
200.	Single Bank Project expenses net of taxes and non-controlling interests	-						(3,440)	(3,440)
340.	**Loss for the period attributable to the shareholders of the Parent**	**(786,985)**	**-**	**-**	**-**	**-**	**-**	**-**	**(786,985)**

Reconciliation schedule for the year ended 31st December 2016

Items	RECLASSIFIED INCOME STATEMENT Figures in thousands of euro	FY 2016 *Stand-Alone UBI Banca Group* **Mandatory consolidated financial statements**	Reclassifications Tax recoveries	Profit of equity-accounted investees	Depreciation for improvements to leased assets	Redundancy expenses (purs. to 11 12 2016 Agreement and adjustments purs. to 23 12 2015 Agreement)	Brand impairment (2019/2020 Business Plan)	Single Bank Project expenses (2019/2020 Business Plan)	Real estate property impairment	FY 2016 *Stand-Alone UBI Banca Group* **Reclassified consolidated financial statements**
10.-20.	Net interest income	1,497,891								1,497,891
70.	Dividends and similar income	9,678								9,678
	Profits of equity-accounted investees			24,136						24,136
40.-50.	Net fee and commission income	1,335,033								1,335,033
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	153,711								153,711
220.	Other net operating income/expense	306,541	(212,416)		4,925					99,050
	Operating income	**3,302,854**	**(212,416)**	**24,136**	**4,925**	**-**	**-**	**-**	**-**	**3,119,499**
180.a	Staff costs	(1,599,717)				324,411				(1,275,306)
180.b	Other administrative expenses	(970,465)	212,416					23,395		(734,654)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(206,020)			(4,925)		62,854		4,585	(143,506)
	Operating expenses	**(2,776,202)**	**212,416**	**-**	**(4,925)**	**324,411**	**62,854**	**23,395**	**4,585**	**(2,153,466)**
	Net operating income	**526,652**	**-**	**24,136**	**-**	**324,411**	**62,854**	**23,395**	**4,585**	**966,033**
130.a	Net impairment losses on loans	(1,565,527)								(1,565,527)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(130,057)								(130,057)
190.	Net provisions for risks and charges	(42,885)								(42,885)
240.+270.	Profits from the disposal of equity investments	47,105		(24,136)						22,969
	Pre-tax profit from continuing operations	**(1,164,712)**	**-**	**-**	**-**	**324,411**	**62,854**	**23,395**	**4,585**	**(749,467)**
290.	Taxes on income for the year from continuing operations	319,619				(107,283)	(20,836)	(7,606)	(1,506)	182,388
330.	Loss for the year attributable to non-controlling interests	14,943				(9,345)	(4,082)	(248)	(1)	1,267
	Loss for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**(830,150)**	**-**	**-**	**-**	**207,783**	**37,936**	**15,541**	**3,078**	**(565,812)**
180.a	Redundancy expenses net of taxes and non-controlling interests	-				(207,783)				(207,783)
210.	Impairment losses on brands net of taxes and non-controlling interests	-					(37,936)			(37,936)
180.b	interests	-						(15,541)		(15,541)
200.	Impairment losses on property, plant and equipment net of taxes and non-controlling interests	-							(3,078)	(3,078)
340.	**Loss for the year attributable to the shareholders of the Parent**	**(830,150)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(830,150)**

Notes to the reclassified consolidated financial statements

The half-year financial report as at and for the period ended 30th June 2017 is the first financial report for disclosure to the market published subsequent to the conclusion of the business combination operation relating to the acquisition of Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti. More specifically, the scope of the full consolidation has been modified from the second quarter of 2017 to include the aforementioned directly controlled banks and companies.

The mandatory financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22nd December 2005 and subsequent updates. Therefore for the purposes of the preparation of these financial statements, the provisions of the fourth update of that circular dated 15th December 2015 have been observed.
These statements include the balance sheet and income statement figures for Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti and their respective subsidiaries from 1st April 2017, taken as the date on which the acquisition of control took place in accordance with the IFRS 3.
The figures as at and for the period ended 30th June 2017 are compared with previous periods which represent the UBI Banca Group without the contribution of the new banks and therefore they are not fully comparable with those figures.

Reclassified financial statements have been prepared in order to allow a meaningful management commentary on capital and operating figures.
In detail, a reclassified income statement has been prepared for the period ended 30th June 2017 which shows the contribution made by the Stand-Alone UBI Banca Group and by the New Banks, with details given in single additional columns, together with the negative consolidation difference.

With regard to the comparative periods, consideration was given to the very particular situation in which the New Banks found themselves in 2016, since these had been generated from resolutions of the preceding banks that had been placed under administration. As a result of those very particular situations it was not considered representative nor easy to understand if comparative income statement figures were presented to give an account of the Group's profitability in 2016 inclusive of the new banks.

In detail:

- *from a balance sheet viewpoint*, the reclassified statement as at 30th June 2017 is presented with an "aggregate" column as at 31st December 2016 (in order to also take account of figures relating to the New Banks) and this allows a consistent examination of balance sheet items on a half yearly basis, in terms that are fully in line with the tables contained in the sections that give a commentary.

  The statement reporting the quarterly balance sheets, on the other hand, shows figures inclusive of the new banks as at 30th June 2017 together with a column, again as at 30th June 2017, dedicated to the Stand-Alone UBI Banca Group, in order to allow a reading that is consistent with the comparative figures for all the preceding periods.

  In order to improve the comparability of the reclassified financial statements, the historical balance sheet figures for the New Banks have been adjusted to take account of non-performing loans that were transferred to REV II in the first quarter of 2017 and to the Atlante Fund in the second quarter 2017, as well as the repayment of the performing loan to REV I in the first quarter of 2017, for a total of €2,485 million;

- from an *income statement viewpoint* the reclassified half yearly statements for the period ended 30th June 2017 include columns providing details for the Stand-Alone UBI Banca Group, for the new banks (for the second quarter of 2017 only) and for the allocation of badwill and these are compared with comparative figures (for all the previous periods) for the Stand-Alone UBI Banca Group. Given the relative significance of the income statement figures relating to the New Banks, which is not sufficient to alter the original income structure of the Group, the tables that support the commentary in the report (both on a half yearly and on a quarterly basis) are presented in terms that are consistent with the reclassified financial statements.

  The table reporting the quarterly income statements reports figures inclusive of the New Banks for the second quarter, together with a column, again for the second quarter of 2017, dedicated to the Stand-Alone UBI Banca Group, in order to allow a reading that is consistent with the comparative figures for all the preceding periods.

  The income statement for the UBI Banca Group (inclusive of the New Banks acquired) has been adjusted to eliminate the operating impacts (interest income, impairment losses on loans and losses on disposals) of the loan portfolio transferred to the Atlante Fund on 10th May 2017 with effect from 1st January 2017.

These statements have not been subjected to audit by the independent auditors.

Along the same lines as practice followed with previous financial statements, the purchase price allocation shown in the reclassified income statements relates to the merger of the former Banca Lombarda e Piemontese Group into the former BPU Banca Group on 1st April 2007.

On the basis of the foregoing, along the same lines as in previous financial reports, the following rules have been applied to the reclassified financial statements to allow a vision that is more consistent with a management accounting style:

- the item profits (losses) of equity-accounted investees includes the profits (losses) of equity-accounted investees included within item 240 in the mandatory financial statements;
- net income from insurance operations comprises the following revenues of BancAssurance Popolari Spa and BancAssurance Popolari Danni Spa: net interest, dividends, net fees and commissions, the result for finance activities, net premiums (item 150), the balance on income and expenses of insurance operations (items 160 and 220);
- the item other net operating income/expense includes item 220, net of the reclassifications mentioned under other points;
- the tax recoveries recognised within item 220 of the mandatory financial statements (other net operating income/expenses) were reclassified as a reduction in indirect taxes included within other administrative expenses;
- the item net impairment losses on property plant and equipment and intangible assets includes items 200 and 210 in the mandatory financial statements and also the instalments relating to the depreciation of leasehold improvements classified within item 220;
- the item profits (losses) from the disposal of equity investments includes the item 240, net of profits (losses) of equity-accounted investees and also item 270 in the mandatory financial statements;

* * *

- expenses incurred in relation to the new 2019/2020 Business Plan have been separated and stated on single lines (net of taxes and non-controlling interests) at the foot of the statements (the expenses were recognised in the income statement initially in the second quarter of 2016, at the time of its approval, with slight adjustments following, amongst other things, the update of the plan in May 2017) as follows:

- redundancy expenses include part of item 180a in the mandatory financial statements;
- expenses incurred for the Single Bank Project contain part of item 180b in the mandatory financial statements;
- impairment of brands includes part of item 210; the expenses incurred in relation to the project to acquire the Bridge Banks are partially included in item 180b;
- the negative consolidation difference (item 265) incorporates, as an income item, the badwill that arose at the time of the first consolidation from the difference between the purchase price and the equity of the New Banks.

- net impairment losses on property, plant and equipment (net of taxes and non-controlling interests), present in the fourth quarter of 2016, partially include item 200 in the mandatory financial statements.

The reconciliation of the items in the reclassified financial statements with the figures in the mandatory financial statements has been facilitated, on the one hand, with the insertion in the margin against each item of the corresponding number of the item in the mandatory financial statements with which it is reconciled and, on the other hand, with the preparation of special reconciliation schedules.

In order to facilitate analysis of the Group's operating performance and in compliance with Consob Communication No. DEM/6064293 of 28th July 2006[1], two special schedules have been included, the first a brief summary (which provides a comparison of the normalised results for the period) and the second more detailed, which shows the impact on earnings of the principal non-recurring events and items – since the relative effects on capital and cash flow, being closely linked, are not significant – which are summarised as follows:

January - June 2017:
- expenses connected with the 2017/2020 Business Plan (allocation of badwill, profit from the partial disposal of the HTM portfolio, acquisition of the former bridge banks, completion of the Single Bank Project, redundancy expenses incurred for the New Banks);
- impairment losses on the investment in the Atlante Fund;

January - June 2016:
- expenses connected with the approval of the new 2019/2020 Business Plan (redundancy expenses, impairment losses on the former network bank brands and expenses mainly of an IT nature related to the Single Bank Project).

1 Following the entry into force (on 3rd July 2016) of ESMA guidelines 2015/1415 which the Consob (Italian securities market authority) incorporated in its issuer and supervisory and monitoring practices, the UBI Banca Group criteria for the identification of non-recurring items (reported in the normalised statements) have been subject to revision.
The new criteria to determine them, which limits the nature of non-recurring expenses to clearly specified items of income and expense (connected for example with the adoption of a Business Plan, or with the impacts of valuations and disposals of property plant and equipment, tangible and financial assets and HTM investments, with the effects of regulatory and methodological changes and also with extraordinary events including those of a systemic nature) were approved by the Management Board on 18th October 2016.

The consolidated income statement

The income statement figures commented on are based on the reclassified consolidated financial statements (the income statement, the quarterly income statements and the income statement net of the more significant principal non-recurring items – in brief and detailed versions) contained in another section of this report and the tables furnishing details presented below are also based on those statements. The notes that follow those reclassified financial statements may be consulted as may the reconciliation schedules for a description of the reclassification.
The commentary examines changes that occurred in the first half of 2017 compared with the same period in 2016, and also (highlighted with a slightly different background colour) those occurring in the second quarter of 2017 compared with the preceding three months.
Furthermore, the data for the period ended 30th June 2017 includes the operating figures for the New Banks acquired for the second quarter only and also, in consideration of the relative significance of the results, the figures for the comparative period ended the 30th June 2016 as well as for the first quarter of 2017 have not been restated and therefore relate to the historical UBI Banca Group (termed the "stand alone" UBI Banca Group).
The consolidated operating results for the first half of 2017 have been obtained from the sum of the figures for the stand-alone UBI Banca Group and for the New Banks (for the second quarter of 2017 only), from the allocation of badwill and from consolidation entries and intercompany eliminations. For greater clarity of presentation, the tables relating to net interest income, fee and commission income, staff costs and other administrative expenses contain additional columns to show the contribution of the stand-alone UBI Banca Group and that of the New Banks.

Having benefited, amongst other things, from the amount recognised in the income statement in a single sum, resulting from the badwill[1] arising from the acquisition of the New Banks (€612.9 million net), the first half recorded a **profit** of €696 million[2], composed of the contribution from the New Banks, consisting of a loss of €41.4 million (€27.6 million net of the "badwill reversal" amounting to €13.8 million) and from that of the stand-alone UBI Banca Group amounting to approximately €111 million.
The latter was achieved as a result of good performance for revenues and further savings on expenses, as well as a marked reduction in loan losses, notwithstanding the complexity of the activities connected firstly with the merger of the last five network banks and then with the acquisition of the New Banks. An appreciable improvement was recorded compared with a loss of approximately €787 million recorded in the same period of 2016.
The loss was the consequence of the recognition of a series of expenses (including redundancy expenses, impairment losses on the network bank brands in view of the creation of a Single Bank, improvements to the IT system and net impairment losses on loans[3]) already planned in detail under the 2019/2020 Business Plan and designed to achieve the objectives contained in the plan.

The quarterly performance recorded a profit of €629 million. The New Banks contributed with a loss of €41.4 million (a loss of €27.6 million net of the "badwill reversal" amounting to €13.8 million), the aggregate result of net operating income still affected by operating expenses, despite a reduction in loan losses, while the stand-alone Group realised a profit of €43.8 million, penalised by a further write-down in the investment in the Atlante Fund (€71 million gross approx.), even though core business performed

1 The income statement and balance sheet results include the impact of the allocation of badwill amounting as at 31th March 2017 to €995 million. That allocation, which results from the restatement of the assets and liabilities acquired at fair value as at the date of the first consolidation, led to the write-down mainly of non-performing loans, while the value of medium to long-term performing loans was in line with the stated value. Much smaller write-downs were recognised on medium to long-term funding, on software and on contracts relating to real estate property funds, while slightly positive values were found for assets under management (it is underlined that on the basis of the complexity of the allocation, IAS allow the allocation process to be completed by the end of the next 12 months).
Following the allocation mentioned above, a portion remained (termed "bargain purchase"), which was recognised in the income statement in the second quarter amounting to €612.9 million.
The adjustments made to balance sheet items as part of the purchase price allocation also gave rise, already from the second quarter, to a "reversal" (the sum of the positive negative impacts) amounting to +€13.8 million.
See in particular the information given in the section "Accounting policies" in the "Condensed interim consolidated financial statements as at and for the period ended 30th June 2017".

2 Net of non-recurring items normalised profit came to 130 million euro compared with a loss of €537.9 million in 2016. These items consisted of income of €566 million in the first half of 2017 (due to the recognition of badwill and the proceeds from the sale of HTM securities, against a further write-down on the investment in the Atlante Fund, expenses incurred in connection with the acquisition of the Bridge Banks and also expenses for the completion of the Single Bank Project) and expense of €249 million in the same period of 2016 (following the one-off recognition of costs incurred for achieving the goals of the new Business Plan, which included redundancy expenses, impairment on the network bank brands and other expenses incurred for the Single Bank Project).
As already reported, following the adoption of new guidelines for the definition of non-recurring items approved by the Management Board in October 2016 (see the preceding section "Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules"), the items that were included in the comparative statement for the period ended 30th June 2016 have been revised.
Furthermore, both the first halves included expenses resulting from the purchase price allocation arising from the merger of the former BLP Group amounting to €6.9 million in 2017 and €10.4 million in 2016.

3 The total amount of the expenses recognised through profit and loss was €834 million (net of taxes and non-controlling interests). That figure incorporated an amount for impairment losses alone (€851 million gross) which resulted in a consequent absorption of the provision shortfall.

well (a €52.3 million quarter-on-quarter increase in net operating income). Profit in the second quarter compares with a net loss of €829 million recorded in the same period of 2016 (triggered by recognition of costs mentioned above incurred for the Business Plan) and with a profit of €67 million earned in the first three months of 2017.

In the first half ordinary operations generated **operating income** of €1,739 million, €1,626.3 million of which attributable to the stand-alone Group (+2.4% compared with the first half of 2016).
From a quarterly viewpoint, operating income totalled €940.8 million, of which €111.9 million relating to the New Banks and €828.2 million to the "old" Group. The latter recorded an improvement compared with €815.5 million recorded in the same three months of 2016 and above all compared with €798.2 million recognised in the first quarter of 2017, attributable to growth in almost all items of income, while net interest income remained substantially stable.

Interest and similar income: composition

Figures in thousands of euro	Debt instruments	Financing	Other transactions	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
1. Financial assets held for trading	438	-	1,032	1,470	*411*	*992*	2,800
2. Financial assets designated at fair value	-	-	-	-	-	-	-
3. Available-for-sale financial assets	68,340	-	-	68,340	*66,830*	*1,510*	159,442
3. Held-to-maturity investments	40,650	-	-	40,650	*40,650*	-	22,445
5. Loans and advances to banks	161	4,680	349	5,190	*4,750*	*605*	4,119
6. Loans and advances to customers	2,203	874,127	76	876,406	*789,366*	*87,040*	899,262
7. Hedging derivatives	X	X	55,601	55,601	*56,666*	-	29,329
8. Other assets	X	X	164	164	*20*	*144*	449
Total	**111,792**	**878,807**	**57,222**	**1,047,821**	*958,693*	*90,291*	**1,117,846**

Interest and similar expense: composition

Figures in thousands of euro	Borrowings	Securities	Other transactions	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
1. Due to central banks	(4,866)	X	-	(4,866)	*(2,869)*	*(1,997)*	(3,652)
2. Due to banks	(9,816)	X	-	(9,816)	*(9,557)*	*(397)*	(6,233)
3. Due to customers	(41,073)	X	(20)	(41,093)	*(20,689)*	*(20,404)*	(26,969)
4. Debt securities issued	X	(246,314)	-	(246,314)	*(234,459)*	*(11,855)*	(312,864)
5. Financial liabilities held for trading	(425)	-	(61)	(486)	*(425)*	*(61)*	(2,532)
6. Financial liabilities designated at fair value	-	-	-	-	-	-	-
7. Other liabilities and provisions	X	X	(46)	(46)	*(4)*	*(42)*	(24)
8. Hedging derivatives	X	X	-	-	-	*(1,065)*	-
Total	**(56,180)**	**(246,314)**	**(127)**	**(302,621)**	*(268,003)*	*(35,821)*	**(352,274)**
Net interest income				**745,200**	*690,690*	*54,470*	**765,572**

(*) The figures for the New Banks relate to the second quarter of 2017 only and include the effects of the allocation of badwill.
In consideration of the presence of consolidation entries, the sum of the columns is not the same as the consolidated figure.

Net interest income inclusive of the effects of the purchase price allocation, accounting for expense of €6.7 million (-€10.5 million in the first six months of 2016) came to €745.2 million, of which €690.7 million from the stand-alone Group, compared with €765.6 million in the first half of 2016. This reduction is primarily the result of changes in interest rate structures in the two periods[4], but is also due to the impacts of volumes of business, as follows[5]:

- business with customers generated net interest interest income of €602.5 million compared with €653.1 million before. The fall was due to a reduction in volumes of lending (a year-on-year fall of 0.8% in average loans, calculated on management accounting figures for gross interest-bearing loans, of which -7.7% was due to the short-term component), but above all to the interest rate effect on the overall lending portfolio, although this was partially offset by the

4 The average one-month Euribor rate remained negative, falling to -0.377% in the first half of 2017 from -0.305% calculated for the first six months of 2016.
5 The calculation of net balances for the stand-alone UBI Banca Group was performed by allocating interest income and expense on hedging derivatives and interest expense on financial liabilities held for trading within the different areas of business (with customers, financial, with banks).
In accordance with its own policies and also with international accounting policies, the Group did not recognise the benefit obtained from TLTRO IIs in the first half of 2017.

downward trend for medium to long-term funding and the relative lower cost. On the other hand, the contribution from medium to long-term funding also broadly offset the negative impacts from short-term funding. In this context the customer spread reduced by approximately 13 basis points compared with the first half of 2016, affected by a greater reduction in interest rates on lending compared with funding.
The result for business with customers also includes differentials received mainly on bond hedges (€68.2 million, compared with €93.7 million before);

- the securities portfolio generated net interest income of €95.9 million (€117.8 million in 2016), in the presence of investments in debt securities which were down over twelve months by €5 billion. While a greater contribution was provided by the HTM portfolio, which increased as a result of former AFS securities that were reclassified in the fourth quarter of 2016 (while income flows from the held-for-trading securities reduced to almost zero), a reduction was recorded in the contribution from AFS bonds (€66.8 million compared with €159.4 million before), partly as a consequence of profit-taking that took place over time. This item also incorporated costs on uncovered short positions (down €425 thousand) and partial hedges on fixed income securities (the differentials paid on derivatives fell to €11.6 million from €64.4 million following action taken to terminate interest rates swaps entered into in December);
- business on the interbank market recorded a loss of €7.6 million (-€5.8 million in 2016), determined primarily by business with other banking counterparties, notwithstanding lower interest paid on debt with central banks (it must be considered that the interest rate on principal refinancing operations has been set at zero since 16th March 2016, down from 0.05% previously charged since September 2014).

Quarterly net interest income

Figures in thousands of euro	2017 2nd Quarter	*of which Stand-Alone UBI Banca Group*	1st Quarter Stand-Alone UBI Banca Group
Banking business with customers	355,889	*301,566*	300,899
Financial activities	48,959	*47,058*	48,797
Interbank business	(6,947)	*(5,131)*	(2,515)
Other items	112	*10*	6
Net interest income	**398,013**	*343,503*	**347,187**

On a quarterly basis, *net interest income* improved to €398 million, as a result of the contribution from the New Banks (€54.5 million, achieved almost totally from general banking business with customers), while the result for the stand-alone Group remained more or less stable (down €3.7 million compared with the first three months of the year) at €343.5 million. The second quarter in particular recorded a positive contribution from general banking business with customers, due, on the one hand, to growth in volumes of assets (0.7% increase, calculated on management accounting figures, in average gross interest-bearing volumes), while a modest reduction was still recorded for short-term lending, and on the other hand to the effect of interest rates on funding with longer maturities. The spread on business with customers remained essentially unchanged in the two quarters, but the mark-down, which confirmed the trend seen in the previous year, is slowly improving.
On the other hand, the contribution from debt securities is the aggregate result of performance by the AFS portfolio (interest income was down €7.5 million, while total volumes decreased by €0.5 billion) and the HTM portfolio (+€2.6 million) and also of hedging costs incurred during the period (€-2.9 million) after action taken to make structural changes to interest rate risk management in 2016.
Interbank business recorded a loss and grew compared with the first three months of the year, mainly due to the impacts of operations to invest liquidity with the central bank.

Dividends of €10 million were received in the first six months of the year, €4.1 million of which from the New Banks (€3 million of which attributable to stakes held in the Bank of Italy) and €5.9 million from the original Group. The latter included the following: €4.7 million from UBI Banca's AFS portfolio (€1.4 million of which from stakes held in the Bank of Italy by the former BRE and by the former Carime, €1.2 million from S.A.C.B.O. and €1 million from ICBPI) and €1 million from private equity investments classified under the fair value option.
In the first half of 2016 this item totalled €8.6 million, of which €1.4 million on stakes held in the Banca of Italy and €2.5 million from an extraordinary distribution of reserves by a private equity company.

Profits of equity accounted investees[6] in the first half came to €10.6 million (€12 million approx. in the comparative period), of which the most substantial contributions were from: Zhong Ou (down to €3.3 million from €4.3 million before), Lombarda Vita (down to €2.6 million from €4.8 million in 2016), Aviva Vita (€4.5 million compared with €3.1 million, the latter being inclusive of €0.3 million from Aviva Assicurazioni Vita, merged into Aviva Vita with effect from 31st December 2016).

Fee and commission income: composition

Figures in thousands of euro	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
a) guarantees granted	24,027	*22,835*	*1,192*	23,725
c) management, trading and advisory services	477,330	*467,272*	*11,951*	422,379
1. trading in financial instruments	7,753	*7,219*	*534*	9,342
2. foreign exchange trading	4,062	*3,574*	*488*	3,480
3. portfolio management	184,945	*184,192*	*780*	157,834
3.1. individual	39,390	*38,637*	*780*	36,597
3.2. collective	145,555	*145,555*	*-*	121,237
4. custody and administration of securities	4,771	*4,168*	*603*	4,003
5. depository banking	-	*-*	*-*	
6. placement of securities	142,117	*138,565*	*5,409*	129,344
7. receipt and transmission of orders	18,383	*17,990*	*393*	19,364
8. advisory activities	3,695	*3,646*	*49*	3,297
8.1 on investments	3,695	*3,646*	*49*	3,297
9. distribution of third party services	111,604	*107,918*	*3,695*	95,715
9.1. portfolio management	187	*9*	*178*	11
9.1.1. individual	187	*9*	*178*	11
9.2. insurance products	100,919	*97,779*	*3,149*	84,987
9.3. other products	10,498	*10,130*	*368*	10,717
d) collection and payment services	84,816	*72,372*	*12,444*	71,884
e) servicer activities for securitisation transactions	100	*-*	*100*	
f) services for factoring transactions	6,104	*6,104*	*-*	7,110
i) current account administration	111,246	*99,340*	*11,906*	90,318
j) other services	157,671	*144,676*	*12,995*	136,451
Total	**861,294**	***812,599***	***50,588***	**751,867**

Fee and commission expense: composition

Figures in thousands of euro	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
a) guarantees received	(271)	(270)	(1)	(796)
c) management and trading services:	(52,988)	*(53,708)*	*(1,166)*	(40,938)
1. trading in financial instruments	(5,497)	*(5,371)*	*(140)*	(5,364)
2. foreign exchange trading	(1)	*-*	*(1)*	(34)
3. portfolio management	(4,782)	*(4,717)*	*(80)*	(4,434)
3.1. own	(20)	*-*	*(35)*	-
3.2. on behalf of third parties	(4,762)	*(4,717)*	*(45)*	(4,434)
4. custody and administration of securities	(3,930)	*(3,305)*	*(625)*	(2,593)
5. placement of financial instruments	(5,441)	*(6,978)*	*(320)*	(2,471)
6. financial instruments, products and services distributed through indirect networks	(33,337)	*(33,337)*	*-*	(26,042)
d) collection and payment services	(24,777)	*(23,504)*	*(1,273)*	(21,515)
e) other services	(21,863)	*(20,877)*	*(988)*	(21,165)
Total	**(99,899)**	***(98,359)***	***(3,428)***	**(84,414)**
Net fee and commission income	**761,395**	***714,240***	***47,160***	**667,453**

(*) The figures for the New Banks relate to the second quarter of 2017 only. In consideration of the presence of consolidation entries, the sum of the columns is not the same as the consolidated figure.

Net fee and commission income rose to €761.4 million, of which €714.2 million generated by the stand-alone Group, which improved its income by €46.8 million on 2016 due to good performance by both its structural components. In detail:

- management, trading and advisory services contributed €410 million[7] to the result, up €32 million on the same period of 2016, of which +€1.8 million relating to greater performance fees earned by UBI Pramerica. The change is largely attributable to good results for portfolio management (+€26.1 million above all from mutual investment funds and Sicav's, the result of higher average volumes of assets under management) and also to the distribution of third party services and life insurance policies in particular (+€12.8 million, in relation to average volumes subscribed) as well as to the placement of securities (+€4.7 million, as a function of the total volumes subscribed). Affected by market volatility in the second quarter and lower volumes of trading for assets under custody, the following recorded reductions: trading (-€2.1 million); receipt and transmission of orders (-€1.4 million); and assets under custody business (-€0.5 million). Expenses, consisting of the sale of financial instruments, products and services through indirect networks increased (+€7.3 million) to €33.3 million, due to the effect of higher volumes of financial business that financial advisors originated outside branches;
- ordinary banking business[8] improved its contribution by €14.8 million to €304.3 million. Increases were recorded for current account administration (+€9 million due to higher profitability on conventional accounts, together with the contribution from bundled accounts) and for other services (+€8.5 million, mainly in relation to loans and unsecured guarantees in the former Centrobanca perimeter business, while commitment fees, €63.7 million of which were recognised within the item, related to trends for average volumes of short-term

6 The item consists of the profits of the companies recognised on the basis of the percentage interest held by the Group.
7 The amount consists of management, trading and advisory services net of the corresponding expense items and is calculated excluding currency trading.
8 All the changes were calculated by subtracting commission expense from the respective commission income.

lending, fell €4.2 million). On the other hand the fall in revenues from collection and payment services, factoring and guarantees issued/received continued, down by a total of €2.9 million.

Net fee and commission income rose to €410.5 million compared with the first quarter, €47.2 million of which earned by the New Banks (generated mainly from the more conventional banking business) and €363.4 million by the original UBI Banca Group (+€12.5 million), while *performance fees* earned by UBI Pramerica SGR rose slightly over the two periods (€4 million compared with €3.2 million before[9]).
In detail management, trading and advisory services rose €3.8 million to €206.9 million, driven primarily by portfolio management and marginally by the placement of securities, while performance for the distribution of third party services (insurance policies especially) and the expense item "distribution through indirect networks" slowed.
Banking services grew €8.7 million to €156.5 million incorporating positive trends for current account administration (due to higher profitability on conventional accounts and the seasonal nature of charges) and other services (mostly loans, as a reflection of growth in operating volumes relating to the former Centrobanca business). Commitment fees were more or less stable over the two quarters (-€0.7 million).

Quarterly net fee and commission income

Figures in thousands of euro	2017 2nd Quarter	2017 *of which Stand-Alone UBI Banca Group*	1st Quarter Stand-Alone UBI Banca Group
Management, trading and advisory services (net of the corresponding expense items):	**217,174**	*206,883*	**203,107**
trading in financial instruments	1,425	*1,017*	831
portfolio management	93,043	*92,355*	87,120
custody and administration of securities	534	*556*	307
depository bank	-	-	-
placement of securities	71,131	*66,042*	65,545
receipt and transmission of orders	8,963	*8,570*	9,420
advisory activities	1,758	*1,709*	1,937
distribution of third party services	56,565	*52,879*	55,039
portfolio management	*182*	*4*	*5*
insurance products	*50,601*	*47,461*	*50,318*
other products	*5,782*	*5,414*	*4,716*
financial instruments, products and services distributed through indirect networks	(16,245)	*(16,245)*	(17,092)
Banking services (net of the corresponding expense items):	**193,360**	*156,496*	**147,754**
guarantees	11,361	*10,170*	12,395
foreign exchange trading	2,286	*1,799*	1,775
collection and payment services	35,740	*24,569*	24,299
servicer activities for securitisation operations	100	-	-
services for factoring transactions	3,118	*3,118*	2,986
current account administration	62,504	*50,598*	48,742
other services	78,251	*66,242*	57,557
Net fee and commission income	**410,534**	*363,379*	**350,861**

The fall in sovereign debt risk premiums in the first part of the year, together with an increase in share prices, allowed *finance activities* to generate a profit of €148.8 million, €151.3 million of which attributable to the stand-alone UBI Banca Group. The latter figure, which was almost double the first half result of €82.6 million in 2016 (penalised firstly by expectations for the British referendum and then by the choice for Brexit), benefited from the gain on the partial disposal of the HTM portfolio (non-recurring). In detail:

- trading made a positive contribution of €42.7 million (the comparative figure was +€5.6 million) composed as follows: +€3 million for debt securities; +€8.7 million for equities and the relative derivatives (almost all listed on regulated markets and with equity indices as the underlying); +€18.1 million for forex trading[10] in relation to business with corporate clients; and +€12.8 million for derivatives on debt securities and interest rates (profits, gains and accruals). The latter, which also incorporate business carried out on behalf of customers, reflect both trading in derivatives (including possible unwinding) and fair value movements in the derivatives themselves (for investment and balanced on the market) as well as the realisation of the relative differentials, which were negative in the first part of the

9 Performance fees accounted for 1% of net fee and commission income compared with 0.8% in the previous three months.
10 The Group does not enter into speculative positions and the results relate to business with customers and on own behalf generally balanced on the market. As a consequence, the items in question (line items 1.5, 4.1 and 3) must be considered together as a whole. On the whole the items relate to the results of spot and forward currency trading by customers (transactions closed and/or existing) and also transactions on behalf of customers balanced operationally by UBI Banca on the market.
The strong fluctuations in currencies that that have occurred since 2015, which have driven the increase in customer business, have not come to an end, due partly to the appreciation of the euro in recent months.

year notwithstanding the growth, although small, in interest rate swaps on long-term maturities);

Net trading income

Figures in thousands of euro	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net income 1H 2017 (*) [(A+B)-(C+D)]	1H 2016 *Stand-Alone UBI Banca Group*
1. Financial assets held for trading	**3,748**	**6,332**	**(222)**	**(3,225)**	**6,633**	**11,372**
1.1 Debt instruments	764	2,858	(40)	(828)	2,754	3,963
1.2 Equity instruments	1,646	584	(117)	(79)	2,034	(945)
1.3 Units in UCITS	5	34	(65)	(2)	(28)	(572)
1.4 Financing	-	328	-	(1)	327	-
1.5 Other	1,333	2,528	-	(2,315)	1,546	8,926
2. Financial liabilities held for trading	**-**	**419**	**-**	**(90)**	**329**	**1,180**
2.1 Debt instruments	-	419	-	(90)	329	1,180
2.2 Payables	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**1,414**	**(2,976)**
4. Derivative instruments	**194,009**	**121,823**	**(165,474)**	**(130,762)**	**34,578**	**(4,001)**
4.1 Financial derivatives	194,009	121,823	(165,474)	(130,762)	34,578	(4,001)
- on debt instruments and interest rates	*191,109*	*106,760*	*(163,585)*	*(121,521)*	*12,763*	*(9,998)*
- on equity instruments and share indices	*960*	*9,198*	*(3)*	*(3,449)*	*6,706*	*(3,222)*
- on currencies and gold	*X*	*X*	*X*	*X*	*14,982*	*8,920*
- other	*1,940*	*5,865*	*(1,886)*	*(5,792)*	*127*	*299*
4.2 Credit derivatives	-	-	-	-	-	-
Total	**197,757**	**128,574**	**(165,696)**	**(134,077)**	**42,954**	**5,575**

Net hedging loss

Figures in thousands of euro	1H 2017 (*)	1H 2016 *Stand-Alone UBI Banca Group*
Net hedging loss	**(1,368)**	**(1,250)**

Profit from disposal or repurchase

Figures in thousands of euro	Profits	Losses	Net profit 1H 2017 (*)	1H 2016 *Stand-Alone UBI Banca Group*
Financial assets				
1. Loans and advances to banks	-	(978)	(978)	-
2. Loans and advances to customers	885	(27,234)	(26,349)	(1,593)
3. Available-for-sale financial assets	73,556	(43)	73,513	101,214
3.1 Debt instruments	*72,886*	*(19)*	*72,867*	*76,469*
3.2 Equity instruments	*670*	*(24)*	*646*	*15,463*
3.3 Units in UCITS	*-*	*-*	*-*	*9,282*
3.4 Financing	*-*	*-*	*-*	*-*
4. Held-to-maturity investments	55,937	-	55,937	-
Total assets	**130,378**	**(28,255)**	**102,123**	**99,621**
Financial liabilities				
1. Due to banks	-	-	-	-
2. Due to customers	-	-	-	-
3. Debt securities issued	631	(6,462)	(5,831)	(13,119)
Total liabilities	**631**	**(6,462)**	**(5,831)**	**(13,119)**
Total	**131,009**	**(34,717)**	**96,292**	**86,502**

Net profit (loss) on financial assets and liabilities designated at fair value

Figures in thousands of euro	1H 2017 (*)	1H 2016 *Stand-Alone UBI Banca Group*
Net profit on financial assets and liabilities designated at fair value	**10,879**	**(8,238)**

Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	**148,757**	**82,589**

(*) The results for the period ended 30th June 2017 include the figures for the New Banks for the second quarter of 2017 only.

- hedging, which consists of the change in the fair value of derivatives and of the relative items hedged, generated a loss of €1.8 million for the stand-alone UBI Banca Group, attributable above all to increases in the value of the mortgages and loans hedged (-€1.3 million in 2016, mainly in relation to fair value movements in the derivatives on assets);
- the disposal of AFS instruments and the repurchase of financial liabilities generated profits of €99.6 million, of which +€67.1 million from the sale of Italian government securities and +€4.8 million from foreign sovereign debt securities and corporate bonds (both allocated to the Parent's portfolio), +€55.9 million (normalised) from the partial disposal of the HTM portfolio that occurred in June, -€23.3 million from the disposal of non-performing positions and also -€5.4 million from the repurchase of debt securities in issue as part of normal business with customers.

  Profits on the sale/repurchase of financial assets/liabilities in 2016 came to €86.5 million of which: +€75.8 million from the sale of Italian government securities; +€0.7 million from corporate bonds; +€9.2 million from Visa Europe Ltd shares; +€6 million from the earn-out on the sale of ICBPI (in December 2015); +€9.2 million from the redemption of the Sviluppo Impresa Fund (which was then liquidated); -€1.6 million from the disposal of bad loans, and -€13.1 million from the repurchase of debt securities in issue (in a context of decreasing interest rates);
- fair value movements in investments in Tages Funds and private equity investments generated a positive result of €10.9 million (-€8.2 million in 2016, caused by losses on Tages Funds and a residual position in a hedge fund, completely written down, and also by the translation effect accruing on the latter, only partly offset by increases in the fair value of private equity investments).

Quarterly performance by financial activities

Figures in thousands of euro	2017 2nd Quarter	*of which Stand-Alone UBI Banca Group*	1st Quarter *Stand-Alone UBI Banca Group*
Net trading income	19,004	*18,747*	23,950
Net hedging income (loss)	721	*291*	(2,089)
Total assets	*58,813*	*61,664*	*43,310*
Total liabilities	*(3,022)*	*(2,610)*	*(2,809)*
Profit from disposal or repurchase	55,791	*59,054*	40,501
Net income on financial assets and liabilities designated at fair value	7,881	*7,880*	2,998
Net income	**83,397**	*85,972*	**65,360**

Examining quarterly performance also, the result for *financial activities* was €83.4 million, €2.6 million of which was a loss attributable to the New Banks as a result of the disposal of loans, and approximately €86 million for the stand-alone Group. As shown in the detail in the table, the latter improved by €20.6 million compared with €65.4 million in the previous three months, the result above all of disposal activities (€55.9 million from the partial disposal of the HTM portfolio, €23.5 million from Italian government securities, €4.8 million from foreign sovereign and corporate debt securities, -€22.6 million from the disposal of unlikely-to-pay positions and -€2.6 million from the repurchase of securities in issue). Assets held-for-trading contributed €18.7 million (of which €9.5 million from forex and currency business), while assets designated at fair value generated €7.9 million from private equity investments in the property and health sectors.

The first quarter saw a substantial contribution from assets held-for-trading of approximately €24 million, but above all from the disposal of financial assets (€40.5 million, of which €43.6 million from Italian government securities).

Net income on insurance operations, relating to the New Banks and to the second quarter only, came to €4.1 million.

Other net operating income and expense came to €58.8 million, of which €53.6 million attributable to the original UBI Banca Group.

The table shows the performances of both income and expense items compared with those in the comparative period. In detail, expense recoveries on current accounts were significant as was property management, but to a smaller extent, while recoveries on insurance premiums also fell slightly (connected with lower volumes of business for which the expense item is classified within other administrative expenses).

Fast credit processing fees, recognised within prior year income, fell €3.8 million.

On a quarterly basis *other net operating income/expense* rose to approximately €30 million, of which €5.5 million relating to the New Banks, compared with €28.9 million in the first quarter (relating to the stand-alone Group). Other components of this item showed no significant changes, except for recoveries on current accounts, connected, amongst other things, with the seasonal nature of the charges, and for prior year expenses. *It must always be considered that because the underlying items of prior year income and expense items are of a varied and non-structural nature, they often fluctuate greatly from one period to another.*

Other net operating income/expense

Figures in thousands of euro	1H 2017 (*)	1H 2016 *Stand-Alone UBI Banca Group*
Other operating income	**89,234**	**78,862**
Recovery of expenses and other income on current accounts	12,200	9,731
Recovery of insurance premiums	10,104	10,412
Recoveries of taxes	115,685	111,432
Rents and other income for property management	2,914	2,299
Recovery of expenses on finance lease contracts	8,069	8,050
Other income and prior year income	55,947	48,370
Reclassification of "tax recoveries"	*(115,685)*	*(111,432)*
Other operating expenses	**(30,389)**	**(26,619)**
Depreciation of leasehold improvements	(2,339)	(2,107)
Costs relating to finance lease contracts	(5,771)	(5,144)
Expenses for public authority treasury contracts	(1,257)	(1,792)
Other expenses and prior year expense	(23,361)	(19,683)
Reclassification of depreciation of leasehold improvements	*2,339*	*2,107*
Total	**58,845**	**52,243**

(*) The amount for the period ended 30th June 2017 includes the figures for the New Banks for the second quarter of 2017 only.

Operating expenses totalled €1,158.2 million.
The stand-alone UBI Banca Group recognised expenses of €1,021.7 million, down €16.4 million compared with the first six months of 2016 as a result of the following performances:

- *staff costs,* which do not include redundancy expenses, fell to €634.3 million (-€4.8 million), benefiting from savings resulting from changes in staff numbers (a reduction of 262 staff in the average workforce) and from a smaller impact by variable components of income.
  As shown in the table, none of the main items relating to employees recorded any significant changes over the two periods, notwithstanding increases connected with trends for wages, with the relative knock-on effects, with the national trade union agreement and to a smaller extent with actual services provided. On the other hand, "other employee benefits" rose (+€4.2 million), partly due to the effect of lower reimbursements for training programmes and higher costs for internal communication (the event for the Group's ten-year anniversary).
  The reduction in payments for board members' and statutory auditors' fees (-€2.3 million) also contributed to the stability of the item, the aggregate result of a process to rationalise the Group's corporate structure, which reduced the number of existing board members, and also a reduction in the actual fees paid;

Staff costs: composition

Figures in thousands of euro	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
1) Employees	**(710,939)**	*(629,255)*	*(81,356)*	**(631,674)**
a) Wages and salaries	(498,494)	*(444,710)*	*(53,457)*	(448,137)
b) Social security charges	(132,749)	*(118,141)*	*(14,608)*	(120,708)
c) Post-employment benefits	(25,481)	*(24,472)*	*(1,009)*	(24,237)
d) Pension expense	(21)	-	*(21)*	-
e) Provision for post-employment benefits	(1,221)	*(406)*	*(815)*	(1,068)
f) Pensions and similar obligations:	(1,219)	*(392)*	*(827)*	(569)
- defined contribution	(341)	-	*(341)*	-
- defined benefit	(878)	*(392)*	*(486)*	(569)
g) Payments to external supplementary pension funds:	(21,735)	*(19,252)*	*(2,483)*	(19,308)
- defined contribution	(21,545)	*(19,063)*	*(2,482)*	(19,233)
- defined benefit	(190)	*(189)*	*(1)*	(75)
h) Expenses resulting from share based payments	-	-	-	-
i) Other employee benefits	(30,019)	*(21,882)*	*(8,136)*	(17,647)
2) Other staff in service	**(737)**	*(704)*	*(360)*	**(763)**
- Expenses for agency staff on staff leasing contracts	(5)	*(5)*	-	(44)
- Other expenses	(732)	*(699)*	*(360)*	(719)
3) Directors and statutory auditors	**(5,135)**	*(4,353)*	*(782)*	**(6,661)**
4) Expenses for retired staff	**(81)**	-	*(81)*	**-**
Total	**(716,892)**	*(634,312)*	*(82,579)*	**(639,098)**

(*) The figures for the New Banks relate to the second quarter of 2017 only.
In consideration of the presence of consolidation entries, the sum of the columns is not the same as the consolidated figure.

- *other administrative expenses* of €317.3 million were down €10 million, of which €5.6 million relating to indirect taxation, mostly as a consequence of the disappearance of intragroup VAT on service fees after the creation of the Single Bank.
The fall in current expenses (-€4.4 million) is the aggregate result of savings achieved on almost all items in the table and in more significant terms: rent payable, tenancy and maintenance of premises (-€2.2 million as a result of branch closures in connection with the creation of a Single Bank) and outsourced services (-€2.6 million, mainly in relation to the conclusion of the marketing campaign, which involved sweepstake prizes concluded in the first half of 2016). Against this trend professional and advisory services increased (+€2.1 million for activities for compliance with rules and regulations including MiFID II, but also concerning the IT system and digital innovation) as did credit recovery expenses (+€1.7 million). It must also be considered that membership fees (€33.7 million, down €4.3 million) include the ordinary quota of the contribution to the Resolution Fund amounting to €27.7 million[11] for 2017 (€32 million in 2016);

Other administrative expenses: composition

Figures in thousands of euro	1H 2017 (*)	*of which Stand-Alone UBI Banca Group*	*of which New Banks (*)*	1H 2016 *Stand-Alone UBI Banca Group*
A. Other administrative expenses	**(343,506)**	*(296,806)*	*(46,831)*	**(301,235)**
Rent payable	(31,402)	*(23,716)*	*(7,686)*	(24,796)
Professional and advisory services	(51,618)	*(45,055)*	*(6,563)*	(42,950)
Rentals hardware, software and other assets	(19,926)	*(17,248)*	*(2,678)*	(16,394)
Maintenance of hardware, software and other assets	(22,952)	*(21,180)*	*(1,772)*	(21,725)
Tenancy of premises	(23,788)	*(20,593)*	*(3,195)*	(21,643)
Property maintenance	(10,682)	*(8,922)*	*(1,760)*	(9,011)
Counting, transport and management of valuables	(6,795)	*(5,695)*	*(1,100)*	(5,756)
Membership fees	(34,802)	*(33,674)*	*(1,128)*	(37,958)
Information services and land registry searches	(6,190)	*(4,812)*	*(1,378)*	(4,563)
Books and periodicals	(592)	*(551)*	*(41)*	(592)
Postal	(8,221)	*(6,904)*	*(1,317)*	(6,690)
Insurance premiums	(15,767)	*(15,926)*	*159*	(16,175)
Advertising	(13,044)	*(12,704)*	*(340)*	(11,509)
Entertainment expenses	(798)	*(726)*	*(72)*	(729)
Telephone and data transmission expenses	(25,134)	*(22,012)*	*(3,122)*	(21,059)
Services in outsourcing	(28,390)	*(19,596)*	*(8,925)*	(22,155)
Travel expenses	(7,394)	*(6,863)*	*(531)*	(7,510)
Credit recovery expenses	(20,354)	*(19,606)*	*(748)*	(17,863)
Forms, stationery and consumables	(3,551)	*(3,204)*	*(347)*	(3,590)
Transport and removals	(3,970)	*(2,981)*	*(989)*	(2,992)
Security	(2,936)	*(2,532)*	*(404)*	(3,361)
Other expenses	(5,200)	*(2,306)*	*(2,894)*	(2,214)
B. Indirect taxes	**(22,533)**	*(20,496)*	*(2,037)*	**(26,091)**
Indirect taxes and duties	(5,794)	*(5,050)*	*(947)*	(12,447)
Stamp duty	(105,406)	*(98,204)*	*(7,202)*	(103,359)
Municipal property tax (former ICI)	(11,866)	*(10,862)*	*(1,004)*	(10,395)
Other taxes	(15,152)	*(14,374)*	*(575)*	(11,322)
Reclassification of "tax recoveries"	*115,685*	*107,994*	*7,691*	*111,432*
Total	**(366,039)**	*(317,302)*	*(48,868)*	**(327,326)**

(*) The figures for the New Banks relate to the second quarter of 2017 only and include the effects of the allocation of badwill.
In consideration of the presence of consolidation entries, the sum of the columns is not the same as the consolidated figure.

- *depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets* fell slightly to €70.1 million (-€1.6 million), due both to lower depreciation on real estate assets (-€2.7 million, in relation, amongst other things, to branch closures) and to a fall in amortisation on the purchase price allocation (-€2.8 million, attributable to impairment losses on the former network bank brands recognised at the end of the year), while greater depreciation and amortisation on IT components was recorded (+€3.7 million in relation to central software and hardware components).

11 In the first quarter of 2017 an estimate of the ordinary contribution was recognised, amounting to €31.6 million, adjusted in the second quarter following an official notification by the Bank of Italy.
Similarly in the first quarter of 2016 an estimate of the ordinary quota due for the year amounting to €31.9 million had been recognised within other administrative expenses, but the final contribution that was then posted was €32 million.

A quarterly examination shows **operating expenses** of €636.2 million in the second quarter, of which €141.8 million relating to the former target bridge banks (staff costs of €82.6 million, other administrative expenses of €48.9 million and €5.2 million of depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets) and €499.7 million to the stand-alone Group. The latter confirmed the trend in progress to contain costs and recorded a fall of €22.3 million compared with €522 million in the first three months of the year, the result of good performance by all components:

- *staff costs* fell €6.8 million from €320.6 million to €313.7 million, the aggregate result of the first savings generated by the trend for staff numbers (redundancies under the Trade Union Agreement of 11th December 2016 were concentrated mainly at the end of February) and also of the benefit resulting from the adoption of various different forms of working agreed with trade unions. These actions made it possible to fully offset the inertia factor in wage growth and also individual redundancy expenses and internal communication initiatives;
- *other administrative expenses* fell €15.4 million to €151 million, partly because the figures for the first three months of the year included an estimate of the ordinary contribution to the Resolution Fund amounting to €31.6 million, which was then adjusted down to €27.7 million in the second quarter. Net of that contribution and of indirect taxation (+€0.4 million), current spending showed growth concentrated in project activities for advertising and professional IT services, for credit recovery and legal and corporate affairs advisory services as well as expenses related to real estate assets;
- *depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets* remained stable at €35 million.

As a result of the performance described above, **net operating income** improved to €580.8 million, up 5.5% on the first half of 2016. The result achieved by the stand-alone Group was €604.6 million an improvement of 9.9%.

On a quarterly basis, net operating income came to €304.6 million, in line with €304.9 million earned in the same three months of 2016, but nevertheless up 10.3% compared with €276.1 million recorded in the first three months of 2017. The net operating income of the stand-alone UBI Banca Group in the second quarter rose to €328.5 million (+19%), while that recorded for the New Banks, still suffering from the high impact of operating expenses, was a loss of €29.9 million.

As a reflection of the quality of the portfolio, both in terms of the percentage of low risk performing positions and in relation to new inflows of non-performing loans, *net impairment losses on non-performing loans* of €282.6 million were recognised. Net reversals of the New Banks amounting to €4.2 million contributed to the item (consisting of -€10.2 million from impairment losses for the period and of +€14.4 million from the reversal of the allocation of badwill).

In accordance with the provisions of the 2019/2020 Business Plan, net impairment losses on loans of €1,206.4 million were recognised in the period January-June 2016, which led to an increase in coverage for non-performing loans (for bad loans and unlikely-to-pay loans in particular) and the consequent partial absorption of the provision shortfall and that is the shortfall of provisions to expected losses, which forms part of the definition of own funds for regulatory purposes.

Net impairment losses on loans: composition

Figures in thousands of euro	Impairment losses/reversals of impairment losses, net – Specific	Impairment losses/reversals of impairment losses, net – Portfolio	1H 2017 (*)	Impairment losses/reversals of impairment losses, net – Specific	Impairment losses/reversals of impairment losses, net – Portfolio	2nd Quarter 2017
Loans and advances to banks	-	(16)	(16)	-	(18)	(18)
Loans and advances to customers	(280,231)	(2,381)	(282,612)	(148,868)	1,060	(147,808)
Total	**(280,231)**	**(2,397)**	**(282,628)**	**(148,868)**	**1,042**	**(147,826)**

(*) The figures for the period ended 30th June 2017 include the impairment losses/reversals of impairment losses for the New Banks for the second quarter of 2017 only.

Figures in thousands of euro	Impairment losses/reversals of impairment losses, net – Specific	Impairment losses/reversals of impairment losses, net – Portfolio	1H 2016 *Stand-Alone UBI Banca Group*	Impairment losses/reversals of impairment losses, net – Specific	Impairment losses/reversals of impairment losses, net – Portfolio	2nd Quarter 2016 *Stand-Alone UBI Banca Group*
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	(1,195,824)	(10,549)	(1,206,373)	(1,045,673)	(5,361)	(1,051,034)
Total	**(1,195,824)**	**(10,549)**	**(1,206,373)**	**(1,045,673)**	**(5,361)**	**(1,051,034)**

As shown in the table, the item consists of €280.2 million from net specific write-downs (all relating to the original Group), of which €75.5 million relating to write-offs, while reversals (exclusive of present value discounts) amounted to €134.8 million (€151.4 million in 2016).

Net portfolio impairment losses in the first six months of the year came to €2.4 million, the aggregate result in detail of impairment losses on performing loans (relating to the stand-alone UBI Banca Group only), which were almost unchanged in the two periods (€14.8 million compared with €14.6 million before), offset by an increase in reversals from €4.1 million in 2016 to the current €12.4 million, to which the New Banks contributed with the €4.2 million already mentioned.

As a result of the above, the *loan loss rate* (calculated as total net impairment losses as a percentage of the portfolio of net loans to customers at the end of the period) rose to 0.60%, compared with 2.88% in the comparative first half (annualised data).
If the allocation of badwill and the relative reversal is not considered, then the loan loss rate for the first half of 2017 stood at 0.64% (annualised).

Net impairment losses of €147.8 million were recognised in the second quarter, one of the lowest figures recorded in recent years, compared with €134.8 million recognised in the first three months, a period which normally sees less recognition of impairment, due to the tendency to anticipate it in the end-of-year accounts.
A comparison with the second quarter of 2016 is not meaningful due to the extraordinary nature of the provisions recognised then.
The *loan loss rate* in the second quarter (calculated as total net impairment losses as a percentage of the portfolio of net loans to customers at the end of period) therefore stood at 0.63%, down from 0.64% in the first three months (annualised data).

Net impairment losses/reversals of impairment losses on loans: quarterly performance

Figures in thousands of euro	Specific	Portfolio	1st Quarter	Specific	Portfolio	2nd Quarter	Specific	Portfolio	3rd Quarter	Specific	Portfolio	4th Quarter
2017 (*)	(131,363)	(3,439)	**(134,802)**	(148,868)	1,042	**(147,826)**						
2016	(150,151)	(5,188)	**(155,339)**	(1,045,673)	(5,361)	**(1,051,034)**	(177,884)	10,503	**(167,381)**	(209,024)	17,251	**(191,773)**
2015	(199,326)	9,134	**(190,192)**	(207,544)	8,637	**(198,907)**	(184,540)	16,006	**(168,534)**	(231,544)	(13,469)	**(245,013)**
2014	(212,210)	13,584	**(198,626)**	(237,289)	6,814	**(230,475)**	(210,219)	13,169	**(197,050)**	(242,443)	(60,023)	**(302,466)**
2013	(155,657)	(2,085)	**(157,742)**	(212,689)	(13,461)	**(226,150)**	(192,435)	(314)	**(192,749)**	(347,302)	(19,035)	**(366,337)**
2012	(122,221)	(8,949)	**(131,170)**	(225,562)	22,381	**(203,181)**	(161,535)	1,207	**(160,328)**	(373,308)	20,773	**(352,535)**
2011	(96,010)	(9,364)	**(105,374)**	(142,877)	(15,271)	**(158,148)**	(110,779)	(24,364)	**(135,143)**	(195,114)	(13,299)	**(208,413)**
2010	(105,366)	(26,493)	**(131,859)**	(184,080)	(5,765)	**(189,845)**	(124,200)	(9,811)	**(134,011)**	(217,327)	(33,890)	**(251,217)**
2009	(122,845)	(36,728)	**(159,573)**	(176,919)	(58,703)	**(235,622)**	(178,354)	(18,995)	**(197,349)**	(281,668)	9,001	**(272,667)**
2008	(64,552)	4,895	**(59,657)**	(85,136)	(8,163)	**(93,299)**	(77,484)	(25,384)	**(102,868)**	(219,512)	(90,887)	**(310,399)**

(*) The second quarter of 2017 includes the figures for the New Banks.

The following was also recorded in the income statement in the first half:

- €98.8 million of *net impairment losses on other financial assets/liabilities* of which €93.4 million relating to the original Group[12]. The latter amount includes €89.3 million (normalised) due to a further write-down of the investment in the Atlante Fund [13] and the remaining part due to instruments in the AFS portfolio (mainly shares and other stakes held);
- €5.4 million of *net provisions for risks and charges*, of which €11.4 million attributable to the stand-alone Group[14]. More specifically less

Net provisions for risks and charges

Figures in thousands of euro	1H 2017 (*)	1H 2016 *Stand-Alone UBI Banca Group*
Net provisions for revocation clawback risks	(484)	(5,142)
Net provisions for staff costs	3,859	-
Net provision for bonds in default	(96)	(1)
Net provisions for litigation	(6,807)	(3,416)
Other net provisions for risks and charges	(1,824)	(18,098)
Total	**(5,352)**	**(26,657)**

(*) The figures for the period ended 30th June 2017 include those for the New Banks for the second quarter of 2017 only.

12 In the first half of 2016 €50.5 million had been recognised, of which €49.9 million under item 130b (€2.1 million relating to UBI Banca and former BRE financial instruments and €47.4 million to the virtual elimination of the remaining credit risk associated with instruments resulting from non-performing loan positions of UBI Banca, the former Banco di Brescia and the former BPB) and €0.6 million under item 130d (relating to net impairment losses on unsecured guarantees and sundry commitments as well as +€1.9 million arising from the difference between the final cost calculated and the expense previously recognised for the Interbank Deposit Protection Fund intervention to assist Banca Tercas.

13 The investment in the Atlante Fund had already been written down by €38.1 million in the first quarter, as recognition of further impairment after a write-down of €19.4 million last December for an adjustment to the commitment to make a payment at the beginning of January 2017. Impairment of this fund totalling €108.7 million was recognised in 2017 (item 130d – offset by a reversal of €19.4 million – item 130d – for the adjustment to a commitment recognised in 2016).

14 Provisions of €26.7 million were recognised in the first half of 2016 in relation to revocation clawback actions and litigation together with €18.1 million for other probable risks (claims, risks identified by specific statistical procedures, and also €9.4 million recognised by UBI Factor to meet the risk of recourse legal action connected with factoring business).

risk for revocation (clawback) action was recorded (€0.5 million), while provisions for litigation (compounding of interest and investments, bonds and derivatives) came to €6.2 million and to €4.7 million for other probable risks (attributable to claims received and risks identified by specific statistical procedures);

- €0.6 million of *profit on the disposal of investments*, of which €0.4 million generated by the original Group[15] mainly from disposals of real estate property assets.

The following items were also recognised in the second quarter:

- €82.7 million of *net impairment losses on other financial assets/liabilities*, of which €77.3 million relating to the stand-alone Group (€70.6 million relating to the write-down of an investment in the Atlante Fund) and €5.4 million from the New Banks;
- €2.1 million of *net provisions for risks and charges*, of which €6.1 million from releases of provisions made for personnel by the New Banks (above all Nuova Cassa di Risparmio di Chieti which recognised expenses within staff costs for redundancies that occurred before the conclusion of that bank's entrance to the Group) and -€4 million by the stand-alone Group for litigation (compounding of interest and investments, bonds and derivatives) and other probable risks (mainly claims and risks identified by a specific statistical procedure);
- €0.5 million of *profit on the disposal of investments*, consisting mainly of real estate property disposals.

As a result of the performance described above, **profit on continuing operations before tax** improved to €194.6 million (€213.3 million for the stand-alone UBI Banca Group), compared with a loss of €731.6 million in the first half of 2016.
The second quarter recorded a profit before tax of €76.7 million (€95.4 million for the original Group), compared with €117.8 million in the first three months of the year and a loss of €815.9 million in the period April-June 2017.

Taxes on income for the period from continuing operations fell similarly to €79.4 million[16], to give a *tax rate* of 40.81% (compared with a theoretical rate of 33.07%), which had a negative impact in particular on losses incurred during the period by the New Banks without use of the tax effect (6.7 percentage points).

Net of that effect, the tax rate was affected mainly by the combined effects of IRES (corporate income tax) and IRAP (regional production tax), due to:

- non tax-deductible impairment losses, expenses, costs and provisions (1.5 percentage points);
- the total non-deductibility for IRAP purposes of provisions for risks and charges and impairment losses on AFS securities and the partial non-deductibility of staff costs (staff employed on temporary contracts), other administrative expenses and depreciation and amortisation (3.9 percentage points).

These impacts were only partially mitigated:

- by the ACE (aid to economic growth – allowance for corporate equity) concessions (1.5 percentage points), for which the benefit in 2017 has nevertheless been significantly reduced due to the effect of the reduction in the coefficient for the notional return (down from 4.75% in 2016 to 1.6% in 2017);
- by the valuation of equity investments according to the equity method, not significant for tax purposes (1.8 percentage points);
- by untaxed dividends and by reversals of impairment and gains on the disposal of shareholdings that benefit from the participation exemption regime (1.1 percentage points).

As a result of the performance reported above and also of the profits earned by Group companies, profit for the period attributable to non-controlling interests (inclusive of the effects of consolidation entries) fell to €12.4 million from €17.3 million in 2016, affected also by the lower percentage of non-controlling interests as a consequence of the creation of the Single Bank.
Profits attributable to non-controlling interests came to €6.4 million in the second quarter, with no significant change compared with the first three months of the year (€6.1 million), but with a marked improvement compared with the loss of €24.7 million incurred in the second quarter of 2016.

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15 Gains from the disposal of investments came to €1.6 million in the first half of 2016, of which €1.3 million relating to the former Banca Carime.

16 Tax receivables (IRES – corporate income tax) of €176.4 million were recorded in the first half of 2016, with a tax rate of 24.12%. The percentage rate for IRAP (regional production tax) on the other hand was nil due to the result for the period and the full deductibility of costs for personnel employed on permanent contracts, introduced with effect from 2015 by Art. 1, paragraphs 20-25 of law No. 190 – 2014 (2015 *Legge di stabilità* "stability law" – annual finance law).

Finally, the following items (subject to normalisation) have been stated separately net of tax and non-controlling interests;

- *redundancy expenses* (€2.3 million, net of tax and non-controlling interests) relating to the New Banks;
- *other administrative expenses*, consisting of expenses incurred for the completion of the Single Bank Project (€6.1 million, net of taxes of €3 million and non-controlling interests of €35 thousand);
- *other administrative expenses* consisting of expenses incurred for the acquisition of the former Bridge Banks (€11.2 million, net of €5.5 million of taxes and €142 thousand of non-controlling interests);
- *the negative consolidation difference*, consisting of the allocation of badwill (€612.9 million, net of taxes and non-controlling interests).

In the first half of 2016, the impacts on the half-year income statement of factors designed to enable the achievement of the goals set in the 2019/2020 Business Plan were summarised, stated under separate items net of taxes and non-controlling interests. In detail:

- *redundancy expenses* (€207.2 million net of taxes of €106.9 million and non-controlling interests of €9.1 million) in relation to strong generation turnover with approximately 2,750 redundancies over the course of the plan;
- *net impairment losses on intangible assets* – the purchase price allocation (PPA) (€37.9 million net of tax of €20.8 million and of non-controlling interests of €4.1 million) relating to the network bank brands;
- *other administrative expenses* (€3.4 million net of taxes of €1.7 million and of non-controlling interests of €100 thousand) for project expenses connected with the development and implementation of the Single bank Project.

The comments that follow are based on items in the consolidated balance sheet contained in the reclassified consolidated financial statements on which the relative tables furnishing details are also based. The section "Consolidated companies: the principal figures" may be consulted for information on UBI Banca and other Group companies.

General banking business with customers: funding

The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. The comparative figures as at 31st December 2016 have been restated in aggregate form.

Total banking funding

Total banking funding from customers

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Direct banking funding	98,474,600	50.7%	103,258,237	53.5%	-4,783,637	-4.6%
Indirect funding	95,829,633	49.3%	89,782,736	46.5%	6,046,897	6.7%
of which: assets under management	*62,043,961*	*31.9%*	*58,580,569*	*30.3%*	3,463,392	5.9%
Total banking funding	**194,304,233**	**100.0%**	**193,040,973**	**100.0%**	**1,263,260**	**0.7%**
Total banking funding net of CCG and institutional funding	179,425,735		176,064,253		3,361,482	1.9%
of which: ordinary captive customers	*178,951,387*		*175,589,978*		*3,361,409*	*1.9%*

Total Group funding as at 30th June 2017 consisting of total amounts administered on behalf of customers, totalled €194.3 billion, up €1.3 billion over six months.

As shown in the table, if the total is considered net of institutional components (inclusive of the Cassa di Compensazione e Garanzia – *CCG, a central counterparty clearing house) and of non-captive totals (the former Centrobanca), then funding from ordinary captive customers stood at approximately €179 billion, an improvement of €3.4 billion.*

The performance continues to be favourably affected by growth in indirect funding (up €6 billion to €95.8 billion), against a contraction in direct funding attributable primarily to total bonds in issue, and those subscribed by non-institutional customers in particular (down €3.2 billion in the first half). Consistent with the Business Plan objectives and also with a view to protecting customers in the context of the new bail-in rules, a process is in progress to transform maturing bond funding into assets under management. This is also encouraged by low market interest rates.

The positive trend for indirect funding seen in the period was determined primarily by assets under management (up €3.46 billion to €62 billion), which benefited from the success of the products (Sicav's, funds and insurance policies) distributed by the Group, as well as by growth in assets under custody (+€2.58 billion).

Total banking funding at the end of the first half consisted of €170.2 billion for the stand-alone UBI Banca Group (up €2.9 billion in the first half) and €24.1 billion (down €1.6 billion) for the New Banks acquired.

Direct banking funding

The total direct funding of the UBI Banca Group stood at €98.5 billion as at 30th June 2017 (of which €82.2 billion from the stand-alone UBI Banca Group and €16.3 billion from the New Banks). The comparison on a half yearly basis shows a decrease of €4.8 billion of which over 80% attributable to "debt securities issued" (-€3.9 billion) and in particular to those relating to the stand-alone Group.

In detail, **amounts due to customers,** which fell to €70.1 billion (from around €71 billion at the end of 2016) of which €56.8 billion were attributable to the stand-alone perimeter, were composed primarily of the following items:

- *current accounts and deposits* amounting to €62.8 billion, up €1.4 billion over six months as a result of a significant increase recorded by the stand-alone UBI Banca Group (up €1.89 billion to €54.3 billion) compared with a slight fall in the item for the New Banks (down €0.45 billion to €8.5 billion). This performance was favoured as at 30th June 2017, amongst other things, by the presence of temporary deposits by UBI Banca's large corporate clients, up approximately €450 million in the period, as well as by liquidity accumulated in view of the placement of funds and Sicav's with the settlement date across the two half-year periods[1], while the New Banks were affected by the recent start of a policy to reduce interest rates on deposits;
- *term deposits* amounting to €3.5 billion, attributable almost entirely to the New Banks, fell during the period by €0.5 billion;

Direct banking funding from customers

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Current accounts and deposits	62,769,372	63.7%	61,328,124	59.4%	1,441,248	2.4%
Term deposits	3,494,704	3.6%	4,017,886	3.9%	-523,182	-13.0%
Financing	2,487,007	2.5%	4,118,888	4.0%	-1,631,881	-39.6%
- repurchase agreements	*2,147,461*	*2.2%*	*3,674,740*	*3.6%*	-1,527,279	-41.6%
of which: repos with the CCG	*1,571,928*	*1.6%*	*3,149,387*	*3.1%*	-1,577,459	-50.1%
- other	*339,546*	*0.3%*	*444,148*	*0.4%*	-104,602	-23.6%
Other payables	1,361,308	1.4%	1,524,560	1.4%	-163,252	-10.7%
Total amounts due to customers (item 20 liabilities)	**70,112,391**	**71.2%**	**70,989,458**	**68.7%**	**-877,067**	**-1.2%**
Bonds	26,169,954	26.6%	29,846,361	28.9%	-3,676,407	-12.3%
Certificates of deposit (a)+(b)	2,186,614	2.2%	2,422,418	2.4%	-235,804	-9.7%
Other certificates	5,641	0.0%	-	-	5,641	-
Total debt securities issued (*) (item 30 Liabilities)	**28,362,209**	**28.8%**	**32,268,779**	**31.3%**	**-3,906,570**	**-12.1%**
of which:						
securities subscribed by institutional customers:	13,306,570	13.5%	13,827,333	13.4%	-520,763	-3.8%
The EMTN programme (**)	*3,992,880*	*4.0%*	*4,298,583*	*4.2%*	-305,703	-7.1%
Negotiable European Commercial Paper Programme (former French CD) (a)	-	-	*100,015*	*0.1%*	-100,015	-100.0%
The covered bond programme	*9,313,690*	*9.5%*	*9,428,735*	*9.1%*	-115,045	-1.2%
securities subscribed by ordinary customers:	15,048,662	15.3%	18,366,220	17.8%	-3,317,558	-18.1%
of the Group:						
- Certificates of deposit (b)	*2,186,614*	*2.2%*	*2,322,403*	*2.2%*	-135,789	-5.8%
- Bonds	*12,387,700*	*12.6%*	*15,569,542*	*15.1%*	-3,181,842	-20.4%
external distribution networks:						
- Bonds issued by the former Centrobanca	*474,348*	*0.5%*	*474,275*	*0.5%*	73	0.0%
Total direct funding	**98,474,600**	**100.0%**	**103,258,237**	**100.0%**	**-4,783,637**	**-4.6%**
Due to customers net of the CCG	*68,540,463*		*67,840,071*		*700,392*	*1.0%*
Total direct funding net of the CCG and institutional funding	*83,596,102*		*86,281,517*		*-2,685,415*	*-3.1%*

(*) Within the item, subordinated securities, consisting of Lower Tier 2 issues, amounted to €3,253 million as at 30th June 2017 (of which €1,256 million consisting of two EMTNs) and to €3,012 million as at 31st December 2016 (of which €768 million consisting of one EMTN).

(**) The corresponding nominal amounts were €3,956 million as at 30th June 2017 (of which €1,250 million nominal subordinated) and €4,212 million as at 31st December 2016 (of which €750 million nominal subordinated).

1 The amount subscribed as at 6th July, the closing date for the placement, was €613 million. Further information is given in the following section "Indirect funding".

- *repurchase agreements with the Cassa di Compensazione e Garanzia* (CCG – a central counterparty clearing house) amounted to €1.57 billion (€3.15 billion at the end of the year) as they continued to record volatility as a tool used to cover temporary liquidity requirements and to finance the securities portfolio. The stand-alone UBI Banca Group accounts for €1.06 billion of the item (€2.27 billion in December)[2];
- *financing – other* amounting to €340 million, down €105 million in the period, consisting mainly of funds (€223 million) made available to UBI Banca by the *Cassa Deposito e Prestiti* (CDP – state controlled fund and deposit institution) as part of intervention to support SMEs;
- *other payables* amounting to €1.4 billion (€1.5 billion at the end of 2016), of which €802 million relating to the stand-alone UBI Banca Group.

Debt securities issued fell to €28.4 billion, down €3.9 billion in the first half, of which only -€0.4 billion attributable to the New Banks. The item was composed as follows:

- €26.2 billion of *bonds*, down €3.7 billion since the beginning of the year;
- €2.2 billion of *certificates of deposit* (-€0.2 billion), now consisting solely of instruments relating to ordinary customers because the institutional component, which previously consisted of the Negotiable European Commercial Papers Programme (the former French certificates of deposit), amounting to €100 million in December, matured in January and was not renewed in view of the imminent disposal of UBI Banca International, the issuer company for the programme. The New Banks acquired have no short-term funding programmes targeted at institutional investors in place, but only certificates subscribed by retail customers amounting to €2.1 billion, marginally down in the period.

In terms of type of customer, FUNDING IN SECURITIES FROM INSTITUTIONAL CUSTOMERS was composed as follows:

- EMTNs (Euro Medium Term Notes) listed on the Dublin stock exchange issued by UBI Banca as part of a programme for a maximum issuance of €15 billion, amounting to approximately €4 billion (€4.3 billion in December). Issuances amounting to €605 million nominal were made in the first half, all concentrated in March: €500 million subordinated relating to a public issuance, while €105 million was acquired in the form of a private placement. Maturities and repurchases totalled €861.3 million nominal in the period, of which €830 million consisting of securities that matured (€750 million of which in the second quarter of 2017).
- It should be noted that the total shown in the table also incorporates the impacts of accounting adjustments on the securities;
- covered bonds amounting to €9.3 billion (€9.4 billion at the end of the year). New placements were made in the period[3], while amortisation amounting to €11.4 million was recorded for the "amortising" issuance stipulated with the EIB. It should be noted that the changes shown in the table were also affected by the impacts of accounting adjustments on the securities.

  UBI Banca currently has nine covered bonds in issue under the first "multioriginator" programme backed by residential mortgages with a €15 billion ceiling for a nominal amount of €8,864 million (net of amortisation totalling €136 million nominal)[4]. The bonds are traded in Dublin.

  As at 30th June 2017 the residential mortgage asset pool formed at UBI Finance to back the issuances amounted to €14.9 billion, of which 98.7% originated by UBI Banca and 1.3% by IW Bank.
  The portfolio continued to show a high degree of fragmentation, including over 191 thousand mortgages with average residual debt of €78 thousand, distributed with approximately 67.1% in North Italy and in Lombardy especially (47.4% of the total).
  With effect from 1st May, a transfer of residential mortgages to the programme was made by UBI Banca of remaining debt amounting to approximately €1.7 billion.

2 The remaining funding from repurchase agreements, amounting to €0.58 billion (€0.52 billion at the end of 2016), consisted of €0.18 billion from institutional customers of the stand-alone UBI Banca Group and of €0.4 billion from institutional customers of the New Banks.
3 As already reported, covered bonds were placed in the period June-December 2016 amounting to €1.25 billion nominal.
4 Three self-retained issuances for €2.25 billion nominal also exist under that same programme, one for €0.5 billion nominal made in December 2015, a second for €1 billion concluded at the end of March 2016 and third for €750 million concluded in June 2016. Because these were repurchased by UBI Banca itself, these liabilities have not been recognised, in accordance with IFRS.

A second UBI Banca programme, again "multioriginator", is also operational with a ceiling of €5 billion, backed by commercial mortgages and by residential mortgages not used in the first programme. So far this programme, listed on the Dublin stock exchange, has only been used for self-retained issuances[5].

At the end of the first half the commercial and residential asset pool formed at UBI Finance CB 2 to back these issuances stood at €3.1 billion, of which 99.3% originated by UBI Banca and 0.7% by IW Bank. The portfolio includes approximately 28 thousand mortgages with average residual debt of €112 thousand, distributed, as for the first programme, with a high concentration in North Italy (68.5%) and in Lombardy especially (46.6% of the total). With effect from 1st June, a transfer of mortgages to the programme was made by UBI Banca of remaining debt amounting to €307 million.

Funding IN SECURITIES FROM ORDINARY CUSTOMERS amounted to €15 billion, of which over 85% consisted of bonds, which had fallen to €12.9 billion. In detail:

- bonds issued by UBI Banca totalled €11.56 billion (down €2.9 billion on December 2016). While issuances amounted to €35 million nominal (social bonds) over six months, bonds that matured came to €2.2 billion nominal and repurchases of €549 million nominal were made;
- securities issued by the New Banks stood at €828 million, down €304 million in the period following maturities and repurchases that occurred. These include approximately €610 million nominal issued as part of a securitisation still in existence;
- the remaining funding from non-captive customers, consisting of securities issued by the former Centrobanca placed through indirect banking networks stood at €474 million, almost unchanged since the beginning of the year, due to the very small amount of the maturities that occurred.

The table below summarises maturities for bonds in issue at the end of June 2017.

Maturities for bonds outstanding as at 30th June 2017

Nominal amounts in millions of euro	3rd Quarter 2017	4th Quarter 2017	2018	2019	2020	2021	Subsequent years	Total
UBI BANCA	1,506	1,124	6,620	6,514	2,264	1,138	5,515	24,681
Bonds ordinary customers	456	955	5,229	4,386	716	115	4	11,861
Bonds institutional customers	1,050	169	1,391	2,128	1,548	1,023	5,511	12,820
of which: EMTNs	*50*	*158*	*1,368*	*1,105*	*25*	*-*	*1,250*	*3,956*
Covered bonds	*1,000*	*11*	*23*	*1,023*	*1,523*	*1,023*	*4,261*	*8,864*
IW Bank	-	-	1	-	-	-	-	1
New Banks acquired								
Bonds ordinary customers	82	32	74	25	49	23	28	313
Total	**1,588**	**1,156**	**6,695**	**6,539**	**2,313**	**1,161**	**5,543**	**24,995**

The table does not include maturities of bonds (approximately €610 million nominal) issued as part of the securitisations of the New Banks acquired.

* * *

UBI Banca continued with the issue of the "UBI Comunità Social Bonds" which maintained their significant level of success with investors and are, moreover, highly distinctive. These are bond instruments where, in addition to providing remuneration at a market interest rate, the investment made by subscribers allows the issuing bank to allocate part of the funding acquired (e.g. 0.50%) to support projects of high social value undertaken by nonprofit entities, or to pay it into a pool for the disbursement of finance to third sector initiatives.
In the first half of 2017 UBI Banca placed three bonds for a total of €35 million, which made it possible to make donations of €145 thousand.
Since the year of its launch in 2012 until 30th June 2017 85 issuances have been placed to acquire funding of €913.2 million, resulting in charitable donations of €4.2 million and the grant of loans or the provision of loan pools amounting to €20.5 million.
The use of SROI (social return on investment) continued as a tool to measure the social impact of the projects supported, as part of the structuring of social bonds for projects of national breadth. That tool, which was extended to include Social 4 Future Sicav's, is a distinguishing feature at sector level. This is of

5 Totalling €2.010 billion: two issuances in 2012 for a total of €860 million nominal (net of the amortisation instalments falling due in the meantime), a €200 million issuance in March 2014, a fourth for €650 million completed in July 2015 and a fifth for €300 million concluded in June 2016. Because these were repurchased by UBI Banca itself, these liabilities have not been recognised, in accordance with IFRS.

great value in terms of accountability to the customers who subscribe them and to stakeholders in general and at the same time it allows UBI Banca to direct its intervention to support initiatives that have a greater impact on change.

* * *

Listed securities (at the date of this report)

Bonds listed on the MOT (electronic bond market) ISIN number		Nominal amount of issue	Book value as at 30.6.2017	Book value as at 31.12.2016
IT0001197083	Centrobanca zero coupon 1998-2018	L. 800 billion	€ 166,620,494	€ 166,717,021
IT0001267381	Centrobanca 1998/2018 reverse floater capped	L. 320 billion	€ 122,454,184	€ 121,574,887
IT0001300992	Centrobanca 1999/2019 step down indicizzato al tasso swap euro 10 anni	€ 170,000,000	€ 110,207,770	€ 110,886,763
IT0001312708	Centrobanca 1999/2019 step down eurostability bond	€ 60,000,000	€ 70,308,819	€ 69,610,842
IT0004457070	UBI subordinato lower tier 2 fix to float con rimborso anticipato 13.3.2009-2019	€ 370,000,000	€ 371,790,860	€ 369,626,864
IT0004497050	UBI subordinato lower tier 2 fix to float con rimborso anticipato 30.6.2009-2019	€ 365,000,000	€ 365,006,597	€ 362,550,663
IT0004645963	UBI subordinato lower tier 2 a tasso fisso 4,30% con ammortamento 5.11.2010-2017	€ 400,000,000	€ 80,766,548	€ 81,035,314
IT0004718489	UBI subordinato lower tier 2 tasso fisso 5,50% con ammortamento 16.6.2011-2018 Welcome Edition	€ 400,000,000	€ 81,713,577	€ 163,019,951
IT0004723489	UBI subordinato lower tier 2 tasso fisso 5,40% con ammortamento 30.6.2011-2018	€ 400,000,000	€ 81,609,178	€ 162,883,120
IT0004767742	UBI subordinato lower tier 2 tasso misto 18.11.2011-2018 Welcome Edition	€ 222,339,000	€ 222,516,891	€ 220,855,267
IT0004841778	UBI subordinato lower tier 2 tasso misto 8.10.2012-8.10.2019 Welcome Edition	€ 200,000,000	€ 202,104,200	€ 201,259,465
IT0004842370	UBI subordinato lower tier 2 tasso fisso 6% con ammortamento 8.10.2012-8.10.2019	€ 970,457,000	€ 591,375,332	€ 590,634,510

Covered bonds listed on the Dublin stock exchange ISIN number		Nominal amount of issue	Book value as at 30.6.2017	Book value as at 31.12.2016
IT0004558794	UBI Covered Bonds due 16 December 2019 4% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,096,594,922	€ 1,093,981,991
IT0004599491	UBI Covered Bonds due 30 April 2022 floating rate amortising guaranteed by UBI Finance Srl	€ 250,000,000	€ 113,365,932	€ 124,680,820
IT0004619109	UBI Covered Bonds due 15 September 2017 3,375% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,029,766,589	€ 1,020,463,524
IT0004682305	UBI Covered Bonds due 28 January 2021 5,25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,130,950,953	€ 1,174,810,790
IT0004966195	UBI Covered Bonds due 14 October 2020 3,125% guaranteed by UBI Finance Srl	€ 1,500,000,000	€ 1,610,764,583	€ 1,606,300,247
IT0004992878	UBI Covered Bonds due 5 February 2024 3,125% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,112,879,214	€ 1,135,825,924
IT0005067076	UBI Covered Bonds due 7 February 2025 1,25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,005,465,450	€ 1,027,194,534
IT0005140030	UBI Covered Bonds due 27 January 2023 1,00% guaranteed by UBI Finance Srl	€ 1,250,000,000	€ 1,273,000,979	€ 1,291,331,975
IT0005215147	UBI Covered Bonds due 14 September 2026 0,375% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 940,901,641	€ 954,145,426

The list does not include the EMTN issues listed in Dublin and securities generated by securitisations performed for internal purposes by UBI Banca (as the survivor of the mergers of the former network banks), the former B@nca 24-7 and UBI Leasing, all listed on the Dublin stock exchange. It also excludes securities issued by the SPEs relating to the New Banks acquired.

* * *

Geographical distribution of direct funding from customers by region of location of the branch
(excluding repurchase agreements and bonds)(*)

Percentage of total	30.6.2017
Lombardy	48.41%
Piedmont	6.34%
Latium	7.80%
Apulia	3.50%
Calabria	3.12%
Marches	15.12%
Campania	2.99%
Liguria	1.51%
Emilia Romagna	1.96%
Veneto	1.03%
Basilicata	0.70%
Umbria	1.06%
Abruzzo	2.72%
Friuli Venezia Giulia	0.23%
Tuscany	3.27%
Molise	0.22%
Valle d'Aosta	0.02%
Trentino Alto Adige	0.00%
Total	**100.00%**

North	**59.5%**
- North West	*56.3%*
- North East	*3.2%*
Central	**27.3%**
South	**13.2%**

(*) The aggregates relate to banks only.

Finally, the table, "Geographical distribution of direct funding from customers by region of location of the branch", gives the *geographical distribution* of conventional funding in Italy (consisting of current accounts, savings deposits and certificates of deposit).

The entry of the New Banks, which carry on their business in central Italy, within the scope of the consolidation raised the Group's share of funding from that geographical area to 27.3%. The predominant concentration in Northern Italy (59.5% of the total) and in regions of the North west (56.3%) in particular nevertheless continued.

Indirect banking funding and assets under management

The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. In order to allow a consistent comparison, the figures as at 31st December 2016 have been restated in aggregate form.

Indirect banking funding from ordinary customers

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Assets under custody	**33,785,672**	**35.3%**	**31,202,168**	**34.8%**	**2,583,504**	**8.3%**
Assets under management	**62,043,961**	**64.7%**	**58,580,569**	**65.2%**	**3,463,392**	**5.9%**
Customer portfolio management	7,786,025	8.1%	7,724,176	8.6%	61,848	0.8%
of which: fund based instruments	*1,927,806*	*2.0%*	*1,869,697*	*2.1%*	*58,109*	*3.1%*
Mutual investment funds and Sicav's	34,552,903	36.1%	32,430,680	36.1%	2,122,222	6.5%
Insurance policies and pension funds	19,705,034	20.5%	18,425,712	20.5%	1,279,322	6.9%
of which: Insurance policies	*19,517,030*	*20.4%*	*18,004,079*	*20.1%*	*1,512,951*	*8.4%*
Total	**95,829,633**	**100.0%**	**89,782,736**	**100.0%**	**6,046,897**	**6.7%**

At the end of June the **indirect banking funding** of the UBI Banca Group stood at €95.8 billion (of which €88 billion relating to the stand-alone UBI Banca Group and €7.8 billion to the New Banks), an increase of €6 billion in the first half (+6.7%), primarily attributable to the stand-alone UBI Banca Group (+€5.8 billion; 7.1%).

The extraordinary low levels reached by interest rates and yields to maturity on government securities, expected to remain stable in coming months, continued to favour a growing allocation of household investments to asset management and insurance products, in a context of good performance of prices on financial markets, which also helped to support inflows to assets under custody.

Total *assets under management*, amounting to €62 billion and accounting for 64.7% of total indirect funding, were up €3.5 billion on December (+5.9%), of which €3.1 billion (+5.7%) attributable to the stand-alone UBI Group to which over 93% of the item (€57.7 billion) relates. The table shows that growth in assets under management over six months was driven primarily by mutual investment funds and Sicav's, up €2.1 billion to €34.6 billion due to good performance by the stand-alone Group (up €1.9 billion to €33.1 billion; +6.2%). This progress is attributable amongst other things to the results of placements of new UBI Sicav products and sub-funds (€2.2 billion between January and June 2017)[6] and also to the positive response by customers to the placement starting on 18th April 2017 of a new range of funds forming part of the part of long-term "Individual Savings Schemes"[7].

The new UBI Pramerica Cedola Certa 2023 Fund has been placed since 30th May 2017, while subscriptions were commenced for the new UBI Sicav Obiettivo Controllo Class 2 fund from 8th June for a total of €613 million which do not appear in the total figures for the end of June because they were settled with value date 6th July 2017.

A significant contribution to the growth in assets under management was also made by insurance policies which reached €19.5 billion (of which €17.6 billion relating to the stand-

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6 UBI Sicav Global Multiasset 15 (Class 2); UBI Sicav Global Stars (Class 2); UBI Sicav Euro Corporate Bond High Potential (Class 1 and Class 2); UBI Sicav Obiettivo Stabilità (Class 1 and Class 2); UBI Sicav Strategic Bond (Class A) and UBI Sicav Obiettivo Controllo (Class 1).

7 The 2017 *Legge di stabilità* ("stability law" – annual finance law) (law of 11th December 2016, Art. 1, paragraphs 100 to 114) introduced long-term "Individual Savings Schemes" (ISS) into Italy, along the lines of similar products existing in other countries, (e.g. France and Great Britain), in order to incentivise investments also in medium-size companies. The ISS is a savings instrument consisting of a special legal relationship (with particular characteristics and subject to a special conditional tax exemption regime) within which savers can allocate sums of cash or valuables in compliance with constraints set by the legislation. In order to allow UBI Banca Group customers to benefit from the opportunities offered by the ISS legislation, UBI Pramerica SGR, in agreement with UBI Banca, has created a new range of "UBI Pramerica MITO Funds" which consist at present of two funds: Fondo UBI Pramerica MITO 25 and Fondo UBI Pramerica MITO 50.

alone UBI Banca Group), up €1.5 billion in the period of which €1.4 billion relating to the stand-alone Group (in line with the good performance by this business which saw inflows of premiums in the first half of €2.3 billion).
Customer portfolio management remained stable at €7.8 billion (of which €7.1 billion relating to the stand-alone Group).

Assets under custody rose to €33.8 billion (of which €30.2 billion attributable to the stand-alone UBI Banca Group) to record growth of €2.58 billion compared with December, the aggregate result of a slight reduction for the New Banks (-€161 million), against an increase for the stand-alone Group (+€2.74 billion), a reflection of a recovery in market prices and prices of equities in particular, while the background trend of a progressive change in the mix of customer portfolios into asset management instruments still continued.

* * *

At the end of the first half, Assogestioni [8] (national association of asset management companies) data relating to the UBI Banca Group asset management companies for MUTUAL FUNDS AND SICAV'S, was as follows for assets under management originated[9]:

- positive net inflows of €2 billion over six months, amounting to 7.1% of assets under management originated at the end of 2016 (net inflows for the sector nationally on the other hand were €43.5 billion[10], amounting to 4.8% of assets managed at the end of the previous year);
- a percentage growth in assets in the first half (+€2.1 billion; +7.5%) in line with the banking sample (+€68.6 billion; +7.6%);
- assets managed of €30.1 billion which positions the Group in ninth place with a market share of 3.11%, unchanged compared with December.

It must nevertheless be considered that Assogestioni's sample also includes non-banking operators. Consequently, market shares for the UBI Banca Group in the asset management sector (mutual investment fund business) are naturally smaller than those for direct funding, lending and number of branches. If the analysis is restricted to banks only, the Group's market share as at 30th June 2017 was 6.05% compared with 5.91% in December, placing UBI Banca in fifth position among Italian operators in the sector.

The summary figures given in the table confirm the prudential approach of Group customers:

- a percentage of lower risk funds (monetary funds and bonds) that is again higher than the figure for the sector, but down over six months (from 54.3% to 53.8%) as also occurred for the Assogestioni sample (down from 45.7% to 44.9%);
- at the same time a greater percentage of balanced funds – up over 6 months from 27.9% to 29.7% compared with an average figure for the sector nationally up from 8.4% to 9% – also to be seen in relation to the new products (Sicav's) placed in the period;
- a percentage of equity funds down and constantly lower than the benchmark sample (9.5% compared with 21.9%);
- a fall in the percentage of flexible funds (7%) compared with a figure also down for the sector nationally, but very much higher (23.7%);
- no significant investment in hedge funds (0.5% of the Assogestioni sample).

8 "Monthly map of assets under management", June 2017. For companies not included the "Quarterly map of assets under management", March 2017.

9 As already reported, as part of the periodic surveys performed by Assogestioni, since June 2012 the figure for assets under management for the UBI Banca Group also includes, in consideration of their nature, the management mandates granted to Pramerica Financial – the brand name used by Prudential Financial Inc. (USA) – a UBI Banca partner through UBI Pramerica SGR (€6.2 billion of mutual funds and sicav's, of which €1.7 billion in equities and €4.5 billion in bonds as at 30th June 2017). This presentation provides a more consistent account of the actual assets under management of the UBI Banca Group.

10 On the basis of Assogestioni data, 82.7% of net inflows nationally are attributable to foreign registered funds (+€36 billion) and to a residual extent to Italian registered funds (+€7.5 billion). In terms of type of fund, the performance was driven by bond funds (+€20.1 billion), balanced funds (+€9.8 billion) and flexible funds (+€9.1 billion), while the contribution from equity funds was lower (+€5 billion) and monetary funds decreased (€0.1 billion) as did hedge funds (-€0.4 billion).

Fund assets (including assets managed for the UBI Banca Group under a mandate)

UBI Banca Group Figures in millions of euro	30.6.2017	%	31.12.2016	%	Changes amount	Changes %
Equities	2,870	9.5%	2,762	9.9%	108	3.9%
Balanced	8,949	29.7%	7,831	27.9%	1,118	14.3%
Bond	15,629	51.8%	14,360	51.2%	1,269	8.8%
Monetary funds	600	2.0%	867	3.1%	-267	-30.8%
Flexible	2,100	7.0%	2,219	7.9%	-119	-5.4%
TOTAL (a)	**30,148**	**100.0%**	**28,039**	**100.0%**	**2,109**	**7.5%**

Sector Figures in millions of euro	30.6.2017	%	31.12.2016	%	Changes amount	Changes %
Equities	212,384	21.9%	191,042	21.2%	21,342	11.2%
Balanced	87,659	9.0%	75,700	8.4%	11,959	15.8%
Bond	402,701	41.5%	378,182	42.0%	24,519	6.5%
Monetary funds	33,112	3.4%	33,896	3.7%	-784	-2.3%
Flexible	229,847	23.7%	217,859	24.2%	11,988	5.5%
Hedge funds	4,259	0.5%	4,644	0.5%	-385	-8.3%
TOTAL (b)	**969,962**	**100.0%**	**901,323**	**100.0%**	**68,639**	**7.6%**
Market share of the UBI Banca Group (a)/(b)	**3.11%**		**3.11%**			
Market share of the UBI Banca Group limited to banks only	**6.05%**		**5.91%**			

* * *

As concerns, on the other hand, assets under management net of Group funds (which includes COLLECTIVE INSTRUMENTS AND CUSTOMER PORTFOLIO MANAGEMENT), at the end of June the UBI Banca Group was positioned in seventh place in the sector (in fifth place among Italian banking groups) with total assets for both ordinary and institutional customers amounting to €51 billion and a market share of 2.81%, up in the comparison with December (2.77%).

If the analysis is restricted to banks only, the Group's market share in June 2017 was 6.39%, up on 6.30% at the end of 2016, placing UBI Banca stably in fourth position among operators in the sector.

Insurance funding and technical reserves

Direct insurance funding and technical reserves

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Insurance business financial liabilities designated at fair value (item 50 liabilities)	**39,017**	**2.2%**	**40,329**	**2.4%**	**-1,312**	**-3.3%**
of which: Pension funds	*11,941*	*0.7%*	*11,248*	*0.7%*	*693*	*6.2%*
Unit-linked products	*27,076*	*1.5%*	*29,081*	*1.7%*	*-2,005*	*-6.9%*
Technical reserves (item 130 liabilities)	**1,723,643**	**97.8%**	**1,675,012**	**97.6%**	**48,631**	**2.9%**
Life sector	1,721,020	97.7%	1,672,395	97.4%	48,625	2.9%
of which: mathematical reserves	*1,713,550*	*97.2%*	*1,666,229*	*97.1%*	*47,321*	*2.8%*
reserves for sums to be paid	*6,448*	*0.4%*	*5,535*	*0.3%*	*913*	*16.5%*
other reserves	*1,022*	*0.1%*	*631*	*0.0%*	*391*	*62.0%*
Non-life sector	2,623	0.1%	2,617	0.2%	6	0.2%
Direct insurance funding and technical reserves	**1,762,660**	**100%**	**1,715,341**	**100%**	**47,319**	**2.8%**

Direct insurance funding and technical reserves stood at €1.8 billion as at 30th June, a slight increase over six months (+2.8%).

Financial liabilities relating to insurance business designated at fair value (€39 million, slightly down in the period) representing the value of positions relating to "Branch III" (unit linked products) or "Branch VI" (pension funds) insurance policies. The performance seen, which incorporates the market effect, reflects the positive, but small trend for net inflows recorded by the insurance company (BancAssurance Popolari) in the quarter and the performance for the relative financial management during the first half.

Technical reserves on the other hand increased to €1.7 billion (+2.9%): this item which represents the value as at 30th June 2017 of insurance positions relating to "Branch I" and "Branch V" insurance policies that can be revalued, benefited mainly from positive net inflows recorded by the insurance company in the first half.

General banking business with customers: lending

The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. In order to allow a consistent comparison, the figures as at 31st December have been restated in aggregate form, neutralising the effect of the amounts for the non-performing loans disposed of by the New Banks in the first half of 2017 and also the effect of the transfer of the first tranche of bad loans to REV that took place in 2016 and which were present in the financial position at the end of 2016 as a performing loan to that special purpose vehicle.

Performance of the loan portfolio

Composition of loans to customers

Figures in thousands of euro	30.6.2017	%	*of which non-performing*	31.12.2016 aggregate	%	*of which non-performing*	Changes amount	Changes %
Current account overdrafts	10,178,399	10.8%	*1,268,106*	9,703,254	10.4%	*1,425,008*	475,145	4.9%
Reverse repurchase agreements	61,274	0.1%	-	120,991	0.1%	-	-59,717	-49.4%
Mortgage loans and other medium to long-term financing	62,799,336	66.6%	*5,470,549*	61,913,199	66.0%	*6,214,324*	886,137	1.4%
Credit cards, personal loans and salary-backed loans	3,079,715	3.3%	*135,998*	3,004,871	3.2%	*162,673*	74,844	2.5%
Finance leases	6,747,986	7.2%	*1,081,691*	7,303,772	7.8%	*1,532,435*	-555,786	-7.6%
Factoring	2,151,832	2.3%	*250,553*	2,465,964	2.6%	*270,071*	-314,132	-12.7%
Other transactions	9,735,934	10.3%	*791,672*	11,724,356	12.5%	*908,529*	-1,988,422	-17.0%
Debt instruments:	20,437	0.0%	-	18,274	0.0%	-	2,163	11.8%
- structured instruments	*6*	0.0%	-	*3*	0.0%	-	*3*	*100%*
- other debt instruments	*20,431*	0.0%	-	*18,271*	0.0%	-	*2,160*	*11.8%*
Allocation of badwill (*)	-546,330	-0.6%	-546,330	-	-	-	-	-
Effect of disposals in first half of 2017 (**)	-	-	-	-2,485,370	-2.6%	-1,255,445	-	-
Total	**94,228,583**	**100.0%**	***8,452,239***	**93,769,311**	**100.0%**	***9,257,595***	**459,272**	**0.5%**

(*) The figures as at 30th June 2017 include the allocation of €560.8 million of badwill to the non-performing portfolio, which gave rise to a positive reversal amounting to €14.5 million in the second quarter.

(**) In order to allow a consistent comparison, the figures as at 31st December 2016 have been restated in aggregate form and the effects of the following have been neutralised:

- the performing loan of the New Banks (€1.2 billion) to the special purpose vehicle Gestione Crediti Spa (REV), in relation to the transfer of a first tranche of bad loans that took place in January 2016, was extinguished in the first quarter of 2017;
- the transfer to REV of the second tranche of bad loans that took place on 1st January 2017 and the subsequent transfer of non-performing loans to the Atlante II Fund concluded in the second quarter of 2017 (for a total of €1.3 billion).

Total loans of the UBI Banca Group as at 30th June 2017 amounted to €94.2 billion (of which €83.2 billion attributable to the stand-alone UBI Banca Group and €11 billion to the New Banks) to record growth of €0.46 billion compared with December (+0.5%), the aggregate result of an increase of €1.33 billion for the old perimeter (+1.6%), against a decrease of €0.87 billion for the recently acquired banks (over 50% of which relating to non-performing loans as a consequence of the allocation of badwill).

In reality, the increase of €0.46 billion recorded in the first half includes a decline in non-performing loans (-€0.8 billion euro), while business with the *Cassa di Compensazione e Garanzia* (CCG – a central counterparty clearing house), consisting of repurchase agreements and margin deposits, was almost unchanged at €0.3 billion[1]. Net of both components lending to the economy was up €1.25 billion (+1.5%) to €85.5 billion (€84.2 billion at the end of 2016), due to positive performance by the stand-alone UBI Banca Group (up €1.6 billion to €75.2 billion; +2.2%).

1 Exposure to the CCG as at 30th June 2017 totalled €287.8 million, of which €61.3 million of reverse repos and €226.5 million of margin deposits (€268.9 million in December, of which €121 million in reverse repos and €147.9 million in margin deposits).

From the viewpoint of maturities, the positive growth in *net performing loans (excluding the CCG)* consisted of +€1.6 billion for the medium to long-term component, which rose to €66 billion accounting for 77.2% of total, while the figures for short-term forms of lending were still weak, down €0.4 billion to €19.5 billion, notwithstanding the positive trend for current account overdrafts (+€0.6 billion, attributable entirely to the stand-alone Group). This business continued to be affected by poor demand for working capital from companies, which in many cases preferred to replace short-term loans with TLTRO financing.
As concerns medium to long-term lending, the increase of €1.6 billion was attributable primarily to the stand-alone Group (over €2 billion; +3.7%), as a result in particular of new grants drawn from TLTRO funds (the total remaining debt existing in the six-month period was up €1.7 billion), compared with a small decrease for the New Banks (-€0.4 billion).

On the basis of management accounting figures, at the end of June residential mortgages totalled €27.6 billion, of which €4.9 billion relating to the New Banks[2] and €22.7 billion (€22.4 billion at the end of 2016) to the stand-alone UBI Banca Group.

In consideration of the opposing trends for the relative two aggregates, the *loan to deposit ratio* stood at 95.7%, compared with 90.8% in December.

Distribution of loans by economic sector and ATECO code
(Bank of Italy classification)

	30.6.2017		
	Total	of which non-performing	of which bad loans
Manufacturing and service companies (non-financial companies and producer households)	**56.4%**	11.3%	6.5%
of which: manufacturing activities:	*14.4%*	*2.0%*	*1.4%*
- Metallurgy, fabrication of metal products and processing of non-metallic minerals	3.9%	0.6%	0.4%
- Foodstuff, beverage and tobacco industries	1.8%	0.2%	0.1%
- Fabrication of machinery	1.7%	0.1%	0.1%
- Textile industries, tailoring of articles in leather and fur, fabrication of articles in leather and similar	1.4%	0.3%	0.2%
- Fabrication of oil refinery, chemical and pharmaceutical products	1.1%	0.1%	0.0%
- Fabrication of electronic products, electrical and non-electrical equipment	1.0%	0.1%	0.1%
- Fabrication of articles in rubber and plastic	0.9%	0.1%	0.1%
- Timber industry and fabrication of furniture	0.9%	0.2%	0.1%
- Fabrication of paper and paper products, printing and reproduction of recorded media	0.6%	0.1%	0.1%
- Fabrication of motor vehicles, trailers, semitrailers and other means of transport	0.5%	0.1%	0.1%
- Other manufacturing industries	0.6%	0.1%	0.1%
Real estate activities	*9.7%*	*2.4%*	*1.1%*
Wholesale and retail commerce, repair of motor vehicles and motorcycles	*8.7%*	*1.3%*	*0.9%*
Constructions	*7.6%*	*3.5%*	*1.9%*
Professional, scientific and technical activities	*3.3%*	*0.3%*	*0.2%*
Supply of electricity, gas, steam and air conditioning	*2.5%*	*0.2%*	*0.1%*
Accommodation and catering services	*2.0%*	*0.4%*	*0.2%*
Agriculture, forestry and fishing	*1.9%*	*0.3%*	*0.2%*
Transport and warehousing	*1.8%*	*0.4%*	*0.2%*
Information and communication services	*1.2%*	*0.1%*	*0.1%*
Hire, travel agency, business support services	*1.1%*	*0.2%*	*0.1%*
Water supply; sewerage, waste management and cleanup activities	*0.7%*	*0.0%*	*0.0%*
Financial and insurance activities	*0.2%*	*0.0%*	*0.0%*
Extraction of minerals from quarries and mines	*0.1%*	*0.0%*	*0.0%*
Residual activities	*1.2%*	*0.2%*	*0.1%*
Consumer households	**35.8%**	3.4%	2.0%
Financial companies	**3.2%**	0.2%	0.1%
Public administrations	**1.1%**	0.2%	0.0%
Other (not-for-profit institutions and the rest of the world)	**3.5%**	0.4%	0.2%
Total	**100.0%**		

Source: management accounting database (ICAAP).
Total gross lending with ATECO codes inclusive of partial write-offs of bad loans (€101.4 billion as at 30th June 2017)
The contribution of the New Banks to the consolidated statistics are based on estimates until the migration of those banks onto the target IT system.

2 It is underlined that although the impact was not significant, the figures for the New Banks include other types of lending, such as mortgage accounts, and in the case of Nuova Cassa di Risparmio di Chieti they also include non-residential mortgages.

The table gives, in management accounting terms, *the distribution of lending by economic sector and ATECO* (Italian equivalent to the NACE classification) of consolidated loans considered gross of impairment losses.
As is shown, as at 30th June 2017 over 92% of outstanding loans continued to be destined to manufacturing and service companies and to consumer households taken together, which reflects the traditional attention paid by the Group to its local communities.

As concerns *"large exposures"*, the June 2017 supervisory report prepared on the basis of the provisions of the new Basel 3 rules, in force since 1st January 2014[3], shows seven positions for an amount equal to or greater than 10% of the qualifying capital, for a total of €32 billion. In detail:

Large exposures

Figures in thousands of euro	30.6.2017
Number of positions	7
Exposure	31,990,503
Risk positions	1,796,607

- €16.8 billion relates to the Ministry of the Economy and Finance for investments in government securities by the Parent and the remaining amount relates to current and deferred tax assets;
- €8.2 billion relates to liquidity deposited with the Bank of Italy (of which approximately €5 billion relating to the stand-alone Group);
- €1.9 billion to the *Cassa di Compensazione e Garanzia*;
- €1.4 billion to investments in securities issued by the United States Treasury;
- €1.4 billion to investments in Spanish government securities;
- €1.3 billion to credit extended to a major large corporate Group, against drawings of €0.8 billion;
- €1 billion to business with a major banking counterparty (mainly for repurchase agreements).

In consideration of the application of a zero weighting factor for transactions with the government, only four actual risk positions for the Group existed after weightings for a total of €1.8 billion, mainly attributable to banking and corporate counterparties. The percentage of the qualifying capital is well below the limit of 25% set for banking groups for each of the exposures reported.

Concentration of risk (*)
(largest customers or groups as a percentage of total loans and guarantees)

Customers or Groups	30.6.2017
Largest 10	3.9%
Largest 20	6.2%
Largest 30	7.6%
Largest 40	8.7%
Largest 50	9.6%

(*) Operating figures.

In terms of *concentration*, even in its new broader configuration, the Group continues to show low levels of concentration, which confirms the constant attention that it pays to this aspect.

Finally, a summary of the *geographical distribution* of lending to customers in Italy is given in the table "geographical distribution of loans to customers by region of location of the branch".

Even though the entry of the New Banks to the Group contributed to the 20% increase in the percentage of loans to central regions of the country[4], the predominant share of the Group's loan portfolio continues to be with borrowers in northern regions (71% of the total) and in the North West in particular (65.8%).

Geographical distribution of loans to customers by region of location of the branch (*)

Percentage of total	30.6.2017
Lombardy	58.30%
Marches	9.82%
Latium	6.98%
Piedmont	5.17%
Emilia Romagna	3.19%
Campania	2.54%
Liguria	2.24%
Abruzzo	2.18%
Apulia	2.08%
Tuscany	1.89%
Veneto	1.71%
Calabria	1.58%
Umbria	1.34%
Basilicata	0.36%
Friuli Venezia Giulia	0.33%
Molise	0.25%
Valle d'Aosta	0.04%
Trentino Alto Adige	0.00%
Total	**100.00%**
North	**71.0%**
- North West	*65.8%*
- North East	*5.2%*
Central	**20.0%**
South	**9.0%**

(*) The aggregates relate to banks only.

3 Bank of Italy Circulars No. 285 and No. 286 of 17th December 2013 and subsequent updates.
4 The share for the Latium Region may be affected by seasonal factors relating to business with companies controlled by central government organisations.

Financing with funds provided by the European Central Bank (TLTRO)

With regard to targeted longer-term refinancing operations (TLTROs), as already reported, on 10th March 2016 the ECB approved a new programme entitled "New series of targeted longer-term refinancing operations (TLTRO II)", which involves four quarterly operations (from June 2016 to March 2017) each with a life of four years.
The UBI Banca Group applied for funds under that programme totalling €12.5 billion, against a maximum of €14.5 billion that could be applied for[5]. In detail:

- *in June 2016 the Group took part in the first of four auctions. It fully repaid funds obtained from the previous TLTRO operations totalling €8.1 billion[6] and was allotted new funds amounting to €10 billion with the due date on 24th June 2020.*
- *in March 2017 the Group took part in the fourth and last auction and obtained liquidity of €2.5 billion with the due date on 24th March 2021.*

Financing granted to customers drawn from those funds amounted to €10.9 billion as at 30th June 2017, with a remaining outstanding debt of €8.6 billion (€6.9 billion at the end of 2016). Loans approved and not yet granted as at that same date amounted to €2.9 billion[7].

Business with guarantee associations and bodies

As concerns business backed by guarantee funds and bodies, as a result of new grants and loans granted in the first half by the stand-alone UBI Banca Group – amounting €794.5 million (+13% compared with the same period in 2016) relating to 8,040 transactions (+3.3%) – total loans backed by guarantee bodies and guarantee funds, which included the Guarantee Fund for SMEs (pursuant to Law No. 662/1996) and the funds managed by ISMEA (Institute providing services for the agricultural and food market) for agricultural concerns, had reached €3.63 billion at the end of June.
Again in 2017 work continued on the revision of existing arrangements with guarantee bodies, following regulatory changes in progress and developments relating to competition and the ownership structure of guarantee bodies, affected by ownership reorganisations and mergers.

Initiatives in co-operation with the European Investment Bank (EIB)

Again in the first half of 2017, the stand-alone UBI Banca Group continued to offer medium to long-term loans to corporate clients under attractive terms and conditions with a life of up to a maximum of 12 years, thanks to positive collaboration commenced some time ago with the European Investment Bank.

More specifically, loans of over €57 million were granted drawn from the following loan pools:

- *loan pool agreements to finance investments by SMEs ("Loan for SMEs IV" and "Loan for SMEs V") amounting to €250 million and €400 million respectively, signed on 18th December 2015 and 26th April 2016;*
- *loan pool agreements to finance investments by mid-cap companies ("Mid Cap II" and "Mid Cap III") amounting to €150 million each, signed on 27th June 2014 and 23rd March 2016;*
- *a loan pool agreement to finance investments by SMEs and mid-cap companies that support youth employment ("Jobs for Youth") amounting to €50 million, signed on 30th January 2014;*
- *loan pool agreements to finance SMEs and mid-cap companies operating in the agricultural, food and related sectors including forestry, fisheries and the production of food products ("Loan for Agriculture") amounting to €50 million, signed on 28th May 2015.*

In consideration of the progressive depletion of the loan pools under agreements signed previously, on 2nd March 2017 a new loan pool agreement was signed for €190 million to finance investments by both SMEs and mid-cap companies ("Loan for SMEs and Mid-Caps VI"). Signing of a loan pool agreement to finance social activities was being programmed in the second half of 2017.

5 As communicated by the Bank of Italy.
6 The total amount that had been allotted to the Group with its participation in three of the seven TLTRO I auctions held by the ECB.
7 Financing granted to customers drawn from those funds had risen to €11.4 billion as at 31st July 2017 with a remaining debt of €9 billion, while those approved, but not yet granted, amounted to €2.8 billion.

Risk

Signs of improvement in the risk attaching to the stand-alone UBI Banca Group lending portfolio continued to strengthen in the first half of 2017. The acquisition of the New Banks and the consequent allocation of badwill occurred in this context.

At the end of June total *gross non-performing loans* stood at €14.1 billion (of which €12.1 billion relating to the stand-alone perimeter), down €233.7 million since December (-1.6%)[8], the aggregate result of a decrease for the stand-alone UBI Banca Group (-€375.1 million, of which -€260.1 million concentrated in the second quarter), against an increase for the New Banks (+€141.4 million).
Following, amongst other things, the increase at the same time in the size of the total portfolio, as a percentage they decreased as a consequence to 14.09% from 14.47% at the end of 2016.

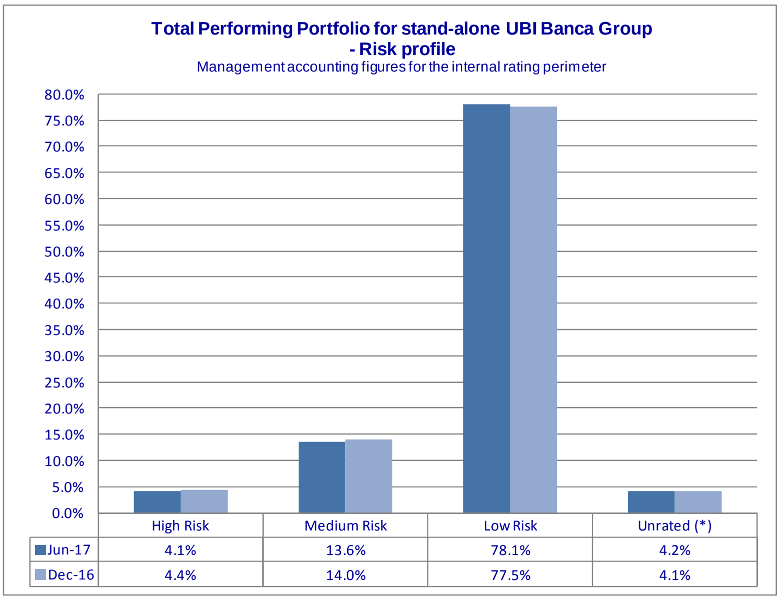
Gross non-performing exposures: quarterly

Figures in thousands of euro	2017			2016			
	2Q	2Q *of which stand-alone UBI Banca Group*	1Q *of which stand-alone UBI Banca Group*	4Q *of which stand-alone UBI Banca Group*	3Q *of which stand-alone UBI Banca Group*	2Q *of which stand-alone UBI Banca Group*	1Q *of which stand-alone UBI Banca Group*
Bad loans	79,975	22,082	-34,345	-230,607	275,816	93,509	134,280
Unlikely-to-pay loans	-59,821	-286,207	-94,527	-450,255	-292,211	-249,520	-68,819
Exposures past due	-138,860	4,044	13,814	-29,078	-32,391	-60,142	-3,437
Gross non-performing loans	**-118,706**	**-260,081**	**-115,058**	**-709,940**	**-48,786**	**-216,153**	**62,024**
transfers from performing exposures	*398,891*	*298,860*	*317,061*	*354,871*	*267,711*	*281,768*	*389,236*
transfers into performing exposures	*-142,208*	*-107,252*	*-92,886*	*-84,807*	*-103,664*	*-182,921*	*-86,351*

The downward trend for *new inflows from performing loans* also continued.
The table for quarterly changes shows inflows totalling €715.9 million in the first half, of which €100 million in the second quarter relating to the New Banks. The remaining €615.9 million relating to the stand-alone UBI Banca Group was down 8.2% on the same period of the previous year.

The improvement in credit quality in the stand-alone Group is becoming possible due, amongst other things, to a less critical economic situation, but above all as a consequence of the following:

- a favourable risk profile for the performing portfolio with the low risk profile now accounting for as much as 78.1% of the total and the high risk class stably below the threshold of 4.5%;
- numerous initiatives undertaken in recent years in terms of internal reorganisation and operating processes to improve credit risk management and credit recovery for non-performing positions, with regard to which



8 As already reported in the introduction, this change does not take account of the transfer to REV of the second tranche of bad loans that took place on 1st January 2017 and the subsequent transfer of non-performing loans to the Atlante Fund concluded in the second quarter of 2017 (for a total gross amount of €4 billion). The totals relating to these transactions have not been included in the calculation of these items as at 31st December 2016.

further improvements are in progress consistent with the Strategic NPL Plan presented to the ECB in March 2017[9].

The fall in the gross totals described above, together with the allocation of badwill (€546.3 million mainly to unlikely-to-pay loans of the New Banks to adjust the estimated carrying amount to the fair value) allowed total *net non-performing loans* to fall to €8.5 billion, down €0.8 billion (-8.7%) in the first half. This reduction is the aggregate result of a decrease of €0.3 billion (-3.9%) for the stand-alone Group and of €0.5 billion (-40.9%) for the acquired banks.
Benefiting, amongst other things, from an increase in the total size of the portfolio, the percentage of net non-performing loans fell to 8.97% from 9.87% six months before.

In terms of types of loan, the table "Composition of loans to customers", shows that net non-performing loans are mainly concentrated in the item "mortgage loans and other medium to long-term loans", backed moreover by collateral, which results automatically in a lower level of coverage.

Also with regard to the objective of progressively reducing the ratio of net non-performing loans to tangible equity (the "Texas Ratio"[10]), this indicator had improved as at 30th June 2017 to 102.8%[11] (109.4% at the end of 2016 for the stand-alone perimeter).

Coverage for non-performing exposures improved as a consequence to 40.23% from 35.60% in December, a reflection of an appreciable increase for the unlikely-to-pay category, notwithstanding the high percentage of positions backed by collateral and a prudential loan-to-value (LTV) ratio for loans granted by the Group.
If positions written-off are considered in relation to creditor legal actions still in progress[12], coverage stood at 48.84% (44.62% at the end of 2016).

As concerns *performing loans*, which grew in the first half (+€1.2 billion), coverage at the end of June was 0.52%, marginally down on 0.54% in December, the result, amongst other things, of an increase in the percentage of low risk positions.

Forborne exposures gross of impairment losses amounted to €6.9 billion as at 30th June 2017, of which €5.8 billion relating to the stand-alone UBI Banca Group and they were almost unchanged since December.

As already reported, the performance of the item and its composition are also affected by forbearance regulations[13] introduced in September 2014.
In fact non-performing positions must pass a minimum period of one year (cure period), after which the return of the customer's credit quality is assessed before it can be reclassified among performing positions. On the other hand forborne positions classified as performing must pass a minimum period of two years (a "probation period") before a position can be released from its forborne status and therefore be eliminated from the category in supervisory reports.

Net forborne exposures stood at €5.8 billion and the €4.9 billion relating to the stand-alone UBI Banca Group recorded a marginal reduction in the period.

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9 See the section "Significant events in the first half of 2017" in this report for further details.
10 This indicator is calculated according to the following ratio: total net non-performing loans/[book equity (exclusive of profit (for the part not relating to badwill)/inclusive of loss for the period) + non-controlling interests – total intangible assets].
11 103.6% if calculated excluding non-controlling interests.
12 Loan write-offs relating to creditor legal actions still in progress as at 30th June 2017 amounted to approximately €2.4 billion (€2.3 billion at the end of 2016) and related solely to the stand-alone UBI Banca Group.
13 This term is used to indicate a situation in which a debtor is not considered able to meet due dates and comply with contractual terms and conditions as a result of financial difficulties. Because of those difficulties the creditor decides to modify the due date and the terms and conditions of the contract in order to allow the debtor to honour the debt or to refinance it, either fully or partially.

Loans and advances to customers as at 30th June 2017(*)

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures	**(14.09%)**	**14,140,532**	**5,688,293**	**(8.97%)**	**8,452,239**	**40.23%**
- Bad loans	(7.51%)	7,537,570	3,488,011	(4.30%)	4,049,559	46.28%
- Unlikely-to-pay loans	(6.31%)	6,331,406	2,174,502	(4.41%)	4,156,904	34.34%
- Past due loans	(0.27%)	271,556	25,780	(0.26%)	245,776	9.49%
Performing loans	**(85.91%)**	**86,221,797**	**445,453**	**(91.03%)**	**85,776,344**	**0.52%**
Total		**100,362,329**	**6,133,746**		**94,228,583**	**6.11%**

The item as a percentage of the total is given in brackets.

Loans and advances to customers as at 31st December 2016 aggregate (***)

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures	**(14.47%)**	**14,374,296**	**5,116,701**	**(9.87%)**	**9,257,595**	**35.60%**
- Bad loans	(7.54%)	7,491,940	3,416,967	(4.35%)	4,074,973	45.61%
- Unlikely-to-pay loans	(6.53%)	6,485,754	1,605,085	(5.20%)	4,880,669	24.75%
- Past due loans	(0.40%)	396,602	94,649	(0.32%)	301,953	23.86%
Performing loans	**(85.53%)**	**84,972,335**	**460,619**	**(90.13%)**	**84,511,716**	**0.54%**
Total		**99,346,631**	**5,577,320**		**93,769,311**	**5.61%**

The item as a percentage of the total is given in brackets.

(*) Non-performing exposures as at 30th June 2017 benefited from the allocation of badwill amounting to €560.8 million, which gave rise to a positive reversal amounting to €14.5 million in the second quarter. The net amount of €546.3 million was allocated to impairment losses (mainly unlikely-to-pay loans and marginally too bad loans).

(**) The coverage is calculated as the ratio of impairment losses to gross exposure.
For bad loans only, consistent with Group policies, impairment losses and gross exposures are shown net of write-offs of positions still subject to ongoing bankruptcy proceedings.

(***) In order to allow a consistent comparison, the figures as at 31st December 2016 have been restated in aggregate form and the effects of the following have been neutralised:
- the performing loan of the New Banks (€1.2 billion) to the special purpose vehicle Gestione Crediti Spa (REV), in relation to the transfer of a first tranche of bad loans that took place in January 2016, was extinguished in the first quarter of 2017;
- the transfer to REV of the second tranche of bad loans that took place on 1st January 2017 and the subsequent transfer of non-performing loans to the Atlante II Fund concluded in the second quarter of 2017 (for a total of €1.3 billion).

Forborne exposures as at 30th June 2017

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(61.64%)**	**4,277,338**	**1,062,331**	**(55.12%)**	**3,215,007**	**24.84%**
- Bad loans	(11.20%)	777,206	283,652	(8.46%)	493,554	36.50%
- Unlikely-to-pay loans	(49.80%)	3,455,894	775,459	(45.96%)	2,680,435	22.44%
- Past due loans	(0.64%)	44,238	3,220	(0.70%)	41,018	7.28%
Performing loans	**(38.36%)**	**2,662,001**	**44,759**	**(44.88%)**	**2,617,242**	**1.68%**
Total		**6,939,339**	**1,107,090**		**5,832,249**	**15.95%**

The item as a percentage of the total is given in brackets.

Forborne exposures as at 30th June 2017 - *stand-alone UBI Banca Group*

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(60.95%)**	**3,539,506**	**835,989**	**(54.82%)**	**2,703,517**	**23.62%**
- Bad loans	(13.22%)	767,615	280,484	(9.88%)	487,131	36.54%
- Unlikely-to-pay loans	(47.10%)	2,735,311	553,316	(44.24%)	2,181,995	20.23%
- Past due loans	(0.63%)	36,580	2,189	(0.70%)	34,391	5.98%
Performing loans	**(39.05%)**	**2,267,382**	**38,968**	**(45.18%)**	**2,228,414**	**1.72%**
Total		**5,806,888**	**874,957**		**4,931,931**	**15.07%**

The item as a percentage of the total is given in brackets.

Forborne exposures as at 31st December 2016 - *stand-alone UBI Banca Group*

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(58.33%)**	**3,382,817**	**778,454**	**(52.31%)**	**2,604,363**	**23.01%**
- Bad loans	(11.17%)	647,704	226,924	(8.45%)	420,780	35.04%
- Unlikely-to-pay loans	(46.78%)	2,712,955	550,273	(43.44%)	2,162,682	20.28%
- Past due loans	(0.38%)	22,158	1,257	(0.42%)	20,901	5.67%
Performing loans	**(41.67%)**	**2,416,725**	**42,408**	**(47.69%)**	**2,374,317**	**1.75%**
Total		**5,799,542**	**820,862**		**4,978,680**	**14.15%**

The item as a percentage of the total is given in brackets.

(*) Coverage is calculated as the ratio of impairment losses to gross exposure.

Loans to customers: changes in gross non-performing exposures in the first half of 2017 (*)

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2017	**7,260,761**	**5,119,194**	**141,477**	**12,521,432**
Increases	**2,045,978**	**3,505,269**	**349,712**	**5,900,959**
transfers from performing exposures	34,802	467,054	214,096	715,952
transfers from other classes of non-performing exposures	542,671	146,476	1,739	690,886
other increases	1,468,505	2,891,739	133,877	4,494,121
Decreases	**-1,769,169**	**-2,293,057**	**-219,633**	**-4,281,859**
transfers into performing exposures	-3,106	-199,406	-32,582	-235,094
write-offs	-1,161,866	-650,727	-	-1,812,593
payments received	-217,175	-473,843	-30,751	-721,769
disposals	-378,602	-427,493	-293	-806,388
transfers to other classes of non-performing exposure	-8,367	-526,581	-155,938	-690,886
other decreases	-53	-15,007	-69	-15,129
Final gross exposure as at 30th June 2017	**7,537,570**	**6,331,406**	**271,556**	**14,140,532**

Loans to customers: changes in gross non-performing exposures in the first half of 2017 - *stand-alone UBI Banca Group*

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2017	**7,260,761**	**5,119,194**	**141,477**	**12,521,432**
Increases	**559,604**	**817,234**	**197,259**	**1,574,097**
transfers from performing exposures	30,980	397,725	187,216	615,921
transfers from other classes of non-performing exposures	484,915	124,160	1,000	610,075
other increases	43,709	295,349	9,043	348,101
Decreases	**-571,867**	**-1,197,968**	**-179,401**	**-1,949,236**
transfers into performing exposures	-3,106	-175,659	-21,373	-200,138
write-offs (**)	-314,541	-21,605	-	-336,146
payments received	-214,544	-457,285	-25,499	-697,328
disposals	-31,934	-58,336	-150	-90,420
transfers to other classes of non-performing exposure	-7,689	-470,076	-132,310	-610,075
other decreases	-53	-15,007	-69	-15,129
Final gross exposure as at 30th June 2017	**7,248,498**	**4,738,460**	**159,335**	**12,146,293**

Loans to customers: changes in gross non-performing exposures in the first quarter of 2017 - *stand-alone UBI Banca Group*

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2017	**7,260,761**	**5,119,194**	**141,477**	**12,521,432**
Increases	**254,220**	**397,828**	**102,399**	**754,447**
transfers from performing exposures	11,266	206,813	98,982	317,061
transfers from other classes of non-performing exposures	210,399	59,421	15	269,835
other increases	32,555	131,594	3,402	167,551
Decreases	**-288,565**	**-492,355**	**-88,585**	**-869,505**
transfers into performing exposures	-878	-80,973	-11,035	-92,886
write-offs (**)	-143,207	-3,951	-	-147,158
payments received	-113,654	-199,309	-16,150	-329,113
disposals	-25,807	-988	-150	-26,945
transfers to other classes of non-performing exposure	-5,019	-203,569	-61,247	-269,835
other decreases	-	-3,565	-3	-3,568
Final gross exposure as at 31st March 2017	**7,226,416**	**5,024,667**	**155,291**	**12,406,374**

Loans to customers: changes in gross non-performing exposures in the first half of 2016 - *stand-alone UBI Banca Group*

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2016	**6,987,763**	**6,179,999**	**266,525**	**13,434,287**
Increases	**597,018**	**896,723**	**278,285**	**1,772,026**
transfers from performing exposures	45,133	356,628	269,243	671,004
transfers from other classes of non-performing exposures	523,508	237,199	123	760,830
other increases	28,377	302,896	8,919	340,192
Decreases	**-369,229**	**-1,215,062**	**-341,864**	**-1,926,155**
transfers into performing exposures	-1,377	-211,512	-56,383	-269,272
write-offs (**)	-184,710	-12,188	-6	-196,904
payments received	-165,845	-440,385	-27,659	-633,889
disposals	-6,083	-	-	-6,083
transfers to other classes of non-performing exposure	-8,383	-505,529	-246,918	-760,830
other decreases	-2,831	-45,448	-10,898	-59,177
Final gross exposure as at 30th June 2016	**7,215,552**	**5,861,660**	**202,946**	**13,280,158**

(*) The figures stated include the entrance on 1st April 2017 of the non-performing positions of the New Banks within the item "other increases" and the sales made by the acquired Banks to the Atlante II Fund within "other decreases" (write-offs and disposals). Therefore, in order to allow a consistent comparison with previous periods, the table also gives figures for the stand-alone UBI Banca Group.

(**) The item includes "write-offs", and that is write-offs subject to bankruptcy proceedings that are still ongoing and to true debt cancellations, and that is write-offs relating to bankruptcy proceedings that have been concluded in the period.

BAD LOANS

Gross bad loans (attributable primarily to the stand-alone UBI Banca Group) remained more or less unchanged since December at €7.5 billion (+€45.6 million; +0.6%), the aggregate result of an increase for the New Banks (+€57.9 million), which was partially offset by a decrease in the stand-alone perimeter (-€12.3 million), in the absence of disposals for any significant amount in the period.

Disposals of bad loans, mainly unsecured, were carried out in the first half calculated on management accounting terms at approximately €25 million gross (of which €8.8 million relating to UBI Leasing).

Similarly, *net bad loans* also remained stable at €4 billion. The slight decrease recorded (-€25.4 million; -0.6%) was mainly attributable to the stand-alone UBI Banca Group (-€27.5 million), compared with only a slight increase in the total for the New Banks (+€2.1 million), which benefited from part of the allocation of badwill (€28 million).

As concerns the stand-alone UBI Banca Group, *net bad loans backed by collateral* were unchanged at €3.1 billion, accounting for 79.2% of the total (78.7% at the end of 2016), while the percentage of net bad loans with no backing in terms of either collateral or personal guarantee fell to 12.7% (12.9% at the end of 2016).

An analysis of *movements*[14] in the first six months of the year, compared with the same period of 2016 relating to the stand-alone Group only, shows the following:

- a reduction in total new inflows of bad loans (-9.3%), which involved both new inflows from performing status – which continued to remain marginal – and also transfers from other categories of non-performing exposures and unlikely-to-pay exposures;
- a 70% increase in write-offs;
- an increase in receipts and profits on disposals.

As a result of an increase in the size of the loan portfolio, the *ratio of bad loans to loans* fell to 7.51% from 7.54% in December in gross terms and to 4.30% (from 4.35%) in net terms.

Coverage improved to 46.28% (45.61% at year-end) as a consequence, amongst other things, of the aforementioned allocation of badwill.
If cases written-off to the income statement relating to creditor actions still in progress are also considered, coverage would in reality have been 59.17% (58.56% in December).

With regard on the other hand to bad loans not backed by collateral in the stand-alone perimeter, coverage was 78.60% at the end of the first half (78.69% at the end of 2016) considered gross of the aforementioned write-offs.

UNLIKELY-TO-PAY LOANS

Gross unlikely-to-pay loans amounted to €6.3 billion (of which €4.7 billion relating to the stand-alone UBI Banca Group), down €154.3 million over six months, attributable primarily to the stand-alone perimeter (-€380.7 million), compared with an increase for the New Banks (+€226.4 million).

During the period the stand-alone Group disposed of positions amounting to over €67 million in management accounting terms.

An analysis of *movements*[14] in the first six months of the year compared with the same period of 2016 relating to the stand-alone Group shows the following:

- an overall reduction in new inflows (-12%), due to a reduction in transfers from exposures past due and/or in arrears (-47.7%);
- an increase in write-offs, receipts and profits on disposals;

14 The table showing changes in gross non-performing exposures in the first half of 2017 for the UBI Banca Group was affected by the entrance on 1st April 2017 of the non-performing positions of the New Banks and also by the sale of these by those banks to the Atlante II Fund in the second quarter and consequently this does not allow an analysis of risk in terms that are consistent with previous periods.

- a 7% fall in transfers from other non-performing categories, mainly bad loans;
- a 17% decrease in outflows to performing status.

Net unlikely-to-pay loans stood at €4.2 billion, down significantly on December (-€723.8 million; -14.8%). This reduction included a decrease of €420.6 million in the total for the New Banks which benefited primarily from the allocation of badwill (€518.3 million).

At the same time *coverage* rose to 34.34% from 24.75% in December.

Net unlikely-to-pay loans backed by collateral in the stand-alone perimeter fell to €2.7 billion (€2.9 billion in December) accounting for 74.9% of the total (74.7% at the end of 2016).

EXPOSURES PAST DUE AND/OR IN ARREARS

Gross exposures past due and/or in arrears, subject by nature to a certain variability, were down 31.5% over six months, falling from €396.6 million to €271.6 million, a reduction of -€125 million, attributable entirely to the New Banks (-€142.9 million; -56%).

An analysis of *movements*[14] in the first six months of the year for the UBI Banca stand alone Group compared with the same period of 2016 shows the following:

- a fall of €82 million (-30.5%) in new inflows from performing loan status, which confirms the underlying trend in progress since the beginning of 2013;
- a natural reduction at the same time in transfers to other categories of non-performing loans, mainly to unlikely-to-pay loans (-114.6 million; -46.4%);
- a decrease in outflows to performing status, in relation to the progressive reduction in the volumes of the inflows.

Coverage fell to 9.49% from 23.86% in December as a consequence of a reduction in the totals for the banks acquired, characterised as at 31st December 2016 by high average coverage in view of the transfer of some loans to the Atalanta II Fund.

The interbank market and the liquidity position

The net interbank position of the UBI Banca Group as at 30th June 2017 was debt of -€7.7 billion, down compared with -€9.6 billion at the end of December (the figure was restated in aggregate terms in order to take account of the entry of the New Banks to the scope of consolidation from 1st April 2017). The negative balance was closely related to debt with the central bank for refinancing operations (TLTRO IIs totalling €12.5 billion). Net of business with central banks, the net interbank position was one of debt, but decidedly smaller in amount, at -€1.3 billion in line with approximately -€1 billion as at 31st December 2016.

Net interbank position

Figures in thousands of euro	30.6.2017	31.12.2016 aggregate
Loans and advances to banks	8,793,116	4,820,974
of which: loans to central banks	*6,010,582*	*1,452,927*
Due to banks	16,530,503	14,458,089
of which: due to central banks	*12,492,078*	*10,113,625*
Net interbank position	**-7,737,387**	**-9,637,115**
Loans and advances excluding central banks	2,782,534	3,368,047
Due to banks excluding central banks	4,038,425	4,344,464
Net interbank position net of central banks	**-1,255,891**	**-976,417**

Even following the acquisition of the New Banks, the Group continues to maintain a more than positive position in terms of liquidity buffers, demonstrated, amongst other things, by specific short-term (liquidity coverage ratio) and structural (net stable funding ratio) Basel 3 indicators, both greater than 100%[1].

It must also be stated that these indicators would be greater than one even in the presence of an ordinary funding structure not based on TLTRO II support.

Transactions on the interbank market in the first half of the year resulted in the movements shown below.

Loans to banks: composition

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Loans to central banks	**6,010,582**	**68.4%**	**1,452,927**	**30.1%**	**4,557,655**	**n.s.**
Compulsory reserve requirements	6,010,582	68.4%	1,452,927	30.1%	4,557,655	n.s.
Other	-	-	-	-	-	-
Loans and advances to banks	**2,782,534**	**31.6%**	**3,368,047**	**69.9%**	**-585,513**	**-17.4%**
Current accounts and deposits	1,285,048	14.6%	1,566,213	32.5%	-281,165	-18.0%
Term deposits	29,904	0.3%	73,879	1.6%	-43,975	-59.5%
Other financing:	1,467,271	16.7%	1,727,650	35.8%	-260,379	-15.1%
- reverse repurchase agreements	-	-	-	-	-	-
- other	*1,467,271*	*16.7%*	*1,727,650*	*35.8%*	*-260,379*	*-15.1%*
Debt instruments	311	0.0%	305	0.0%	6	-
Total	**8,793,116**	**100.0%**	**4,820,974**	**100.0%**	**3,972,142**	**82.4%**

Loans to banks almost doubled to €8.8 billion (+€4 billion) mainly due to an increase in liquidity held with central banks consisting of the centralised account for the compulsory reserve, which rose to €6 billion (up €4.6 billion on December). This is an investment of Group liquidity which had already partially commenced in March 2017 (€1.85 billion) in the form of overnight deposits held with central bank, which were converted into compulsory reserves (available part) in the second quarter of the year.

1 The Commission Delegated Regulation (EU) 2015/61 established the introduction of the LCR indicator from 1st October 2015 with a minimum level requested initially set at 60%; 70% from 1st January 2016; 80% from 1st January 2017.

The available compulsory reserve, in addition to the overnight deposit, has progressively received a contribution from the New Banks, a contribution from the sale of part of the HTM portfolio and also the proceeds from a reinvestment.

As concerns loans to other banks, amounting to €2.8 billion, this item has fallen by €586 million, attributable primarily to both current accounts (-€281 million) and term deposits -€44 million) as part of ordinary business on the interbank market.
Other financing (€1.5 billion, down over €260 million on December) partly reflects lending business of the former network banks to customers (granting loans to banking counterparties that are part of industrial/or financial groups), but it consists above all of margin deposits and liquidity accounts (totalling over €800 million) with international banking counterparties in relation to special purpose entities used for the two covered bond programmes.

At the end of the first half, interbank funding amounted to €16.5 billion, up €2.1 billion compared with December 2016.

Funding continued to consist of €12.5 billion[2] from unconventional refinancing operations with the ECB – TLTRO IIs (targeted refinancing operations designed to expand lending to businesses and households) as follows: UBI Banca was allotted €10 billion of funds with value date 29th June 2016 (maturity date 24th June 2020 and an interest rate of 0%) and a further €2.5 billion with value date 29th March 2017 (maturity date 24th March 2021 and with the same interest rate).

Net of that funding, amounts due to banks stood at €4 billion, slightly down on a half-yearly basis (-€306 million), the aggregate result of the following changes:

- -€23 million for current accounts and term deposits as part of ordinary business on the market;
- -€183 million for repurchase agreements, down to €1.3 billion and relating almost entirely to the structuring of operations with market counterparties with investments in US Treasuries as the underlying;
- -€102 million for "financing – other", within which EIB loans and the relative repayments are recognised. These are medium to long-term funding transactions with the European Investment Bank designed to support SMEs, which as at 30th June totalled €1.62 billion. This funding may be drawn on directly both by the Parent and by the former network banks.

Finally, the item "other payables" includes funds relating to credit card settlement arrangements with Istituto Centrale Banche Popolari (approximately €20 million, marginally up on December).

Due to banks: composition

Figures in thousands of euro	30.6.2017	%	31.12.2016 aggregate	%	Changes amount	Changes %
Due to central banks	**12,492,078**	**75.6%**	**10,113,625**	**70.0%**	**2,378,453**	**23.5%**
Due to banks	**4,038,425**	**24.4%**	**4,344,464**	**30.0%**	**-306,039**	**-7.0%**
Current accounts and deposits	842,523	5.0%	811,843	5.6%	30,680	3.8%
Term deposits	46,040	0.3%	99,422	0.6%	-53,382	-53.7%
Financing:	3,107,296	18.8%	3,392,151	23.5%	-284,855	-8.4%
- repurchase agreements	*1,336,876*	*8.1%*	*1,519,740*	*10.5%*	*-182,864*	*-12.0%*
- other	*1,770,420*	*10.7%*	*1,872,411*	*13.0%*	*-101,991*	*-5.4%*
Other payables	42,566	0.3%	41,048	0.3%	1,518	3.7%
Total	**16,530,503**	**100.0%**	**14,458,089**	**100.0%**	**2,072,414**	**14.3%**

2 The carrying amount is comprehensive of interest expense accruing and any hedging costs there may be.

Available liquidity reserve

Management accounting figures in millions of euro - net of haircuts	30.6.2017 (*)	%	31.12.2016 *Stand-Alone UBI Banca Group*	%	Changes amount	Changes %
ECB pool	18,948	74.4%	16,102	57.6%	2,846	17.7%
of which government securities (A)	*9,493*	*37.3%*	*2,917*	*10.4%*	*6,576*	*225.4%*
of which Italian government securities (a)	*8,153*	*32.0%*	*2,917*	*10.4%*	*5,236*	*179.5%*
Liquid securities not included in the ECB pool	4,196	16.5%	8,284	29.6%	-4,088	-49.3%
of which government securities (B)	*4,196*	*16.5%*	*8,284*	*29.6%*	*-4,088*	*-49.3%*
of which Italian government securities (b)	*4,019*	*15.8%*	*7,498*	*26.8%*	*-3,479*	*-46.4%*
Government securities refinanced (C)	*2,304*	*9.1%*	*3,574*	*12.8%*	*-1,270*	*-35.5%*
of which Italian government securities (c)	*923*	*3.6%*	*2,080*	*7.4%*	*-1,157*	*-55.6%*
Liquidity reserve	**25,448**	**100.0%**	**27,960**	**100.0%**	**-2,512**	**-9.0%**
of which government securities (A+B+C)	*15,993*	*62.9%*	*14,775*	*52.8%*	*1,218*	*8.2%*
of which Italian government securities (a+b+c)	*13,095*	*51.4%*	*12,495*	*44.6%*	*600*	*4.8%*
Compulsory reserve available and liquid assets	7,401	29.1%	-	-	*7,401*	-
ECB auctions (portion pledged)	-12,500	-49.1%	-10,000	-35.7%	2,500	25.0%
Government securities refinanced	-2,304	-9.1%	-3,574	-12.8%	-1,270	-35.5%
Available liquidity reserve	**18,045**	70.9%	**14,386**	51.5%	**3,659**	**25.4%**
Available reserves eligible for the purposes of the LCR indicator	*17,874*	*70.2%*	*11,201*	*40.1%*	*6,673*	*59.6%*

(*) The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. The comparative figures on the other hand relate to the stand-alone UBI Banca Group.

"Available reserves eligible for the purposes of the LCR indicator" are liquid assets that satisfy the general and operational requirements set respectively by articles 7 and 8 of Commission Delegated Regulation (EU) No. 2015/61 of 10th October 2014 [which added to Regulation (EU) No. 575/2013 of the Parliament] and the eligibility criteria set in Chapter 2 of that same regulation.

As at 30th June 2017 the Group's liquidity reserve[3] amounted to €25.45 billion (net of haircuts), and was composed as follows:

- €18.95 billion of assets deposited with the ECB collateral pool to back access to the TLTRO II programme already mentioned (inclusive of the increase in financing that took place at the end of March);
- €4.2 billion of readily marketable spot and forward assets (mainly Italian government securities), not lodged with the collateral pool available to the Parent treasury for short-term liquidity management. The fall in this item that took place in the period is attributable primarily to the transfer of government securities to the collateral pool (of which over €5.2 billion consisting of Italian government securities) to back the increase in operations with the ECB;
- €2.3 billion of refinanced government securities (liability net of asset positions). While refinancing of US Treasuries remained stable (approximately €1.4 billion), recourse to refinancing of Italian government securities with the *Cassa di Compensazione e Garanzia* (CCG – a central counterparty clearing house) reduced, down to €0.9 billion from €2.1 billion before).

The liquidity reserve as a whole fell to €2.5 billion compared with December 2016, the aggregate result of a decrease in "non-pool" liquidity and a reduction in securities subject to refinancing, which was only partially offset by the expansion in the ECB pool, generated mostly by government securities.
As shown in the table, government securities grew €1.2 billion on a half yearly basis, of which +€0.6 billion consisting of Italian government securities, most of which attributable to the entry of the New Banks to the Group, which contributed sovereign securities amounting to €716 million, net of haircuts, consisting almost entirely of Italian government securities.

The Group pursues a policy to gradually lighten and diversify the portfolios (by geographical area and by sovereign and corporate issuer), designed nevertheless to maintain sufficiently large investments in domestic government securities to ensure optimum management of liquidity by means of the eligibility of these.

The total liquidity reserve amounts to approximately 41% of on demand direct funding consisting of current accounts and sight deposits as at 30th June 2017.

3 An asset is considered liquid or marketable if the credit institution is able to convert it into cash rapidly without encountering practical or legal difficulties.

In terms of composition by category of financial instrument, the liquidity reserve (€25.45 billion) recorded a fall in eligible or readily marketable proprietary securities (-€3 billion, of which -€1.78 million nominal), to be interpreted, amongst the other things, as a consequence of the disposals in the HTM and AFS portfolios, but also the enforcement of new haircuts applied by the ECB on Italian sovereign debt after DBRS's downgrade on 13th January 2017 [from A (low) to BBB (high)].
That reduction was partly offset by an increase (+€0.5 billion) in loans eligible for refinancing due to participation in ABACO, as a result of the contribution of new financing.

As at 30th June 2017, in view of the portion amounting to €12.5 billion to back TLTRO II funding and the portion to back repurchase agreements amounting to €2.3 billion, with account also taken of available liquidity and the available part of the compulsory reserve (€7.4 billion), the margin of available liquidity stood at €18 billion, inclusive of €17.9 billion of reserves eligible for the purposes of the LCR indicator.
For the stand-alone UBI Banca Group only, the available reserves amounted to €14.4 billion as at 31st December 2016, while securities available for the purposes of the LCR indicator amounted to €11.2 billion[4] (consisting mainly of Italian government securities).

The margin available amounts to approximately 29% of on demand direct funding consisting of current accounts and sight deposits as at 30th June 2017.

Liquidity reserve: composition by type of underlying assets

Figures in billions of euro	30.6.2017 (*) nominal amount	30.6.2017 (*) amount net of haircuts	31.3.2017 Stand-Alone UBI Banca Group nominal amount	31.3.2017 Stand-Alone UBI Banca Group amount net of haircuts	31.12.2016 Stand-Alone UBI Banca Group nominal amount	31.12.2016 Stand-Alone UBI Banca Group amount net of haircuts
Proprietary securities (AFS, HTM and L&R) (1)	12.04	12.37	13.10	13.38	13.82	15.36
Covered bonds ("self-retained" issues)	4.26	3.72	4.44	3.88	4.44	3.87
Securitisation of residential mortgages of the former B@nca 24-7	0.73	0.65	0.76	0.68	0.97	0.66
UBI Leasing assets securitisation	2.10	1.87	2.10	1.87	2.10	1.77
Securitisation of performing residential mortgages	2.09	1.78	2.09	1.77	2.09	1.74
Loans eligible due to participation in ABACO (2)	8.04	5.06	7.26	4.59	7.16	4.56
Liquidity reserve	**29.26**	**25.45**	**29.75**	**26.17**	**30.58**	**27.96**

(*) The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. The figures for previous periods on the other hand relate to the stand-alone UBI Banca Group.

(1) Proprietary securities, stated both at nominal value and net of haircuts, include the amount for refinanced government securities. The item is therefore fully comparable with the figures reported in the table "Available liquidity reserve", where the allocation (pool, non-pool, refinanced) of the government securities included here is reported. These represent the most significant part of the Group's liquid assets.

(2) ABACO (bank assets eligible as collateral) is the name given to procedures drawn up by the Bank of Italy for the management of loans eligible for refinancing. In order to qualify as eligible, an asset must meet specific requirements contained in Bank of Italy regulations concerning the following: type of debtor (public sector, non-financial company, international and supranational institutions), credit rating (set by external ratings, rating tools of approved providers and internal ratings [for banks authorised by the Bank of Italy to use internal rating models]), minimum amount (€0.03 million for domestic loans) and type of asset.

4 The objectives, tolerance thresholds and relative limits for the available liquidity reserve were measured with reference to the reserve of readily marketable assets, net of haircuts as laid down by Commission Delegated Regulation (EU) No. 61/2015.

Financial activities

Net financial assets of the Group as at 30th June 2017 totalled €17.2 billion, of which €13.9 billion attributable to the stand-alone UBI Banca Group, down 18.2% compared with December 2016.

As shown in the table, the largest portfolios in percentage terms were the AFS (62%) and HTM (33.4%) portfolios. In terms of type of financial instrument, 66.2% of portfolios consisted of Italian government securities, down over six months to €11.9 billion from €16.6 billion before. Other debt securities, on the other hand, grew over €900 million to €4.7 billion (as a result of investments in corporate and government securities of emerging countries) while equity instruments remained stable in the period and units of UCITS, now completely marginal, were down 19.3%.

Financial assets/liabilities

Figures in thousands of euro	30.6.2017 Carrying amount	30.6.2017 %	31.12.2016 aggregate Carrying amount	31.12.2016 aggregate %	Changes amount	Changes %
Financial assets held for trading	671,482	3.7%	881,457	4.0%	-209,975	-23.8%
of which: financial derivatives contracts	*534,046*	*3.0%*	*669,197*	*3.0%*	*-135,151*	*-20.2%*
Financial assets designated at fair value	161,374	0.9%	218,743	1.0%	-57,369	-26.2%
Available-for-sale financial assets	11,128,949	62.0%	13,516,860	61.6%	-2,387,911	-17.7%
Held-to-maturity investments	5,993,150	33.4%	7,327,544	33.4%	-1,334,394	-18.2%
Financial assets (a)	**17,954,955**	**100.0%**	**21,944,604**	**100.0%**	**-3,989,649**	**-18.2%**
of which:						
- debt instruments	*16,644,509*	*92.7%*	*20,444,241*	*93.2%*	*-3,799,732*	*-18.6%*
- of which: Italian government securities	*11,893,379*	*66.2%*	*16,613,349*	*75.7%*	*-4,719,970*	*-28.4%*
- equity instruments	*449,936*	*2.5%*	*426,734*	*1.9%*	*23,202*	*5.4%*
- Units in UCITS.	*326,464*	*1.8%*	*404,432*	*1.8%*	*-77,968*	*-19.3%*
Financial liabilities held for trading (b)	**710,665**	**100.0%**	**861,478**	**100.0%**	**-150,813**	**-17.5%**
of which: financial derivatives contracts	*710,665*	*100.0%*	*861,478*	*100.0%*	*-150,813*	*-17.5%*
Net financial assets (a-b)	**17,244,290**		**21,083,126**		**-3,838,836**	**-18.2%**

Management accounting figures[1] for 30th June 2017, show the following:

- in terms of *type of financial instrument*, the Group's securities portfolio was composed as follows: 90% (92.6% at the end of 2016) of government securities; 6% (5.7%) of corporate securities (equally divided between the financial sector and corporate issuers; 98% of these investments have an "investment grade" rating, of which 64% concentrated in the BBB segment and 30% in the A segment); the remaining 4% (1.7%) of hedge funds, funds and equities (which included the stakes held in the Atlante Fund);
- from a *financial viewpoint*, floating rate securities accounted for 60.5% (51.8%) of the portfolio and fixed rate securities for 38.4% (47.2%), while the remainder was composed of structured instruments, held mainly in the AFS portfolio, convertible securities, equities and funds;
- as regards the *currency of denomination*, 88.8% (89.7%) of the securities were denominated in euro and 11.2% (10.3%) in dollars with currency hedges, while in terms of *geographical distribution,* 87.8% (88.8%) of the investments (excluding hedge funds) were issued from countries in the euro area;
- an analysis by *rating* (for the bond portfolio only) shows no changes compared with the end of the year and 99.9% of the portfolio continued to consist of "investment grade" securities.

1 The management accounting analysis relates to a smaller portfolio than that stated in the consolidated financial statements, because they exclude "longer-term" AFS assets, some smaller portfolios and also financial derivatives contracts held for trading. Securities relating to insurance business are not included.

Available-for-sale financial assets

"Available-for-sale financial assets" (AFS), asset item 40, are measured at fair value with the recognition of changes in a separate fair value reserve in equity, except for losses due to reductions in value that are considered significant or prolonged. In this case the reduction in value that occurred in the period is recognised through profit or loss, the amount being transferred from the negative or positive reserve that may have been recognised in equity previously. Following the recognition of impairment losses, recoveries in value continue to be recognised in the separate fair value reserve in equity if they relate to equity instruments and through profit and loss if they relate to debt instruments. Any decreases below the level of the previous impairment losses are recognised through profit and loss.
Definitions relating to the fair value hierarchy (levels 1, 2 and 3) are given in Section A.4 of Part A – Accounting Policies in the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

Available-for-sale financial assets: composition

	30.6.2017				31.12.2016 aggregate				Changes	
Figures in thousands of euro	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
Debt instruments	10,247,172	281,712	14,308	10,543,192	12,629,470	270,618	23,191	12,923,279	-2,380,087	-18.4%
of which: Italian government securities	*5,797,304*	-	-	*5,797,304*	*9,098,427*	-	-	*9,098,427*	*-3,301,123*	*-36.3%*
Equity instruments	25,587	239	309,200	335,026	27,110	9,808	296,044	332,962	2,064	0.6%
Units in UCITS	23,653	160,149	66,929	250,731	35,843	110,648	114,128	260,619	-9,888	-3.8%
Financing	-	-	-	-	-	-	-	-	-	-
Total	**10,296,412**	**442,100**	**390,437**	**11,128,949**	**12,692,423**	**391,074**	**433,363**	**13,516,860**	**-2,387,911**	**-17.7%**

Available-for-sale financial assets as at 30th June 2017 stood at €11.1 billion, of which approximately €7.9 billion attributable to the stand-alone Group (€9.6 billion at the end of the year) and the remaining €3.2 billion (€3.9 billion at the end of the year) to the New Banks acquired, which included €1.7 billion of securities relating to insurance business. It follows that the change in the portfolio in the first half (-€2.4 billion) was attributable primarily to the perimeter of the stand-alone Group.

The table shows debt instruments amounting to €10.5 billion, including €5.8 billion of *Italian government securities*, down €3.3 billion in the period. Within the latter, €3.6 billion related to the stand-alone Group (down €2.2 billion over six months): the reduction that occurred was caused by sales of €2.4 billion nominal, only partially offset by purchases for €0.5 billion nominal, as well as the impact of the decline in market prices.
We report, with regard to the portfolio of the New Banks acquired (€2.2 billion, of which €868 million relating to insurance business), that BTPs and CTZs amounting to €426 million nominal net were sold in the second quarter (sales of €470 million nominal and purchases of €44 million nominal).
As concerns *other debt instruments,* on the other hand, the total was up €921 million due primarily to the purchase by the stand-alone Group of *Spanish bonos* amounting to €450 million nominal (€300 million nominal in the first quarter and €150 million in the second quarter) and *government securities of emerging countries* amounting to $100 million nominal (in the first three months). A switch transaction was carried out within the last category which involved securities with a nominal value of $56.9 million.
A switch transaction was also carried out on corporate bonds (sales of €136.3 million nominal and purchases of €133.3 million nominal).
As already reported, the changes shown in the tables take account of end of period accounting adjustments.

Equity instruments were almost unchanged at €335 million, of which €212 million attributable to the stand-alone UBI Banca Group, in line with the figure for the end of the year (€208 million). These securities are classified almost entirely within fair value level three: they include €12.2 million for the interest relating to the contribution to the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) for the intervention to support Cassa Di

Risparmio di Cesena (a further €4.2 million must be added to this amount to give a total of €16.4 million for the Group, following the contribution made by the New Banks acquired).
Units of UCITS amounted to €251 million and were comprised of investments of €84 million made by the stand-alone perimeter. The Polis Fund and two ETF funds were recognised in fair value level one, while the stakes held in the Atlante Fund amounting to €13.2 million were recognised in level three, an amount relating solely to the contributions paid in the second quarter, because the previous payments to these Venetian banks have been completely written off[2].

The item also includes €104 million of units relating to insurance business acquired with the entrance of the New Banks.

Amounts remain on the books for property funds amounting to approximately €12.9 million (€16.5 million at the end of 2016), the most substantial of which is the Polis Fund, classified within fair value level one and amounting to €8.1 million (€11.3 million at the end of 2016). Redemptions were recognised in capital account with regard to the latter amounting to €4.2 million, partially offset by increases in fair value.

Held-to-maturity investments

"Held-to-maturity investments", asset item 50, are comprised of financial instruments that an entity intends and is able to hold to maturity.
These assets are measured at amortised cost with the recognition of impairment losses, or recoveries in value when the reason for the impairment no longer exists, through profit or loss.

Held-to-maturity investments: composition

Figures in thousands of euro	30.6.2017					31.12.2016 aggregate					Changes	
	Carrying amount	Fair Value L 1	L 2	L 3	Total	Carrying amount	Fair Value L 1	L 2	L 3	Total	amount	%
Debt instruments	5,993,150	6,014,073	-	-	6,014,073	7,327,544	7,440,786	-	-	7,440,786	-1,334,394	-18.2%
of which: Italian government securities	*5,993,150*	*6,014,073*	*-*	*-*	*6,014,073*	*7,327,544*	*7,440,786*	*-*	*-*	*7,440,786*	*-1,334,394*	*-18.2%*
Financing	-	-	-	-	-	-	-	-	-	-	-	-
Total	**5,993,150**	**6,014,073**	**-**	**-**	**6,014,073**	**7,327,544**	**7,440,786**	**-**	**-**	**7,440,786**	**-1,334,394**	**-18.2%**

This portfolio, which relates entirely to the Parent, fell to approximately €6 billion from €7.3 billion at the end of 2016, consistent with decisions taken which led to the purchase, in the second quarter, of BTPs for €1 billion nominal with maturity in 2027 and the sale of BTPs for €2.05 billion nominal with maturity in 2020.

Financial instruments held for trading

Financial assets held for trading

Asset item 20, "Financial assets held for trading" (HFT), comprises financial trading instruments "used to generate a profit from short-term fluctuations in price". They are recognised at fair value through profit or loss – FVPL.
Definitions relating to the fair value hierarchy (levels 1, 2 and 3) are given in Section A.4 of Part A – Accounting Policies in the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

At the end of the first half financial assets held for trading amounted to €671.5 million, of which €537.8 million relating to the stand-alone Group and the remainder to the New Banks

2 The shares subscribed in the Atlante Fund in December 2016 had been recognised for an amount of €65.5 million, which rose to €70.6 million at the end of March following a payment made at the beginning of January and net of further impairment that had been recognised on them at the end of the quarter.

(of which €27.9 million relating to debt securities and units of UCITS as part of insurance business).
As shown in the table, debt instruments represent the main items for on-balance sheet assets and include *Italian government securities* amounting to €95.8 million. The item as a whole was down to approximately €83 million in the first half (-€82 million for Italian government securities) primarily due to movements recorded at the level of the stand-alone Group as follows:

- in the first quarter, maturities of BOTs amounting to €105 million nominal, only partially offset by the purchase of BTPs for €23.25 million nominal and Spanish bonos for €47 million nominal;
- in the second quarter, purchases and sales of BTPs and BOTs with a net positive balance of €3.75 million nominal and the sale of Spanish bonos for €47 million nominal, purchased in the first part of the year.

As already reported, the changes shown in the tables take account of end of period accounting adjustments.

Equity instruments, which stood at €33.3 million, recorded growth of €12 million in the period, mainly due to investments made by the New Banks in the first quarter of the year and not attributable to the management of the UBI Banca Group. In fact the stand-alone Group recorded an increase of €1.8 million to €6.7 million. The total of €33.3 million includes instruments relating to insurance business amounting to €26.2 million.

Units in UCITS, existing for a very small amount (€5.3 million), were down €3.8 million relating almost exclusively to previous business by the New Banks. The stand-alone Group reported a balance of €281 thousand as at 30th June, down compared with €672 thousand at the end of the year, following the sale in the first three months of funds held by UBI Pramerica, the Group's asset management company.

Financial assets held for trading include financial derivatives amounting to €534 million, of which €501.6 million attributable to the stand-alone Group (down €114.6 million from €616.2 million in December 2016).

Financial assets held for trading: composition

	30.6.2017				31.12.2016 aggregate				Changes	
Figures in thousands of euro	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
On-balance sheet assets										
Debt instruments	98,276	450	100	98,826	181,108	602	100	181,810	-82,984	-45.6%
of which: Italian government securities	*95,832*	-	-	*95,832*	*177,584*	-	-	*177,584*	*-81,752*	*-46.0%*
Equity instruments	33,186	40	44	33,270	21,183	41	44	21,268	12,002	56.4%
Units in UCITS	2,189	1,353	1,798	5,340	853	6,513	1,816	9,182	-3,842	-41.8%
Financing	-	-	-	-	-	-	-	-	-	-
Total (a)	**133,651**	**1,843**	**1,942**	**137,436**	**203,144**	**7,156**	**1,960**	**212,260**	**-74,824**	**-35.3%**
Derivative instruments										
Financial derivatives	1,791	505,608	26,647	534,046	1,408	635,817	31,972	669,197	-135,151	-20.2%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	**1,791**	**505,608**	**26,647**	**534,046**	**1,408**	**635,817**	**31,972**	**669,197**	**-135,151**	**-20.2%**
Total (a+b)	**135,442**	**507,451**	**28,589**	**671,482**	**204,552**	**642,973**	**33,932**	**881,457**	**-209,975**	**-23.8%**

Financial liabilities held for trading

Financial liabilities held for trading, which amounted to €710.7 million at the end of the first half, included €674.7 million of financial derivatives relating to the stand-alone Group, for which the amount and performance (-€125.3 million) must be interpreted in relation to that for the corresponding item recognised within financial assets held for trading.

Financial liabilities held for trading: composition

Figures in thousands of euro	30.6.2017 L 1	L 2	L 3	Carrying amount	31.12.2016 aggregate L 1	L 2	L 3	Carrying amount	Changes amount	%
On-balance sheet liabilities										
Due to banks	-	-	-	-	-	-	-	-	-	-
Due to customers	-	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-	-
Total (a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative instruments										
Financial derivatives	735	709,572	358	710,665	76	861,036	366	861,478	-150,813	-17.5%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	**735**	**709,572**	**358**	**710,665**	**76**	**861,036**	**366**	**861,478**	**-150,813**	**-17.5%**
Total (a+b)	**735**	**709,572**	**358**	**710,665**	**76**	**861,036**	**366**	**861,478**	**-150,813**	**-17.5%**

Financial assets designated at fair value

The item "financial assets designated at fair value" is comprised of financial instruments classified as such in application of the fair value option (FVO). These financial assets are recognised at fair value through profit or loss. Definitions relating to the fair value hierarchy (levels 1, 2 and 3) are given in Section A.4 of Part A – Accounting Policies in the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

Financial assets designated at fair value: composition

Figures in thousands of euro	30.6.2017 L 1	L 2	L 3	Carrying amount	31.12.2016 aggregate L 1	L 2	L 3	Carrying amount	Changes amount	%
Debt instruments	9,341	-	-	9,341	11,608	-	-	11,608	-2,267	-19.5%
of which: Italian government securities	7,093	-	-	7,093	9,794	-	-	9,794		
Equity instruments	3,677	2,000	75,963	81,640	1,555	3,000	67,949	72,504	9,136	12.6%
Units in UCITS	70,359	34	-	70,393	134,610	21	-	134,631	-64,238	-47.7%
Financing	-	-	-	-	-	-	-	-	-	-
Total	**83,377**	**2,034**	**75,963**	**161,374**	**147,773**	**3,021**	**67,949**	**218,743**	**-57,369**	**-26.2%**

Financial assets designated at fair value, amounted to €161.4 million and included the totals relating to the stand-alone Group amounting to €126 million follows:

- equity instruments – held as part of merchant banking and private equity business – amounted to €79.6 million, up €7.1 million in the first half due to the adjustment in the value of investments in Immobiliare Mirasole and Humanitas based on the exercise price for the call option that the Humanitas Group is expected to exercise;
- UCITS units amounting to €46.4 million, consisting solely of Tages Funds, recognised within fair value level one, and subject to changes due to movements in market prices: part of these funds were sold in the second quarter (the book value as at 31st December 2016 was €115.9 million, while the book value as at 30th June 2017 was €46.4 million).

The remaining €35.4 million of financial assets designated at fair value existing at the end of the first half consisted of equities and units relating to insurance business.

Exposure to sovereign debt risk

The table on the following page shows (presented with separate figures for insurance business given the different nature of the underlying risk) that the book value of the sovereign debt risk exposures of Group as at 30th June 2017 amounted to €16.3 billion, of which €15 billion attributable to securities held in portfolio by Group banks and €1.3 billion representing securities held in portfolio by the insurance companies.
At single country level the risk remains concentrated in Italy (€12.8 billion), in the United States (€1.4 billion, relating solely to banking business) and in Spain (a total of €1.7 billion).

As already reported, details of Group exposures are given on the basis that, according to the instructions issued by the European supervisory authority, (European Securities and Markets Authority, ESMA), *"sovereign debt" is defined as debt instruments issued by central and local governments and by government entities and also as loans granted to them.*

The distribution by maturity of Italian government securities held in portfolio is given below.

Maturities of Italian government securities

	30.6.2017					
Figures in thousands of euro	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Financial assets designated at fair value	**Carrying amount**	**%**
Up to 6 months	145	15,213	-	576	15,934	0.1%
Six months to one year	63,796	244,162	-	975	308,933	2.6%
One year to three years	6,541	1,277,802	-	4,784	1,289,127	10.8%
Three years to five years	10	393,780	1,123,326	239	1,517,355	12.8%
Five years to ten years	30	2,014,599	4,869,824	398	6,884,851	57.9%
Over ten years	25,310	1,851,748	-	121	1,877,179	15.8%
Total	**95,832**	**5,797,304**	**5,993,150**	**7,093**	**11,893,379**	**100.0%**

As shown in the table, the largest amounts lie in the range "five years to ten years" which accounts for 57.9% of the total. The investments in HTM securities in particular make a determining contribution here (€4.9 billion out of a total of €6.9 billion). This is followed by the "over ten years" range which incorporates almost all the investments classified as AFS.

Net of securities relating to the insurance business of the New Banks acquired (€875.2 million) the average life of the AFS portfolio at the end of June was 9.16 years, that of the HTM portfolio was 6.10 years, while that of government securities classified in the held for trading portfolio was 8.56 years

UBI Banca Group: exposures to sovereign debt risk

Country/portfolio of classification Figures in thousands of euro	Consolidated without insurance 30.6.2017 Nominal amount	Carrying amount	Fair value	Insurance 30.6.2017 Nominal amount	Carrying amount	Fair value
- Italy	**10,563,699**	**11,905,009**	**11,926,237**	**808,123**	**875,198**	**875,198**
financial assets and liabilities held for trading (net exposure)	94,832	95,832	95,832	-	-	-
available-for-sale financial assets*	4,251,382	4,934,432	4,933,712	801,237	868,105	868,105
held-to-maturity investments	5,335,000	5,993,150	6,014,073	-	-	-
financial assets designated at fair value	-	-	-	6,886	7,093	7,093
loans and receivables	882,485	881,595	882,620	-	-	-
- United States	**1,402,033**	**1,422,898**	**1,422,898**	**-**	**-**	**-**
available-for-sale financial assets	1,402,033	1,422,898	1,422,898	-	-	-
- Austria	**-**	**-**	**-**	**181**	**214**	**214**
financial assets designated at fair value	-	-	-	181	214	214
- Belgium	**118**	**118**	**118**	**-**	**-**	**-**
loans and receivables	118	118	118	-	-	-
- Bulgaria	**-**	**-**	**-**	**2,000**	**2,276**	**2,276**
available-for-sale financial assets	-	-	-	2,000	2,276	2,276
- France	**2**	**3**	**3**	**90,280**	**90,908**	**90,908**
financial assets and liabilities held for trading (net exposure)	2	3	3	-	-	-
available-for-sale financial assets	0	-	-	90,000	90,585	90,585
financial assets designated at fair value	0	-	-	280	323	323
- Germany	**2**	**3**	**3**	**728**	**798**	**798**
financial assets and liabilities held for trading (net exposure)	2	3	3	-	-	-
financial assets designated at fair value	-	-	-	728	798	798
- Latvia	**-**	**-**	**-**	**2,000**	**2,219**	**2,219**
available-for-sale financial assets	-	-	-	2,000	2,219	2,219
- Holland	**10**	**10**	**10**	**-**	**-**	**-**
loans and receivables	10	10	10	-	-	-
- Portugal	**-**	**-**	**-**	**5,000**	**5,218**	**5,218**
available-for-sale financial assets	-	-	-	5,000	5,218	5,218
- Rumania	**-**	**-**	**-**	**2,000**	**2,289**	**2,289**
available-for-sale financial assets	-	-	-	2,000	2,289	2,289
- Abu Dhabi	**4,381**	**4,458**	**4,458**	**-**	**-**	**-**
available-for-sale financial assets	4,381	4,458	4,458	-	-	-
- Saudi Arabia	**11,216**	**11,154**	**11,154**	**-**	**-**	**-**
available-for-sale financial assets	11,216	11,154	11,154	-	-	-
- Chile	**3,943**	**4,077**	**4,077**	**-**	**-**	**-**
available-for-sale financial assets	3,943	4,077	4,077	-	-	-
- Colombia	**23,046**	**27,659**	**27,659**	**-**	**-**	**-**
available-for-sale financial assets	23,046	27,659	27,659	-	-	-
- South Korea	**2,191**	**2,370**	**2,370**	**-**	**-**	**-**
available-for-sale financial assets	2,191	2,370	2,370	-	-	-
- Philippines	**13,144**	**17,634**	**17,634**	**-**	**-**	**-**
available-for-sale financial assets	13,144	17,634	17,634	-	-	-
- Indonesia	**37,415**	**37,554**	**37,554**	**-**	**-**	**-**
available-for-sale financial assets	37,415	37,554	37,554	-	-	-
- Israel	**6,134**	**6,246**	**6,246**	**-**	**-**	**-**
available-for-sale financial assets	6,134	6,246	6,246	-	-	-
- Kazakhstan	**12,706**	**13,651**	**13,651**	**-**	**-**	**-**
available-for-sale financial assets	12,706	13,651	13,651	-	-	-
- Lithuania	**4,381**	**5,150**	**5,150**	**-**	**-**	**-**
available-for-sale financial assets	4,381	5,150	5,150	-	-	-
- Morocco	**15,773**	**16,554**	**16,554**	**-**	**-**	**-**
available-for-sale financial assets	15,773	16,554	16,554	-	-	-
- Mexico	**29,180**	**30,518**	**30,518**	**-**	**-**	**-**
available-for-sale financial assets	29,180	30,518	30,518	-	-	-
- Oman	**5,608**	**5,569**	**5,569**	**-**	**-**	**-**
available-for-sale financial assets	5,608	5,569	5,569	-	-	-
- Panama	**19,366**	**20,654**	**20,654**	**-**	**-**	**-**
available-for-sale financial assets	19,366	20,654	20,654	-	-	-
- Peru	**14,458**	**19,387**	**19,387**	**-**	**-**	**-**
available-for-sale financial assets	14,458	19,387	19,387	-	-	-
- Poland	**13,144**	**14,141**	**14,141**	**-**	**-**	**-**
available-for-sale financial assets	13,144	14,141	14,141	-	-	-
- Qatar	**3,741**	**3,765**	**3,765**	**-**	**-**	**-**
available-for-sale financial assets	3,741	3,765	3,765	-	-	-
- Slovakia	**1,753**	**1,926**	**1,926**	**-**	**-**	**-**
available-for-sale financial assets	1,753	1,926	1,926	-	-	-
- Rumania	**31,195**	**35,100**	**35,100**	**-**	**-**	**-**
available-for-sale financial assets	31,195	35,100	35,100	-	-	-
- Slovenia	**9,354**	**10,732**	**10,732**	**-**	**-**	**-**
available-for-sale financial assets	9,354	10,732	10,732	-	-	-
- Spain	**1,200,512**	**1,371,128**	**1,371,128**	**284,618**	**318,612**	**318,612**
available-for-sale financial assets	1,200,000	1,370,616	1,370,616	284,250	318,197	318,197
financial assets designated at fair value	-	-	-	368	415	415
loans and receivables	512	512	512	-	-	-
- South Africa	**14,030**	**15,323**	**15,323**	**-**	**-**	**-**
available-for-sale financial assets	14,030	15,323	15,323	-	-	-
- Trinidad and Tobago	**1,871**	**1,878**	**1,878**	**-**	**-**	**-**
available-for-sale financial assets	1,871	1,878	1,878	-	-	-
- Turkey	**7,015**	**7,848**	**7,848**	**-**	**-**	**-**
available-for-sale financial assets	7,015	7,848	7,848	-	-	-
- Uruguay	**13,582**	**14,955**	**14,955**	**-**	**-**	**-**
available-for-sale financial assets	13,582	14,955	14,955	-	-	-
- Argentina	**2,486**	**1,457**	**1,457**	**-**	**-**	**-**
financial assets and liabilities held for trading (net exposure)	2,486	1,457	1,457	-	-	-
- Brazil	**1**	**1**	**1**	**-**	**-**	**-**
financial assets and liabilities held for trading (net exposure)	1	1	1	-	-	-
Total on-balance sheet exposure	**13,467,490**	**15,028,930**	**15,050,158**	**1,194,930**	**1,297,732**	**1,297,732**

* The carrying amount for the AFS Italian securities is different from that reported in the line "Italian government securities" in the table relating to "Available-for-sale financial assets" due to the presence in this table of *Cassa Deposito e Prestiti* (a state controlled fund and deposit institution) bonds (a government issuer) amounting to €5.2 million.

With a view to greater transparency on credit risk exposures consisting of debt instruments other than sovereign debt – as requested by the European Securities and Markets Authority (ESMA) in Document No. 725/2012 of 12th November 2012 – a table has been provided below summarising total debt instruments other than sovereign debt recognised among the assets of the UBI Banca Group balance sheet as at 30th June 2017 (available-for-sale financial assets, financial assets held for trading, financial assets designated at fair value, loans and advances to banks and loans and advances to customers). The book value of those investments was €1.26 billion, of which €684 million relating to corporate issuers and €572 million to banking issuers.

Debt instruments other than government securities recognised within consolidated assets

Figures in thousands of euro		30.6.2017		
Issuer	Nationality	Carrying amount	Fair value	Nominal amount
Corporate	Italy	122,525	127,728	152,150
Corporate	United Kingdom	113,090	113,090	108,500
Corporate	Holland	97,551	97,551	93,412
Corporate	United States	100,401	100,401	95,622
Corporate	France	38,570	38,570	35,815
Corporate	Ireland	30,910	30,910	30,100
Corporate	Spain	27,707	27,707	25,900
Corporate	Germany	23,788	23,788	22,300
Corporate	Denmark	28,237	28,237	26,199
Corporate	Australia	14,498	14,498	13,000
Corporate	Mexico	16,949	16,949	15,100
Corporate	Belgium	8,838	8,838	8,650
Corporate	Finland	10,873	10,873	9,900
Corporate	Jersey	5,173	5,173	5,350
Corporate	Norway	9,658	9,658	9,000
Corporate	Panama	8,899	8,899	8,500
Corporate	Luxembourg	2,057	2,057	2,779
Corporate	Sweden	1,339	1,339	1,100
Corporate	Czech Republic	1,091	1,091	1,000
Corporate	Portugal	8,076	8,076	7,000
Corporate	Cayman Island	5,050	5,050	5,000
Corporate	Guernsey C.I.	2,558	2,558	2,500
Corporate	Cyprus	2,034	2,034	2,000
Corporate	Malaysia	3,517	3,517	3,505
Corporate	Switzerland	636	636	600
Corporate	Brazil	-	-	62
Total Corporate		**684,025**	**689,228**	**685,044**
Banking	Italy	306,711	306,711	301,604
Banking	United Kingdom	54,770	54,770	52,554
Banking	Spain	30,309	30,309	29,500
Banking	Austria	24,901	24,901	25,670
Banking	Germany	38,853	38,853	40,576
Banking	Holland	20,847	20,847	19,250
Banking	Sweden	13,249	13,249	12,500
Banking	France	41,473	41,472	41,252
Banking	United States	21,500	21,500	20,330
Banking	Finland	3,202	3,203	3,000
Banking	Japan	2,046	2,046	2,000
Banking	Norway	5,645	5,645	5,000
Banking	Switzerland	6,120	6,120	6,906
Banking	Cyprus	-	-	9,500
Banking	Ireland	2,055	2,055	2,000
Total Banking		**571,681**	**571,681**	**571,642**
Total debt instruments		**1,255,706**	**1,260,909**	**1,256,686**

Finally, to complete the disclosures required by the ESMA, the stand-alone Group held no credit default products as at 30th June 2017, nor did the Group carry out any transactions in those instruments during the first half, either to increase its exposure or to acquire protection.

Exposures to certain types of products

This section provides an update of the position of the UBI Banca Group with regard to some types of financial instruments, which are considered at high risk since the subprime mortgage crisis in 2007.

Special purpose entities

The involvement of the UBI Banca Group[3] in special purpose entities (SPEs[4]) concerns the following types:

1. conventional securitisation transactions[5] performed by Group member companies in accordance with Law No. 130 of 30th April 1999;
2. the issue of covered bonds, in accordance with Art. 7 *bis* of Law No,130/1999.

1. The list of special purpose entities (SPEs) used for the securitisations in which the Group is involved is as follows:

   24-7 Finance Srl;
   UBI SPV Lease 2016 Srl;
   UBI SPV Group 2016 Srl.

   The securitisations concerning 24-7 Finance Srl, UBI SPV Lease 2016 Srl and UBI SPV Group 2016 Srl were performed in order to create a portfolio of assets eligible as collateral for refinancing with the European Central Bank, consistent with Group policy for the management of liquidity risk.
   They were carried out on the following: performing residential mortgages of the former B@nca 24-7 (24-7 Finance Srl); UBI Leasing lease contracts (UBI SPV Lease 2016 Srl); performing residential mortgages granted to individuals and sole traders by the former Banca Popolare Commercio e Industria, the former Banca Regionale Europea, UBI Banca, the former Banca Popolare di Bergamo, the former Banco di Brescia, the former Banca Popolare di Ancona and the former Banca Carime (UBI SPV GROUP 2016 Srl).

   A new transfer of assets relating to UBI SPV Lease 2016 Srl was carried out in the first half of 2017 as part of the initial "revolving period". Furthermore, assets regarding the UBI SPV GROUP 2016 Srl securitisation were repurchased again in the first half of 2017 relating to mortgages consisting of bad loans, unlikely-to-pay loans and mortgages with payments in arrears.

   Although Group investment in the ownership capital of the SPEs is limited, the entities listed above are included in the consolidated accounts because these companies are in reality controlled, since their assets and liabilities were originated by Group companies.
   In the securitisations in question the senior securities issued by the entities – assigned a rating – are listed on the Dublin Stock Exchange.

2. With regard to the issue of covered bonds, the creation of the SPEs UBI Finance Srl (in 2008) and UBI Finance CB 2 Srl (in 2011) was performed for the purchase of loans from banks in order to create cover pools for covered bonds issued by the Parent[6].

   The issuance of covered bonds is designed to diversify sources of funding and to contain its cost as well as to increase eligible reserves.

   Transfers were made in the first half of 2017 to the SPEs UBI Finance Srl and UBI Finance CB2 Srl involving assets held by UBI Banca for €1,687 million (with effect for accounting purposes from May 2017) and €307 million (with effect for accounting purposes from 2017) respectively.

   At the date of this report, UBI Banca has issued covered bonds totalling €11.11 billion nominal (of which €2.25 billion relating to retained issuances) under the "first programme" (residential mortgages)

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3 The figures shown in the first part of this section relate to the stand-alone UBI Banca Group, which is to say it excludes the New Banks on which a specific focus is given.
4 Special Purpose Entities (SPEs) are special companies formed to achieve a determined objective.
5 With normal securitisations the originator sells the portfolio to a special purpose entity which then issues tranches of asset-backed securities in order to purchase it. With a synthetic securitisation, on the other hand, the originator purchases protection for a pool of assets and transfers the credit risk attaching to the portfolio – either fully or in part – by using credit derivatives such as CDSs (credit default swaps) and CLNs (credit-linked notes) or by means of personal guarantees.
6 The transfers are designed to create segregated portfolios to back the issues and do not involve derecognition of the assets in the financial statements of the originators.

for a maximum issuance of €15 billion and for a total of €2.01 billion nominal (all retained issuances) under the "second programme" (mainly commercial mortgages) with a maximum issuance of €5 billion. The originator banks issued subordinated loans to the SPE UBI Finance Srl and to the SPE UBI Finance CB 2 Srl, equal to the value of the loans progressively transferred, in order to fund the purchase. As at 30th June 2017 these loans amounted to €15.1 billion for UBI Finance Srl (€14.3 billion in December 2016) and to €3.2 billion for UBI Finance CB 2 (€3.1 billion in December 2016).

Ordinary lines of liquidity existed at the end of the first half granted by the Parent to the SPE 24-7 Finance Srl for a total of €97.6 million, which had been entirely drawn on (€97.6 million entirely drawn on also in December 2016).

As a consequence of the downgrading of UBI Banca's rating, which started in 2011, it became necessary to provide margin deposits for the swap contracts entered into between the Parent or other Group companies and the SPEs.
The overall balance of the margin deposits as at 30th June 2017 was €404.4 million, used entirely for the first covered bond programme, held in an account opened with BNP Paribas Securities Services (rating: Moody's A1/S&P A/Fitch A+).

No exposures exist to SPEs or other conduit operations with underlying securities or investments linked to United States subprime and Alt-A loans.

The total assets of SPEs relating to securitisations and to covered bonds amounted to €24.6 billion (€23.9 billion at the end of 2016). The table below reports details by asset class.

SPE underlying assets

Figures in millions of euro		Classification of underlying assets of the securitisation			30.6.2017		31.12.2016	
Entity	Total assets	Class of underlying asset	Accounting Classification	Measurement criteria adopted	Gross of impairment losses	Net of impairment losses	Gross of impairment losses	Net of impairment losses
24-7 Finance	1,110.2	Mortgages	L&R	AC	946.1	944.0	997.7	995.5
UBI SPV Lease 2016	2,834.2	Leasing	L&R	AC	2,838.2	2,818.5	2,807.3	2,786.0
UBI Finance	15,033.2	Mortgages	L&R	AC	14,502.2	14,483.9	13,733.1	13,715.6
UBI Finance CB 2	3,102.3	Mortgages	L&R	AC	2,852.2	2,841.0	2,799.8	2,788.3
UBI SPV BBS 2012	-	Loans to SMEs	L&R	AC	-	-	-	-
UBI SPV BPA 2012	-	Loans to SMEs	L&R	AC	-	-	-	-
UBI SPV BPCI 2012	-	Loans to SMEs	L&R	AC	-	-	-	-
UBI SPV GROUP 2016	2,526.2	Mortgages	L&R	AC	2,525.0	2,521.4	2,674.7	2,670.3
		Total impaired assets, mortgages and loans			1,284.3	981.6	1,267.7	982.9
		Total impaired assets, leasing			17.4	15.7	6.3	5.9
TOTAL	**24,606.1**				**24,965.4**	**24,606.1**	**24,286.6**	**23,944.5**

* * *

As concerns the New Banks acquired, a summary is given below of the securitisations existing at the end of the first half, reported according to the Group to which they belong:

- for Nuova Banca dell'Etruria e del Lazio, four active securitisations existed as at 30th June 2017 involving performing loans, created using the following special purpose entities (SPEs), formed in accordance with Law No. 130/1999:
  - Mecenate Srl ("Mecenate"), 95% controlled, with which four securitisations of performing residential mortgages have been created, of which three still existing (Mecenate 2007, Mecenate 2009 and Mecenate 2011);
  - Etruria Securitisation SPV Srl ("Etruria SPV"), the share capital of which is held by a single shareholder, Stichting Etruria, a Dutch registered company with headquarters in Holland, with which a securitisation was created in October 2012 of performing ordinary and regulated mortgage loans and unsecured loans granted to small to medium-sized businesses and "small economic operators".

  On 7th February 2017 Mecenate Srl and Etruria SPV each signed specific transfer contracts for each of their relative securitised portfolios on the basis of which Nuova Banca dell'Etruria e del Lazio repurchased *en bloc* and without recourse, in accordance with and for the purposes of Art. 58 of the Consolidated Banking Law, all the loans resulting from the original contracts of the respective securitisations which as at 22nd November 2015 (the "valuation date") (inclusive) had been classified as "bad loans" in accordance with Bank of Italy Circular No. 272 of 30th July 2008 and with further applicable regulations on the matter issued by the Bank of Italy.
  Those repurchases were carried out in accordance with a provision issued by the Bank of Italy on 30th December 2016 with which that supervisory authority gave instructions for all the bad loans resulting from the individual financial position of the New Bank as at 22nd November 2015, not yet transferred to REV - Gestione Crediti Società per Azioni ("REV"), to be transferred to REV.
  More specifically, the repurchase involved bad loans relating to 47 positions for a total of €9,602,371.85.

  The main characteristics of the individual securitisations are as follows:

  1. **Securitisation of performing residential mortgages – Mecenate 2007**
     A securitisation originated on 29th March 2007 with the transfer *en bloc* and without recourse of loans, classified as performing, and the relative legal relations attaching to a portfolio of ordinary and regulated mortgage loans, granted to private individual customers in the period between 31st March 1998 and 30th June 2006.
     In the May 2007 Mecenate issued notes as a consequence (99.5% of which had been assigned a rating and were listed on the Dublin stock exchange), all at floating rate and with quarterly coupons. The securities were subscribed by institutional investors when they were issued.
  2. **Securitisation of performing residential mortgages – Mecenate 2009**
     A securitisation originated on 7th March 2009 with the transfer *en bloc* and without recourse of performing loans originating from a portfolio of ordinary and regulated residential mortgage loans.
     On 2nd February 2009 Mecenate issued notes (RMBS), against the purchase of the loans, divided into three classes, two of which with ratings.
     All the notes were fully subscribed by the originator. Those securities to which ratings had been assigned were listed on the Dublin stock exchange. The class A notes, eligible for refinancing operations with the ECB, were fully redeemed on 22nd April 2017.
  3. **Securitisation of performing residential mortgages – Mecenate 2011**
     The transfer without recourse of performing loans originating from a portfolio of ordinary and regulated residential mortgage loans was concluded on 7th June 2011.
     On 26th July 2011 Mecenate issued notes (RMBS), against the purchase of the loans, divided into four classes, three of which with ratings.
     All the securities were fully subscribed when issued by the originator. Those securities to which ratings had been assigned were listed on the Dublin stock exchange. The class A notes were inserted in a list of securities eligible for refinancing operations with the ECB.
  4. **Securitisation of ordinary and regulated mortgage loans and unsecured loans to small to medium-sized businesses and to "small economic operators" – 2012**
     On 12th July 2012 this bank transferred a portfolio of loans, *en bloc* and without recourse, to Etruria Securitisation SPV Srl, classified as performing, originating from ordinary and regulated mortgage loan and unsecured loan agreements granted in the period between 31st July 1998 (inclusive) and 30th March 2012 (inclusive).
     In order to finance the purchase, on 10th October 2012 Etruria SPV issued ABS instruments divided into two classes (Class A and Class B). The notes were initially fully subscribed by the originator. While the class A notes were fully redeemed in July 2016, the class B nodes were restructured in January 2016 with their division into two new classes of notes, mezzanine and junior, both subscribed by the bank itself.

  Following resolutions passed by the Board of Directors of Nuova Banca dell'Etruria e del Lazio in a meeting held on the 19th April 2017, it was decided (jointly and in agreement with UBI Banca) to maintain just one securitisation, Mecenate 2007, in operation and to close down the remaining securitisations early on the respective interest payment dates in

October 2017 (subject to the prior repurchase of the loans existing in the respective portfolios by the middle of September) and that is before the merger of the bank;

- for Nuova Banca delle Marche, five securitisations were active as at 30th June 2017, three of which consisting of residential mortgage-backed securities (RMBS), one of a mixed type with residential and commercial mortgages securitised and one a commercial securitisation consisting of mortgages and unsecured loans to SMEs. The list of the SPEs is as follows:
  - Marche Mutui Società per la Cartolarizzazione Srl
  - Marche Mutui 2 Società per la Cartolarizzazione a r.l.
  - Marche Mutui 4 Srl
  - Marche M5 Srl
  - Marche M6 Srl

  The Medioleasing Finance Srl securitisation was closed down during the first half of 2017 with the full redemption of all the notes on the interest payment date on 24th April. The underlying for this securitisation was a portfolio of receivables resulting from finance lease contracts. It was of the unlisted private placement type, where the senior tranche was fully subscribed by the European Investment Bank (EIB).

  The characteristics of the existing securitisations are as follows:

  1. **Marche Mutui Società per la Cartolarizzazione Srl**
     An RMBS market securitisation, structured in March 2003, with a portfolio of performing loans as the underlying, originated from regulated mortgages backed by first mortgage agreements. The senior and mezzanine classes were listed on the Luxembourg stock exchange and placed with domestic and foreign institutional investors. The junior tranche, on the other hand, was fully subscribed by the originator. The senior notes were assigned a rating.
  2. **Marche Mutui 2 Società per la Cartolarizzazione Srl**
     An RMBS market securitisation, structured in October 2006, with a portfolio of performing loans as the underlying, originated from regulated mortgages backed by first mortgage agreements. The senior and mezzanine classes were listed on the Irish stock exchange and placed with domestic and foreign institutional investors. The junior tranche, on the other hand, was fully subscribed by the originator. The senior notes were assigned a rating.
  3. **Marche Mutui 4 Srl**
     A mixed securitisation, structured in July 2009, with a portfolio of performing loans as the underlying originated from residential and commercial mortgages. The senior class was listed on the Luxembourg stock exchange and repurchased by Nuova Banca delle Marche to create a portfolio of assets eligible for principal refinancing operations with the European Central Bank. The junior class was also subscribed by the originator.
     The senior class was assigned a rating. The senior class was sold on the market in June 2015.
  4. **Marche M5 Srl**
     A securitisation, structured in June 2012, with a portfolio of performing loans as the underlying, originated from commercial mortgages and unsecured loans to SMEs. The senior class was listed on the Luxembourg stock exchange and repurchased by Nuova Banca delle Marche to create a portfolio of assets eligible for principal refinancing operations with the European Central Bank. The junior class was also subscribed by the originator.
     The senior class was assigned a rating. The senior class was sold on the market in June 2015.
  5. **Marche M6 Srl**
     An RMBS securitisation, structured in July 2013, with a portfolio of loans originating from performing residential mortgage loan agreements as the underlying. The three senior classes (A1, A2, A3) were listed on the Luxembourg stock exchange and repurchased by the bank to create a portfolio of assets eligible for principal refinancing operations with the European Central Bank. The junior class was also subscribed by the originator.
     The senior classes were assigned a rating. The classes A1 and A2 were sold on the market in June 2015.

  Following resolutions passed by the Board of Directors of Nuova Banca dell'Etruria e del Lazio in meetings held on 1st and 14th June 2017, it was decided (jointly and in agreement with UBI Banca) to close down three securitisations early. Marche Mutui società per la Cartolarizzazione Srl was closed down on the interest payment date on 25th July 2017, Marche M5 Srl on the interest payment date on 27th July, while Marche Mutui 4 Srl will be closed down on the interest payment date on 25th August, and that is before the merger of the new bank;

- finally for Nuova Cassa di Risparmio di Chieti, no securitisations were active as at 30th June 2017. The Creso 2 securitisation of residential mortgages originated in 2012 was closed down early at the end of June 2017.

Exposures in ABS, CDO, CMBS and other structured credit products

As at 30th June 2017 the stand-alone Group held no direct investments in ABS instruments, nor did it hold indirect exposures to CDO and CMBS structured credit products existing within hedge funds or funds of hedge funds held by the Parent.

Other subprime, Alt-A and monoline insurer exposures

As at 30th June 2017, no indirect exposures to subprime and Alt-A mortgages and to monoline insurers existed that were contained in hedge funds or funds of hedge funds held by the Parent.

Leveraged Finance

The term leveraged finance is used in the stand-alone UBI Banca Group to refer to finance provided for a company or an initiative which has debt that is considered higher than normal on the market and is therefore considered a higher risk. Usually this finance is used for specific acquisition purposes (e.g. the acquisition of a company by other companies – either directly or through vehicles/funds – owned by internal [buy-in] or external [buy-out] management teams). They are characterised by "non investment grade" credit ratings (less than BBB-) and/or by remuneration that is higher than normal market levels. This definition coincides essentially with acquisition finance (AF) business.
An acquisition involves a substantial change in the economic, financial and capital profile of the debtor. The main source of funds for the repayment of the debt contracted for the acquisition finance itself is from the future cash flows generated by the entity (a single company or a Group) after the acquisition.

The three requirements necessary for the identification and consequent classification of a customer as an acquisition finance client, consistent with the definition used in the validated internal models, are as follows:

- credit lines are granted to finance the acquisition of control of one or more third party companies and/or activities held by third parties and/or the refinancing of prior exposures relating to the same companies/activities subject to the acquisition (purpose requirement);
- the effect of the acquisition consists of an increase in the turnover of the "enlarged" group of companies, i.e. the sum of the turnover of the acquiring group and the turnover of the target group is 40% greater than that of the acquiring group alone (size requirement) [7];
- no more than four years have passed since the date of the first grant of credit lines to finance the acquisition ("vintage" requirement) [8].

  Once that time has passed the transactions are considered "conventional corporate" transactions and therefore in the presentation that follows, only transactions classified as "acquisition finance" as at the dates indicated have been considered.

UBI Banca leveraged finance business (Acquisition Finance)

figures in millions of euro	On-balance sheet exposure gross exposure to customers		Unsecured guarantees and margins gross exposure to customers	
	used	impairment	used	impairment
30th June 2017	447.7	-15.0	337.7	-0.8

The table summarises on- and off-balance sheet exposure for leveraged finance by the stand-alone UBI Banca Group at the end of June 2017. These loans (on-balance sheet – inclusive of the relative margins) accounted for approximately 0.45% of total loans, slightly down on the previous year. The amounts shown (on- and off-balance sheet and margins) relate to 48 positions (counterparties) for a total average net exposure per position of €16 million. Eight positions existed with net exposures of greater than €20 million accounting for around 70% of total.

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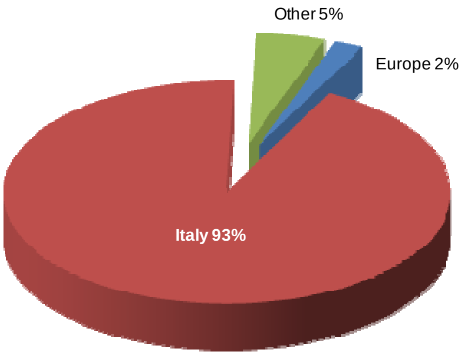
7 The threshold has been set at 40% because on the basis of experience it is considered that this percentage of change in "dimension" involves a significant discontinuity for the Group after the operation compared with before it and therefore the official operating and financial documentation (consolidated/separate financial statements of the acquirer) will not be representative of the new reality. This threshold was also set along the same lines as the requirements for the "special procedure" set for other counterparties assessed using the corporate rating model. Where an acquisition is concluded by using a specially formed vehicle, a newco (and therefore usually irrelevant from the viewpoint of dimension), this second requirement is deemed always satisfied.
8 This is considered sufficient time to absorb the impacts of the discontinuity determined by the acquisition, described in footnote 7.

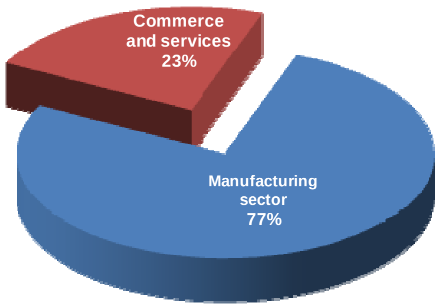
The charts below show the distribution of leveraged exposures by geographical area and sector.

Distribution of UBI Banca leveraged exposures as at 30th June 2017

EXPOSURE BY GEOGRAPHICAL AREA



EXPOSURE BY SECTOR



Financial derivative instruments for trading with customers

The periodic analysis performed for internal monitoring purposes confirms that the risks assumed by customers continue to remain generally low and they outlined a conservative profile for stand-alone UBI Group business in OTC derivatives with customers.

A quantitative update as at 30th June 2017 showed the following:

- the notional amount for existing contracts, totalling €7.1 billion, was attributable to interest rate derivatives amounting to €6.5 billion and currency derivatives amounting to €0.6 billion, while the notional amount for commodities contracts (€18 million) was relatively negligible;
- transactions in hedging derivatives accounted for all the notional amount traded in the case of interest rate derivatives and 98.9% of the notional amount in the case of currency derivatives;
- the net total mark-to-market value (interest rate, currency and commodities derivatives) amounted to -€320.8 million. Those contracts with a negative mark-to-market for customers were valued at approximately -€332 million.
- the total negative mark-to-market for customers stood at 4.7% of the notional amount of the contracts, compared with 5.8% at the end of 2016.

The rules governing trading in OTC derivatives with customers are contained in the *"Policy for the trading, sale and subscription of financial products"* and in the relative documents to implement it, updated in 2017, which provide details of the following:

- customer segmentation and classes of customers associated with specific classes of products, stating that the purpose of the derivatives transactions must be hedging and that transactions containing speculative elements must be of a residual nature;
- rules for assessing the appropriateness of transactions, defined on the basis of the products sold to each class of customer;
- principles of integrity and transparency on which the range of OTC derivatives offered to customers must be based, in compliance with the guidelines laid down by the Italian Banking Association (and approved by the Consob) for illiquid financial products and with the recent ESMA opinions and a Consob communication on complex products;
- rules for assessing credit exposure, which grant credit lines with maximum limits for trading with "qualified", "professional" and "non-individual retail" counterparties and provide credit lines for single transactions for trading with individual retail counterparties, while counterparty risk is assessed on the basis of Regulation EU 575/2013 (the "CRR");
- rules for managing restructuring operations, while underlining their exceptional nature;
- the rules for the settlement of transactions in OTC derivative instruments with customers that are subject to verbal or official dispute;
- the catalogue of products offered to customers and the relative credit equivalents.

OTC interest rate derivatives: details of instrument types and classes of customer (Stand-alone UBI Banca Group)

Data as at 30th June 2017

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Purchase of caps	Qualified	6	72,096,485	360,383	-
		3: Professional	49	146,839,179	389,130	-
		2: Non private individual retail	621	238,533,144	714,786	-
		1: Private individual retail	513	57,217,751	157,902	-
	Purchase of caps Total		***1,189***	***514,686,559***	***1,622,201***	***-***
	Purchase of floors	3: Professional	3	68,768,839	318,891	-
	Purchase of floors Total		***3***	***68,768,839***	***318,891***	***-***
	Capped swaps	Qualified	2	11,668,528	-334,073	-334,073
		3: Professional	44	181,290,660	-4,360,136	-4,360,136
		2: Non private individual retail	771	467,287,400	-9,958,547	-9,958,547
		1: Private individual retail	1,149	124,253,357	-2,266,615	-2,266,615
	Capped swaps Total		***1,966***	***784,499,945***	***-16,919,371***	***-16,919,371***
	IRS Plain Vanilla	Qualified	13	89,466,785	-749,867	-1,027,694
		3: Professional	382	2,143,891,930	-83,329,260	-84,976,243
		2: Non private individual retail	1,432	1,910,672,720	-125,756,111	-127,151,920
		1: Private individual retail	488	89,203,624	-2,847,045	-2,971,531
	Plain Vanilla IRS Total		***2,315***	***4,233,235,059***	***-212,682,283***	***-216,127,388***
	IRS Step up	3: Professional	8	26,217,384	-3,349,466	-3,349,466
		2: Non private individual retail	36	251,769,275	-67,601,531	-67,601,531
	IRS Step up Total		***44***	***277,986,660***	***-70,950,997***	***-70,950,997***
	Floored Swaps	3: Professional	49	389,682,514	-1,209,141	-1,286,353
		2: Non private individual retail	133	185,556,605	-942,205	-1,042,475
		1: Private individual retail	23	6,388,630	-72,118	-77,271
	Floored Swaps		***205***	***581,627,749***	***-2,223,464***	***-2,406,099***
	Purchase of collars	2: Non private individual retail	5	33,792,036	-9,468,299	-9,468,299
	Purchase of collars Total		***5***	***33,792,036***	***-9,468,299***	***-9,468,299***
Total Class 1: hedging derivatives			**5,727**	**6,494,596,847**	**-310,303,323**	**-315,872,154**
Class 1: % of Group total			**99.9%**	**99.8%**	**99.9%**	**99.9%**
2						
	Purchase of caps with KI/KO	3: Professional	1	10,106,383	-101,794	-101,794
		2: Non private individual retail	1	507,098	-3,083	-3,083
	Purchase of caps with KI/KO Total		***2***	***10,613,481***	***-104,877***	***-104,877***
	Purchase of collars with KI/KO	2: Non private individual retail	1	476,083	-48,380	-48,380
	Purchase of collars with KI/KO Total		***1***	***476,083***	***-48,380***	***-48,380***
	IRS Convertible	3: Professional	1	2,041,667	-27,162	-27,162
		2: Non private individual retail	2	1,188,068	-165,821	-165,821
	IRS Convertible Total		***3***	***3,229,735***	***-192,983***	***-192,983***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**6**	**14,319,299**	**-346,240**	**-346,240**
Class 2: % of Group total			**0.1%**	**0.2%**	**0.1%**	**0.1%**
Total UBI Banca Group			**5,733**	**6,508,916,146**	**-310,649,563**	**-316,218,394**

OTC currency derivatives: details of instrument types and classes of customer (Stand-alone UBI Banca Group)

Data as at 30th June 2017

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Forward synthetic					
		3: Professional	71	169,893,421	-3,543,981	-3,894,001
		2: Non private individual retail	21	14,257,929	-342,376	-508,405
	Forward synthetic Total		***92***	***184,151,350***	***-3,886,357***	***-4,402,405***
	Plafond	Qualified	1	788,644	54,950	-
		3: Professional	146	148,709,537	-2,395,591	-4,099,853
		2: Non private individual retail	340	116,824,991	-4,618,606	-4,927,617
	Plafond Total		***487***	***266,323,171***	***-6,959,247***	***-9,027,471***
	Currency collars	3: Professional	3	10,339,993	74,459	-
	Currency collars Total		***3***	***10,339,993***	***74,459***	-
	Vanilla currency options purchased	2: Non private individual retail	2	620,612	3,068	-
	Vanilla currency options purchased		***2***	***620,612***	***3,068***	-
Total Class 1: hedging derivatives			**584**	**461,435,126**	**-10,768,078**	**-13,429,876**
Class 1: % of Group total			**90.7%**	**79.8%**	**-**	**89.4%**
2						
	Knock in collars	3: Professional	7	31,354,436	841,825	
	Knock in collars Total		***7***	***31,354,436***	***841,825***	-
	Knock in forwards	3: Professional	22	53,650,893	162,856	-587,191
		2: Non private individual retail	7	8,738,231	-215,489	-215,489
	Knock in forwards Total		***29***	***62,389,124***	***-52,633***	***-802,680***
	Plafond with accelerated condition	3: Professional	7	9,116,526	72,018	-185,437
			12	7,493,185	-502,314	-507,014
	Plafond with accelerated condition Total	2: Non private individual retail	***19***	***16,609,711***	***-430,296***	***-692,451***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**55**	**110,353,271**	**358,897**	**-1,495,131**
Class 2: % of Group total			**8.4%**	**19.1%**	**-**	**9.9%**
3b						
	Knock out knock in forwards	3: Professional	2	4,870,337	-37,416	-37,416
	Knock out knock in forwards Total		***2***	***4,870,337***	***-37,416***	***-37,416***
	Knock out forwards	3: Professional	1	536,379	-12,612	-12,612
	Knock out forwards		***1***	***536,379***	***-12,612***	***-12,612***
	Vanilla currency options sold by the customer	3: Professional	2	1,009,453	-61,601	-61,601
	Vanilla currency options sold by the customer Total		***2***	***1,009,453***	***-61,601***	***-61,601***
Total Class 3: derivatives not for hedging			**5**	**6,416,169**	**-111,630**	**-111,629**
Class 3: % of Group total			**0.9%**	**1.1%**	**-**	**0.7%**
Total UBI Banca Group			**644**	**578,204,566**	**-10,520,811**	**-15,036,636**

OTC commodities derivatives: details of instrument types and classes of customer (Stand-alone UBI Banca Group)

Data as at 30th June 2017

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
2						
	Commodity swaps	3: Professional	87	17,214,397	358,494	-772,409
		2: Non private individual retail	4	658,550	18,923	-
	Commodity swaps Total		***91***	***17,872,947***	***377,417***	***-772,409***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**91**	**17,872,947**	**377,417**	**-772,409**
Class 2: % of Group total			**100.0%**	**100.0%**	**-**	**100.0%**
Total UBI Banca Group			**91**	**17,872,947**	**377,417**	**-772,409**
TOTAL UBI BANCA GROUP			**6,468**	**7,104,993,658**	**-320,792,957**	**-332,027,439**

OTC derivatives: first five counterparties by bank (figures in euro)

Data as at 30th June 2017

Bank	Classification	MtM	of which negative MtM
UBI Banca	2: Non private individual retail	-54,792,383	-54,792,383
	3: Professional	-22,405,788	-22,405,788
	3: Professional	-8,017,069	-8,017,069
	3: Professional	-7,842,804	-7,842,804
	2: Non private individual retail	-5,662,537	-5,662,537
Nuova Banca delle Marche	2: Non private individual retail	-8,956,289	-8,956,289
	2: Non private individual retail	-205,072	-205,072
	2: Non private individual retail	-204,812	-204,812
	2: Non private individual retail	-79,737	-79,737
	2: Non private individual retail	-72,226	-72,226
Nuova Cassa di Risparmio di Chieti	2: Non private individual retail	-1,099,036	-1,099,036
	2: Non private individual retail	-48,310	-48,310
Nuova Banca dell'Etruria e del Lazio	2: Non private individual retail	-2,383,362	-2,383,362
	2: Non private individual retail	-2,113,426	-2,113,426
	2: Non private individual retail	-991,757	-991,757
	2: Non private individual retail	-955,594	-955,594
	2: Non private individual retail	-825,714	-825,714

Equity and Capital adequacy

Changes in consolidated shareholders' equity

In order to make the changes that occurred to consolidated equity more comprehensible, a half-yearly analysis has been conducted on the basis of figures for the end of December 2016 relating to the stand-alone UBI Banca Group instead of the aggregated equity at the end of the year presented in the reclassified consolidated statements.

Reconciliation between equity and profit for the period of the Parent with consolidated equity as at 30th June 2017 and profit for the period then ended

Figures in thousands of euro	Equity	of which: Profit for period
Equity and profit for the period in the accounts of the Parent	9,028,013	102,064
Effect of the consolidation of subsidiaries including joint ventures	1,368,559	-15,351
Effect of measuring other significant equity investments using the equity method	22,841	10,598
Dividends received during the period	-	-60,005
Other consolidation adjustments (including the effects of the PPA and of badwill)	-463,255	658,739
Equity and profit for the period in the consolidated accounts	**9,956,158**	**696,045**

Changes in consolidated equity of the Group in the first half of 2017

	Balances as at 31.12.2016	Allocation of prior year profit		Changes January-June 2017				30.6.2017
					Equity transactions			
Figures in thousands of euro	Stand-Alone UBI Banca Group	Reserves	Dividends and other uses	Changes in reserves	New share issues	Stock options	Consolidated comprehen-sive income	Equity attributable to the shareholders of the Parent
Share capital:	2,440,751	-	-	-	399,584	-	-	**2,840,335**
a) ordinary shares	*2,440,751*	-	-	-	*399,584*	-	-	*2,840,335*
b) other shares	-	-	-	-		-	-	-
Share premiums	3,798,430	-493,425	-	-1	1,623	-	-	**3,306,627**
Reserves	3,664,366	-336,725	-107,163	-2,604	-7,616	-	-	**3,210,258**
Valuation reserves	-73,950	-	-	200	-	-	-13,488	**-87,238**
Treasury shares	-9,869	-	-	-	-	-	-	**-9,869**
Result for period	-830,150	830,150	-	-	-	-	696,045	**696,045**
Equity attributable to the shareholders of the Parent	**8,989,578**	**-**	**-107,163**	**-2,405**	**393,591**	**-**	**682,557**	**9,956,158**

The equity of the UBI Banca Group as at the 30th June 2017 (inclusive of profit for the entire first half for the stand-alone UBI Banca Group and for the second quarter for the New Banks) amounted to €9,956.2 million, an increase compared with €8,989.6 million at the end of 2016 before the acquisition.

As shown in the table "Changes in the consolidated equity of the Group in the first half of 2017", the increase of €966.6 million is the aggregate result of the following:

- the allocation of €107.2 million to dividends and other uses drawn from the extraordinary reserve[1];

1 Due to the loss incurred by the Parent in 2016, amounting to €830.2 million (-€845.1 million inclusive of non-controlling interests), the share premium reserve was reduced by €493.4 million a remaining change of over €336.7 million was made to the value of retained earnings.

- a fall of €13.3 million in the balance on the valuation reserves, generated almost entirely by the impact of comprehensive income composed as follows: -€22.52 million for available-for-sale financial assets; +€9.13 million for actuarial gains/losses relating to defined benefit pension plans; -€0.05 million for cash flow hedges; +€0.16 million for special revaluation laws;

Valuation reserves attributable to the Group: composition

Figures in thousands of euro	30.6.2017	31.12.2016 Stand-Alone UBI Banca Group
Available-for-sale financial assets	-49,389	-26,860
Cash flow hedges	236	285
Currency translation differences	-243	-243
Actuarial gains/losses for defined benefit pension plans	-98,641	-107,773
Special revaluation laws	60,799	60,641
Total	**-87,238**	**-73,950**

- an increase in the share capital of €399.6 million as a result of the following:
  - €397.24 million from the recognition (at €2.395 per share[2]) of the 165,862,224 ordinary shares issued to implement the share capital increase that took place in June;
  - €2.34 million from the issue of 937,399 ordinary shares in the first quarter arising from the merger by incorporation into the Parent of Banca Popolare di Ancona, Banca di Valle Camonica and Banca Carime;
- an overall decrease of €10.2 million in other reserves, the aggregate result of increases of various nature[3], offset by the negative impact of the changes in the investment structure that took place with the completion of the "Single bank" project and by the costs for the share capital increase (-€7.6 million net of tax);
- an increase of €1.6 million for the proceeds from the sale on the market of 6,676,180 option rights that were not exercised during the offer period;
- the posting of profit for the period of €696.1 million.

Fair value reserves of available-for-sale financial assets attributable to the Group: composition

Figures in thousands of euro	30.6.2017 Positive reserve	30.6.2017 Negative reserve	30.6.2017 Total	31.12.2016 Stand-Alone UBI Banca Group Positive reserve	31.12.2016 Stand-Alone UBI Banca Group Negative reserve	31.12.2016 Stand-Alone UBI Banca Group Total
1. Debt instruments	24,979	-145,373	-120,394	68,846	-158,922	-90,076
2. Equity instruments	60,927	-1,701	59,226	53,688	-727	52,961
3. Units in UCITS	116,231	-104,452	11,779	10,505	-250	10,255
4. Financing	-	-	-	-	-	-
Total	**202,137**	**-251,526**	**-49,389**	**133,039**	**-159,899**	**-26,860**

Fair value reserves of available-for-sale financial assets attributable to the Group: changes in the period

Figures in thousands of euro	Debt instruments	Equity instruments	Units in UCITS	Financing	Total
1. Opening balances al 1st January 2017 Stand-Alone UBI Banca Grou	**-90,076**	**52,961**	**10,255**	**-**	**-26,860**
2. Positive changes	**80,276**	**11,240**	**7,491**	**-**	**99,007**
2.1 Increases in fair value	70,436	8,293	5,432	-	84,161
2.2 Transfer to income statement of negative reserves	573	2,895	1,893	-	5,361
- following impairment losses	*68*	*2,874*	*1,893*	-	*4,835*
- from disposal	*505*	*21*	-	-	*526*
2.3 Other changes	9,267	52	166	-	9,485
3. Negative changes	**-110,594**	**-4,975**	**-5,967**	**-**	**-121,536**
3.1 Reductions in fair value	-52,376	-4,228	-5,936	-	-62,540
3.2 Impairment losses	-	-68	-	-	-68
3.3 Transfer to income statement of positive reserves: from disposal	-56,216	-167	-	-	-56,383
3.4 Other changes	-2,002	-512	-31	-	-2,545
4. Closing balances as at 30th June 2017	**-120,394**	**59,226**	**11,779**	**-**	**-49,389**

As shown in the table, the decrease mentioned above of €22.5 million in the "fair value reserve for available-for-sale financial assets" was generated almost entirely by debt instruments held

2 The subscription price of the new ordinary shares incorporated a discount of approximately 26.1% on the theoretical ex-rights price (TERP) of UBI Banca ordinary shares on the basis of the official stock market price on the 7th June 2017.
3 These included an increase of +€1.5 million due to the partial release of a negative reserve recognised as at 31st December 2016 as a consequence of the reclassification of €3.3 billion nominal of BTPs out of the AFS portfolio into the HTM portfolio.

in portfolio (for which the balance fell by €30.3 million to -€120.4 million, net of tax and non-controlling interests) and by Italian government securities in particular. The relative reserve, which was negative by €130.4 million, did in fact fall €64.3 million in the first quarter (it stood at -€66.1 million in December 2016) fully attributable to the Parent's portfolio.

In the first six months of the year, the reserve for debt instruments recorded increases in fair value of €70.4 million, of which €29.9 million relating to the Parent (88% relating to Italian government securities), €32.2 million to Lombarda Vita (primarily on its Italian government securities portfolio) and €8.2 million to the New Banks as a consequence of the entry of their securities into the scope of consolidation.

The table also shows "transfers to the income statement of negative reserves" amounting to €0.6 million, of which €0.5 million from disposals consisting of €0.2 million relating to Lombarda Vita and the remaining part to the Parent. Other increases amounting to €9.3 million included €6.4 million relating to Lombarda Vita.

Decreases include the following:

- reductions in fair value amounting to €52.4 million, of which: €19.2 million relating to UBI Banca (mainly on Italian government securities); €31.8 million to Lombarda Vita and €1.4 million to Nuova Banca delle Marche (on Italian government security portfolios)
- "transfers to the income statement from positive reserves from disposals" amounting to €56.2 million, of which: €54.5 million by UBI Banca due primarily to the disposal of Italian government securities; and €1.7 million by Lombarda Vita.

As concerns equity instruments, increases in fair value of €8.3 million occurred composed of €1.1 million relating to Lombarda Vita, €4 million to the Parent (over 50% of which on the investment in S.A.C.B.O.) and €3 million to the New Banks (following the entry to the consolidation of their instruments), and "transfers of negative reserves to the income statement" of €2.9 million for impairment (attributable primarily to the New Banks).

Reductions in fair value were also recorded totalling €4.2 million (€1.1 million by Lombarda Vita, €2.9 million by the Parent) along with "transfers to the income statement from positive reserves from disposals "amounting to €0.2 million relating totally to the Parent as well as other decreases amounting to €0.5 million of which €0.3 million relating to the Parent as a result of the business combination.

Finally, the following was recorded in relation to units of UCITS: fair value increases of €5.4 million [2.2 million by UBI Banca (of which €0.6 million on the Polis Fund) and €3.1 million by Lombarda Vita]; transfers of negative reserves to the income statement or impairment of €1.9 million (attributable primarily to Lombarda Vita); decreases in fair value of €5.9 million (€4.7 million for Lombarda Vita; €0.4 million for UBI Banca and €0.7 million for the New Banks).

Capital adequacy

The new prudential rules for banks and investment companies contained in EU Regulation 575/2013 (the Capital Requirements Regulation, known as the CRR) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, known as CRD IV), came into force on 1st January 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations.

The CRR came directly into force in member states, while the regulations contained in CRD IV were implemented in national legislation with Legislative Decree No. 72 of 12th May 2015, which came into force on 27th June 2015.

On conclusion of a public consultation process started in November 2013, on 17th December the Bank of Italy published Circular No. 285 "Regulations for the prudential supervision of banks", which updated, within the scope of its remit, the new EU regulations, together with Circular No. 286 "Instructions for compiling supervisory reports for banks and stock brokerage firms" and an update to Circular No. 154 "Supervisory reporting for credit and financial institutions. Tables for data and instructions for filing reports" (a set of regulations that was updated several times in 2014 and 2015).

As already reported, the introduction of Basel 3 rules is subject to a transitional regime during which, in most cases, the new rules will be applied to an increasing degree until 2019, when they will reach full *application. At the same time, capital instruments that no longer qualify will be gradually excluded from total capital for regulatory purposes by 2021.*

Consolidated capital requirements for the UBI Banca Group for 2017, reported in the correspondence received on 12th December 2016 from the ECB are as follows:

- *a new minimum phased-in CET1 ratio requirement of 7.5%*[4]*;*
- *a minimum SREP Total Capital ratio requirement of 9.75%*[5]*. If the capital conservation buffer of 1.25% is added, this then gives a minimum ratio requirement in terms of the Overall Total Capital Requirement of 11%.*

At the end of June the UBI Banca Group's Common Equity Tier 1 (CET1) capital amounted to €7.908 billion, up on the amounts recorded in previous reports in March 2017 and in December 2016 relating to the stand-alone UBI Banca Group.

The performance of the CET1 capital in the first half is attributable primarily to the following substantial items recognised in the second quarter of the year:

- the assignment to it of profit for the first half, eligible for regulatory capital purposes, which included badwill of €613 million generated as part of the operation to acquire the New Banks;
- inclusion of the share capital increase amounting to €397 million related to the acquisition of the New Banks designed to maintain the fully loaded CET1 capital of the Group above 11%;
- the positive impact amounting to €35 million caused by a reduction in the provision shortfall, mainly as a result of a decrease in the expected losses during the quarter.

As concerns the Tier 2 capital, on the other hand, this grew to €1.8 billion over the six-month period due to a subordinated issuance of EMTNs amounting to €500 million nominal completed in the first quarter, partly offset by amortisations on other eligible issues which also determined a decrease recorded in the second quarter (-€116 million).

Total own funds therefore came to €9.7 billion, compared with €8.4 billion at the end of the year and €8.7 billion in March 2017 relating to the stand-alone perimeter.

RWAs increased to €69.2 billion (+€10 billion in the second quarter) due primarily to the absorption of capital in relation to the New Banks totalling €9.3 billion in terms of credit risk, market risk and operational risk, in the presence also of an increase in IRB exposures to corporate clients of UBI Banca in the second quarter (+ €0.9 billion).

At the end of June 2017 the capital ratios of the UBI Banca Group consisted of a Common Equity Tier 1 ratio and a Tier 1 ratio of 11.42% – 392 bp higher than the target thresholds set on conclusion of the SREP (7.50%) – and a Total Capital ratio of 14.06%.
The pro forma CET1 ratio calculated on the basis of the rules that will be in force at the end of the transitional period (known as the fully phased-in CET1 ratio) is estimated at 11.32%.

It is also reported that from 1st January 2016 banks are obliged to hold a countercyclical capital buffer. If it is considered that, as reported in the press release dated 24th March 2017, the Bank of Italy set the countercyclical capital buffer for the second quarter of 2017 at 0%, for exposures to counterparties resident in Italy and also that the Group mainly has exposures to domestic counterparties, then the Group's countercyclical capital buffer is negligible.

Finally the leverage ratio[6] according to Basel 3, stood at 5.66%, while the fully loaded indicator stood at 5.61%.

With regard to the insurance business, we report that management accounting measurements of the solvency ratio comply with Solvency II regulations.

4 The result of the sum of the minimum Pillar 1 capital requirement (4.5%), the Pillar 2 requirement (1.75%) and the capital conservation buffer (1.25%), calculated according to the transitional phased-in rules laid down by the Bank of Italy.
5 The result of the sum of the minimum Pillar 1 Regulatory Capital Ratio (own funds: 8%) and the Pillar 2 requirement (1.75%).
6 Under Basel 3, leverage is calculated as the ratio of Tier 1 capital to total on- and off-balance sheet assets, with a minimum requirement of 3%. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015.

Capital ratios (Basel 3)

Figures in thousands of euro	30.6.2017	31.3.2017 Stand-Alone UBI Banca Group	31.12.2016 Stand-Alone UBI Banca Group
Common Equity Tier 1 capital net of prudential filters	**7,929,817**	**6,830,097**	**6,912,245**
*Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses inclusive of the application of transitional provisions**	*-22,080*	*-57,022*	*-82,962*
Common Equity Tier 1 capital	**7,907,737**	**6,773,075**	**6,829,283**
Additional Tier 1 capital before deductions	**28**	**-**	**286**
Deductions from Additional Tier 1 capital	28	-	286
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	*-28*	*-*	*-286*
Additional Tier 1 capital	-	-	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**7,907,737**	**6,773,075**	**6,829,283**
Tier 2 capital before transitional provisions	**1,858,084**	**1,975,563**	**1,606,204**
Effects of grandfathering provisions on Tier 2 instruments	-	-	-
Tier 2 capital after transitional provisions	**1,858,084**	**1,975,563**	**1,606,204**
Deductions from Tier 2 capital	-37,403	-38,554	-46,382
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	*-2,456*	*-6,336*	*-20,812*
Tier 2 capital after specific deductions	**1,820,681**	**1,937,009**	**1,559,822**
Total own funds	**9,728,418**	**8,710,084**	**8,389,105**
Credit risk	5,124,521	4,325,359	4,351,066
Credit valuation adjustment risk	13,583	9,182	11,987
Market risk	92,484	118,706	112,356
Operational risk	306,737	283,300	283,300
Total prudential requirements	**5,537,325**	**4,736,547**	**4,758,709**
Risk weighted assets	**69,216,563**	**59,206,839**	**59,483,864**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions / Risk weighted assets)	**11.42%**	**11.44%**	**11.48%**
Tier 1 ratio (Tier 1 capital after filters and deductions / Risk weighted assets)	**11.42%**	**11.44%**	**11.48%**
Total capital ratio (Total own funds / Risk weighted assets)	**14.06%**	**14.71%**	**14.10%**

Following the authorisations received from the Bank of Italy, the UBI Banca Group uses internal models to calculate capital requirements to meet credit risk relating to the corporate segment (exposures to companies) and to operational risks from the consolidated supervisory report as at 30th June 2012 and relating to the retail regulatory segment (exposures to small and medium-size enterprises and exposures backed by residential properties) from the consolidated supervisory report as at 30th June 2013.

The figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017. The comparative figures on the other hand relate to previous stand-alone Group supervisory reports.

As already reported, on the basis of the provisions of EU Regulation 445/2016, from 1st October 2016 unrealised profits or losses relating to exposures to central governments classified within "available-for-sale financial assets" are included in CET1 capital, in compliance with transitional provisions concerning own funds contained in Part II, Chapter 14 of Bank of Italy Circular No. 285. Previously, unrealised profits or losses on those exposures were not included in any item of own funds as a result of the option exercised in January 2014 applied at both separate company and consolidated level.

* The item includes the quota of the shortfall provisions to expected losses which are deducted from the Additional Tier 1 Capital as a result of the transitional provisions applicable. As there was no capital of that type, a portion was deducted from the CET1 capital.

Subordinated securities

ISSUER	TYPE OF ISSUE			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT 30.6.2017	NOMINAL AMOUNT 31. 12.2016	IAS AMOUNT 30.6.2017
UNIONE DI BANCHE ITALIANE SPA	Ordinary subordinated bond issues (Lower Tier 2)	1	2009/2019 - mixed rate ISIN IT0004457070 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 4.15% until 2014; subsequently floating rate Euribor 6M + 1.85%.	13-3-2019	13-3-2014	370,000	370,000	371,791
		2	2009/2019 - mixed rate ISIN IT0004497050 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 4% until 2014; subsequently floating Euribor 6M + 1.85%.	30-6-2019	30-6-2014	365,000	365,000	365,007
		3	2010/2017 - fixed rate ISIN IT0004572878 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 3.10%.	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	-	60,000	-
		4	2010/2017 - floating rate ISIN IT0004572860 - Currency euro Listed on MOT (electronic bond market)	Half year floating rate Euribor 6M + 0.40%.	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	-	30,517	-
		5	2010/2017 - fixed rate ISIN IT0004645963 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 4.30%.	5-11-2017	Redemption by fixed rate annual amortisation schedule from 5-11-2013	80,000	80,000	80,767
		6	2011/2018 - fixed rate ISIN IT0004718489 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 5.50%.	16-6-2018	Redemption by fixed rate annual amortisation schedule from 16-6-2014	80,000	160,000	81,714
		7	2011/2018 - fixed rate ISIN IT0004723489 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 5.40%.	30-6-2018	Redemption by fixed rate annual amortisation schedule from 30-6-2014	80,000	160,000	81,609
		8	2011/2018 - mixed rate WE ISIN IT0004767742 - Currency euro Listed on MOT (electronic bond market)	Quarterly fixed rate 6.25% until 2014; subsequently floating rate Euribor 3M + 1%	18-11-2018	-	222,339	222,339	222,517
		9	2012/2019 - mixed rate WE ISIN IT0004841778 - Currency euro Listed on MOT (electronic bond market)	Quarterly fixed rate 7.25% until 2014; subsequently floating rate Euribor 3M + 5%	8-10-2019	-	200,000	200,000	202,104
		10	2012/2019 - fixed rate ISIN IT0004842370 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 6%	8-10-2019	Redemption by fixed rate annual amortisation schedule from 08-10-2015	582,274	582,274	591,375
		11	2016/2026 - fixed rate 4.25% EMTN ISIN XS1404902535 - Currency euro Listed on the Irish Stock Exchange	Annual fixed rate 4.25%	5-5-2026	5-5-2021	750,000	750,000	752,406
		12	2017/2027 - fixed rate 4.450% EMTN ISIN XS1580469895 - Currency euro Listed on the Irish Stock Exchange	Annual fixed rate 4.450%	15-09-2027	15-09-2022	500,000	-	503,487
						Total	**3,229,613**	**2,980,130**	**3,252,777**
						Total eligible	*2,647,339*	*2,397,856*	*2,661,402*

Information on share capital, the share, dividends paid and earnings per share

Information on share capital and shareholder structure

At the date of this report the share capital of UBI Banca amounted to €2,843,075,560.24, divided into 1,144,244,506 shares with no nominal value.

On the basis of reports received in accordance with Art. 120 of the Consolidated Finance Act (Legislative Decree No. 58/1998), no changes occurred compared with the information reported in UBI Banca's 2016 Separate Annual Report, with the following investors who hold interests of greater than 3%:

- Fondazione Cassa di Risparmio di Cuneo with a 5.91% stake reported on 29th June 2017;
- Fondazione Banca del Monte di Lombardia with a 5.208% stake reported on 24th November 2016[1];
- Silchester International Investors LLP with a 5.123% stake reported on 4th November 2015[2].

It must in any case be considered that the percentage interests reported may no longer be those actually held if a change has occurred in the meantime which does not involve disclosure obligations in accordance with the applicable regulations. Furthermore, those shareholders (investment management companies) who have taken advantage of the exemption pursuant to Art. 119-bis of the Issuers' Regulations have not been considered.

On the basis of reports received from financial intermediaries, shareholders of UBI Banca numbered approximately 146 thousand when the dividend for 2016 was paid.

Treasury shares

As at 30th June 2017, UBI Banca held 3,031,974 treasury shares with no nominal value (unchanged since the end of 2016) accounting for 0.27% of the share capital on that same date, of which:

- 1,807,220 shares resulting from the exercise of a right of withdrawal, purchased with value date 8th April 2016 on the basis of an authorisation issued by the ECB on 31st March 2016;
- 1,224,754 shares held to service incentive schemes.

On 3rd July 2017 34,242 treasury shares were granted relating to the deferred portion of the 2012 short-term incentive scheme (because the retention period on the deferment had ended) and 162,852 shares were granted relating to the "up front" part to be paid in financial instruments as part of the 2014 incentive scheme, because the two-year retention period had ended.

In addition to the above, for one member of staff belonging to the "Identified Staff" perimeter with an employee contract, on leaving the position occupied and consequently ending the employment relationship in advance as a result of the merger of the network banks into UBI Banca which occurred in February 2017, UBI Banca shares were granted for an amount equal to 6 months salary, equivalent to 67,918 shares, with the relative retention and deferment periods, as part of the overall remuneration paid equal to 24 months salary in application of the provisions of a job security agreement in force, and in compliance with Supervisory Regulations for "Identified Staff" in force on the matter.

Therefore, at the date of this report treasury shares held at the service of incentive schemes had fallen to 959,742, of which approximately 52% were already committed for the Group's "Identified Staff" as follows:

- 22,153 shares for the deferred portion of the 2013 short-term scheme;

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1 That report was made at the time of the merger of Banca Popolare Commercio e Industria into UBI Banca and prior to the increase in the share capital concluded in July.

2 We report that Silchester attended the annual general meeting held on 7th April 2017 with shares accounting for 7.258% of UBI Banca's share capital and that the report was made prior to the increase in the share capital.

- 96,856 shares for the deferred portion of the 2014 short-term scheme;
- 242,200 shares for 2015 short-term scheme.
- 133,677 shares for the 2016 short-term incentive scheme.

The remaining treasury shares therefore numbered 464,856 at the date of this report.

Share performance

The UBI Banca share is traded on the *Mercato Telematico Azionario* (electronic stock exchange) of Borsa Italiana in the blue chip segment and forms part of the 40 shares in the FTSE/Mib Index.

Performance comparisons for the Unione di Banche Italiane share

Amounts in euro	30.6.2017 A	31.3.2017 B	30.12.2016 C	%change A/C	30.9.2016 D	30.6.2016 E	%change A/E
Unione di Banche Italiane shares							
- official price	3.851	3.403	2.485	55.0%	1.886	2.318	66.1%
- reference price	3.766	3.429	2.490	51.3%	1.954	2.358	59.7%
FTSE Italia All-Share index	22,746	22,568	20,936	8.6%	18,033	17,775	28.0%
FTSE Italia Banks index	11,128	10,174	9,511	17.0%	7,653	7,178	55.0%

Note: the historical prices changed following the application of an adjustment factor of 0.953116 (Borsa Italiana Notice No. 11940 of 9th June 2017) in relation to the increase in the share capital.

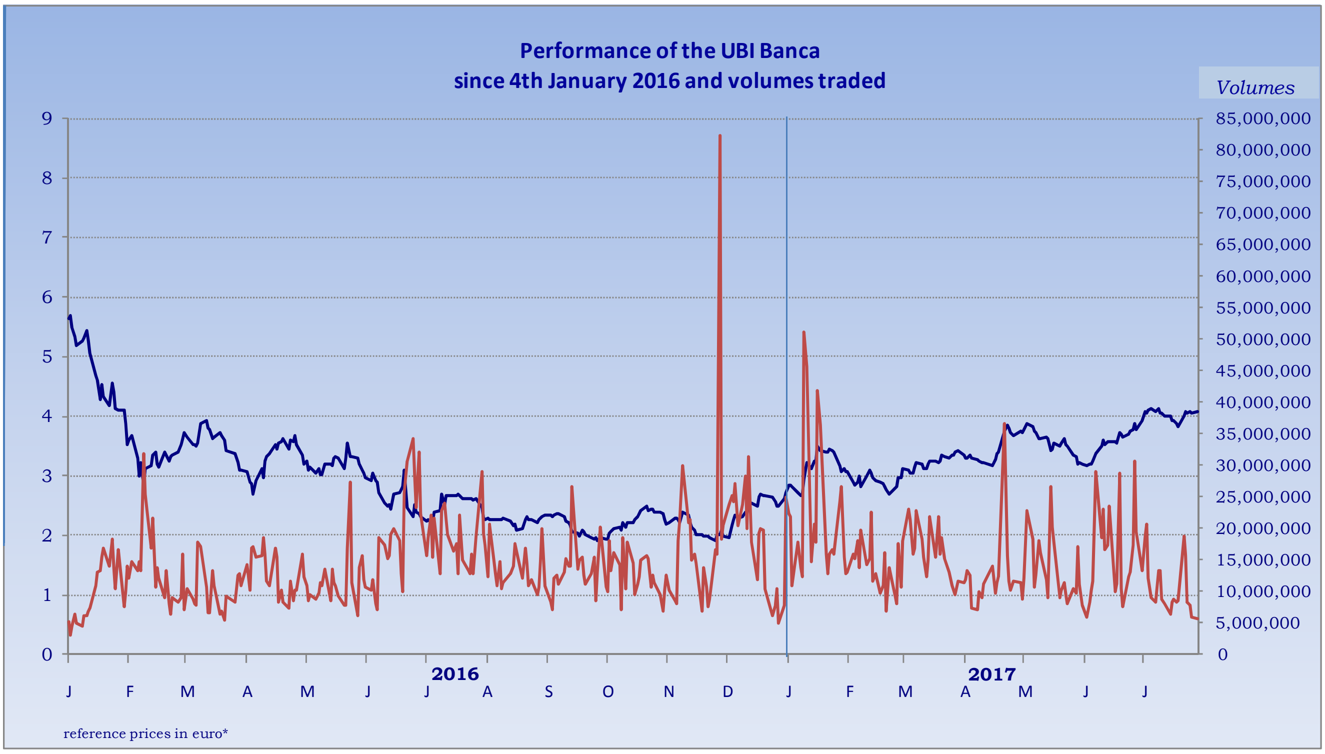
Source Datastream

The first six months of the year ended with positive results on almost all markets and on Italian stock exchanges in particular.
The expectations, which now enjoy a general consensus, that the economic recovery on the European continent would gain strength, although the phenomenon still appears uneven and weaker at domestic level compared with other European countries, and the disappearance of the possibility of an imminent early general election, helped to restore a climate of confidence for investors who again showed interest in the Italian market.
The solutions found in the Italian banking industry for some credit institutions in difficulty stimulated share prices in the sector.

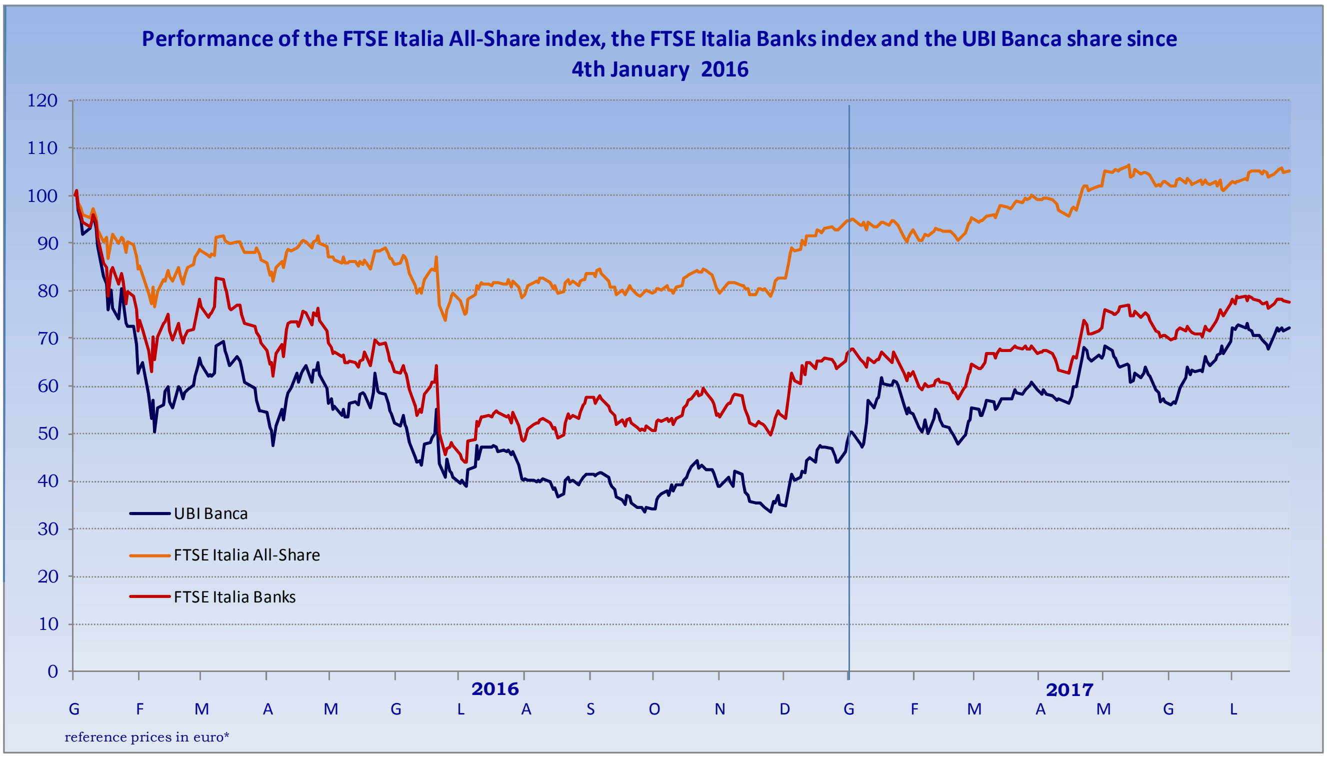
More specifically, the UBI Banca share increased substantially over six months with the official price up 55%, a further improvement in its performance over the first three months (+36.9%). This compares with +17% recorded by the FTSE Italia Banks index and +8.6% by the FTSE Italia All-Share.
Subsequent to the end of the first half, as a result, amongst other things, of the finalisation of the share capital increase, which was received very positively by the market, the share made further improvements and exceeded the four euro mark (€4.1 at the close of trading on 31st July 2017).

At the end of June 2017 trading in UBI Banca shares on the electronic stock exchange involved 1.9 billion shares for a value of €6.6 billion (volumes traded in the first half of last year involved 1.6 billion shares for a value of €5.4 billion).

As a result of the performance reported above, at the end of June the stock market capitalisation (calculated by applying the official price to the number of shares outstanding at that date) was €4.4 billion, up from €2.4 billion at the end of 2016.



The peak recorded in the volume of trades on 30th November 2016 occurred in the closing auction.



* Adjusted due to the application of the factor indicated by Borsa Italiana in relation to the share capital increase.

The main information concerning the UBI Banca share is summarised below, along with the principal stock market indicators, which have been calculated using consolidated figures.

The UBI Banca share and the main stock market indicators

	First half 2017	FY 2016 Stand-Alone Group
Number of shares outstanding at the end of period/year	1,143,100,018	976,300,395
Average price of the UBI share *(average of the official prices quoted daily by Borsa Italiana Spa)* - in euro	3.293	2.887
Minimum price (recorded during trading) - in euro	2.451	1.814
Maximum price (recorded during trading) - in euro	3.980	5.862
Dividend per share - in euro	n.a.	0.11
Dividend yield *(dividend per share/average price)*	n.a.	3.81%
Total dividends - in euro (*)	n.a.	107,162,640
Book Value *[Consolidated equity of the Group (excluding profit for the period/year for the part not relating to badwill/including loss divided by No. shares]* - in euro	8.64	9.21
Book value calculated by deducting intangible assets attributable to the shareholders of the Parent from consolidated equity - in euro	7.14	7.48
Stock market capitalisation at the end of period/year (official prices) - in millions of euro	4,402	2,426
Price / book value *[Stock market capitalisation at the end of period/year divided by (consolidated equity attributable to shareholders of the Parent excluding profit for the period/year for the part not relating to badwill/including the loss)]*	0.45	0.27
Price / book value calculated by deducting intangible assets attributable to the shareholders of the Parent from consolidated equity	0.54	0.33

(*) The dividend payout for 2016 was calculated on the 974,205,820 shares outstanding on 28th February 2017 (the date on which the new share capital was officially filed following the share exchanges of the shares of the former Banca Popolare di Ancona Spa, the former Banca Carime Spa and the former Banca di Valle Camonica Spa for UBI Banca shares. This figure does not include the 3,031,974 treasury shares held in portfolio on that same date.

The historical prices changed following the application of an adjustment factor of 0.953116 (Borsa Italiana Notice No. 11940 of 9th June 2017) in relation to the increase in the share capital. It also follows that the market capitalisation at the end of 2016 changed compared with the figure of €2.545 billion published previously.

Dividends paid

The dividend for the year 2016, drawn on the extraordinary reserve and totalling €107,162,640.20 corresponding to €0.11 on each of the 974,205,820 UBI Banca shares in issue (excluding treasury shares repurchased) was paid with value date 24th May 2017 (ex dividend date 22nd May and record date 23rd May) against coupon No. 19.

Earnings per share

January - June 2017	Consolidated earnings attributable *(in thousands of euro)*	Weighted average ordinary shares	Consolidated earnings per share *(in euro)*
Basic EPS	687,968	977,612,281	0.7037
"Annualised" Basic EPS*	771,113	977,612,281	0.7888
Diluted EPS	687,968	978,756,769	0.7029
"Annualised" diluted EPS	771,113	978,756,769	0.7878

FY 2016	Consolidated earnings attributable *(in thousands of euro)*	Weighted average ordinary shares	Consolidated earnings per share *(in euro)*
Basic EPS	-830,150	977,612,281	-0.8492
Diluted EPS	-830,150	978,756,769	-0.8482

January – June 2016	Consolidated earnings attributable *(in thousands of euro)*	Weighted average ordinary shares	Consolidated earnings per share *(in euro)*
Basic EPS	-785,213	977,612,281	-0.8032
"Annualised" Basic EPS	-1,572,198	977,612,281	-1.6082
Diluted EPS	-785,213	978,756,769	-0.8023
"Annualised" diluted EPS	-1,572,198	978,756,769	-1.6063

(*) The numerator used for the purposes of the calculation does not indicate a forecast of profitability for the whole year because it has been obtained by annualising the net result achieved in the first half.

Information on risks and on hedging policies

The measurement of risks in the strategic and competitive scenarios in which the UBI Banca Group has set its annual and medium-term planning takes the form of defining limits and rules for the assumption of risk, which are able to guarantee capital strength and value creation oriented towards sustainable growth.
The key principles on which Group risk analysis and management are based are as follows:

- rigorous containment of financial and credit risks and strong management of all types of risk;
- the use of a sustainable value creation approach to the definition of risk appetite and the allocation of capital;
- definition of the Group's risk appetite with reference to specific types of risk and/or specific activities in a set of policy regulations for the Group and for the single entities within it.

The assessments performed by the Parent were carried out with account taken of the operating nature and the relative profiles of each company in the Group in order to formulate integrated and consistent policies and guidelines. In order to achieve that objective, the governing bodies of UBI Banca perform their functions with reference not only to their own corporate reality but also by assessing the operations of the Group as a whole. The policies set by the Supervisory Board are then translated into operational regulations by the Management Board.

1 – Banking Group risks

1.1 – Credit risk

Qualitative information

The strategies, policies and instruments for the assumption and management of credit risk are defined at the Parent by the Chief Risk Officer in co-operation with the Chief Lending Officer, with the support and co-ordination of the relative specialist units. There is a particular focus in the formulation of policies to manage credit risk on maintaining an appropriate risk-yield profile and on taking risks that are consistent with the risk appetite defined by senior management and, more generally, with the mission of the Group.

The Notes to the Consolidated Financial Statements in the 2016 Annual Report (Part E Information on risks and on the relative hedging policies) may be consulted for a detailed description of organisational aspects and systems for credit risk management, measurement and control and techniques to mitigate it employed by the UBI Banca Group.

With regard to the Basel 2 project, in 2012 and 2013 the Bank of Italy authorised the Group to use the advanced internal rating based (AIRB) approach to calculate capital requirements to meet credit risk for the regulatory retail segments "exposures backed by residential properties" and "other exposures (SME-retail)" and for the "corporate" regulatory segment. For these portfolios the authorisation involved the use of internal estimates of the probability of default (PD) and loss given default (LGD) parameters.

For all the other portfolios, the standardised approach is used, to be applied in accordance with the roll-out plan submitted to the Supervisory Authority, which involves specific deadlines for regulatory segments and risk parameters.

At the date of this report, the scope of application of the approaches authorised in terms of companies is as follows:

- AIRB: UBI Banca[1] and IW Bank[2];
- the remaining legal entities in the Group (including the New Banks) will continue to use the standardised approach until the date of the respective roll-out.

The output of the models consists of nine rating classes that correspond to the relative PDs, updated as at December 2014. These PDs are mapped on the Master Scale to 14 classes (comparable with the ratings of the main external rating agencies) exclusively for reporting purposes.

As concerns LGD, LGD models have been developed, differentiated by regulatory class.

Master Scale	PD THRESHOLDS		UBI INTERNAL RATING MODELS				EXTERNAL RATINGS
	Min PD	Max PD	Corporate and Large Corporate	Small Business	Retail Business	Private individuals	Moody's (1)
			class	*class*	*class*	*class*	*class*
MS1	0.030%	0.049%	1			1	Aaa Aa1 Aa2 Aa3
MS2	0.049%	0.084%		1	1	2	A1 A2 A3
MS3	0.084%	0.174%	2		2		Baa1
MS4	0.174%	0.298%		2			Baa2 Baa3
MS5	0.298%	0.469%	3	3	3	3	Ba1
MS6	0.469%	0.732%	4				Ba2
MS7	0.732%	1.102%		4	4	4	Ba2/Ba3
MS8	1.102%	1.867%	5				Ba3
MS9	1.867%	2.968%	6	5	5	5	B1
MS10	2.968%	5.370%		6	6	6	B2 B3 Caa1
MS11	5.370%	9.103%	7				Caa1/Caa2
MS12	9.103%	13.536%		7	7	7	Caa2
MS13	13.536%	19.142%	8	8			Caa3
MS14	19.142%	99.999%	9	9	8-9	8-9	Ca-C

(1) See "Moody's "Corporate Default and Recovery Rates, 1920-2015", Exhibit 29, Average One-Year Alphanumeric. Rating Migration Rates, 1983-2015.

Quantitative information

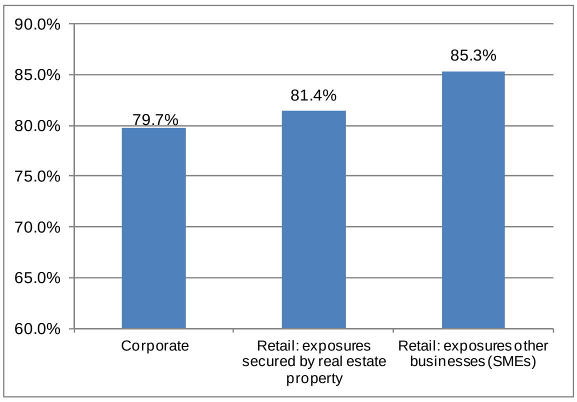
Classification of exposures on the basis of internal ratings

The following is given below:

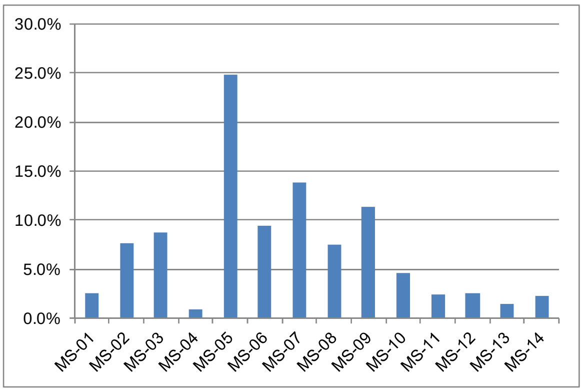
a) regulatory coverage determined on the basis of the rules set by EU Regulation 575/2013 (the "CRR") and by Bank of Italy Circular No. 285 of 17th December 2013 and subsequent updates;

b) the distribution of the IRB perimeter on the classes of the master scale: exposures to corporate clients, retail exposures: "exposures backed by residential real estate" and "exposures other, businesses (SMEs)".

Stand-alone UBI Banca Group[3]: regulatory coverage for internal ratings by regulatory class and subclass



IRB perimeter (UBI Banca + IW Bank): Distribution of EAD on the Master Scale (30th June 2017)



1 The legal entity, UBI Banca, incorporates the exposures of the former B@nca 24-7, the former Centrobanca and the former network banks (merged into the Parent).
2 The company IW Bank incorporates the exposures of the former UBI Banca Private Investment and the former IW Bank.
3 The data shown relates to the latest available figures for the stand-alone UBI Banca parameter (31st March 2017).

1.2 – Market risk

1.2.1 Interest rate risk and price risk - Supervisory trading book

Qualitative information

General aspects

Information on organisational and methodological aspects, which are unchanged, is given in Part E, section 1, sub-section 2, Part 1.2 – the Banking Group – Market risk of the Notes to the Consolidated Financial Statements in the 2016 Annual Report, which may be consulted.

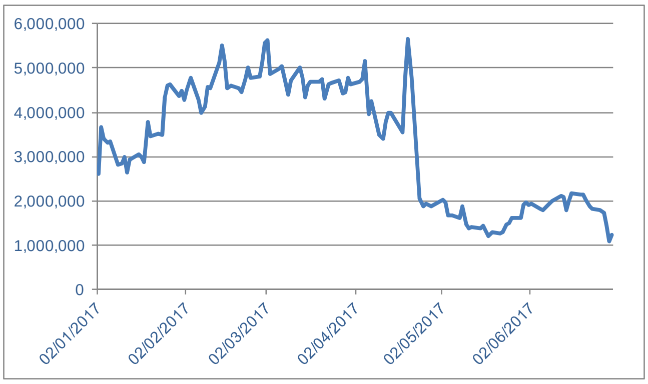
The main operational limits set for 2017 (including reallocations and any new limits set during the year) are as follows:

UBI Banca Group Trading Book Capital Allocated	€70 million
Early Warning Threshold on UBI Banca Group Trading Book Capital Allocated	€60 million
Early Warning Threshold on UBI Banca Group Trading Book 1-day Expected Shortfall (ES)	€15 million

Quantitative information

Supervisory trading book: internal models and other methods of sensitivity analysis

Change in market risk: daily market ES for the UBI Banca Group trading portfolios in the first six months of 2017



Changes in the trend shown in the chart were strictly related to movements in the portfolio since no exogenous shocks were recorded.

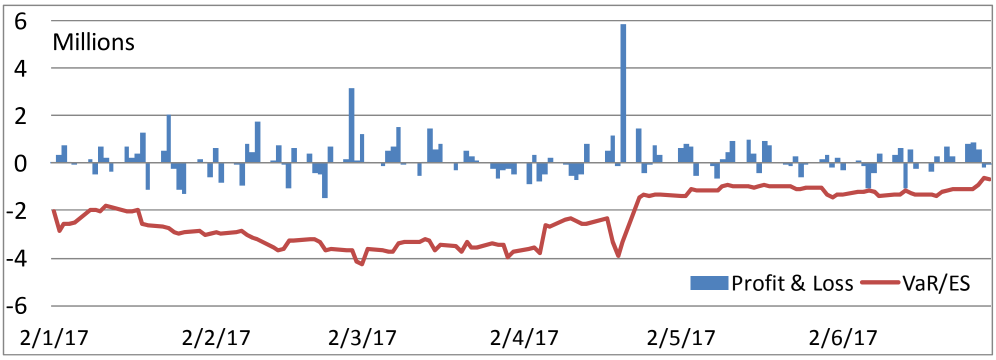
The expected shortfall by risk factor calculated on the entire trading book of the UBI Group as at 30th June 2017 is given below.

Trading book	30.06.2017	Average	Minimum	Maximum	31.12.2016 Stand-Alone UBI Banca Group
Currency risk	133,008	441,719	111,841	805,457	106,460
Interest rate risk	751,281	1,868,173	668,855	4,675,432	2,440,228
Equity risk	171,338	2,446,236	170,453	5,933,798	310,179
Credit risk	445,184	887,315	32,653	2,684,112	183,196
Volatility risk	70,247	587,597	65,347	1,159,354	626,326
Diversification effect (1)	(317,933)				(1,054,825)
Total (2)	**1,253,125**	**3,313,044**	**1,078,876**	**5,644,687**	**2,611,565**

(1) The diversification effect is due to the imperfect correlation between the different risk factors present in the Group's portfolio.
(2) The maximum ES was recorded on 20th April 2017, the minimum ES on 29th June 2017.

Backtesting analyses

UBI Banca Group trading book: backtesting for the first half of 2017



Actual backtesting analysis of the supervisory portfolios of the Group found no days when the P&L was worse than the ES calculated by the risk management system.

Theoretical stress tests

The analysis shows a heightened sensitivity of the portfolios to credit spread shocks (consistent with the presence of Italian government securities and corporate securities, especially in the AFS portfolios) and to interest rate shocks (consistent with the presence of bonds and interest-rate derivatives within the portfolios).

Data as at 30th June 2017 in whole euro		UBI BANCA GROUP Supervisory Trading Book 30th June 2017		UBI BANCA GROUP Banking Book 30th June 2017		TOTAL UBI BANCA GROUP 30th June 2017	
		Change in NAV		Change in NAV		Change in NAV	
Risk Factors Shock	**IR Shock +1bp**	46,279	-1.46%	-1,240,405	-0.01%	-1,194,125	-0.01%
Risk Factors Shock	**IR Shock -1bp**	-46,333	1.47%	1,240,290	0.01%	1,193,957	0.01%
Risk Factors Shock	**IR Bear Steepening**	-2,465,737	78.03%	- 37,628,967	-0.42%	-40,094,704	-0.45%
Risk Factors Shock	**IR Bull steepening**	1,117,511	-35.36%	31,532,770	0.35%	32,650,281	0.37%
Risk Factors Shock	**IR Bear Flattening**	-875,857	27.72%	-27,871,287	-0.31%	-28,747,145	-0.32%
Risk Factors Shock	**IR Bull Flattening**	11,127,012	-352.11%	38,416,276	0.43%	49,543,288	0.56%
Risk Factors Shock	**Equity -10%**	-222,287	7.03%	- 3,393,869	-0.04%	-3,616,156	-0.04%
Risk Factors Shock	**Credit Spread**	447,275	-14.15%	-479,946,684	-5.38%	-479,499,409	-5.37%
Flight to quality scenario		2,310,106	-73.10%	-440,504,380	-4.94%	-438,194,274	-4.91%

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

Information on organisational and methodological aspects, which are unchanged, is given in Part E, section 1, sub-section 2, Part 1.2 – the Banking Group – Market risk of the Notes to the Consolidated Financial Statements in the 2016 Annual Report, which may be consulted.

Quantitative information

The exposure of the UBI Banca Group to interest rate risk as at 30th June 2017, measured in terms of the sensitivity of the net economic value of the component relating to the AFS portfolio, was approximately -€94.71 million, thereby remaining within the limits set by the Policy to Manage Financial Risks. In detail, the sensitivity originated by the New Banks was -€34.03 million and that generated by the product companies was -€15.55 million, while the Parent contributed a total of -€45.13 million.

In compliance with the Policy to Manage Financial Risks, the exposure includes an estimate of the impact of early repayments and modelling of on-demand items on the basis of the internal model.

On the basis of the standard scenario set by current supervisory regulations, the end of period measurement as at 30th June 2017 as well as the average measurements for the period June 2017-June 2016, showed increases in economic value in both the scenarios considered. The exposure recorded is strongly influenced by the non-negative constraint imposed on interest rates in compliance with regulatory recommendations.

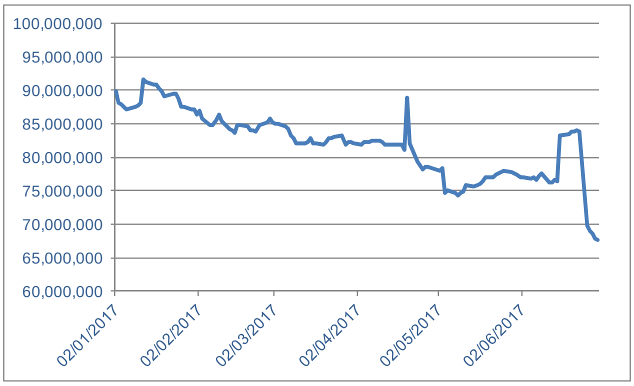
Sensitivity analysis of net interest income focuses on changes in profits resulting from a set of scenarios for changes in interest rates measured over a time horizon of twelve months.
UBI Banca Group exposure to interest rate risk as at 30th June 2017, estimated in terms of an impact on net interest income of a reduction in reference interest rates of -100 basis points, was -€105.41 million, a figure which fell within the limits set by Group policy.
The total level of exposure includes an estimate of the impact of early repayments and of the viscosity of demand items.
The impact on net interest income shows the effects of changes in interest rates on the portfolio monitored, excluding hypotheses of future changes in the mix of assets and liabilities. These factors mean that the indicator cannot be used to assess the Bank's future strategy.

* * *

The main operational limits for 2017 (including reallocations and any new limits set during the year) are as follows:

UBI Banca Group Banking Book Capital Allocated	€720 million
Early Warning Threshold on UBI Banca Group Banking Book Capital Allocated	€660 million
Early Warning Threshold on UBI Banca Group Banking Book 1-day Expected Shortfall (ES)	€100 million

Change in market risk: daily market ES for the Group banking book in the first six months of 2017



Changes in the trend shown in the chart were strictly related to movements in the portfolio since no exogenous shocks were recorded.

The market ES does not comprise hedge funds.

The expected shortfall by risk factor calculated on the entire banking book of the Group as at 30th June 2017 is given below.

Banking book	30.06.2017	Average	Minimum	Maximum	31.12.2016 Stand-Alone UBI Banca Group
Currency risk	95,411	78,773	751	198,439	21,231
Interest rate risk	9,545,009	7,796,499	6,674,106	9,939,303	7,754,231
Equity risk	1,293,724	1,702,311	1,293,724	2,147,535	2,191,078
Credit risk	68,600,009	80,636,469	68,572,534	89,626,806	87,618,599
Volatility risk	61,960	114,965	42,270	165,581	137,132
Diversification effect (1)	(11,969,115)				(8,247,646)
Total (2)	**67,626,998**	**81,980,756**	**67,626,998**	**91,614,056**	**89,474,624**

(1) The diversification effect is due to the imperfect correlation between the different risk factors present in the Group's portfolio.
(2) The maximum ES was recorded on 12th January 2017, the minimum ES on 30th June 2017.

1.2.3 Currency risk

Further information on general aspects and on processes for the management and methods for the measurement of currency risk is given in Part E, section 1, sub-section 2, Part 1.2 – Banking Group – Market risk of the Notes to the Consolidated Financial Statements in the 2016 Annual Report, which may be consulted.

1.3 – Liquidity risk

Qualitative information

The section on the interbank market in this interim report on consolidated operations may be consulted for information on net interbank debt and details of the UBI Banca Group's liquidity reserve.

Short-term liquidity analysis is monitored using a net liquidity balance model of analysis at consolidated level, supplemented with stress tests designed to assess the Group's ability to withstand crisis scenarios characterised by an increasing level of severity. The position as at 30th June 2017 was one of ample funds. Medium to long-term liquidity indicators (structural liquidity) also recorded values within the limits set by the Policy to Manage Financial Risk.

Further information on liquidity risk is given in Part E, section 1, sub-section 3 – Banking Group – Liquidity risk – of the Notes to the Consolidated Financial Statements in the 2016 Annual Report, which may be consulted.

1.4 – Operational risks

Part E section 1, sub-section 4 – Banking Group – Operational risks of the Notes to the Financial Statements in the 2016 Annual Report may be consulted for qualitative information (general aspects, management processes, measurement methods and the reporting system).

Legal risk

The companies in the UBI Banca Group are party to a number of disputes and proceedings of a legal nature arising from the ordinary performance of their business. As a result of those disputes and proceedings, appropriate provisions have been made in the accounts on the basis of a calculation of the amounts potentially at risk and an assessment of the risk in terms of the degree of "probability" and/or "possibility", as defined in the accounting standard IAS 37, and with account taken of established legal opinion. Therefore, while it is not possible to predict final outcomes with certainty, it is considered that an unfavourable conclusion of these proceedings, both taken singly or as a whole, would not have a significant effect on the financial and operating position of the Group.

Specific sections of this consolidated condensed interim financial report may be consulted for information on corporate litigation, including tax litigation, which may be consulted.

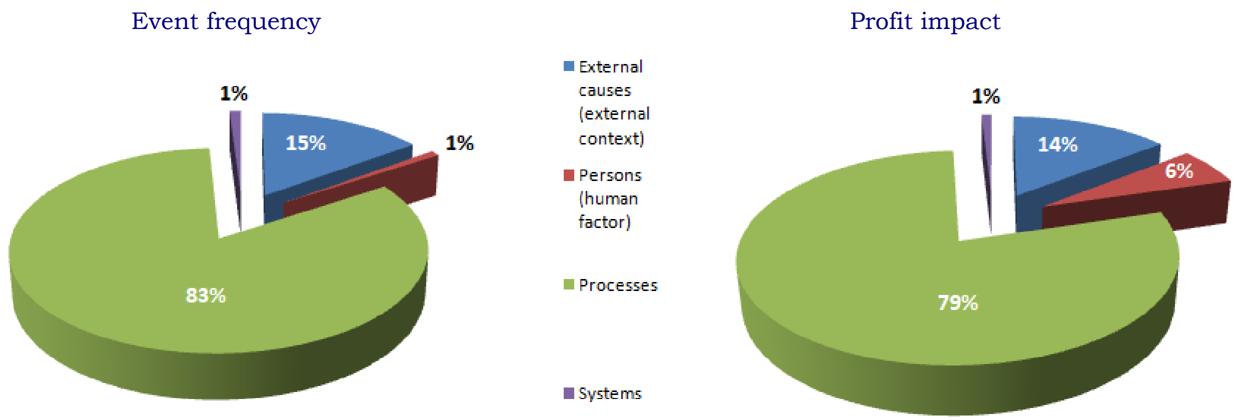
Quantitative information[4]

Descriptive data

Between 1st July 2012 and 30th June 2017 the main sources of operational risk for the Group were "processes" (83% of frequencies and 79% of the total impacts detected) and "external causes" (15% of frequencies and 14% of the total impacts detected).

The "process" risk driver includes, amongst other things, unintentional errors and incorrect application of regulations. The "external causes" risk driver includes, amongst other things, human actions performed by third parties and not directly under the control of the Bank.

Percentage of operational losses by risk driver
(detection 1st July 2012 – 30th June 2017)



The types of event[5] which recorded the greatest concentration of operational losses during the period examined were "customers, products and professional practices" (72% of frequencies and 48% of the total impacts detected), "execution, delivery and process management" (12% of frequencies and 32% of the total impacts detected) and "external fraud" (11% of frequencies and of the total impacts detected).

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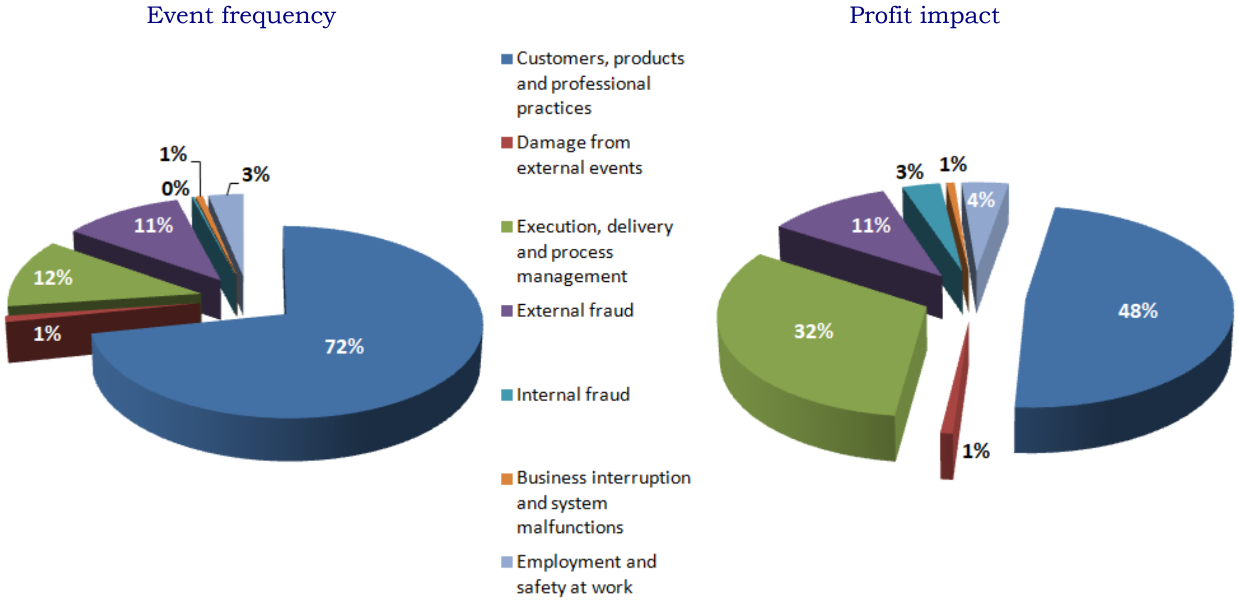
4 As concerns the operational losses of the New Banks, discussions are in progress with the supervisory authority in order to define the detection perimeter for these consistent with the actual areas of the activities acquired. Until the authorisation procedure has been completed by the authority, it was decided, for periodic reporting purposes, to report losses of Nuova Banca delle Marche and Nuova Banca dell'Etruria e del Lazio from the date of the formation of the "Bridge Entities" (23rd November 2015). A loss data collection system is currently being started up for Nuova Cassa di Risparmio di Chieti because that bank uses a basic methodology consistent with supervisory regulations and has no organisational units in place to manage operational risks.

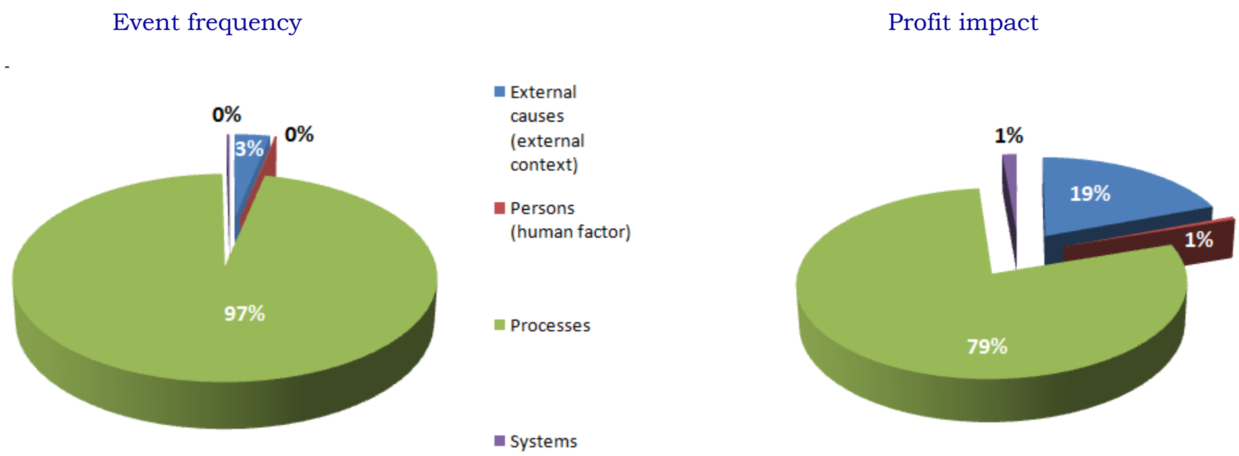
5 Reference is made to regulatory types of event laid down by EU Regulation 575/2013 as follows:
- internal fraud: losses due to acts of fraud, misappropriation of property, circumvention of the articles of association, laws, regulations or company policies, (excluding discrimination events or diversity events) which involve at least one internal party of the company.
- external fraud: losses due to acts of fraud, misappropriation of property, circumvention of the articles of association, laws regulations or company policies, (excluding discrimination events) carried out by third parties.
- employment and workplace safety: losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims or from diversity/discrimination events.
- customers, products and business practices: losses arising from the failure to meet professional obligations to specific clients (inclusive of fiduciary requirements and requirements to disclose information on investments) or from the nature or design of a product.
- damage from external events: losses arising from damage to, destruction or loss of physical assets, and from human and other losses due to natural disasters or other events.
- business disruption and system failures: losses arising from misfunctions and faults in systems and/or consequent business disruptions.
- execution, delivery and process management: losses arising from failed transaction processing or process management and from relations with trade counterparties and vendors.

Percentage of operational losses by type of event
(detection 1st July 2012 – 30th June 2017)



Operational losses in the first six months of 2017 were concentrated on the following risk factors: 'processes' (97% of frequencies and 79% of the total impacts detected) and 'external causes' (3% of frequencies and 19% of the total impacts detected).

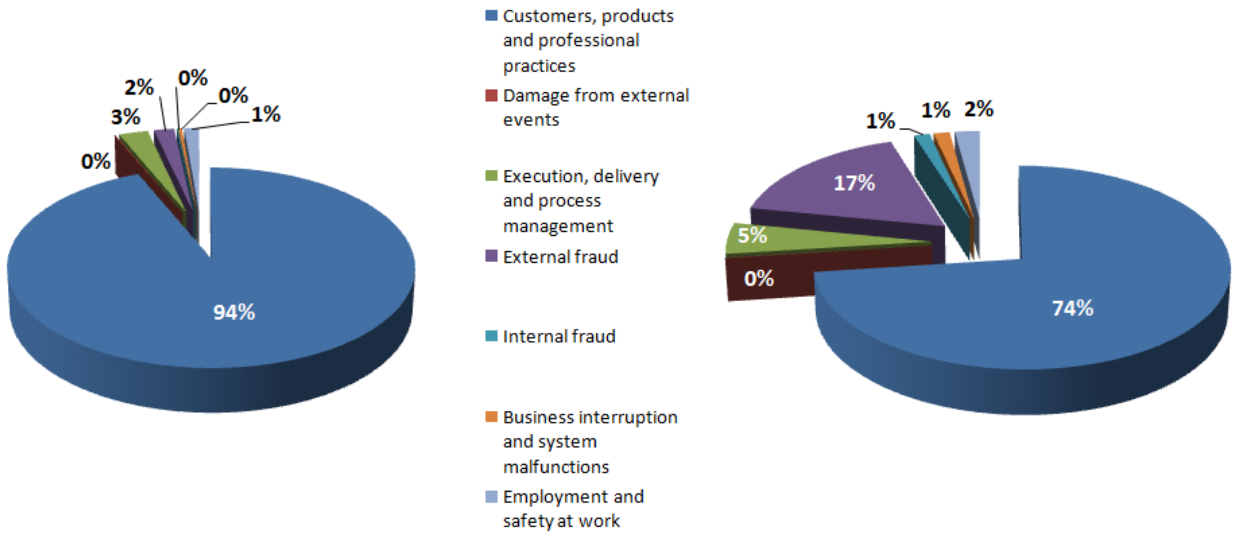
Percentage of operational losses by risk driver
(detection 1st January 2017 - 30th June 2017)



Operational losses incurred in the period were concentrated mainly in the following types of event "Customers, products and professional practices" (94% of frequencies and 74% of the total impacts detected), "execution, delivery and process management" (3% of frequencies and 5% of the total impacts detected) and "external fraud" (2% of frequencies and 17% of the total impacts detected).

Percentage of operational losses by type of event
(detection 1st January 2017 - 30th June 2017)

Event frequency | Profit impact



Capital requirement

The capital requirement net of expected losses for which provisions for risks and charges had been made was €306.7 million (+8% compared with €283.3 million reported in June 2016 by the stand-alone Group) because it incorporates the effects of the inclusion of the New Banks in the consolidation, partially offset by a reduction in the advanced measurement approach (AMA) due to the exclusion of losses detected prior to the relative holding period (10 years of historical data depth)

2 – Insurance company risks

The information that follows has been prepared on the basis of the provisions of paragrahs 38 and 39 letters a) and b) of IFRS 4 which states the following: *"An insurer shall disclose information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts" (ref. par. 38) and "To comply with paragraph 38, an insurer shall disclose: (a) its objectives in managing risks arising from insurance contracts and its policies for mitigating those risks. (b) those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows"* (ref. par. 39).

Qualitative information

As part of their internal control systems the company Vita BancAssurance Popolari Spa (BAP Vita) and the company Danni BancAssurance Popolari Danni Spa (BAP Danni) have adequate risk management systems in place in terms of the nature, size and complexity of the services they provide and these are compliant with the current sector regulations in force with specific reference to the provisions issued by IVASS (the insurance authority, formerly ISVAP) with regulation No. 20 of 26th March 2008 on risk management and Regulation No. 36 of 31st January 2011 concerning guidelines on investments and assets to cover technical reserves.

In 2016, the activities of BAP Vita's Risk Management Function, to which those same activities are outsourced by BAP Danni on the basis of a service agreement signed by the two companies, focused on the identification, measurement and monitoring of the most significant company risks, with particular reference to quantifiable risks.
Policies for taking, measuring and managing risks are formulated and pursued on the basis of an integrated vision of balance sheet assets and liabilities in accordance with the new European Solvency II regulations in force from 1st January 2016.

Identification activity involves the recognition of risks to produce a map of all potential risks to which the company is exposed. These are subsequently measured and classified in order to identify the most significant which could undermine the solvency of the company itself or constitute a serious hindrance to the achievement of the company's goals.
The identification methodology is validated by the Risk Committee with support from the Risk Management Function and the various risk owners. In addition to quantitative aspects it also involves qualitative assessments relating to external and internal factors in order to identify possible sources of current or future risk to which the company might find itself exposed on the basis of strategic choices.

As part of its risk assessment, the company carried out, again in compliance with Solvency II, measurements of its current and future capital requirement and of the assets in its possession using standard formulas. Its risk profile is analysed on the basis of its strategy, market scenarios and the development of its business. This is conducted by means of an "own risk and solvency assessment" (ORSA) process which is to say by carrying out stress tests on a half-yearly basis on the most significant risks in order to improve capital allocation and periodic monitoring of changes in risks. Stress tests are carried out using deterministic models and they are developed consistent with the nature, dimensions and complexity of the risks attaching to the company's activities. The company also periodically carries out special stress tests requested by the supervisory authority.

As concerns monitoring of the most significant risks, the companies check risk indicators on a quarterly basis and carry out half-yearly standardised stress tests, the methodology of which is validated by the BAP Vita Risk Committee.

As part of periodic controls, quarterly checks are also made on the operating limits for investment activities, those regarding insurance limits and those regarding reassurance activities. The escalation process relates to exceeding the risk appetite or the operating limits which, according to the size of the infringement detected by the Risk Management Function, necessarily involves reporting to and the involvement of the Risk Committee and/or the Board of Directors.

The risk reporting system involves specific reports on the basis of the information needs of the various recipients. The Risk Management Function prepares reports on changes in risks and on infringements of the operating limits set for the Board of Directors, for the Risk Committee and for the managers of the operating units involved.

The principal risks and uncertainties for the second half of the year

Risks

The UBI Banca Group attributes primary importance to the measurement, management and monitoring of risk, as activities necessary to the sustainable creation of value over time and to the consolidation of its reputation on its markets. Consequently, it has a system of risk governance and management in place which takes account of organisation, regulations and methods in order to ensure consistency in its operations and its relative risk appetite (RAF - Risk Appetite Framework). More specifically, the Group has adopted a risk management framework consistent with Group regulations and strategies which have been developed over the years, consistent in turn with developments in the regulatory framework. The main parts of the current framework regard the following:
1. definition of risk appetite;
2. definition of risk management policies;
3. interpretation and management of the RAF in Group companies;
4. monitoring of current and future risks.

Articles 97 and following of section III of Directive 2013/36/EU ("CRD IV") regulate the Supervisory Review and Evaluation Process (SREP), and that is the regulatory control, review and assessment process for which the supervisory authority is responsible by which it formulates an overall opinion on the bank and institutes corrective measures if necessary. To achieve this, in accordance with Art. 107 (3) of CRD IV, the European Banking Authority (EBA) has published "Guidelines"[6] with the objective of generating procedures and methodologies common to the competent authorities in order to support the Supervisory Review and Evaluation Process (SREP).

Internal processes make a considerable contribution to the calculation and assessment of capital adequacy (Internal Capital Adequacy Assessment Process – ICAAP) and liquidity adequacy (Internal Liquidity Adequacy Assessment Process – ILAAP) and on the basis of these the Group carries out a self-assessment each year focused on identifying risks and the conditions of its current and future capital and liquidity adequacy including under stress conditions[7].

In compliance with the regulations in force, on 30th April the UBI Banca Group submitted its 2016 ICAAP and ILAAP reports to the supervisory authority. The results of the capital and liquidity adequacy assessments contained in those reports confirmed the availability of significant margins sufficient to maintain the capital and liquidity position, both current and future and under stress conditions above the requirements requested. On 5th July, following the acquisition of the New Banks, UBI Banca submitted an update to the ECB of the 2016 ICAAP Report on capital adequacy which confirmed its solidity both for the future and under stress conditions.

With regard to these processes, very careful identification of risks to be subjected to measurement is carried out on a continuous basis. Risk identification activity is designed to verify the magnitude of risks already subject to measurement and to detect signals of other types of risk which may manifest. Identification involves precise conceptual definition of the risks to which the Group is exposed, an analysis of the factors which combine to generate them and a description of the relative manner in which they manifest. This activity is achieved by means of a centralised process of analysis supplemented by self-assessment conducted on all the entities of the Group.

6 Cf. "Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)", EBA/GL/2014/13 of 19th December 2014
7 Cf. "Guidelines on ICAAP and ILAAP information collected for SREP purposes", consultation paper, EBA/CP/2015/26 of 11th December 2015.

Details are given below of risks which have significant impacts for the Group and the action taken to mitigate them.

Credit risk

Credit risk, which consists of the risk of incurring losses resulting from the default of counterparties with whom credit exposure exists, constitutes the most important characteristic risk of the UBI Banca Group. On a historical basis it absorbs around 90% of the regulatory risk capital.
The Group has always considered the quality of its loan portfolio and efficient management of non-performing loans to be one of its top strategic priorities. In this sense, the development of credit monitoring and credit recovery models has produced a profound organisational overhaul in terms of processes and support instruments and it has allowed the Group to come to terms with the difficult economic environment existing in recent years. The main strengths included the following:

- making credit processes more robust in terms of more staff working on credit quality management, with a particular focus on returning non-performing positions to performing status;
- effective local management of credit exposures by means of qualified/experienced specialised staff who work on positions that present irregularities, supporting distribution network units in the relative regularisation;
- a high level of computerisation of procedures to support the monitoring, management and assessment of default loans (Credit Portal, "PEM", credit monitoring software and a Classification and Write-down Module).

In accordance with indications contained in the 2017-2020 Business Plan, the UBI Banca Group intends to further develop its infrastructure in the second half of 2017 to support activities to grant and manage loans through the different phases of their life cycle by means of specific intervention designed to:

- support growth in loans with high standards of credit quality selection by formulating and implementing policies for granting loans that are tailor-made for the type of customer, based on the level of risk and sector outlook, as well as by means of support for digital innovation in the lending;
- integrate corporate processes and procedures to adapt them to regulatory changes resulting from new guidelines issued by the ECB and the EBA;
- make the new organisational model for Arrears Management, which reports directly to the Chief Lending Officer, fully operational. In addition to carrying out normal phone collection activities, this will introduce "Centralised Negotiation" activity consisting basically of analysing the causes that generate credit irregularities and investigating the credit grant proposals with a view to removing them;
- developing and monitoring performing positions by introducing new indicators designed to detect customer problem events as early as possible;
- making credit process even more effective, with particular reference to "regularising" non-performing positions by means, amongst other things, of the recent introduction of centralised Problem Loan Management (unlikely-to-pay loans);
- develop, as support for the new credit governance model (divided into "Performing Processes" and "Non-performing Processes"), new and unequivocal reporting (a "Credit Control Framework") with a high degree of automation which allows data to be presented in a standardised manner with an adequate level of detail and showing divergences from budget figures, Strategic Npl Plan figures and Business Plan figures;
- improve the credit recovery model by refining the rules for dividing positions into portfolios for customers classified as "bad loan" status.

Business risk

The current scenario of slow and moderate economic recovery is continuing to have a negative impact on operating conditions in the banking system. This has been accompanied by a strongly expansionary monetary policy in a scenario of continuously falling interest rates, now at minimum levels. More specifically, in this context there is strong competition on prices with

regard to the loans granted by banks following access to forms of funding regulated by the European Central Bank (i.e. Targeted Longer Term Refinancing Operations - TLTROs).
The macroeconomic environment, the extreme volatility on markets and the pressure of competition resulting from the substantial liquidity flooding credit markets has compressed margins and the profitability of operators. The UBI Banca Group is therefore continuing to take appropriate action on its distribution network designed to achieve goals identified in terms of volumes and pricing of loans consistent with targets for the quality of credit.

Sovereign risk

The Group's sovereign risk exposure continues to be concentrated in Italy consisting of national government securities[8]. As concerns this risk in the banking book, the UBI Banca Group is taking action to increase portfolio diversification and to gradually reduce concentration in accordance with the goals and strategic guidelines set out in the Business Plan, which was updated after the acquisition of the New Banks. The banking Group's securities portfolio will be further reduced and diversified in parallel with growth in lending, by taking steps to reduce its concentration in Italian government securities to 54% at the end of the plan (2020).

Insurance risk

Following the acquisition of the New Banks, the new perimeter of the Group also includes the insurance companies Vita BancAssurance Popolari Spa (life sector) and BancAssurance Popolari Danni Spa (non-life sector). Limited to the insurance perimeter only, we report that management accounting measurements of the solvency ratio comply with Solvency II regulations.

Uncertainties

An uncertainty is defined as *a possible event for which the potential impact, attributable to one of the risk categories just mentioned, cannot be determined and therefore quantified at present.*

The Group is operating in a scenario that is expected to improve, but which is nevertheless overshadowed by certain risks, potentially negative for growth. These factors of uncertainty could manifest with impacts attributable primarily to credit, but without affecting the capital strength of the UBI Banca Group.

In detail, the main uncertainties identified for the second half of 2017 are linked to the following aspects:

- developments in the macroeconomic situation. The expansionary phase of the world economy is continuing although at a moderate pace in an environment containing lower levels of uncertainty than last year. The recovery is expected to consolidate and inflation to continue along a path of recovery, but at an overall rate consistent with policy objectives. As more specifically concerns the eurozone, a preliminary reading of GDP in the second quarter showed quarter-on-quarter growth of 0.6% and year-on-year growth of 2.1% in the second quarter (up on quarterly growth of 0.5% and annual growth of 1.9% recorded in the first three months of 2017). The outlook for growth in the current year is therefore confirmed thanks, amongst other things, to an accommodative monetary policy and a positive international scenario. In Italy the latest indicators published confirm the stabilisation of the moderate expansionary phase supported both by relatively low commodity prices and euro exchange rates and by the improvement in monetary conditions. Nevertheless, significant structural problems remain which could penalise the rate of growth in the medium to long-term compared with the rest of the eurozone. The Italian growth rate is therefore forecast to stand at a level close to 1% in coming years. The section "Macroeconomic scenario" in this report may be consulted for further details;

8 See the sub-section "Exposure to sovereign debt risk" in the section "Financial Activities" of this report for details of the value of sovereign debt risk exposures.

- Political developments. Against a generally favourable backdrop we report the presence of some risk factors for the main scenario resulting from the following: (i) repercussions at international level on the outcome of negotiations over the United Kingdom's exit (Brexit) from the European Union; (ii) the not simple management of the Federal Reserve's exit strategy due to signs of recovery that are not fully convincing; (iii) geopolitical crises; (iv) a potentially greater-than-expected brake on growth in developing countries; (v) internal tensions in the Trump administration could modify trading equilibriums among major international partners. A climate of uncertainty continues to exist on the Italian scene which nevertheless should not have significant impacts on the country should a "weak" coalition government emerge in coming months. The risk of a downgrade of Italy's credit rating by rating agencies seems to have died down partly, even if a weak coalition government emerges from the next general elections, the date of which, moreover, is not currently known;
- developments in the regulatory framework. The regulatory context is subject to various processes of change following both the issue of a number of regulatory provisions at European and national level, with the introduction of the relative regulations to implement them, relating to the provision of banking services and also the related legal recommendations. This scenario requires particular effort both in terms of interpretation and implementation and has at times directly affected the profits of banks, and/or costs for customers. The UBI Banca Group continuously studies action to soften the impacts of measures, which includes constant and attentive monitoring of operating costs and a constant search for greater efficiency in internal processes.

  With regard to aspects of immediate and future importance, we confirm the importance of the new IFRS 9 financial reporting standard and proposals to amend supervisory regulations with potential impacts on loan write-downs and capital adequacy. As regards the management of non-performing loans (NPLs), the supervisory authority has recommended setting a clear strategy to reduce them, which is a major focal point for 2017. In this respect UBI Banca has sent the ECB a Strategic NPL Plan designed to reduce its exposures to non-performing loans. Proposals have also emerged concerning the following:
  - the process for the classification and management of non-performing loans[9];
  - the revision of the regulatory approach on the subject of the management, regulatory treatment and supervision of interest rate risk;
  - the revision of the calculation of regulatory requirements with the objective of greater alignment at European level of some regulations through the reduction of national discretion and changes to internal models relating to credit risk by the supervisory authorities. In this respect we report an ECB initiative commenced at the end of 2015 and to be concluded by the end of 2019 consisting of a "Targeted Review of Internal Models" (TRIM) designed to assess the compliance of internal models currently in use by banks with regulatory requirements, as well as their reliability and comparability;
  - a revision of the Basel 3 three regulatory framework concerning methods for calculating risk weighted assets, credit risk, operational risk and market risk. The definition of these rules, which fall within the "Basel 4" framework, is still being completed. Nevertheless the orientations of international regulators that are emerging are: to limit the use of internal models and to return to a more stringent standard methodology for credit risk on some types of portfolio (i.e. low default portfolios) and instrument (i.e. capital instruments); to eliminate the use of internal models for the management of operational risk; and to introduce more sophisticated and stringent models, both internal and standardised, for market risk.

Operational and reputational difficulties and implementation costs could also arise from the forthcoming adoption of the new Payment Services Directive (PSD2), by the Interchange Fee Regulation (IFR) on multilateral interchange fees and by recently passed regulations governing the compounding of interest and transparency in banking (MEF Decree 343/2016).

* * *

9 Cf. Consultation paper "Draft Regulatory Technical Standards on materiality threshold of credit obligation Past Due under Article 178 of Regulation (EU) 575/2013, Guidelines on the application of the definition of Default under Article 178 of Regulation(EU) No 575/2013, Guidelines on Pd estimation, Lgd estimation and the treatment of defaulted exposures".

The risks and uncertainties described above were subject to a process of assessment designed, amongst other things, to examine the impacts of changes in market parameters and conditions on corporate performance. The Group does in fact possess instruments to measure the possible impacts of risks and uncertainties on its operations (sensitivity analysis and stress tests in particular), which allow it to rapidly and continuously adapt its strategies – in terms of its distribution, organisation and cost management systems – to changes in the operating context. Risks and uncertainties are also under constant observation through the implementation of the policies and regulations to manage risk adopted by the Group: policies are updated in relation to changes in strategy, context and market expectations. Periodic monitoring of policies is designed to verify their state of implementation and their adequacy. The findings of the analyses performed show that the Group is able to meet the risks and uncertainties to which it is exposed, which therefore confirms the assumption that it is a going concern.

Consolidated companies: the principal figures

Profit for the period

Figures in thousands of euro	First half 2017 A	First half 2016 B	Change A-B	% change A/B	FY 2016 C
Unione di Banche Italiane Spa (*)	102,064	52,887	49,177	93.0%	(493,425)
Banca Popolare Commercio e Industria Spa (*)	-	(59,975)	59,975	(100.0%)	-
Banca Regionale Europea Spa (*)	-	(102,587)	102,587	(100.0%)	-
Banca Popolare di Bergamo Spa (*)	-	(92,753)	92,753	(100.0%)	(11,936)
Banco di Brescia Spa (*)	-	(170,653)	170,653	(100.0%)	(158,739)
Banca Popolare di Ancona Spa (*)	-	(118,990)	118,990	(100.0%)	(113,995)
Banca Carime Spa (*)	-	(65,532)	65,532	(100.0%)	(58,315)
Banca di Valle Camonica Spa (*)	-	(7,489)	7,489	(100.0%)	(3,425)
Nuova Banca delle Marche Group (**)	(25,896)	-	(25,896)	n.s.	-
Nuova Banca dell'Etruria e del Lazio Group (**)	(15,279)	-	(15,279)	n.s.	-
Nuova Cassa di Risparmio di Chieti (**)	(221)	-	(221)	n.s.	-
Centrobanca Sviluppo Impresa SGR Spa	(150)	(155)	(5)	(3.0%)	(159)
IW Bank Spa	(2,715)	(1,279)	1,436	112.3%	(6,913)
UBI Banca International Sa (***)	1,560	(1,611)	3,171	n.s.	(5,408)
UBI Pramerica SGR Spa	34,074	28,490	5,584	19.6%	63,587
Zhong Ou Asset Management Co. Ltd	3,262	4,287	(1,025)	(23.9%)	7,317
UBI Leasing Spa	5,625	(32,066)	37,691	n.s.	(54,917)
UBI Factor Spa	3,003	2,737	266	9.7%	(8,656)
Prestitalia Spa	5,267	(6,896)	12,163	n.s.	(14,310)
BPB Immobiliare Srl	(181)	(95)	86	90.4%	(716)
Società Bresciana Immobiliare Mobiliare - S.B.I.M. Spa (1)	-	1,149	(1,149)	(100.0%)	-
UBI Sistemi e Servizi SCpA (2)	6,697	3,793	2,904	76.6%	-
UBI Fiduciaria Spa (3)	-	(261)	261	(100.0%)	-
Aviva Assicurazioni Vita Spa (20%) (4)	-	300	(300)	(100.0%)	-
Aviva Vita Spa (20%)	4,520	2,800	1,720	61.4%	5,460
Lombarda Vita Spa (40%)	2,605	4,841	(2,236)	(46.2%)	11,525
UBI Management Co. Sa (***)	655	1,304	(649)	(49.8%)	1,850
UBI Trustee Sa (***)	163	148	15	10.0%	104
CONSOLIDATED	**696,045**	**(786,985)**	**1,483,030**	**n.s.**	**(830,150)**

(*) On 15th November 2016 the deeds for the merger by incorporation of Banca Popolare Commercio e Industria and Banca Regionale Europea into the Parent UBI Banca were signed (with legal effect from 21st November 2016 and with effect for accounting and tax purposes from 1st January 2016), while on 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes). The UBI Banca's net profit for the full year 2016 and for the first half of 2016, stated on a pro forma basis to take account of the aforementioned mergers, came to -€820,874 thousand and €790,894 thousand respectively.

(**) On 10th May 2017 UBI Banca concluded the purchase from the National Resolution Fund of 100% of the share capital of Nuova Banca delle Marche (in possession, to-date, of 98.86% of Cassa di Risparmio di Loreto), Nuova Banca dell'Etruria e del Lazio (in possession amongst other things of 100% Banca Federico del Vecchio) and Nuova Cassa di Risparmio di Chieti, in implementation of the purchase and sale agreement signed on 18th January 2017 with the Bank of Italy, as the manager of and on behalf of the National Resolution Fund, as a consequence of the bid made by UBI Banca on the previous 11th January.
On the following 11th May 2017 the Management Board and the Supervisory Board of UBI Banca approved a merger project, which involves the integration into the Parent, UBI Banca, of the five banks mentioned above.
Because the New Banks entered the scope of consolidation from 1st April 2017, the net result stated for the period relates to the second quarter of 2017 only.

(***) The result shown is from the financial statements prepared for the consolidation according to the accounting policies followed by the Parent.
The conclusion of the operation to dispose of UBI Banca International will take place once the relative preparatory activities have been completed, which include the acquisition of the necessary authorisations by the buyer.

(1) The merger of S.B.I.M. Spa into the Parent became effective on 28th September 2016.

(2) Since this is a consortium company with mutual, not-for-profit objects, UBI Sistemi e Servizi ends the year with a break-even result.

(3) The merger of the company into the UBI Banca became effective on 28th September 2016.

(4) On 5th October 2016 an extraordinary Shareholders' Meeting of Aviva Vita Spa resolved to merge its subsidiary Aviva Assicurazioni Vita into itself with legal effect from 31st December 2016.

The consolidated figure for the first half of 2017 relates to the UBI Banca Group inclusive of the New Banks. It has been stated in aggregate form for the full year 2016, while for the first half of 2016 it relates to the stand-alone UBI Banca Group.

Net loans and advances to customers

Figures in thousands of euro	30.6.2017	31.12.2016	Change	% change
Unione di Banche Italiane Spa (*)	82,613,194	37,111,384	45,501,810	122.6%
Banca Popolare di Bergamo Spa (*)	-	18,831,193	-18,831,193	-100.0%
Banco di Brescia Spa (*)	-	11,732,362	-11,732,362	-100.0%
Banca Popolare di Ancona Spa (*)	-	7,638,165	-7,638,165	-100.0%
Banca Carime Spa (*)	-	4,036,265	-4,036,265	-100.0%
Banca di Valle Camonica Spa (*)	-	1,729,589	-1,729,589	-100.0%
Nuova Banca delle Marche Group (**)	7,814,849	7,994,192	-179,343	-2.2%
Nuova Banca dell'Etruria e del Lazio Group (**)	2,620,276	2,701,284	-81,008	-3.0%
Nuova Cassa di Risparmio di Chieti (**)	1,155,116	1,219,555	-64,439	-5.3%
Prestitalia Spa	1,252,246	1,231,530	20,716	1.7%
UBI Banca International Sa (***)	70,024	336,658	-266,634	-79.2%
IW Bank Spa	609,017	647,373	-38,356	-5.9%
UBI Factor Spa	2,245,527	2,468,928	-223,401	-9.0%
UBI Leasing Spa	6,216,117	6,347,210	-131,093	-2.1%
CONSOLIDATED	**94,228,583**	**93,769,311**	**459,272**	**0.5%**

Risk indicators

Percentages	Net bad loans/net loans		Total net non-performing loans/net loans	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Unione di Banche Italiane Spa (*)	3.71%	2.85%	7.64%	6.60%
Banca Popolare di Bergamo Spa (*)	-	4.13%	-	6.87%
Banco di Brescia Spa (*)	-	3.65%	-	10.09%
Banca Popolare di Ancona Spa (*)	-	6.33%	-	12.26%
Banca Carime Spa (*)	-	5.99%	-	10.78%
Banca di Valle Camonica Spa (*)	-	3.96%	-	8.84%
Nuova Banca delle Marche Group (**)	1.10%	n.a.	11.56%	n.a.
Nuova Banca dell'Etruria e del Lazio Group (**)	1.05%	n.a.	8.56%	n.a.
Nuova Cassa di Risparmio di Chieti (**)	0.36%	n.a.	11.13%	n.a.
Prestitalia Spa	0.65%	0.76%	5.22%	6.54%
UBI Banca International Sa (***)	n.s.	3.99%	n.s.	15.60%
IW Bank Spa	1.79%	1.77%	3.60%	3.57%
UBI Factor Spa	9.20%	8.46%	11.45%	11.11%
UBI Leasing Spa	10.76%	10.81%	17.53%	18.47%
CONSOLIDATED	**4.30%**	**4.35%**	**8.97%**	**9.87%**

(*) On 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining five network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's net loans to customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €81,112,931 thousand as at 31st December 2016. The ratio of net bad loans to net loans was 3.77% as at 31st December 2016, while the ratio of total net non-performing loans to net loans was 7.96% as at 31st December 2016.

(**) On 10th May 2017 UBI Banca concluded the purchase from the National Resolution Fund of 100% of the share capital of Nuova Banca delle Marche (in possession, to-date, of 98.86% of Cassa di Risparmio di Loreto), Nuova Banca dell'Etruria e del Lazio (in possession amongst other things of 100% Banca Federico del Vecchio) and Nuova Cassa di Risparmio di Chieti, in implementation of the purchase and sale agreement signed on 18th January 2017 with the Bank of Italy, as the manager of and on behalf of the National Resolution Fund, as a consequence of the bid made by UBI Banca on the previous 11th January.
On the following 11th May 2017 the Management Board and the Supervisory Board of UBI Banca approved a merger project, which involves the integration into the Parent, UBI Banca, of the five banks mentioned above.

(***) A significant contraction was recorded in the item as at 30th June 2017 due to the sale of the portfolio of loans to corporate clients to EFG International. The risk indicators on the other hand were not significant because the portfolio of non-performing loans had been reduced to almost zero.

The consolidated figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks and they have been restated in aggregate form as at 31st December 2016.

Direct funding from customers

Figures in thousands of euro	30.6.2017	31.12.2016	Change	% change
Unione di Banche Italiane Spa (*)	78,846,910	44,160,639	34,686,271	78.5%
Banca Popolare di Bergamo Spa (*)	-	16,445,137	-16,445,137	-100.0%
Banco di Brescia Spa (*)	-	8,653,781	-8,653,781	-100.0%
Banca Popolare di Ancona Spa (*)	-	5,171,558	-5,171,558	-100.0%
Banca Carime Spa (*)	-	5,871,976	-5,871,976	-100.0%
Banca di Valle Camonica Spa (*)	-	1,041,859	-1,041,859	-100.0%
Nuova Banca delle Marche Group (**)	10,493,531	11,311,136	-817,605	-7.2%
Nuova Banca dell'Etruria e del Lazio Group (**)	3,571,308	4,091,562	-520,254	-12.7%
Nuova Cassa di Risparmio di Chieti (**)	2,212,925	2,689,526	-476,601	-17.7%
UBI Banca International Sa (***)	1,121,790	1,701,873	-580,083	-34.1%
IW Bank Spa	2,836,947	2,757,347	79,600	2.9%
CONSOLIDATED	**98,474,600**	**103,258,237**	**-4,783,637**	**-4.6%**

Direct funding from customers includes amounts due to customers and debt securities issued, with the exclusion of bonds and other securities subscribed directly by companies in the Group.

(*) On 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining five network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's direct funding from customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €81,344,950 thousand as at 31st December 2016.

(**) On 10th May 2017 UBI Banca concluded the purchase from the National Resolution Fund of 100% of the share capital of Nuova Banca delle Marche (in possession, to-date, of 98.86% of Cassa di Risparmio di Loreto), Nuova Banca dell'Etruria e del Lazio (in possession amongst other things of 100% Banca Federico del Vecchio) and Nuova Cassa di Risparmio di Chieti, in implementation of the purchase and sale agreement signed on 18th January 2017 with the Bank of Italy, as the manager of and on behalf of the National Resolution Fund, as a consequence of the bid made by UBI Banca on the previous 11th January.
On the following 11th May 2017 the Management Board and the Supervisory Board of UBI Banca approved a merger project, which involves the integration into the Parent, UBI Banca, of the five banks mentioned above.

(***) The conclusion of the disposal operation will take place once the relative preparatory activities have been completed, which include the acquisition of the necessary authorisations by the buyer.

The consolidated figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks and they have been restated in aggregate form as at 31st December 2016.

Indirect funding from ordinary customers (at market prices)

Figures in thousands of euro	30.6.2017	31.12.2016	Change	% change
Unione di Banche Italiane Spa (*)	74,936,869	18,374,907	56,561,962	307.8%
Banca Popolare di Bergamo Spa (*)	-	31,818,308	-31,818,308	-100.0%
Banco di Brescia Spa (*)	-	16,546,418	-16,546,418	-100.0%
Banca Popolare di Ancona Spa (*)	-	5,238,305	-5,238,305	-100.0%
Banca Carime Spa (*)	-	6,641,983	-6,641,983	-100.0%
Banca di Valle Camonica Spa (*)	-	1,529,069	-1,529,069	-100.0%
Nuova Banca delle Marche Group (**)	4,428,097	4,230,449	197,648	4.7%
Nuova Banca dell'Etruria e del Lazio Group (**)	2,817,018	2,850,478	-33,460	-1.2%
Nuova Cassa di Risparmio di Chieti (**)	619,451	585,197	34,254	5.9%
UBI Pramerica SGR Spa	32,838,723	31,476,373	1,362,350	4.3%
UBI Banca International Sa (***)	2,984,483	2,640,060	344,423	13.0%
IW Bank Spa	9,391,298	8,833,568	557,730	6.3%
Lombarda Vita Spa (1)	6,895,014	6,360,382	534,632	8.4%
Aviva Vita Spa (1)	11,481,036	7,849,961	3,631,075	46.3%
Aviva Assicurazioni Vita Spa (1)	-	2,603,969	-2,603,969	-100.0%
CONSOLIDATED	**95,829,633**	**89,782,736**	**6,046,897**	**6.7%**

Assets under management (at market prices)

Figures in thousands of euro	30.6.2017	31.12.2016	Change	% change
Unione di Banche Italiane Spa (*)	50,451,579	12,250,894	38,200,685	311.8%
Banca Popolare di Bergamo Spa (*)	-	18,542,143	-18,542,143	-100.0%
Banco di Brescia Spa (*)	-	8,940,263	-8,940,263	-100.0%
Banca Popolare di Ancona Spa (*)	-	2,786,946	-2,786,946	-100.0%
Banca Carime Spa (*)	-	4,354,020	-4,354,020	-100.0%
Banca di Valle Camonica Spa (*)	-	798,692	-798,692	-100.0%
Nuova Banca delle Marche Group (**)	2,195,876	1,951,354	244,522	12.5%
Nuova Banca dell'Etruria e del Lazio Group (**)	1,719,176	1,649,680	69,496	4.2%
Nuova Cassa di Risparmio di Chieti (**)	393,744	348,316	45,428	13.0%
UBI Pramerica SGR Spa	32,838,723	31,476,373	1,362,350	4.3%
UBI Banca International Sa (***)	180,685	146,610	34,075	23.2%
IW Bank Spa	6,409,315	6,175,632	233,683	3.8%
Lombarda Vita Spa (1)	6,895,014	6,360,382	534,632	8.4%
Aviva Vita Spa (1)	11,481,036	7,849,961	3,631,075	46.3%
Aviva Assicurazioni Vita Spa (1)	-	2,603,969	-2,603,969	-100.0%
CONSOLIDATED	**62,043,961**	**58,580,569**	**3,463,392**	**5.9%**

(*) On 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining five network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's indirect funding from ordinary customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €69,534,091 thousand as at 31st December 2016. Assets under management on the other hand stood at €47,166,828 thousand as at 31st December 2016.

(**) On 10th May 2017 UBI Banca concluded the purchase from the National Resolution Fund of 100% of the share capital of Nuova Banca delle Marche (in possession, to-date, of 98.86% di Cassa di Risparmio di Loreto), Nuova Banca dell'Etruria e del Lazio (in possession amongst other things of 100% Banca Federico del Vecchio) and Nuova Cassa di Risparmio di Chieti, in implementation of the purchase and sale agreement signed on 18th January 2017 with the Bank of Italy, as the manager of and on behalf of the National Resolution Fund, as a consequence of the bid made by UBI Banca on the previous 11th January.
On the following 11th May 2017 the Management Board and the Supervisory Board of UBI Banca approved a merger project, which involves the integration into the Parent, UBI Banca, of the five banks mentioned above.

(***) The conclusion of the disposal operation will take place once the relative preparatory activities have been completed, which include the acquisition of the necessary authorisations by the buyer.

(1) The figure shown on this line is for total assets managed by the Company. It should be remembered that the calculation of consolidated funding is based solely on the portion placed by companies in the UBI Banca Group.

The consolidated figures as at 30th June 2017 relate to the UBI Banca Group inclusive of the New Banks and they have been restated in aggregate form as at 31st December 2016.

Transactions with related parties and with connected parties

Related parties

With Resolution No. 17221 of 12th March 2010 – amended by the subsequent Resolution No. 17389 of 23rd June 2010 – the Consob (Italian securities market authority) approved a Regulation concerning related-party transactions. The regulations concern the procedures to be followed for the approval of transactions performed by listed companies and the issuers of shares with a broad shareholder base with parties with a potential conflict of interest, including major or controlling shareholders, members of the management and supervisory bodies and senior managers including their close family members.

The regulations currently apply within the UBI Banca Group to the Parent, UBI Banca Spa, only, as a listed company. In November 2010 the Supervisory Board had already appointed a specific committee from among its members to which transactions falling within the scope of the regulations must be submitted in advance.
In order to implement Art. 2391-*bis* of the Italian Civil Code and the Consob (Italian securities market authority) regulation on related parties, a special "Regulation to govern the Related Party Transactions of UBI Banca" has been adopted, available on the corporate website of the Bank, which lays down rules for the identification, approval and implementation of related-party transactions performed by UBI Banca, either directly or through its subsidiaries, in order to ensure their transparency and substantive and procedural fairness.

In compliance with Consob recommendations, transactions with related-parties of UBI Banca performed by subsidiaries are also subject to the regulations in question if, under the provisions of the Articles of Association or internal regulations adopted by the Bank, the Management Board, the Supervisory Board, in response to a proposal of the Management Board, or even an officer of the Bank on the basis of powers conferred on that officer, must preliminarily examine or approve a transaction to be performed by subsidiaries.

Transactions of greater importance

In accordance with Art. 5, paragraph 8 of Consob Resolution No. 17221/12 March 2010, "Public disclosures on related-party transactions", the following related-party transactions of greater importance concluded in the first half of 2017 were excluded from the scope of application of the "Regulations for related-party transactions with UBI Banca", because they were concluded with subsidiaries:

- the approval of one credit line of the type "extension of credit on an ordinary current-account" for UBI Leasing on 24th May for a total of €639.8 million;
- approval of 20 credit lines of the type "subordinated unsecured for securitisation" of which 16 on 23rd May for UBI Finance Srl for a total of €15,081 million and four on 28th June for Finance CB 2 Srl for a total of €3,198.1 million;
- the approval of one transfer of assets by UBI Banca on 1st May to the special purpose entity UBI Finance Srl, to back the first covered bond programme for a total of €1,684.9 million;
- two repurchase agreement transactions by UBI Banca with the former Banca Popolare di Bergamo as the counterparty, relating to the senior tranches of securitisations amounting to €670.3 million nominal each on 9th January and 9th February;
- six repurchase agreement transactions by UBI Banca, with UBI Leasing as the counterparty relating to the senior tranches of securitisations amounting to €2.1 billion nominal each on 5th January, 3rd February, 3rd March, 3rd April, 3rd May and 5th June.

We also report that information was given in a press release dated 20th February on the conclusion, well ahead of schedule with respect to Business Plan forecasts, of the "Single Bank" Project with the conclusion of the operations for the merger into UBI Banca of Banca

Popolare di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia San Paolo CAB and Banca di Valle Camonica, with effect for accounting and tax purposes from 1st January 2017.

We report that no other transactions with related parties were performed in the reporting period, as defined within the meaning of Art. 2427, paragraph 2 of the Italian Civil Code, which influenced the capital position or the results of the companies.

Finally as already reported, on several occasions UBI Banca's Related and Connected Parties Committee addressed the subject of its role in transactions of greater importance in accordance with Art. 136 of Legislative Decree No. 385/1993, following a structured procedure for the analysis.

Information is reported in the notes to the condensed consolidated interim financial statements in compliance with IAS 24 on balance sheet and income statement transactions between related parties of UBI Banca and Group member companies and on balance sheet and income statement transactions between UBI Banca and its own related parties, together with those items as a percentage of each item in the condensed consolidated interim financial statements.

Connected parties

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, on 12th December 2011 the Bank of Italy issued the ninth update of the "New regulations for the prudential supervision of banks" (published in the Official Journal of 16th January 2012) regarding risk assets and conflicts of interest concerning parties connected to banks or banking Groups, where connected parties are defined as a related party and all the parties connected to it.
The regulations are designed to guard against the risk that the closeness of persons to decision-making centres might compromise the objectivity and impartiality of decisions concerning loans to and/or other transactions with those persons.
The first measure therefore regards the introduction of supervisory limits for risk assets (of a bank and/or of a group) lent to connected parties. These limits differ according to the type of related party, with stricter levels for relations between banks and industry.
The supervisory limits have been supplemented in the regulations with special approval procedures, together with specific recommendations concerning organisational structure and internal controls.

In compliance with the provisions of Title V, Chapter 5 of Circular No. 263 of 27th December 2006, UBI Banca has adopted specific "Regulations for transactions with Connected Parties of the UBI Group" containing measures concerning "risk assets and conflicts of interest with regard to connected parties", available on the corporate website of the Bank, which regulates procedures designed to preserve the integrity of decision-making processes concerning transactions with connected parties carried out by UBI Banca and by the banking and non-banking members of the Group that it controls including foreign subsidiaries, compatibly with the laws and regulations of the country in which these are registered.

The regulations also require the bodies of Group companies with strategic supervisory responsibility to oversee (with support from the competent functions) the proper application of the provisions of the regulations governing transactions carried out by the respective companies.

In order to achieve this, each of those bodies shall update, on at least a quarterly basis, a list of all the transactions concluded in the previous quarter, inclusive of those not subject to a prior opinion from the committee in accordance with the regulations. It shall specify the connected party, the type of transaction and its value and, if the transaction has not been subjected to prior examination by the committee, the reasons given for the exemption, the maximum limit set for the "General Approvals" and a detailed report on its periodic use.

Also in order to allow the Parent to constantly comply with the consolidated limit on risk assets, the Supervisory Board oversees compliance of the Regulations with the principles recommended in the Supervisory Provisions and also observance, at consolidated level, of the procedural and substantive rules contained in them and it reports to shareholders in accordance with Art. 153 of the Consolidated Finance Act. To achieve this, bodies of other Group companies with responsibility for strategic supervision submit lists quarterly to the Supervisory Board, through the Management Board, of all transactions with connected parties concluded in the previous quarter.

The UBI Banca Group has always been within the limits laid down by supervisory regulations in all the consolidated quarterly reports to the Supervisory Authority in 2017 (in March and June).

* * *

Further information is given on the Related and Connected Parties Committee in the "Report on corporate governance and the ownership structure of UBI Banca Spa" which may be consulted on the corporate website www.ubibanca.it (corporate governance section, corporate documents), in which information is also given on internal policies on controls for risk assets and conflicts of interest relating to connected parties.

Other information

Inspections

As a result of the IT RISK inspections conducted into the UBI Banca Group by a team of senior officers from the Bank of Italy and the ECB between 30th March and 19th June 2015, on 17th November 2015 a report was received which gave a fully satisfactory opinion on the overall management of IT risk within the UBI Banca Group, although it outlined areas for refinement and improvement (e.g. on business continuity, preventing cyber attacks and computer fraud). Following the preliminary remarks provided in the last days of 2015, on 24th February 2016 UBI Banca sent a full reply to the ECB containing, amongst other things, a detailed action plan for the intervention requested with a time schedule for implementation. Subsequently, detailed updates of the action concluded or commenced were sent to the authority on the basis of the time schedule that had been submitted to it. The latest was sent on 26th July 2017 for the situation as at 30th June 2017

On 26th February 2016 the Central European Bank commenced inspections into the Parent, UBI Banca, on the subject of the BUSINESS MODEL AND PROFITABILITY. These inspections were concluded on 19th May with a "pre-closing meeting", during which the Bank's senior managers were informed of the main results of the inspections conducted (officially concluded on 20th May 2016). The issues involved mainly internal organisational aspects and tools for planning and control (strategic processes and governance, the generation and allocation of profits, the analysis of financial projections). On 25th May 2016, UBI Banca sent the inspection team some preliminary considerations on the specific matters discussed in the pre-closing meeting. On 12th October a "closing" took place, during which the related findings were discussed.
Based on the results contained in the final inspection report received on 10th January 2017, UBI Banca's Management Board and Supervisory Board assessed an initial response on 7th February, containing observations and planned mitigation actions.
On 10th March 2017 UBI Banca submitted a compliance proposal and on the following 31st March replied to some of the questions posed on this matter by the authority.

In a letter dated 22nd June 2016, the ECB ordered new inspections in the areas of GOVERNANCE, REMUNERATION AND INTERNAL CONTROLS, with a particular focus on how the Bank and the Group deal with conflicts of interest and verify policies and procedures to identify and manage Group related parties and therefore potential conflicts of interest and the adequacy of internal control systems to detect such conflicts. These inspections were completed on 5th August.
On 27th January 2017, the ECB notified the Bank of the results of the inspections performed, directing the Bank to draw up an action plan to implement the requested solutions and suggested actions. On 7th March the Parent replied to the authority by submitting a plan of action. On 2nd May 2017 and update was submitted to the ECB on the state of progress on implementing the action at the end of the first quarter (in detail: the state of progress on activities to formulate policies for oversight of possible conflicts of interest and of the "fit and proper" process, an extension of rules for connected parties to include the "significant personnel" of the bank and computerised version activity). On 1st August 2017 the second update was submitted to the supervisory authority on the state of progress of action taken in the first half of 2017 (in detail: the imminent finalisation of policies, publication of the new "Bank of Italy Connected Parties Rulebook", alignment of the IT systems in foreign branches with the Group target system).

On 13th May 2016, the ECB gave notice that it had begun inspections of the UBI Banca Group into INTERNAL AND EXTERNAL REPORTING QUALITY. The main focus of this inspection is on data aggregation processes, with particular regard to credit risk. The inspections were concluded on 28th July 2016.
The "exit meeting" took place on 23rd November 2016, where the results of the inspection were discussed in depth. Areas for improvement were identified, particularly with regard to financial reporting (FINREP), common reporting (COREP), reporting large exposures, and the operational

report on credit risk that is submitted to the government bodies. Details of further areas for improvement were also provided for which the Group has planned the relative action.
On 12th December 2016, the final report was received, in which the ECB officially noted the corrective actions requested of the UBI Banca Group in the areas cited above. On 11th January 2017, the Parent made a reply giving formal details of the corrective action taken for 2017, followed by updates on 1st February, 8th March, 4th May and 5th July 2017. At the date of this report, UBI Banca is not expecting any reply from the authority, but is taking steps to send periodic updates on the basis of the deadlines requested for each individual action, as set in the letter accompanying the ECB's observations.

In a letter dated 17th November 2016, the ECB gave notice of the start of an inspection on the subject of CAPITAL POSITION CALCULATION ACCURACY. The inspections were concluded on 3rd March 2017, while the official presentation of the preliminary results took place on the following 12th April. These reported room for improvement on internal control processes and areas for study on credit risk mitigation techniques for use on financial instruments issued by the bank.
On the 3rd July 2017 the ECB sent its final report together with the draft of a letter containing the supervisory authority's recommendations, which were discussed in the closing meeting on 7th July. The final version of the aforementioned letter was received on 20th July. The Bank must furnish a reply to the ECB by 18th August.

On 11th January 2017 the European Central Bank ordered an inspection on the subject of the INTERNAL MODEL of organisation following an application to extend the IRB perimeter consistent with the Group's roll-out plan. The investigations were concluded on 7th April. The Bank is currently waiting to learn the results.

On 31st March 2017 the Bank of Italy gave notice of the start of inspections on the subject of TRANSPARENCY at IW Bank. The inspection activity, which commenced on 3rd April, was concluded on 7th April. With a letter dated 17th July the supervisory authority gave the results of the inspections carried out which revealed certain shortcomings. IW Bank must give details of the initiatives undertaken within 60 days of receipt of the letter.

Finally, we report that on 6th February 2017 the Federal Reserve Bank of New York and the New York State Department of Financial Services commenced fact-finding activity on the situation as at 31st December 2016 relating to the NEW YORK REPRESENTATIVE OFFICE. Their inspection, which covered, amongst other things, organisational units, the activities carried out and the policies pursued, was concluded on 26th April 2017 with the delivery of the relative report and the assignment of a "satisfactory" rating. Further refinement activities are planned in order to comply with specific recommendations made by the authorities notified to the Bank in a letter dated 11th May.

* * *

The aforementioned inspections, which take place in the form of on-site inspections by ECB inspectors at UBI Banca, are accompanied (as part of the Supervisory Examination Plan formulated by the supervisory authority) by many "remote" inspection activities conducted by means of email exchanges and periodic meetings which have taken the form to-date of initiatives entitled "Thematic Review", "Deep dive", "Quality Assessment" and "For Action".

The thematic reviews currently in progress in the UBI Banca Group regard the following areas:
- *IFRS 9* (in order to learn the latest developments in the process of adopting this new accounting standard): the review, commenced on 2nd January, was concluded on 31st March 2017. The preliminary results of the analysis were discussed with the ECB on 13th July and the Bank is waiting to receive the relative draft letter;
- *Risk Data Aggregation and Risk Reporting* [with respect to the standards set by the Basel Committee on Banking Supervision (BCBS) for the development of an early warning system given the possibility of exceeding the risk considered acceptable under the Risk Appetite Framework adopted by the Bank also in terms of forecasts]: commenced in 2016, the first results were discussed with the ECB in a meeting held on 30th March 2017. On the following 5th May a preliminary reply was submitted to the draft of the report received in April. On the 19th May the supervisory authority delivered the results of the activities

carried out and asked for action to be taken to implement the recommended solutions and actions. The Bank must furnish a reply by 30th September 2017;

- *Profitability drivers* (examination of the business model as part of the SREP): the analysis started on 9th March 2017 with a request to fill out a template, submitted on 3rd April 2017.

* * *

Details are given below of updates on specific issues.

- On the question of the proceedings opened by the **Consob** with a letter dated 30th April 2014, in accordance with Art. 195 of the Consolidated Finance Law (concerning possible infringement of Art. 149 of the Consolidated Finance Law relating to aspects of the disclosures made in corporate governance reports published from 2009 until 2013), on the conclusion of which in October 2015 the supervisory authority decided to impose administrative fines in an amount equal to or close in percentage terms to the minimum penalty allowed on those members of the Supervisory Board who were in office in the year 2009 or who were appointed to the board in subsequent years, but were members of the Management Board in 2009: UBI Banca, as jointly liable, and the individuals concerned, lodged separate appeals against the Consob decision.
  With ruling No. 879/2017 of 17th May 2017, published on the 19th June 2017, the Brescia Court of Appeal annulled the Consob fine, finding under a variety of aspects that no objective evidence existed of the infringement.
  More specifically, the judgement found, amongst other things, that:
  - the "equal partnership principle", expressly provided for in the Articles of Association (until 10th May 2014) is of a programme-based nature;
  - the Memorandum of Intent signed before UBI Banca was established, attached to the merger project and the merger deed, cannot be considered as one of those external agreements forbidden by the Articles of Association;
  - no inconsistencies exist between the Articles of Association and the Regulations of the Appointments Committee and the existence of circumstances which might lead the market to believe that those regulations were no longer current must be excluded;
  - the version of the Regulations of the Appointments Committee disclosed to the market in 2007 was sufficiently adequate to allow the procedures for the functioning of the committee to be understood. Therefore the members of the Supervisory Board, cannot be considered to have failed in their duty to supervise with regard to the absence of relevant information pursuant to Art. 13 *bis* of the Consolidated Finance Law in Corporate Governance Reports from 2009 to 2013, because the market had already been informed of the rules contained in the Regulations mentioned).

  The time limit for an appeal against ruling No. 879/2017 before the Supreme Court of Cassation has not yet expired.

- As already reported in the 2015 Annual Report, on 29th January 2015 the **Consob** had informed the FORMER BANCA POPOLARE DI BERGAMO of concerns that had emerged following a follow-up inspection carried out between 4th February and 7th August 2014 and asked in particular for a programme of organisational and IT action designed to resolve those concerns. At the beginning of April 2015 the former BPB sent a reply that illustrated the assessments made and initiatives taken and/or programmed and also responded to the subsequent requests for further clarifications and updates made by the Consob in August 2015 and in June 2016 (the latter were addressed also to the Parent). With notes dated 6th December 2016, the Consob requested: (i) from the former Banca Popolare di Bergamo, further details on action planned by UBI BANCA with specific regard to the commercial programming system, procedures for providing advisory services through the internet channel and processes for classifying customers with the adoption of a new customer profiling questionnaire; (ii) from UBI BANCA, assessments and considerations concerning aspects underlined in the request made to the BPB also in view of the programmed implementation of the Single Bank Project, completed in February 2017, and of the standardisation of processes relating to the provision of investment services existing at individual Group banks.
  The former Banca Popolare di Bergamo and UBI Banca each replied with regard to that which related to them on 23rd January 2017 and 16th February 2017 respectively. The replies were still being assessed by the Consob at the date of this report.

- On conclusion of the investigations commenced in 2014 by the **Public Prosecutor's Office of Bergamo**, in November 2016 a "Notice of conclusion of the preliminary investigations – Concomitant notification of investigation and right to defence – articles 369, 369 *bis* and 415 *bis* of the Italian Code of Criminal Procedure" was notified to current senior officers of the Bank in which the crimes of "Hindrance of the Public Supervisory Authorities in the exercise of their duties" (Art. 2638 of the Italian Civil Code and Art. 170 *bis* of the Consolidated Finance Law) and "Illicit influence on a shareholders meeting" (article 2636 of the Italian Civil Code) in relation to the meeting held in April 2013, were alleged against various suspects on various grounds. In that action, accusations were also made against additional persons for "Fraud" (article 640 of the Italian Criminal Code) and for "Failure to comply with regulations regarding the duties of senior officers of banks" (Art. 136 of the Consolidated Banking Law), in addition to some infringements of tax laws. Altogether this provision has been issued and notified to 39 persons, including 28 directors and senior managers at the time of the UBI Banca Group and senior officers of UBI Leasing. At the same time, the Public Prosecutor also issued and notified a notice of the conclusion of preliminary investigations to UBI Banca which alleges the existence of the "administrative" liability of the Institution within the meaning of Legislative Decree No. 231/2001, in relation to the crime of "Hindrance of the Public Supervisory Authorities in the exercise of their duties" (article 2638 of the Italian Civil Code) and "illicit influence on a shareholders meeting" (article 2636 of the Italian Civil Code).
  As part of the proceedings in question, on 1st August 2017 UBI Banca received a notification of committal for trial and consequent notification of the date set for the preliminary hearing on 10th November 2017 for the administrative violations provided for by article 25 *ter*, letter q) and letter s) of Legislative Decree No. 231/2001. The Public Prosecutor's Office of Bergamo asked in particular for committal for trial for the administrative violations mentioned in relation to the offences pursuant to articles 2636 and 2638 of the Italian Civil Code for which charges have been brought against, amongst others, some senior officers currently in office. On conclusion of the preliminary hearing that has been set, the judge will decide whether sufficient grounds exist to go to trial.
  The Bank stresses that it has conducted itself properly and is confident that its compliance with the provisions of the law and with organisational regulations will be confirmed in the courts at all levels, as already clearly demonstrated by the decision reached on 19th June 2017 by the Court Appeal of Brescia which recognised UBI Banca's proper conduct and that of its senior officers in their relations with the supervisory authorities and with the market.

  In consideration of the nature of the matter, it is considered that it can have no repercussions on Group assets.

- On 30th May 2017 a search was carried out, ordered by the **Public Prosecutor's Office of Brescia**, in various offices of the Bank as part of the investigations concerning allegations of acting as an accomplice in the crime of hindrance of the public supervisory authorities in the exercise of their duties (Art. 2638 of the Italian Civil Code), in relation to reports on suspect transactions concerning anti-money laundering and the obligation to make adequate checks on customers. These investigations are still in progress at the date of publishing this report.

* * *

Finally, we report the following with regard to **IW bank**:

- as already reported in previous financial reports, on 3rd December 2015, some current and former IW Bank directors and managers received notification of a search and seizure warrant, also informing them they are suspects in investigations under the MILAN PUBLIC PROSECUTOR, pursuant to articles 369 and 369bis of the Italian Penal Code. The alleged offences are: criminal conspiracy (Criminal Code Art. 416), money laundering and conspiracy to launder money (ibid, art. 110 and 648-*bis*), self-money laundering, conspiracy to commit self-money laundering (ibid, Art. 110 and 648.1-*ter*), as well as the criminal tax offence (and relative conspiracy offence as per Criminal Code Art. 110) of "fraudulent concealment of assets in relation to the payment of taxes" (pursuant to Art. 11 of Legislative Decree No. 74/2000). Finally, criminal violation of customer due diligence obligations was alleged (pursuant to Art. 55 of Legislative Decree No. 231/2007).

In relation to the proceedings in question, on 20th July 2017 the Guardia di Finanza (finance police) notified the Bank that it was a suspect in investigations, with the closure at the same time of the preliminary investigations in which the Public Prosecutor alleged liability of the members of IW Bank's Board of Directors and its Board of Statutory Auditors in the period running from May 2008 to May 2014 for the offence of hindrance of the public supervisory authorities in the exercise of their duties (pursuant to Art. 2638) and in particular to have failed to make full reports to the Bank of Italy on alleged shortcomings regarding anti-money laundering controls and procedures.
With regard to that same alleged crime of hindrance of the public supervisory authorities in the exercise of their duties, the public prosecutor's office charged IW Bank with administrative liability in accordance with Legislative Decree No. 231 of 2001 (pursuant to Art. 25 *ter* of the aforementioned decree). It is underlined that the charges brought did not include the more serious offences cited in the search warrant executed in December 2015.

Reference is also made to the 2016 Annual Report for further information on the facts and the affairs already reported there, for which no developments have occurred in 2017.

Tax aspects

Numerous developments occurred regarding tax in the first half of 2017. One of these which deserves special mention is Decree Law No. 50 of 24th April 2017, converted with amendments by Parliament with Law No. 96 of 21st June 2017.

Decree Law No. 50 of 24th April 2017 "Urgent measures on finance, initiatives to help local authorities, further action for areas hit by earthquakes and measures for development"

This Decree Law, converted with amendments by Law No. 96 of 21st June 2017, contains various measures that affect credit and financial institutions. In detail:

- the perimeter of those to whom the special procedure named "split payment" for the payment of VAT on invoices to the tax authorities apply is broadened significantly. From the 1st July 2017 this procedure will apply to sales of goods and services made to those identified on a list published on 27th June 2017 by the Department of Finances. These include companies listed on the FTSE MIB and therefore also UBI Banca Spa, the only company in the Group subject to this legislation. The broadening of the perimeter of those affected by "split payment" procedures gave rise to the need to modify software applications in order to bring them into line with the new regulations, also on the basis of indications contained in the Decree to implement the law issued on 27th June 2017;
- the time limit allowed for deducting VAT on purchases of goods and services is reduced. As a result of these amendments (which apply only to invoices and customs bills of entry dated from 1st January 2017), the right to deduct VAT may only be exercised at the latest when the VAT return for the year in which the right to deduct arose is filed;
- more restrictive rules are introduced for offsetting tax credits in order to prevent possible illicit offsetting;
- the rates applied to returns on notional equity used to calculate the concession entitled "*Aiuto alla Crescita Economica*" (ACE – "aid to economic growth", a corporate equity allowance) are modified;
- the increase in VAT rates is restructured and postponed until 2018 (and subsequent years);
- the scope of application for complaints and tax mediation for filings made from the 1st January 2018 regarding amounts not greater than €50 thousand is enlarged;
- the possibility is introduced to settle (not including fines and interest on arrears) pending tax disputes on a concessionary basis at all states of progress before all courts (inclusive of those before the Supreme Court of Cassation and also following adjournments) in which the other party is the tax authorities and in relation to which the initial application was filed on or before 24th April 2017;

- a tax credit is introduced from 2018 for companies that make investments in advertising campaigns in the daily and periodic press and on local television and radio channels under determined limits and conditions;
- the time limit is extended until the 31st December 2017 on the deferment of withholding taxes on employee personal income tax and similar for taxpayers located in towns and cities affected by earthquakes in 2016 and 2017;
- an amendment is made to transfer pricing regulations, eliminating the need to make reference to the domestic criteria of the normal value in the measurement of components of income relating to transactions made with non-resident parties who either directly or indirectly control a resident company, are controlled by them, or are controlled by a party which in turn also controls the resident company;
- aspects concerning the application of the tax regime for "Individual Savings Schemes" introduced by the 2017 Annual Finance Law are specified more precisely.

Ministry of the Economy and Finance Decree dated 23rd February 2017 on "country-by-country Reporting"

This decree implements the provisions contained in Law No. 208 of 28th December 2015 (2016 *Legge di stabilità* – "stability law" – annual finance law, which introduced "country-by-country reporting", provided for at OECD level, into Italian law. This term refers to the obligation for multinational groups of companies to provide the tax authorities with determined information of a quantitative nature on their transnational activities from 2017. The tax authorities are required in turn to send the information received to the tax administrations of other member states of the European Union. When fully in place, country-by-country reporting will allow the various financial administrations rapid access to concise, quantitative data on multinational groups, thereby improving the process of assessing risks related to transfer pricing and the use of resources available in monitoring activities.
At the date of this report neither a provision by the director of the tax authorities nor documents on administrative practices had been issued by the director of the tax authorities in order to complete the country-by-country reporting system.

Provision of the Director of the Tax Authorities No. 47944 of 9th March 2017 on obligations related to the tax on financial transactions

This provision on regulations for the tax on financial transactions provides details on return filing obligations and the relative necessary practical obligations related to the management of the tax itself.
One of the obligations worthy of note introduced by the provision is the new obligation to record (from 1st June 2017) most of the transactions that are exempt or excluded from the tax on financial transactions in the special books required under the legislation in question. The amendments made to the regulations for the tax on financial transactions involve the need to modify the UBI Banca Group's IT systems to comply with these new changes.
At present no documents on administrative practices have yet been issued.

Provision of the Director of the Tax Authorities No. 101573 of 26th May 2017 on "co-operative compliance"

This provision implements measures relating to co-operative compliance introduced by legislative Decree No. 12 of 5th August 2015. More specifically it defines procedures for co-operative compliance and how discussions between taxpayers and the tax authorities must take place. Adherence of UBI Banca to co-operative compliance procedures is not possible at present due to the size limits set for access to this regime.

QI, FATCA regulations and automatic exchange of tax information at international level

Qualified Intermediary (QI) – From 2017 payments equivalent to dividends with the USA as the source are subject to a USA withholding tax of 30% under qualified intermediary contracts. The withholding tax may be reduced (e.g. to 15% if the beneficiary is resident in Italy) or in other words duplicate withholding taxes may be avoided, by assuming a particular role

(Qualified Derivative Dealer – QDD), which entails administrative and procedural responsibilities. The size of the costs associated with the QDD role and the small volumes of business involvement led UBI Banca and IW Bank (the only companies potentially affected) to decide not to take on that role.

FATCA (Foreign Account Tax compliance Act) – With a provision dated 23rd March 2017, the Director of the Italian Tax Authorities extended the deadline to submit FATCA notifications for 2016 from 30th April 2017 to 31st May 2017, in consideration of modifications made to the FATCA forms issued by the USA tax authorities.

INFORMATION EXCHANGE – Provision of the Director of the Tax Authorities No. 125650 of 4th July 2017 set a deadline of 21st August 2017 for filing notifications with the Tax Authorities on financial accounts for withholding taxes relating to customers resident for tax purposes in (or also in) countries other than Italy, according to the Common Reporting Standard (CRS). The provision also defined details of the CRS form to be used to file that notification.

Outlook for consolidated operations

With regard to the **outlook for consolidated operations** in the second half of the year, we report the forecasts given below on the basis of information currently available.

The performance of net interest income will reflect the recognition in the fourth quarter of a one-off benefit under the TLTRO II programme, in addition to positive performance by volumes of lending and the progressive reduction in the cost of funding from customers for the New Banks.

Net fee and commission income should continue to benefit from the process to change the mix of total funding in favour of assets under management.

Careful management of costs will continue as result, amongst other things, of planned redundancies for approximately 700 staff, of which over half during the course of 2017, on the basis of the Trade Union Agreement signed in July.

The trend for the reduction in overall loan losses compared with 2016 for the stand-alone UBI Banca Group and the new banks is forecast to continue.

Finally, the plan to integrate the New Banks on schedule and to budget in terms of the planned integration costs is confirmed.

Bergamo, 4th August 2017

THE MANAGEMENT BOARD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE PERIOD ENDED 30TH JUNE 2017

Gruppo UBI Banca

MANDATORY INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE PERIOD ENDED 30TH JUNE 2017

Gruppo UBI Banca

Consolidated balance sheet

Figures in thousands of euro		30.6.2017	31.12.2016	30.6.2016
ASSETS				
10.	Cash and cash equivalents	2,986,091	519,357	476,840
20.	Financial assets held for trading	671,482	729,616	681,543
30.	Financial assets designated at fair value	161,374	188,449	188,641
40.	Available-for-sale financial assets	11,128,949	9,613,833	15,417,870
50.	Held-to-maturity investments	5,993,150	7,327,544	3,452,886
60.	Loans and advances to banks	8,793,116	3,719,548	3,930,021
70.	Loans and advances to customers	94,228,583	81,854,280	83,906,862
80.	Hedging derivatives	425,087	461,767	791,268
90.	Fair value change in hedged financial assets (+/-)	-13,717	23,963	63,857
100.	Equity investments	245,758	254,364	253,719
110.	Technical reserves of reinsurers	516	-	-
120.	Property, plant and equipment	1,815,457	1,648,347	1,659,827
130.	Intangible assets	1,715,241	1,695,973	1,685,184
	of which: *- goodwill*	*1,465,260*	*1,465,260*	*1,465,260*
140.	Tax assets	4,245,141	3,044,044	3,006,517
	a) current	1,320,047	435,128	460,169
	b) deferred	2,925,094	2,608,916	2,546,348
	- of which pursuant to Law No. 214/2011	*2,092,976*	*1,956,572*	*1,948,851*
150.	Non-current assets and disposal groups held for sale	6,455	5,681	63,883
160.	Other assets	1,876,852	1,297,151	1,081,317
TOTAL ASSETS		**134,279,535**	**112,383,917**	**116,660,235**

Figures in thousands of euro		30.6.2017	31.12.2016	30.6.2016
LIABILITIES AND EQUITY				
10.	Due to banks	16,530,503	14,131,928	13,691,017
20.	Due to customers	70,112,391	56,226,416	55,460,078
30.	Debt securities issued	28,362,209	28,939,597	32,064,830
40.	Financial liabilities held for trading	710,665	800,038	612,314
50.	Financial liabilities designated at fair value	39,017	-	-
60.	Hedging derivatives	183,463	239,529	1,110,942
80.	Tax liabilities	243,275	232,866	241,596
	a) current	56,643	59,817	35,579
	b) deferred	186,632	173,049	206,017
100.	Other liabilities	5,226,358	1,962,806	3,230,328
110.	Post-employment benefits	376,866	332,006	339,679
120.	Provisions for risks and charges:	747,427	457,126	591,468
	a) pension and similar obligations	140,033	70,361	73,527
	b) other provisions	607,394	386,765	517,941
130.	Technical reserves	1,723,643	-	-
140.	Valuation reserves	-87,238	-73,950	26,985
170.	Reserves	3,210,258	3,664,366	3,560,158
180.	Share premiums	3,306,627	3,798,430	3,798,430
190.	Share capital	2,840,335	2,440,751	2,254,371
200.	Treasury shares (-)	-9,869	-9,869	-10,616
210.	Non-controlling interests (+/-)	67,560	72,027	475,640
220.	Profit (loss) for the period/year (+/-)	696,045	-830,150	-786,985
TOTAL LIABILITIES AND EQUITY		**134,279,535**	**112,383,917**	**116,660,235**

Consolidated income statement

Figures in thousands of euro		1H 2017	1H 2016	FY 2016
10.	Interest and similar income	1,056,171	1,117,846	2,161,121
20.	Interest and similar expense	(302,707)	(352,274)	(663,230)
30.	**Net interest income**	**753,464**	**765,572**	**1,497,891**
40.	Fee and commission income	861,461	751,867	1,508,992
50.	Fee and commission expense	(99,899)	(84,414)	(173,959)
60.	**Net fee and commission income**	**761,562**	**667,453**	**1,335,033**
70.	Dividends and similar income	10,473	8,599	9,678
80.	Net trading income	42,848	5,575	69,947
90.	Net hedging income (loss)	(1,368)	(1,250)	415
100.	Income from disposal or repurchase of:	104,407	86,502	91,770
	a) loans and receivables	(27,328)	(1,593)	(31,482)
	b) available-for-sale financial assets	81,628	101,214	149,014
	c) held-to-maturity investments	55,937	-	-
	d) financial liabilities	(5,830)	(13,119)	(25,762)
110.	Net profit (loss) on financial assets and liabilities designated at fair value	10,859	(8,238)	(8,421)
120.	**Gross income**	**1,682,245**	**1,524,213**	**2,996,313**
130.	Net impairment losses on:	(381,433)	(1,256,840)	(1,695,584)
	a) loans and receivables	(282,628)	(1,206,373)	(1,565,527)
	b) available-for-sale financial assets	(119,319)	(49,903)	(111,643)
	d) other financial transactions	20,514	(564)	(18,414)
140.	**Net financial income**	**1,300,812**	**267,373**	**1,300,729**
150.	Net insurance premiums	57,914	-	-
160.	Other income/expenses of insurance operations	(68,159)	-	-
170.	**Net income from banking and insurance operations**	**1,290,567**	**267,373**	**1,300,729**
180.	Administrative expenses	(1,226,784)	(1,407,118)	(2,570,182)
	a) staff costs	(719,177)	(963,115)	(1,599,717)
	b) other administrative expenses	(507,607)	(444,003)	(970,465)
190.	Net provisions for risks and charges	(5,352)	(26,657)	(42,885)
200.	Depreciation and net impairment losses on property, plant and equipment	(39,726)	(38,007)	(80,823)
210.	Amortisation and net impairment losses on intangible assets	(33,237)	(94,470)	(125,197)
220.	Other net operating income/expense	169,731	161,568	306,541
230.	**Operating expenses**	**(1,135,368)**	**(1,404,684)**	**(2,512,546)**
240.	Profits of equity investments	10,554	11,950	24,136
265.	Negative consolidation difference	612,900	-	-
270.	Profits on disposal of investments	656	1,603	22,969
280.	**Pre-tax profit (loss) from continuing operations**	**779,309**	**(1,123,758)**	**(1,164,712)**
290.	Taxes on income for the period/year from continuing operations	(70,997)	306,134	319,619
300.	**Post-tax profit (loss) from continuing operations**	**708,312**	**(817,624)**	**(845,093)**
320.	**Profit (loss) for the period/year**	**708,312**	**(817,624)**	**(845,093)**
330.	(Profit) loss for the period/year attributable to non-controlling interests	(12,267)	30,639	14,943
340.	**Profit (loss) for the period/year attributable to the shareholders of the Parent**	**696,045**	**(786,985)**	**(830,150)**

	1H 2017	1H 2016	FY 2016
Annualised basic earnings per share	0.7888	(1.6082)	(0.8492)
Annualised diluted earnings per share	0.7878	(1.6063)	(0.8482)

Consolidated statement of comprehensive income

Figures in thousands of euro		1H 2017	1H 2016	FY 2016
10.	**PROFIT (LOSS) FOR THE PERIOD/YEAR**	**708,312**	**(817,624)**	**(845,093)**
	Other comprehensive income (loss) net of taxes without transfer to the income statement			
40.	Defined benefit plans	9,178	(19,346)	(17,005)
	Other comprehensive income (loss) net of taxes with transfer to the income statement			
90.	Cash flow hedges	(49)	252	570
100.	Available-for-sale financial assets	(28,521)	(216,791)	(315,491)
120.	Share of valuation reserves of equity-accounted investees	5,991	636	(81)
130.	**Total other comprehensive loss net of taxes**	**(13,401)**	**(235,249)**	**(332,007)**
140.	**COMPREHENSIVE INCOME (LOSS) (item 10 + 130)**	**694,911**	**(1,052,873)**	**(1,177,100)**
150.	CONSOLIDATED COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	12,354	(32,024)	(10,526)
160.	**CONSOLIDATED COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT**	**682,557**	**(1,020,849)**	**(1,166,574)**

Statement of changes in consolidated equity for the period ended 30th June 2017

Figures in thousands of euro	Balances as at 31.12.2016	Restatement of opening balances	Balances as at 1.1.2017	Allocation of prior year profit		Changes January - June 2017									30th June 2017		
							Equity transactions										
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity stakes	Consolidated comprehensive income	**Equity**	***attributable to the shareholders of the Parent***	***attributable to non-controlling interests***
Share capital:	2,451,729	-	2,451,729	-	-	-	399,584	-	-	-	-	-	7,832	-	**2,859,145**	***2,840,335***	***18,810***
a) ordinary shares	2,451,729	-	2,451,729	-	-	-	399,584	-	-	-	-	-	7,832	-	2,859,145	*2,840,335*	*18,810*
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,817,846	-	3,817,846	-493,425	-	-	1,623	-	-	-	-	-	-2,730	-	**3,323,314**	***3,306,627***	***16,687***
Reserves	3,720,909	-	3,720,909	-351,668	-129,387	2,185	- 7,616	-	-	-	-	-	-4,373	-	**3,230,050**	***3,210,258***	***19,792***
a) retained earnings	1,810,697	-	1,810,697	-351,668	-129,387	-	-	-	-	-	-	-	-	-	1,329,642	*1,250,070*	*79,572*
b) other	1,910,212	-	1,910,212	-	-	2,185	-7,616	-	-	-	-	-	-4,373	-	1,900,408	*1,960,188*	*-59,780*
Valuation reserves	-73,917	-	-73,917	-	-		-	-	-	-	-	-	84	-13,401	**-87,234**	***-87,238***	***4***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-9,869	-	-9,869	-	-	-	-		-	-	-	-	-	-	**-9,869**	***-9,869***	-
Profit (loss) for the period	-845,093	-	-845,093	845,093	-	-	-	-	-	-	-	-	-	**708,312**	**708,312**	***696,045***	***12,267***
Equity	**9,061,605**	**-**	**9,061,605**	**-**	**-129,387**	**2,185**	**393,591**	**-**	**-**	**-**	**-**	**-**	**813**	**694,911**	**10,023,718**	***9,956,158***	***67,560***
Equity attributable to the shareholders of the Parent	***8,989,578***	***-***	***8,989,578***	***-***	***-107,163***	***2,185***	***393,591***	***-***	***-***	***-***	***-***	***-***	***-4,590***	***682,557***	***9,956,158***	***X***	***X***
Equity attributable to non-controlling interests	***72,027***	***-***	***72,027***	***-***	***-22,224***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***5,403***	***12,354***	***67,560***	***X***	***X***

Statement of changes in consolidated equity for the period ended 30th June 2016

Figures in thousands of euro	Balances as at 31.12.2015	Restate-ment of opening balances	Balances as at 1.1.2016	Allocation of prior year profit		Changes January - June 2016									30th June 2016		
							Equity transactions										
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Repur-chase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Deriva-tives on treasury shares	Stock options	Changes in equity stakes	Consolidated comprehen-sive income	Equity	*attributable to the shareholders of the Parent*	*attributable to non-controlling interests*
Share capital:	2,565,936	-	2,565,936	-	-	-	-	-	-	-	-	-	-77	-	**2,565,859**	***2,254,371***	***311,488***
- ordinary shares	2,520,829	-	2,520,829	-	-			-	-	-	-	-	-77	-	2,520,752	*2,254,371*	*266,381*
- other shares	45,107	-	45,107	-	-	-	-	-	-	-	-	-	-	-	45,107	*-*	*45,107*
Share premiums	3,818,024	-	3,818,024	-	-	-	-	-	-	-	-	-	-87	-	**3,817,937**	***3,798,430***	***19,507***
Reserves	3,737,499	-	3,737,499	144,466	-132,151	-8,923	-	-	-	-	-	-	-197	-	**3,740,694**	***3,560,158***	***180,536***
- of profits	1,806,092	-	1,806,092	144,466	-132,151	-7,710	-	-	-	-	-	-	-	-	1,810,697	*1,734,770*	*75,927*
- other	1,931,407	-	1,931,407	-	-	-1,213	-	-	-	-	-	-	-197	-	1,929,997	*1,825,388*	*104,609*
Valuation reserves	256,993	-	256,993	-	-	-	-	-	-	-	-	-	-11	-235,249	**21,733**	***26,985***	***-5,252***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-5,155	-	-5,155	-	-	7,710	-	**-13,171**	-	-	-	-	-	-	**-10,616**	***-10,616***	-
Profit (loss) for the period	144,466	-	144,466	-144,466	-	-	-	-	-	-	-	-	-	**-817,624**	**-817,624**	***-786,985***	***-30,639***
Equity	**10,517,763**	**-**	**10,517,763**	**-**	**-132,151**	**-1,213**	**-**	**- 13,171**	**-**	**-**	**-**	**-**	**-372**	**-1,052,873**	**9,317,983**	***8,842,343***	***475,640***
Equity attributable to the shareholders of the Parent	***9,981,862***	***-***	***9,981,862***	***-***	***-104,098***	***-1,213***	***-***	***-13,171***	***-***	***-***	***-***	***-***	***-188***	***-1,020,849***	***8,842,343***	***X***	***X***
Equity attributable to non-controlling interests	***535,901***	***-***	***535,901***	***-***	***-28,053***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-184***	***-32,024***	***475,640***	***X***	***X***

Consolidated Statement of Cash Flows (indirect method)

Figures in thousands of euro	1H 2017	1H 2016
A. OPERATING ACTIVITIES		
1. Ordinary activities	**400,275**	**110,851**
- profit for the period (+/-)	708,312	-817,624
- gains/losses on financial assets held for trading and on financial assets/liabilities designated at fair value (+/-)	-53,707	2,663
- gains/losses on hedging activities (-/+)	1,368	1,250
- net impairment losses on loans (+/-)	381,433	1,256,840
- depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (+/-)	72,963	132,477
- net provisions for risks and charges and other expense/income (+/-)	5,352	26,657
- net premiums not received (-)	-57,914	-
- other insurance income/expense not received(-/+)	68,159	-
- outstanding taxes, duties and tax credits (+/-)	-87,223	-422,552
- net impairment losses on disposal groups held for sale after tax (-/+)	-	-
- other adjustments (+/-)	-638,468	-68,860
2. Net cash flows from/used by financial assets	**-667,440**	**-654,804**
- financial assets held for trading	256,445	253,310
- financial assets designated at fair value	70,140	-798
- available-for-sale financial assets	2,117,259	284,430
- loans and advances to banks: repayable on demand	-	-
- loans and advances to banks: other loans and receivables	-4,066,191	-500,084
- loans and advances to customers	1,060,344	-527,035
- other assets	-105,437	-164,627
3. Net cash flows from/used by financial liabilities	**-178,996**	**649,492**
- amounts due to banks repayable on demand	-	-
- amounts due to banks: other payables	2,174,610	3,236,714
- due to customers	-969,114	195,607
- debt securities issued	-3,388,247	-4,183,098
- financial liabilities held for trading	-150,971	80,502
- financial liabilities designated at fair value	-	-
- other liabilities	2,154,726	1,319,767
Net cash flows from/used in operating activities	**-446,161**	**105,539**
B. INVESTING ACTIVITIES		
1. Cash flows from	**2,229,042**	**10,289**
- disposals of equity investments	-	-
- dividends received on equity investments	10,473	8,599
- disposals of held-to-maturity investments	2,218,467	-
- disposals of property, plant and equipment	102	1,536
- disposals of intangible assets	-	154
- disposals of subsidiaries and lines of business	-	-
2. Cash flows used in	**414,377**	**-36,935**
- purchases of equity investments	-	-
- purchases of held-to-maturity investments	-995,371	-
- purchases of property, plant and equipment	-14,454	-14,545
- purchases of intangible assets	-11,122	-22,390
- purchases of subsidiaries and lines of business*	1,435,324	-
Net cash flows from/used in investing activities	**2,643,419**	**-26,646**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	398,863	-
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-129,387	-132,151
Net cash flows from/used in financing activities	**269,476**	**-132,151**
NET CASH GENERATED/USED DURING THE PERIOD	**2,466,734**	**-53,258**

Reconciliation

Figures in thousands of euro	1H 2017	1H 2016
Cash and cash equivalents at beginning of period	519,357	530,098
Total net cash flows generated/absorbed during the period	2,466,734	-53,258
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period/year	**2,986,091**	**476,840**

* The item "purchases of subsidiaries and lines of business" includes the price paid for the purchase of the New Banks amounting to €1.00, net of cash and cash equivalents of €1.4 billion.

EXPLANATORY NOTES

Gruppo UBI Banca

Accounting policies

Basis of preparation

The Interim financial report as at and for the period ended 30th June 2017 of the UBI Banca Group[1], approved by the Management Board on 4th August 2017, which authorised its publication in compliance, amongst other things, with IAS 10, comprises the interim management report on consolidated operations and the condensed interim consolidated financial statements. It has been prepared in compliance with article 154-*ter* of Legislative Decree No. 58/1998, with the IFRS international accounting standards[2] issued by the International Accounting Standards Board (IASB) and with the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission and in force on 30th June 2017, to which no exceptions have been made.

More specifically, the condensed interim consolidated financial statements[3] have been prepared in compliance with IAS 34 which regulates interim financial reporting and in view of the option allowed by the standard just mentioned, they have been presented in condensed form and therefore they do not provide all the full information required for annual financial statements and must be read in conjunction with the annual report prepared for the year ended 31st December 2016.

The condensed interim consolidated financial statements as at and for the period ended 30th June 2017 include the Parent, UBI Banca and the companies comprised within the scope of the consolidation[4] and they have been prepared by using the positions of the single companies included within the consolidation, corresponding to their individual interim financial statements examined and approved by their respective governing bodies and appropriately modified and reclassified, where necessary, for compliance with the accounting policies adopted by the Group.

The condensed interim consolidated financial statements contain a statement by the Chief Executive Officer and the Senior Officer Responsible pursuant to Art. 154 *bis* of Legislative Decree No. 58/1998 and they have been subjected to a limited audit by the independent auditors Deloitte & Touche Spa.

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These condensed interim consolidated financial statements as at and for the period ended 30th June 2017 have been clearly stated and give a true and fair view of the capital and financial position, the result for the period, the changes in equity and the cash flows generated.

The condensed interim consolidated financial statements result from the application of IFRS and measurement criteria, adopted on the basis of a going concern assumption and in compliance with the principles of accrual accounting, the relevance of the information and the predominance of substance over form.
These criteria are the same as those applied to the financial statements as at and for the period ended 31st December 2016, which may be consulted in full[5].

With specific reference to the measurement criteria for the main items of the financial statements, these have been supplemented with respect to the criteria applied until 31st

[1] The business of the Group is not significantly subject to seasonal and/or cyclical factors.
[2] Those standards, implemented in Italian law by Legislative Decree No. 38/2005, which took advantage of the option allowed under EC Regulation 1606/2002, are applied on the basis of events occurring that are disciplined by them from the date on which their application becomes compulsory, unless specified otherwise.
[3] The interim condensed consolidated financial statements containing the balance sheet, income statement, statement of comprehensive income, statements of changes in equity, cash flow statement and notes.
[4] Details are given in the section "The scope of the consolidation", in which changes that occurred during the period are also given.
[5] See Part A.1 of the notes to the consolidated financial statements, "Accounting policies – General Part", for further information.

December 2016[6], following the acquisition of the New Banks in order to include some specific aspects of the activities acquired.
More specifically these have been supplemented with provisions relating to insurance activities and products as reported in detail in the following sub-section “Other aspects”.

Where it is impossible to measure items in the financial statements with precision, the application of the aforementioned standards involves the use of estimates and assumptions which may have a significant effect on the amounts recognised in the balance sheet and in the income statement.
The use of reasonable estimates forms an essential part of the preparation of financial statements and we have listed here those items in the financial statements in which the use of estimates and assumptions is most significant:
- measurement of loans and receivables;
- measurement of financial assets not listed on active markets;
- measurement of indefinite useful life intangible assets and equity investments;
- quantification of provisions for risks and charges;
- quantification of deferred taxes;
- definition of the depreciation and amortisation charges for property, plant and equipment and intangible assets with finite useful lives;
- measurement of post-employment benefits:
- measurement of technical reserves.

In compliance with the provisions of IAS 34, income taxes are recognised on the basis of the best estimate of the weighted average rate expected for the full year.
An estimate may be adjusted following changes in the circumstances on which it was based or if new information is acquired or yet again on the basis of greater experience.
A change in an estimate is applied prospectively and it therefore generates an impact on the income statement in the year in which it is made and, if it is the case, also in future years.
No changes were made in the first half to the criteria previously employed for estimates in the financial statements as at 31st December 2016.

The information contained in this report is expressed, unless otherwise indicated, in euro as the accounting currency.
The mandatory financial statements and the explanatory notes have been prepared in thousands of euro[7] and comply with those defined in Bank of Italy Circular No. 262/2005[8] and in addition to the financial statements as at 30th June 2017 they provide the following comparative information[9]:
- balance sheet: as at 30th June 2016 and 31st December 2016;
- income statement: for the period ended 30th June 2016 and year ended 31st December 2016;
- statement of comprehensive income: for the period ended 30th June 2016 and year ended 31st December 2016;
- statement of changes in equity: for the period ended 30th June 2016;
- statement of cash flows: for the period ended 30th June 2016.

The minimum information required under paragraphs 15 B and 16 A of IAS 34 relating to dividends paid and trends for loan provisions is given in the interim consolidated management report.
With regard, on the other hand, to the provisions of IAS 10, concerning events occurring subsequent to the balance sheet date of the condensed interim consolidated financial statements, subsequent to 30th June 2017, the balance sheet date, and until 4th August 2017, the date on which the Interim Financial Report was approved by the Management Board, no events occurred to make adjustments to the figures presented in the report necessary.

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6 See Part A.2 of the notes to the Consolidated Financial Statements – “Accounting policies – Part on the main balance sheet items” for further information.
7 The relative rounding of the figures has been performed on the basis of Bank of Italy instructions.
8 The balance sheet lists assets and liabilities in order of decreasing liquidity and the income statement recognises expenses according to their nature.
9 See also in this respect the information given in the sub-section “Notes to the reclassified consolidated financial statements” in the section “Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules” in the Interim Consolidated Management Report.

Furthermore, account was also taken in the preparation of this half-year financial report of the following:
- provisions introduced with documents issued jointly by the supervisory authorities[10];
- ESMA and Consob documents which refer to the application of some IFRS provisions.

Regulatory developments

The most important aspects of changes in international accounting standards are given below with the periods from which they run.

INTERNATIONAL ACCOUNTING STANDARDS IN FORCE FROM 2017

At present no accounting standards (or interpretations) endorsed by the European Commission exist which involve compulsory application in 2017.

INTERNATIONAL ACCOUNTING STANDARDS IN FORCE AFTER 2017

As already reported in the information contained in the notes to the financial statements in the 2016 Consolidated Annual Report:
- on 29th October 2016 the European Commission published Regulation (EU) No. 1905/2016, which endorsed the standard IFRS 15 "Revenue from contracts with customers", published by the IASB on 28th May 2014.
- on 22nd November 2016, the European Commission published Regulation (EU) No. 2067/2016 which endorsed the standard IFRS 9 "Financial instruments", published by the IASB on 24th July 2014.

While reference is made for details of the provisions of those standards to the information given in Part A of the Notes to the Consolidated Financial Statements as at and for the period ended 31st December 2016, the sub-section below provides details of the implementation projects currently in progress in the UBI Banca Group.

THE IFRS 9 PROJECT IN THE UBI BANCA GROUP

As already reported in the Consolidated 2016 Annual Report, the project for the transition of the UBI Banca Group to IFRS 9, which started in the second half of 2015, is organised along three lines of activity:
1. assessment;
2. design;
3. implementation.

Assessment Stage

The assessment stage, which is designed to assess the potential impacts of the new standard with respect to regulatory aspects, risk models, administration, organisation, IT software and business, was commenced in the second half of 2015 and was concluded in the first quarter of 2016.
The main results of this preliminary activity can be summarised as follows:
- identification of regulatory and accounting modifications and the consequent preliminary definition of accounting guidelines for the necessary aspects;
- identification of the preliminary impacts in terms of business, risk models, organisation and IT systems;
- definition of criteria for the recognition and transfer of financial instruments and for loans in particular, among the three stages laid down by IFRS 9 on the basis of credit quality, with consequent different estimates of the respective carrying amounts (twelve month expected credit loss vs. lifetime expected credit loss).

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[10] In detail, the joint Bank of Italy/Consob (securities market authority)/Isvap (insurance authority) Document No. 4 of 3rd March 2010. See the subsequent sub-section "Other aspects" in relation to impairment of goodwill and available-for-sale financial assets.

Detailed analysis of the aforementioned preliminary effects, confirmed that the new standard will have a significant impact, especially on the impairment model applicable to all financial assets, except those measured at fair value through profit or loss (FVTPL). Greater impairment losses than those estimated under the model currently in use can be expected in the entire Italian and international banking system; this is especially true for financial assets other than those classified as "in default", that is, assets that fall into either stage 1 or 2 as defined by the standard.

Design Stage

Design activities, which began in the first quarter of 2016 and were largely completed by 31st December 2016, were designed to develop the following activities:

- detailed definition of accounting policies;
- preparation of risk models;
- definition of technical specifications for IT systems and processes;
- management of regulatory updates and specifications requested by regulators;
- definition of detailed specifications in organisational terms.

Implementation Stage

The architecture of the project involves, as the last step, implementation activities, which started in the first half of 2017, designed to plan and carry out the actions identified and defined in the previous steps of the project.
This stage is designed to:

- share the analysis and results that emerged from the design stage with all operational units involved;
- implement the choices and accounting standard interpretations made during the assessment and design stages;
- carry out preparatory activities for first-time application of the standard in question;
- consolidate the detailed accounting policies on the basis of the results that emerged.

On the basis of the above, a report is given below, divided on the basis the main subheadings of the standard, into the most significant detailed results that emerged from the assessment and design stages which constitute the guidelines for carrying out the third implementation stage of the project currently in progress.

- **Classification and Measurement**

With specific regard to the new provisions on the classification of financial assets contained in IFRS 9, project activities concentrated mainly on the following:

- on the definition of the business model with which the Group intends to manage financial assets recognised in its balance sheet; and also
- on a detailed examination of the financial instruments held in portfolio in order to identify any financial assets for which the characteristics of the cash flows do not allow classification at amortised cost and must therefore be measured at fair value with an impact on the income statement.

As concerns the business model we report that on conclusion of an analysis and survey of the different ways in which financial instruments are managed in order to generate cash flows, with the priority the Group gives to its retail mission it generally intends to confirm its current portfolio management strategy and therefore no substantial modifications are expected in terms of the classification of financial assets.
With specific reference to its securities business, the Group holds these instruments of a debt and equity nature according to the following business models: "Hold to Collect", "Hold to Collect&Sell" and "Others" (i.e. primarily for trading purposes). As already reported, the Group does not envisage any structural revision of its approaches to its current management of financial instruments. More specifically, as far as is hypothesised to-date, the allocation of securities in the various portfolios pursuant to IFRS 9 will be carried out taking account of the following: the dimensions of the banking book forecast by the Business Plan, the characteristics of the securities (life, eligibility, etc.), the uniformity of the portfolios and corporate approaches in terms of staff remuneration.
Additionally, the allocation itself will be substantially consistent with that of capital, in line with the Group's risk appetite framework (RAF).

With regard to debt instruments held in portfolio, the following business models have been defined:

- "Hold to Collect & Sell" for most of the instruments currently categorized as available for sale (AFS);
- "Hold to Collect" and "Hold to Collect & Sell" for the held-to-maturity (HTM) instruments.

With regard to equity instruments, and especially as concerns "strategic" equity holdings, we are currently assessing the possibility of exercising the option that would allow us to measure equity instruments at fair value and recognized as other comprehensive income (OCI).[11]
The "Hold to Collect" business model is being used to manage loans.
For the sake of full disclosure, it should be noted that procedures are currently being established related to assessment of the business model both for first-time application (FTA) and ongoing, and we are finalizing definition of the thresholds for frequency and significance required to consider the sale of financial instruments to be consistent with a hold-to-collect business model.
With regard to the objective characteristics of financial instruments, the financial assets are tested using the Solely Payments of Principal and Interest (SPPI) test[12] and, when there are clauses that call for the modified time value of money, the benchmark test.[13] The approach the Group intends to follow with regard to the SPPI test is to divide the loan portfolio into: 1) standard products, normally marketed through the distribution network and 2) non-standard products generally customised on the basis of specific counterparty requirements.
This division, which has no effect whatsoever on how the test is conducted, is useful for identifying the most efficient solutions in terms of organisation and application.
When fully operational, the project proposal for the SPPI test calls for the following:

- for standard products, tests are carried out by type of product; therefore, tests are introduced when products are created, and the result of the test is automatically called up for each grant of that type of credit;
- for non-standard products, the test is carried out for each single credit agreement.

The procedures for conducting tests will be based on the use of lending tools, which is to say a structured questionnaire with a "decision-making tree", which on the basis of the answers given provides output on the possibility of classifying a financial asset in the "held to collect" category, with consequent measurement at amortised cost.
With regard to the benchmark test, the project guideline calls for carrying out these tests using automated procedures as much as possible for all financial assets containing contractual clauses which require this test. This involves the use of a grid which gives the result of the test for every possible case of a mismatch, and this grid will be updated periodically and consulted during the disbursement process.
We are currently determining the most appropriate solutions for managing these tests.
For the sake of full disclosure, it should be noted that, based on preliminary analyses, it has been found that only an extremely limited portion of financial instruments with certain specific clauses would fail these tests and should, therefore, be measured at fair value through profit or loss.

In short, based on analyses conducted thus far on the financial instruments currently held, application of the new principles for classification and measurement should not have any particularly significant impact for first-time application given the limited reclassifications required and the marginal increase in items measured at fair value through profit or loss.

- **Impairment**

The most critical aspects of the standard related to the calculation of the impairment of financial assets (i.e. loans or securities) classified at amortised cost (AC) or fair value through other comprehensive income (FVOCI), as determined during assessment and design, are related to the allocation stage of the financial instruments based on a determination of the

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[11] In this case, only revenue from dividends is recognised on the income statement.

[12] That test, which is qualitative in nature and designed to verify whether a financial instrument involves payments consisting solely of principal and interest, is used in preparation for the classification of loans and receivables and debt instruments within the accounting category "amortised cost" and "FVOCI". In other words, if the result of the test is negative, the financial instrument is classified within the "Fair Value Through Profit or Loss" category.

[13] This test, which is quantitative in nature, forms an integral part of the SPPI test when the financial instrument presents "Modified Time Value of Money" characteristics, or in other words where there is an imperfect relationship between the reference interest rate parameter (e.g. 3-month Euribor) and the passage of time (e.g. monthly repayments). In this case, the purpose of the test is to verify that there is no significant difference in the cash flows compared with the cash flows from a benchmark instrument unaffected by "modified time value of money" characteristics. If the result of the test is negative, the financial instrument is classified within the "Fair Value Through Profit or Loss" class.

significant increase in credit risk and inclusion of forward-looking assumptions in the definition of the staging allocation and in determining the expected credit loss (ECL).
The process of stage allocation is currently being defined, specifically as concerns certain qualitative and quantitative parameters, and calls for the use of qualitative criteria (e.g. over 30 days past due and forborne) and quantitative criteria.
Given that, for the purposes of proper allocation of positions into the various stages for first-time application of the principle, performing loans will essentially be allocated to stages 1 and 2, whereas non-performing loans will be allocated to stage 3, it should be noted that, as of the date of this interim financial report, the Group intends to:

- reject the assumption that a position that is at least 30 days past due is to be classified automatically as stage 2 solely for financial instruments related to specific areas of business;
- use, during FTA and only with regard to government securities, the low credit risk exemption, which would result in classifying investment-grade or similar instruments as stage 1;
- use - specifically as concerns securities and, more specifically, the need to define an approach for comparing, for each individual transaction and based on changes in the portfolio, the original credit rating with the rating assigned as at the reporting date - the first in–first out (FIFO) method, which is deemed to allow for a more timely update to the assessment of credit risk based on the latest acquisitions made.

For the purposes of measuring a significant increase in credit risk between the date of first recognition of the financial instrument and that of measurement, the Group currently intends to use, with specific reference to loans, the lifetime probability of default (PD) as the quantitative indicator. As already reported, the allocation of a financial instrument to the most appropriate stage for measurement purposes depends on this measurement.
Concerning the inclusion of forward-looking scenarios and for the purpose of estimates of expected credit loss and, in particular, the requirement of the accounting standard to also incorporate forward-looking macroeconomic scenarios in that parameter, the Group is currently considering including expected macroeconomic trends by using models already available developed in the past or when credit risk stress tests were carried out, which are subject to necessary adjustments in order to make them compatible with the specific requirements of the new standard. These models are nearly completed and call for the use of most-likely, upside and downside scenarios.

As already mentioned in the Registration Document prepared in support of the June 2017 increase in capital,[14] the 2017-2020 Business Plan includes an estimate of the impact of application of IFRS 9. This preliminary estimate, as specifically concerns measurement of impairment based on the model applicable to all financial assets,[15] points to a negative impact on the carrying value of equity for the UBI Banca Group of roughly €210.3 million before tax effects. Based on the sensitivity analyses conducted by the Group, taking account of the worst-case scenarios for the parameters and approaches that are still being consolidated, the impact is expected to fall within a range of €210 and 250 million.
This estimate will be further developed during the year after finalising all aspects that are currently being refined; therefore, for first-time application, it will be subject to changes that may even be significant.

In this regard, it should also be noted that, on 13th July 2017, the EBA published its second report summarising the outcome of the impact assessment conducted on a sample population of 54 European banks.[16] In terms of the qualitative aspect, the EBA noted that survey of these banks pointed to operational complexity in introducing the new standard, particularly with regard to data quality, the availability of historical data, and verification of a significant increase in credit risk.
The report also noted that the change in the impairment model would result, for the banks surveyed, in an average increase in IAS 39 provisions (of about 13%) and would have an impact on tier-1 common equity and on total capital of 45 and 35 basis points, respectively.

[14] Filed with CONSOB on 9th June 2017.
[15] With the exception of financial instruments recognised at fair value through profit or loss.
[16] The first report, conducted on a sample population of 50 European banks, was published on 10th November 2016.

- **Hedge accounting**

As specifically concerns the new provisions regarding general hedge accounting, as we await completion of the new rules for macrohedging by the IASB, the UBI Banca Group intends to opt out and to continue applying the carve-out allowed by IAS 39.[17]

Finally, for the sake of full disclosure, the following should be noted:

- as specifically concerns the parallel run, i.e. the transition period in which accounting procedures and systems manage both IAS 39 and IFRS 9 data at the same time, the UBI Banca Group intends to begin this period in the fourth quarter of this year based on the information available at that time;
- with regard to the issue of first-time adoption of the standard relating to the restatement of figures for prior periods, not requested by IFRS 9, the Group has currently hypothesised not proceeding to provide these.

Updates and further details will be provided in the Interim Financial Report as at 30th September and in the Annual Financial Statements for 2017.

IFRS 15 "Revenue from Contracts with Customers"

As noted earlier, on 29th October 2016 the EU Commission validated the new IFRS 15 "Revenue from Contracts with Customers", published by IASB on 28th May 2014. As from 1st January 2018, IFRS 15 will replace IAS 18 "Revenue" and IAS 11 "Construction Contracts", as well as interpretations IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC 31 " Revenue – Barter Transactions Involving Advertising Services".

The standard establishes new procedures for the recognition of revenue, which will apply to all contracts entered into with customers except for those that fall within the scope of application of other IFRS standards such as leases, insurance contracts and financial instruments.

The fundamental steps in the accounting treatment of revenues according to the new standard are as follows:

- the identification of a contract with the customer;
- the identification of the performance obligations of the contract;
- determination of the price;
- allocation of the price to the performance obligations of the contract;
- the criteria for the recognition of revenue when an entity satisfies each performance obligation.

The main components of the Group's revenues do not fall within the scope of application of IFRS 15, because they are regulated by the provisions of IAS 39 (and IFRS 9).
As concerns those components of revenues of a fee and commission nature that do not fall within the scope of application of IAS 39 or IFRS 9, assessments must be carried out on first time adoption of IFRS 15 to determine the following:

- the prices of the relative transactions including the variable components, which must be allocated to one or more performance obligations; and
- whether the performance obligations are satisfied "over time" or at a "point in time".

Furthermore, the presentation of revenue on a gross or net basis will depend on an analysis of the "principal" or "agent" role played by the entity in the transaction.

At the date of this interim financial report, based on a preliminary analysis, application of this standard is not expected to have a significant impact on the Group. This is primarily because the Group's main income components do not fall within the scope of application of IFRS 15, because it is regulated by the current provisions of IAS 39 and, in future, also by IFRS 9.
An impact analysis is currently in progress following which it should be possible to give a more precise indication of the impacts that will result from the application of this standard.

[17] Related to the provisions of IAS 39 related to macrohedging.

INTERNATIONAL ACCOUNTING STANDARDS NOT ENDORSED AS AT 30TH JUNE 2017

Standard (IAS/IFRS) Interpretation (SIC/IFRIC)	Amendments	Date of publication
IFRS 14	Regulatory deferral accounts	30/01/2014
IFRS 10, IAS 28	Sale contribution of assets between an investor and its Associate or Joint Venture	11/09/2014
IFRS 16	Leases	13/01/2016
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	19/01/2016
IAS 7	Amendments to IAS 7: Disclosure initiative	29/01/2016
IFRS 15	Clarification to IFRS 15: Revenue Contracts with Customers	12/04/2016
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	20/06/2016
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/09/2016
IFRS 1, IFRS 12, IAS 28	Annual improvements to IFRS Standards 2014-2016 Cycle	08/12/2016
IFRIC 22	IFRIC Interpretation 22 Foreign Currency Transaction and Advance Consideration	08/12/2016
IAS 40	Amendments to IAS 40: Transfers of Investment property	08/12/2016
IFRS 17	Insurance Contracts	18/05/2017
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017

The standards listed above are not applicable for the purposes of the preparation of the 2017 first half report because their application is subject to endorsement by the European commission through the issue of specific EU Regulations.

IFRS 16 (LEASES)

One of the new accounting standards issued by the IASB that are still undergoing an endorsement process by the EU Commission, FRS 16 “Leases”, which is due to replace IAS 17 “Leasing” from 1st January 2019, is of great importance.

More specifically, the new standard introduces new rules for accounting for leasing contracts on the part of the lessees (i.e. the users of the goods under contract in the lease). These rules are based on the definition of a lease as a contract in which the right to control the use of an identified asset is granted for a specified period of time, in exchange for payment.
As a result of this definition, the lessee must recognise the right-of-use of the underlying asset as an asset on the balance sheet, and that asset will subsequently be subject to amortisation; the lessee must then also recognise the present value of lease payments (to be made over the full life time of the contract) as a liability.

The Group will proceed in the second half of the year to start a project to carry out a detailed analysis of contracts entered into as a lesser or lessee which might constitute a “lease” according to IFRS 16. On completion of this it will be able to provide a more precise indication of the impacts connected with this standard to be applied in future.

Other aspects

Accounting aspects of the acquisition by the UBI Banca Group of the New Banks

The operation to acquire the New Banks, illustrated in the section “Significant events in the first half 2017”, is accounted for in the condensed interim consolidated financial statements of the UBI Banca Group in compliance with the provisions of the international accounting standard IFRS 3 “Business combinations”.
On the basis of that standard, the acquisition must be recognised in the accounts using the purchase method, which involves the process of the purchase price allocation (PPA).
In accordance with IFRS 3 the cost of the acquisition must be allocated, as at the acquisition date, to the assets (including intangibles) and liabilities (including contingent liabilities, inclusive of those that are not probable), recognising them at their fair value as at that date. The difference remaining between the cost of the acquisition and the value, measured at fair value, of the net assets (assets - liabilities) must be recognised as goodwill if it is positive, while if it is negative it is considered badwill or negative goodwill which, in accordance with the standard, must be recognised through profit and loss.
As concerns the PPA process, it must first be reported that UBI Banca purchased the New Banks consisting of the Nuova Banca dell’Etruria e del Lazio Group, the Nuova Banca delle Marche Group and Nuova Cassa di Risparmio di Chieti for a symbolic amount totalling €1.00 (the purchase price), which is therefore the cost of the acquisition, compared with total book equity at the acquisition date (before PPA accounting adjustments) of €995 million.

Preliminary allocation of the cost of the acquisition in the consolidated balance sheet of the UBI Banca Group

For the purposes of preparing the condensed interim consolidated financial statements as at and for the period ended 30th June 2017, the UBI Banca Group, with the help of an independent expert, determined the fair value of the assets and liabilities and of the identifiable contingent liabilities of the New Banks.

At present, the allocation process is not yet definitive, although it is rationally solid based on currently available information. In accordance with IFRS 3, given the complexity of this process, transactions of business aggregation may be finalised within twelve months from the acquisition date.
As such, the provisional estimates may be subject to adjustments in the financial report for the year ending 31st December 2017 based on greater and/or more detailed information that may become available over the coming months.

Furthermore, fair value represents an exit price and must be calculated from the point of view of a market player, which may be done either by making use of a market parameter (i.e. actual prices for comparable assets) or an earnings parameter based on the cost structures of a market player.[18]

As concerns the New Banks specifically:

a) no further contingent liabilities have been identified;
b) three categories of intangibles related to customer relations (i.e. deposits, assets under management, and assets under administration) have been identified;
c) measurement of the fair value of the net assets acquired led to an adjustment from the carrying values as at the acquisition date for the following assets and liabilities:
    1. non-performing loans;
    2. medium and long-term performing loans;
    3. medium and long-term funding;
    4. provisions representing the fair value of contracts connected with lease agreements, i.e. the real-estate transactions “Consorzio Palazzo della Fonte” and “Fondo Conero”.

The following parameters were adopted as part of the measurement process:

- *intangibles related to customer relations:* earnings parameter based on excess earnings, calculated based on a cost-to-income ratio of the market player (source: aggregate financial reports provided by the Bank of Italy) for the residual life of the customer relations based on historical churn rates;
- *non-performing loans:* market parameter based on the value of the non-performing loans sold by the New Banks to the Atlante Fund. More specifically, the current portfolio of non-performing loans as of the PPA date has been divided into: secured (with collateral) unlikely-to-pay (UTP); unsecured UTP; secured (with collateral) bad loans; and unsecured bad loans. For each category, a discount was applied to the gross carrying value granted to the former Target Bridge Institutions during the sale at market conditions of a portfolio of non-performing loans in the amount of roughly €2.2 billion to the Atlante Fund II on 10th May 2017;

[18] The IASs and IFRSs state that the fair value of liabilities considers the credit risk of the entity acquired, which entails not considering the potential benefits resulting from the improvement in rating resulting from the change in control.

- *medium and long-term performing loans:* earnings parameter based on excess earnings calculated based on the implicit mark-up in the loans being measures, on the market spread of the bonds of issuers with the same rating, on the cost-to-income ratio of the market player (publicly listed banks operating solely in the issuing and management of loans), on the absorption of capital generated by the loan for the intermediary, and on the opportunity cost of the capital absorbed for the residual life of each loan, which also takes account of the borrower's risk profile. This process gave a fair value very similar to the carrying value;
- *medium and long-term funding:* earnings parameter based on the present value of the coupons at a current market rate of an issuer of equal rating;
- *fair value of contracts connected with real-estate transactions ("Consorzio Palazzo della Fonte" and "Fondo Conero"):* value calculated by independent experts.

Total adjustments to set assets and liabilities acquired to fair value before deferred taxes come to -€571 million, while deferred taxes total €189 million; therefore, the net adjustments for the purchase price allocation (PPA) total -€382 million.

Given that the equity of the New Banks as at the PPA date equal €995 million and provisional PPA adjustments equal -€382 million, the estimated fair value of the net assets acquired comes to €613 million.

Because the purchase price of €1.00 is €613 million less than the fair value of equity, for first-time consolidation, negative goodwill remains which has been recognised as income on the income statement as at 30th June 2017 under item 256 "negative consolidation difference", given that the purchase price was less than should have been paid if the assets and liabilities had been acquired individually by way of an ordinary process, not in a context of forced liquidation or other situation in which one party is forced to sell.

The table below provides a summary of the outcome of the PPA process.

(figures in millions of euro) **A) Equity at the Purchase Date**	**995**
Fair Value Adjustment of the Non-performing Portfolio	*-561*
Fair Value Adjustment of Performing Loans	*–*
Difference in Fair Value Medium & Long-term Funding	*-5*
Difference in Fair Value of Software	*-13*
Provisions for the Adjustment of the Fair Value of Real Estate Contracts Related to Consorzio Palazzo della Fonte *and* Fondo Conero	*-33*
Intangibles Related to Assets Under Management	*19*
Intangibles Related to Assets Under Administration	*3*
Intangibles Related to Core Deposits	*19*
B) Total PPA Adjustments before deferred taxes	-571
C) Deferred Taxes = B x 33.07%	189
D) Total PPA Adjustments after deferred taxes = B - C	**-382**
E) Fair Value of Net Assets Acquired = A + D	613
F) Price Paid	–
G) Negative goodwill = E - F	**613**

Alignment of accounting practices and processes

As part of the integration of the New Banks into the UBI Banca Group, a detailed analysis was conducted of the measurement policies in use at the acquired banks, and it was found that these policies were essentially in line with those of the Group.
For the sake of full disclosure, it should be noted that this analysis also pointed to the need to realign accounting processes and practices that would not be considered changes in accounting standards. The actions recommended as a part of the alignment of accounting practices are currently being finalised.

Impairment tests on goodwill

The provisions of IAS 36 require goodwill and, therefore, the cash generating units (CGUs) or groups of CGUs to which it was allocated to be tested for impairment at least annually and also certain qualitative and quantitative indicators of impairment to be monitored continuously to see whether the necessary conditions exist for testing goodwill for impairment more frequently.
At 30th June 2017, given that market capitalisation is lower than the carrying value of equity, all of the main internal and external sources of information that could point to potential impairment (i.e. that the presumed realisable value is less than the carrying value of the CGUs to which the goodwill was allocated) were analysed.
It should, however, be noted that, during the period under review, both the stock market capitalisation and the equity value implicit in the consensus target price had risen substantially. Compared to 31st December 2016, the price of UBI Banca's share had increased by 51.3% at 30th June 2017, whereas the consensus target price rose by 25.5% (source: FactSet). The maximum target price increased by 11.3% during the period. The CDSs on UBI Banca debt instruments also improved during the period.

The following fundamental factors were analysed:

i. the cost of equity (cost of own funds) for UBI Banca (and its determinants);
ii. the interest rate scenario;
iii. the dynamics of consensus net earnings forecasts (and other components of income) by equity analysis for 2017 and subsequent years (following the publication of financials for the first quarter of 2017).

As at 30th June 2017, there was a slight increase in the cost of equity (and its determinants) due to an increase in the risk-free rates (with the beta remaining unchanged) as shown in the table below.

	(a) 30.06.2017	**(b) 31.12.2016**	**(c) Delta = (a) - (b)**
A) Risk Free (average daily one year 10y BTP)	1.82%	1.45%	0.37%
B) Beta (monthly 5y vs. FTSE Italy All Share)	1.60x	1.60x	0.00
C) Equity risk premium	5.50%	5.50%	0.00%
D) Cost of equity = A + B x C	**10.62%**	**10.25%**	**+0.37%**

The table shows that the estimate of the cost of equity (CoE) as at 30th June 2017 was 10.62%, an increase of 37 basis points from the estimate carried out as at 31st December 2016 (10.25%).
This increase of 0.37% in the opportunity cost of capital falls within the margin of increase in the discount rate that the estimated recoverable value from the latest annual impairment test, conducted at the end of December 2016, would have been able to tolerate without resulting in any impairment loss at the Group level.

With regard to the interest rate scenario (for the forecast of earnings), a survey was carried out on external input–based forecasts used as a basis for the 2017-2021 projections. In particular, there was an improvement in medium-term rates, with the 3-month future Euribor rate for 2019 and 2020 being greater than the rates for those years as estimated by management at the end of 2016 and used as the basis for forecasts made for the purpose of impairment testing. In this regard, it should be noted that an increase in market rates increases the expected earnings for the Group.

Finally, equity analysts' forecasts for net income at 30th June 2017 are higher than the same forecasts released at the start of the year. It should also be noted that only certain analysts included in their forecasts the expected results of the recent acquisition of the New Banks.

With regard to internal sources, a comparison of consolidated results at June 2017 with budget forecasts for the same period did not show any shortfall at the level of net earnings.

Based on the above, which shows no evidence of a need for impairment, it was not deemed necessary to repeat impairment testing for the purposes of this interim report.

BRRD Directive (Bank Recovery and Resolution Directive – 2014/59/EU) - Accounting treatment of the contribution to the Single Resolution Fund

In April, the Bank of Italy, as the resolution authority, sent all Italian banks subject to the Bank Recovery and Resolution Directive (BRRD – 2014/59/EU)[19] the announcements indicating the regular contribution due for financial year 2017 calculated in accordance with European Commission Delegated Regulations 2015/63 and 2015/81.

[19] The directive establishes the new resolution rules, which are applicable to all banks of the European Union as of 1st January 2015, the measures of which are funded by the National Resolution Fund, which became a part of the Single Resolution Fund.

This contribution was calculated by the Single Resolution Board in collaboration with the Bank of Italy, and payment of this contribution under normal circumstances may, in accordance with European Commission Delegated Regulation no. 2015/81, be paid by signing irrevocable commitments to pay a minimum of 15%.
In this regard, and in line with what was established for financial year 2016, the aforementioned announcement included the possibility of opting to pay 85% of the contribution in cash and the remaining 15% by signing an irrevocable commitment backed by cash collateral.
Consistent with what was done in 2016, the UBI Banca Group opted to pay 85% of the contribution in cash and 15% by commitment and then, on 1st June 2017, paid the full contribution due.
Given the above, the Group expensed the contribution, in the amount of €33 million,[20] allocating €28.2 million to "other administrative expenses"[21] and with €4.8 million going "below the line" among irrevocable payment commitments[22] backed entirely by cash collateral.

Valuation of shares in the Atlante Fund

As already reported in the information contained in the notes to the financial statements contained in the 2016 Consolidated Annual Report, as at 31st December 2016 the UBI Banca Group, having carefully considered all the information useful for estimating the value of the investment in the Atlante Fund, had proceeded to recognise total impairment of approximately €73 million[23] on the total exposure of €162.3 million.[24]
Therefore, as at 31st December 2016, the residual carrying value of the investment in the Atlante Fund, recognised an available-for-sale financial asset, was €89.3 million with a commitment in the amount of €37.7 million (out of an initial commitment totalling €200 million).
In the second quarter of 2017, given the aforementioned residual commitment of €37.7 million, the Group paid a further €13.2 million aimed at financing further operations of the fund.[25]
On 23rd June, with the ongoing difficulties of Veneto Banca and Banca Popolare di Vicenza regarding regulatory capital requirements, the ECB declared that both banks were failing or at risk of failing and notified the Single Resolution Board (SRB) of these findings. The SRB then reached the conclusion that the conditions for initiating resolution actions against the two banks were not met; therefore, the banks were to be liquidated based on Italian insolvency procedures.
On 26th June, Banca Intesa Sanpaolo then signed an agreement with the receivership commissioners of the two banks to purchase, at a symbolic price of one euro, certain assets and liabilities and certain legal relationships of the two banks.
As a result, and given the consequent cancellation of the value of the shares held by the Atlante Fund, as at 30th June 2017, the UBI Banca Group recognised a further adjustment in the value of the share held in the fund, related to the fund's investment in Veneto Banca and Banca Popolare di Vicenza, in the amount of €89.3 million[26] (€18.7 million of which already recognised for the interim financial report for the period ended 31st March 2017[27]).
At the end of June, the carrying value of the investment in the Atlante Fund, recognised as an available-for-sale financial asset, was €13.2 million and solely concerned amounts paid during the second quarter.[28]

Valuation of the quota for adherence to the Voluntary Scheme of the Interbank Deposit Protection Fund

As at 31st December 2016, as already described in the notes to the financial statements in the Consolidated Annual Report, which may be consulted for full details, implementation of the operation to recapitalise Cassa Di Risparmio Di Cesena ("CariCesena"), undertaken by the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) in order to take action to assist the failed banks, involved a total payout for the UBI Banca Group of €16.13 million, subject to adjustmet, as at 31st December 2016, based on the valuation in relation to the equity risk assigned to CariCesena, in the amount of €3.9 million.[29] As such, as at 31st December 21006, the residual carrying value came to €12.2 million.

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20 The contribution (the estimated value of which was, in application of IFRIC 21 "Levies", recognised in the interim financial statements for the period ended 31st March 2017) includes €0.8 million recognised in the second quarter related to additional integrations of charges of the New Banks.
21 In accordance with the provisions of Article 8 of the aforementioned European Commission Delegated Regulation no. 2015/81.
22 In accordance with the provisions of the aforementioned Bank of Italy communication and as we await word from the competent supervisory authorities.
23 Of which €119.1 million relating to "Available-for-sale financial assets" and €43.1 million relating to commitments.
24 Of which €53.6 million relating to the part recognised within "Available-for-sale financial assets" and €19.4 million relating to the commitment.
25 Of which €12.5 million related to the "Progetto Cube" operation financed out of the Atlante Fund II (in which the Atlante Fund is a direct investor) and related to the New Banks.
26 Net effect of the adjustments to available-for-sale financial assets, in the amount of €108.7 million, and of the writeback, recognised under item 130(d), related to provisions on commitments with the Atlante Fund recognised as at 31st December 2016 in the amount of €19.4 million.
27 When the valuation of the investment was updated, based on the net loss recognised by the two banks as at 31st December 2016 which was significantly greater than the estimated loss incorporated in the valuation at the end of 2016.
28 Along with a residual commitment of €24.5 million.
29 An impairment loss was recognised through profit and loss because the conditions for an impairment loss set out in IAS 39 were considered to have been met in this case.

Following the acquisition of the New Banks, the equity stake of the UBI Banca Group in the Voluntary Scheme increased by €4.2 million, net of adjustments, for the contribution of said adjustments. As at 30th June 2017, the carrying value totalled €16.4 million.[30]

At present the investment in Cassa Di Risparmio Di Cesena, controlled by the Voluntary Scheme, is subject to a preliminary non-binding purchase offer made by Crédit Agricole Cariparma, as part of a broader operation to find a solution, through a change of ownership, to the difficulties consisting also of the capital shortfalls of Cassa Di Risparmio di Rimini and Cassa di Risparmio di San Miniato.
Therefore, with specific reference to the valuation as at 30th June 2017 of the investment in question, we report that, while waiting for a more complete definition of the terms of the aforementioned operation as a whole, it was decided to confirm the amount recognised as at 31st December 2016 for the standalone financial statements of the UBI Banca Group Stand Alone and those of the banks acquired.. This valuation may be subject to change during the second half of the year should new information arise.

Impairment of available-for-sale securities

As at 30th June 2017, the fair value measurement of available-for-sale securities resulted in the recognition of impairment losses through profit and loss of approximately €119.3 million, of which €114.1 million relating to UBI Banca.
This impairment is attributable solely to:

- investments in UCITSs in the amount of €109.6 million;[31]
- equity instruments of an “investment” nature in the amount of €9.7 million.

Impairment losses on equity instruments[32] are recognised, in compliance with Group policy on the impairment of available-for-sale equity instruments, when the fair value of the instruments either remains below the historical cost of purchase for a period of longer than 18 months or falls below that level by more than 35% or in cases of impairment following the recognition of previous impairment losses[33].
For full information we report that in compliance with the provisions of IAS 39, any future recoveries in the value of those instruments are recognised as follows:

- in a separate reserve in equity if they relate to equity instruments;
- through profit or loss if they relate to debt instruments.

Integration to the Measurement Policies of the Main Financial Aggregates

- **Technical reserves**

These refer solely to contracts that fall within the scope of application of IFRS 4. Shadow accounting has been adopted with the fair value component of the gains on the separate management portfolios, currently recognised within equity, being allocated to reserves. Under paragraph 30, IFRS 4 reads as follows: *“In some accounting models, realised gains or losses on an insurer’s assets have a direct effect on the measurement of some or all of (a) its insurance liabilities, (b) related deferred acquisition costs and (c) related intangible assets […]. An insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability […] shall be recognised in equity if, and only if, the unrealised gains or losses are recognised directly in equity.”* Based on the above, it is allowed to assign to insurers the gains/charges resulting from the fair-value measurement of the financial instruments allocated to the separate management accounts.
The adjustment must be calculated by applying the average retrocession rate granted to the insurers to the difference between the unrealized gains and losses on the instruments of each separate management portfolio.
The liability adequacy test (LAT) conducted in accordance with IFRS 4 was met.
The supplemental reserves for death coverage related to “Branch III” products are included in equity.

- **Net insurance premiums**

These include premiums related to Branch I and V contracts.

- **Other net profit (loss) on insurance operations**

These include the following items:

[30] The UBI Banca Group took on a commitment with the Voluntary Scheme in the amount of €41 million, which was reduced to €24.6 million following the action to support CariCesena. As at 30th June 2017, following the acquisition of the New Banks, the remaining commitment totalled €32.8 million (of which €24.6 million related to the UBI Banca Group alone and €8.2 million related to the New Banks).
[31] Of which €108.7 million related to the share held in the Atlante Fund. For details, see the section above “Valuation of shares in the Atlante Fund”.
[32] The reference here is to both equity instruments of an “investment” nature and to investments in UCITS.
[33] With the exception of the adjustment related to the share held in the Atlante Fund, for which is was determined that the conditions defined under IAS 39 for the recognition of impairment were met.

- commissions and other expenses for the acquisition of insurance contracts related solely to Branch I and V;
- investment management fees related to investment management costs;
- acquisition and liquidation costs related to Branch III investment contracts;
- charges related to claims that include amounts paid out on insurance policies, net of sales to reinsurance and before related liquidation costs, related to contracts subject to IFRS 4. This does not include amounts paid out or liquidation expenses in Branch III, classified among administrative expenses, and changes to mathematical reserves in Branch III contracts, which are a financial expense under IAS rules.

List of the main IFRS standards endorsed by the European Commission

IAS/IFRS	ACCOUNTING STANDARDS	ENDORSEMENT
IAS 1	Presentation of financial statements	Reg. 1274/08, 53/09, 70/09, 494/09, 243/10, 149/11, 475/12, 1254/12, 1255/12, 301/13, 2113/15, 2173/15, 2406/15, 1905/16, 2067/16
IAS 2	Inventories	Reg. 1126/08, 1255/12, Reg. 1905/16, 2067/16
IAS 7	Statement of cash flows	Reg. 1126/08, 1274/08, 70/09, 494/09, 243/10, 1254/12, 1174/13
IAS 8	Accounting policies, changes in accounting estimates and errors	Reg. 1126/08, 1274/08, 70/09, 1255/12, 2067/16
IAS 10	Events after the reporting date	Reg. 1126/08, 1274/08, 70/09, 1142/09, 1255/12, 2067/16
IAS 11	Construction contracts	Reg. 1126/08, 1274/08
IAS 12	Income taxes	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 1174/13, 1905/16, 2067/16
IAS 16	Property, plant and equipment	Reg. 1126/08, 1274/08, 70/09, 495/09, 1255/12, 301/13, 28/15, 2113/15, 2231/15, 1905/16
IAS 17	Leases	Reg. 1126/08, 243/10, 1255/12, 2113/15
IAS 18	Revenue	Reg. 1126/08, 69/09, 1254/12, 1255/12
IAS 19	Employee benefits	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12, 29/15, 2343/15
IAS 20	Accounting for government grants and disclosure of government assistance	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12, 2067/16
IAS 21	The effects of changes in foreign exchange rates	Reg. 1126/08, 1274/08, 69/09, 494/09, 149/11, 475/12, 1254/12, 1255/12, 2067/16
IAS 23	Borrowing costs	Reg. 1260/08, 70/09, 2113/15, 2067/16
IAS 24	Related party disclosures	Reg. 632/10, 475/12, 1254/12, 1174/13, 28/15
IAS 26	Retirement benefit plans	Reg. 1126/08
IAS 27	Consolidated and separate financial statements	Reg. 1254/12, 1174/13, 2441/15
IAS 28	Investments in associates	Reg. 1254/12, 2441/15, 1703/16, 2067/16
IAS 29	Financial reporting in hyperinflationary economies	Reg. 1126/08, 1274/08, 70/09
IAS 32	Financial instruments: presentation	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 1293/09, 149/11, 475/12, 1254/12, 1255/12, 1256/12, 301/13, 1174/13, Reg. 1905/16,2067/16
IAS 33	Earnings per share	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 2067/16
IAS 34	Interim financial reporting	Reg. 1126/08, 1274/08, 70/09, 495/09, 149/11, 475/12, 1255/12, 301/13, 1174/13, 2343/15, 2406/15, 1905/16
IAS 36	Impairment of assets	Reg. 1126/08, 1274/08, 69/09, 70/09, 495/09, 243/10, 1254/12, 1255/12, 1374/13, 2113/15, Reg. 1905/16,2067/16
IAS 37	Provisions, contingent liabilities and contingent assets	Reg. 1126/08, 1274/08, 495/09, 28/15, Reg. 1905/16, 2067/16
IAS 38	Intangible assets	Reg. 1126/08, 1274/08, 70/09, 495/09, 243/10, 1254/12, 1255/12, 28/15, 2231/15, 1905/16
IAS 39	Financial instruments: recognition and measurement	Reg. 1126/08, 1274/08, 53/2009, 70/09, 494/09, 495/09, 824/09, 839/09, 1171/09, 243/10, 149/11, 1254/12, 1255/12, 1174/13, 1375/13, 28/15, 1905/16, 2067/16
IAS 40	Investment property	Reg. 1126/08, 1274/08, 70/09, 1255/12, 1361/14, 2113/15, 1905/16
IAS 41	Agriculture	Reg. 1126/08, 1274/08, 70/09, 1255/12, 2113/15
IFRS 1	First-time adoption of international financial reporting standards	Reg. 1126/09, 1164/09, 550/10, 574/10, 662/10, 149/11, 475/12, 1254/12, 1255/12, 183/2013, 301/13, 313/13, 1174/13, 2343/15, 2441/15,1905/16, 2067/16
IFRS 2	Share-based payment	Reg. 1126/08, 1261/08, 495/09, 243/10, 244/10, 1254/12, 1255/12, 28/15, 2067/16
IFRS 3	Business combinations	Reg. 495/09, 149/11, 1254/12, 1255/12, 1174/13, 1361/14, 28/15, 1905/16, 2067/16
IFRS 4	Insurance contracts	Reg. 1126/08, 1274/08, 1165/09, 1255/12, 1905/16, 2067/16
IFRS 5	Non-current assets held for sale and discontinued operations	Reg. 1126/08, 1274/08, 70/09, 494/09, 1142/09, 243/10, 475/12, 1254/12, 1255/12, 2343/15, 2067/16
IFRS 6	Exploration for and evaluation of mineral resources	Reg. 1126/08
IFRS 7	Financial instruments: disclosures	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 824/09, 1165/09, 574/10, 149/11, 1205/11, 475/12, 1254/12, 1255/12, 1256/12, 1174/13, 2343/15, 2406/15, 2067/16
IFRS 8	Operating segments	Reg. 1126/08, 1274/08, 243/10, 632/10, 475/12, 28/15
IFRS 9	Financial instruments	Reg. 2067/16
IFRS 10	Consolidated financial statements	Reg. 1254/12, 313/13, 1174/13, 1703/16
IFRS 11	Joint arrangements	Reg. 1254/12, 313/13, 2173/15
IFRS 12	Disclosure of interests in other entities	Reg. 1254/12, 313/13, 1174/13, 1703/16
IFRS 13	Fair value measurement	Reg. 1255/12, 1361/14,2067/16

IFRS 15	Revenue from contracts with customers[34]	Reg. 1905/16

SIC/IFRIC	**INTERPRETATION DOCUMENTS**	**ENDORSEMENT**
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	Reg. 1126/08, 1274/08
IFRIC 2	Members' shares in co-operative entities and similar instruments	Reg. 1126/08, 53/09, 1255/12, 301/13, 2067/16
IFRIC 4	Determining whether an arrangement contains a lease	Reg. 1126/08, 70/09, 1255/12
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	Reg. 1126/08, 1254/12, 2067/16
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	Reg. 1126/08
IFRIC 7	Applying the restatement approach under IAS 29 "Financial reporting in hyperinflationary economies"	Reg. 1126/08, 1274/08
IFRIC 9	Reassessment of embedded derivatives[35]	Reg. 1126/08, 495/09, 1171/09, 243/10, 1254/12
IFRIC 10	Interim financial reporting and impairment	Reg. 1126/08, 1274/08, 2067/16
IFRIC 12	Service concession arrangements	Reg. 254/09, 1905/16, 2067/16
IFRIC 13	Customer loyalty programmes	Reg. 1262/08, 149/11, 1255/12
IFRIC 14	Prepayments of a minimum funding requirement	Reg. 1263/08, 1274/08, 633/10, 475/12
IFRIC 15	Agreements for the construction of real estate	Reg. 636/09
IFRIC 16	Hedges of a net investment in a foreign operation	Reg. 460/09, 243/10, 1254/12, 2067/16
IFRIC 17	Distributions of non-cash assets to owners	Reg. 1142/09, 1254/12, 1255/12
IFRIC 18	Transfers of assets from customers	Reg. 1164/09
IFRIC 19	Extinguishing financial liabilities with equity instruments	Reg. 662/10, 1255/12, 2067/16
IFRIC 20	Stripping costs in the production phase of a surface mine	Reg. 1255/12
IFRIC 21	Levies	Reg. 634/14
SIC 7	Introduction of the euro	Reg. 1126/08, 1274/08, 494/09
SIC 10	Government assistance – no specific relation to operating activities	Reg. 1126/08, 1274/08
SIC 15	Operating leases – Incentives	Reg. 1126/08, 1274/08
SIC 25	Income taxes – Changes in the tax status of an enterprise or its shareholders	Reg. 1126/08, 1274/08
SIC 27	Evaluating the substance of transactions in the legal form of a lease	Reg. 1126/08, 1905/16, 2067/16
SIC 29	Service concession arrangements: disclosures	Reg. 1126/08, 1274/08, 70/09
SIC 31	Revenue – Barter transactions involving advertising services	Reg. 1126/08
SIC 32	Intangible assets – Website costs	Reg. 1126/08, 1274/08, 1905/16

[34] From 1st January 2018, the date on which application of the standard becomes compulsory, the provisions of the following standards and interpretations will longer be applicable: IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31.

[35] From 1st January 2018, the date on which application of IFRS 9 becomes compulsory, that interpretation is considered repealed.

Information on fair value

No changes have been made in the methods employed to measure fair value in the reporting period and we therefore refer you to the information given in section A.4 "Information on fair value" in the Notes to the Consolidated Financial Statements contained in the 2016 Annual Report.

Transfers between portfolios

The UBI Banca Group made no portfolio reclassifications of financial assets during the reporting period out of assets measured at fair value into assets measured at amortised cost, in relation to the possibilities introduced by EU Regulation No. 1004/2008 of the European Commission.

Fair value hierarchy

No changes were made in the first half to the criteria employed for calculating fair value hierarchies on the basis of the use of observable or non-observable inputs compared to those used for the 2016 Annual Report, which may be consulted for full details.

Assets and liabilities measured at fair value on a recurring basis: distribution by fair value level

Assets/liabilities measured at fair value	30.6.2017			31.12.2016		
Figures in thousands of euro	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	135,442	507,451	28,589	114,507	599,890	15,219
2. Financial assets designated at fair value	83,377	2,034	75,963	117,500	3,000	67,949
3. Available-for-sale financial assets	10,296,412	442,100	390,437	9,145,463	206,602	261,768
4. Hedging derivatives	-	423,051	2,036	-	461,767	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**10,515,231**	**1,374,636**	**497,025**	**9,377,470**	**1,271,259**	**344,936**
1. Financial liabilities held for trading	735	709,572	358	76	799,931	31
2. Financial liabilities designated at fair value	-	39,017	-	-	-	-
3. Hedging derivatives	-	183,463	-	-	239,241	287
Total	**735**	**932,052**	**358**	**76**	**1,039,172**	**318**

Changes in the first half in assets measured at fair value on a recurring basis (level 3)

Figures in thousands of euro	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balances	**15,219**	**67,949**	**261,768**	**-**	**-**	**-**
2. Increases	**20,602**	**9,683**	**247,680**	**2,036**	**-**	**-**
2.1. Purchases	2	-	56,371	-	-	-
2.2. Profits recognised in:						
2.2.1. Income statement	540	9,683	307	2,036	-	-
- of which gains	*506*	*8,014*	-	2,036	-	-
2.2.2. Equity	X	X	5,878	-	-	-
2.3. Transfers from other levels	2,081	-	7,592	-	-	-
2.4. Other increases	17,979	-	177,532	-	-	-
3. Decreases	**(7,232)**	**(1,669)**	**(119,011)**	**-**	**-**	**-**
3.1. Sales	(2)	-	(1,872)	-	-	-
3.2. Redemptions	(79)	(1,669)	(520)	-	-	-
3.3. Losses recognised in:						
3.3.1. Income statement	(5,565)	-	(115,130)	-	-	-
- of which losses	*(2,654)*	-	*(113,335)*	-	-	-
3.3.2. Equity	X	X	(1,317)	-	-	-
3.4. Transfers to other levels	(1,572)	-	-	-	-	-
3.5. Other decreases	(14)	-	(172)	-	-	-
4. Closing balances	**28,589**	**75,963**	**390,437**	**2,036**	**-**	**-**

Changes in the first half in liabilities measured at fair value on a recurring basis (level 3)

	LIABILITIES FINANCIAL		
	held for trading	designated at fair value	hedges
1. Opening balances	**31**	**-**	**287**
2. Increases	**449**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses recognised in:			
2.2.1. Income statement	72	-	-
- of which losses	27	-	-
2.2.2. Equity	X	X	-
2.3. Transfers from other levels	92	-	-
2.4. Other increases	285	-	-
3. Decreases	**(122)**	**-**	**(287)**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised in:			
3.3.1. Income statement	(35)	-	(287)
- of which gains	*(35)*	-	(287)
3.3.2. Equity	X	X	-
3.4. Transfers to other levels	(31)	-	-
3.5. Other decreases	(56)	-	-
4. Closing balances	**358**	**-**	**-**

Financial assets held for trading

Increases in “financial assets held for trading”, amounting to €20.6 million, are due primarily to business combination operations relating to the purchase of the New Banks (€18 million approx.) and to the transfers to fair value level three of €2.1 million relating to derivatives for which the credit value adjustment risk for the counterparty was greater than the limits set by Group policies (10% of the gross fair value).
The main losses recognised through profit and loss related to losses of €2.7 million as a consequence of write-downs of derivatives and losses on derivatives for a further €2.9 million.
Decreases due to transfers to level two amounting to €1.6 million related to derivatives as a result of that which has already been reported above on the UBI Banca Group policy.

Financial assets designated at fair value

Profits recognised through profit and loss amounted to €9.7 million are mainly due to gains (€8 million) regarding fair value movements in the investments in Immobiliare Mirasole Spa, Humanitas Spa and E.C.A.S. Spa in particular. Profits of approximately €1.7 million were recorded on hedge fund positions.
Decreases were due to hedge fund redemptions in relation to the profits reported above.

Available-for-sale financial assets

Increases in “available-for-sale financial assets” included subscriptions to the Atlante Fund amounting to €56.4 million.
On the other hand, profits recognised in equity (€5.9 million) include fair value movements in some companies, the most significant of which was S.A.C.B.O. Spa (€2.3 million).
Transfers to other fair value levels amounted to €7.6 million and relate to the standardisation of levels within the UBI Banca Group following the acquisition of the New Banks.
Other increases in “available-for-sale financial assets” amounted to €177.5 million and are due primarily to the aforementioned business combination operations.
Decreases included sales (€1.9 million) made by UBI Banca which mainly involved SFP GF Group Spa (€0.7 million) and E-MID Spa (€0.8 million).
Losses recognised through profit and loss (€115.1 million) included the following: the write-down of the Atlante Fund amounting to €108.7 million; impairment of Beauty Bel Chain for €1.9 million, of Finpiemonte for €0.9 million and of Bergamo Nuova Fiera for €0.7 million.

Derivatives

Profits recognised through profit and loss amounted to €2 million and related to CCS derivatives to hedge currency risks.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: distribution by fair value level

Figures in thousands of euro	30.6.2017				31.12.2016			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Held-to-maturity investments	5,993,150	6,014,073	-	-	7,327,544	7,440,786	-	-
2. Loans and advances to banks	8,793,116	-	880,776	7,305,114	3,719,548	-	1,160,364	2,561,924
3. Loans and advances to customers	94,228,583	-	33,942,087	61,518,628	81,854,280	-	28,968,668	54,486,150
4. Tangible assets held for investment	274,785	-	-	321,532	196,800	-	-	269,880
5. Non-current assets and disposal groups held for sale	6,455	-	-	-	5,681	-	-	-
Total	**109,296,089**	**6,014,073**	**34,822,863**	**69,145,274**	**93,103,853**	**7,440,786**	**30,129,032**	**57,317,954**
1. Due to banks	16,530,503	-	1,449	16,197,441	14,131,928	-	15,177	14,128,463
2. Due to customers	70,112,391	-	1,121,790	68,994,602	56,226,416	-	1,683,948	54,533,948
3. Debt securities issued	28,362,209	14,319,041	2,547,356	11,541,153	28,939,597	15,069,835	2,226,747	12,091,872
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**115,005,103**	**14,319,041**	**3,670,595**	**96,733,196**	**99,297,941**	**15,069,835**	**3,925,872**	**80,754,283**

Information on "day one profit/loss"

The information relates to paragraph 43 of IAS 39 which concerns differences between transaction prices and the value obtained by using measurement techniques that emerge on initial recognition and that are not immediately recognised through profit and loss on the basis of paragraph AG76 of the aforementioned standard.
In consideration of the above, we report that the UBI Banca Group has not performed any transactions for which a difference between the purchase price and the value of the instrument obtained using internal measurement techniques has arisen on initial recognition.

The scope of consolidation

The companies that formed part of the consolidation as at 30th June 2017 are listed below, divided into subsidiaries (fully consolidated) and associates (consolidated using the equity method).
The percentage of control or ownership attributable to the Group (direct or indirect), their headquarters (registered address or operating headquarters) and the share capital are also given for each of them.

Fully consolidated companies *(control is by the Parent of the Group where no other indication is given):*

1. **Unione di Banche Italiane Spa – UBI Banca (Parent)**
   registered address: Bergamo, Piazza Vittorio Veneto, 8 – share capital: €2,840,334,511.48[1]
2. UBI Banca International Sa (100% controlled)
   registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €70,613,580
3. UBI Trustee Sa (100% controlled)
   registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €250,000
4. Prestitalia Spa (100% controlled)
   registered address: Bergamo, Via A. Stoppani, 15 – share capital: €205,722,715
5. IW Bank Spa (100% controlled)
   registered address: Milan, Piazzale F.lli Zavattari, 12 – share capital: €67,950,000
6. Centrobanca Sviluppo Impresa SGR Spa (100% controlled)[2]
   registered address: Milano, Corso Europa, 16 – share capital: €2,000,000
7. UBI Pramerica SGR Spa (65% controlled)
   operating headquarters: Milano, Via Monte di Pietà, 5 – share capital: €19,955,465
8. UBI Management Company Sa (100% controlled by UBI Pramerica SGR)
   registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €125,000
9. UBI Leasing Spa (99.6207% controlled)
   registered address: Brescia, Via Cefalonia, 74 – share capital: €641,557,806
10. Unione di Banche Italiane per il Factoring Spa - UBI Factor Spa (100% controlled)
    registered address: Milan, Via f.lli Gabba, 1 – share capital: €36,115,820
11. BPB Immobiliare Srl (100% controlled)
    registered address: Bergamo, Piazza Vittorio Veneto, 8 – share capital: €185,680,000
12. Kedomus Srl (100% controlled)
    registered address: Brescia, Via Cefalonia, 74 – share capital: €300,000
13. UBI Sistemi e Servizi SCpa[3] – Consortium Stock Company (92.0080% controlled and 4.3142% interest held by IW Bank; 1.4385% held by UBI Pramerica SGR; 0.7192% held by UBI Factor; 0.0719% held by Prestitalia; and 0.0097% held by UBI Academy)
    registered address: Brescia, Via Cefalonia, 62 – share capital: €36,149,948.64
14. UBI Academy SCRL – Limited Consortium Company (88% controlled and 3% held by: IW Bank and UBI.S; 1.5% held by: UBI Pramerica SGR, UBI Leasing, UBI Factor and Prestitalia)
    registered address: Bergamo, Via f.lli Calvi, 9 – share capital: €100,000

1 The share capital of the Parent has changed following the merger into it in February of the last five network banks (BPB, BBS, BPA, Carime, BVC) and the subscription in June of new shares resulting from the exercise of option rights relating to the share capital increase which was then concluded in July.

2 This asset management company managed the Sviluppo Impresa Fund, of which UBI Banca held 85% of the shares. Having reached the end of the three-year extension made to its original life, this fund was placed in liquidation on 9th November 2015 and was wound up on 16th August 2016.

3 The Group holds a controlling 98.5615% interest in the share capital of UBI.S; the remaining 1.4385% is held by Cargeas Assicurazioni Spa (the former UBI Assicurazioni Spa).

15. UBI Finance Srl[4] (60% controlled)
registered address: Milano, Foro Bonaparte, 70 – share capital: €10,000

16. UBI Finance CB 2 Srl[5] (60% controlled)
registered address: Milano, Foro Bonaparte, 70 – share capital: €10,000

17. 24-7 Finance Srl[6]

18. UBI Finance 2 Srl - in liquidation[7]

19. UBI SPV BBS 2012 Srl[8]

20. UBI SPV BPCI 2012 Srl[8]

21. UBI SPV BPA 2012 Srl[8]

22. UBI SPV Group 2016 Srl[9]

23. UBI SPV Lease 2016 Srl[10]

Banks and companies which joined the UBI Banca Group following the acquisition of three New Banks in central Italy

24. Nuova Banca delle Marche Spa (100% controlled)
registered address: c/o Banca d'Italia, Rome, 91, Via Nazionale – share capital: €810,165,277
1.general management: Jesi (AN),Via A. Ghislieri, 6

25. Nuova Banca dell'Etruria e del Lazio Spa (100% controlled)
registered address: c/o Banca d'Italia Rome, 91, Via Nazionale – share capital: €284,098,338
general management: Arezzo, Via P. Calamandrei, 255

26. Nuova Cassa di Risparmio di Chieti Spa (100% controlled)
registered address: c/o Banca d'Italia, Rome, 91 Via Nazionale – share capital: €141,000,000
general management: Chieti Scalo (CH), Via Colonnetta, 24

27. Banca Federico del Vecchio Spa (100% controlled by Nuova Banca dell'Etruria e del Lazio)
registered address: Firenza, Via dei Banchi, 5 – share capital: €1,000,000

28. Cassa di Risparmio di Loreto Spa (98.8612% controlled by Nuova Banca delle Marche)
registered address: Loreto (Ancona), Via Solari, 21 – share capital: €23,884,893.75

29. BancAssurance Popolari Spa (89.5342% controlled by Nuova Banca dell'Etruria e del Lazio)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €61,080,900

30. BancAssurance Popolari Danni Spa (50.7655% controlled by Nuova Banca dell'Etruria and 49.2345% held by BancAssurance Popolari)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €5,500,000

31. Oro Italia Trading Spa (100% controlled by Nuova Banca dell'Etruria e del Lazio)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €500,000

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4 A special purpose entity in accordance with Law No. 130/1999, this company, enrolled on the general list of intermediaries pursuant to Art. 106 of the Consolidated Banking Act, was formed on 18th March 2008 to allow UBI Banca to implement the first programme to issue covered bonds backed by residential mortgages.

5 A special purpose entity in accordance with Law No. 130/1999, this company, enrolled on the general list of intermediaries pursuant to Art. 106 of the consolidated banking act, was formed on 20th December 2011 to allow the UBI Banca to implement a second programme to issue covered bonds backed mainly by commercial non-residential mortgages.

6 A special purpose entity used in compliance with Law No. 130/1999 for the securitisations of the former B@nca 24-7 performed in 2008. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

7 A special purpose entity used in accordance with Law No. 130/1999 for the securitisation of a portfolio of Banco di Brescia performing loans at the beginning of 2009. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.
The securitisation was closed down in May 2014. A Shareholders' Meeting held on 26th February 2015 resolved to put the entity into early voluntary liquidation (with the relative records filed with the Company Registrar on 16th March 2015).

8 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of the performing loans to SMEs of some network banks (Banco di Brescia, Banca Popolare Commercio e Industria and Banca Popolare di Ancona) carried out in the last part of 2012. They were consolidated because they are in reality controlled, since their assets and liabilities were originated by Group member companies. UBI Banca holds a 10% stake in each of them.
The three securitisations were close down early on 15th November 2016.

9 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of residential mortgages recognised on the books of the former network banks (BPB, BBS, BPCI, BRE, BPA, Carime) carried out in August 2016. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

10 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of performing loans by UBI Leasing in July 2016. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

32. Etruria Informatica Srl (100% controlled by Nuova Banca dell'Etruria e del Lazio)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €260,000

33. Mecenate Srl[11] (95% controlled by Nuova Banca dell'Etruria e del Lazio)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €10,000

34. Etruria Securitization SPV Srl[12]

35. Focus Gestioni Società di Gestione del Risparmio Spa – in liquidation (100% controlled da Nuova Banca delle Marche)
registered address: Ancona, Via L. Menicucci 4/6 – share capital: €1,907,476

36. Focus Impresa[13]

37. Marche Mutui 2 Società per la Cartolarizzazione a r.l.[14]
38. Marche Mutui 4 Srl[14]
39. Marche M5 Srl[14]
40. Marche M6 Srl[14]

41. Assieme Srl (80% controlled by BancAssurance Popolari)
registered address: Arezzo, Via T. Edison, 45 – share capital: €30,000

Companies consolidated using the equity method *(the investment is by the Parent where no other indication is given):*

1. Aviva Vita Spa (20% interest held)
registered address: Milan, Via A. Scarsellini, 14 – share capital: €155,000,000
2. Lombarda Vita Spa (40% interest held)
registered address: Brescia, Corso Martiri della Libertà, 13 – share capital: €185,300,000
3. Polis Fondi SGRpA (19.6% interest held)
registered address: Milano, Via Solferino, 7 – share capital: €5,200,000
4. Zhong Ou Asset Management Co. Ltd (formerly Lombarda China Fund Management - 35% interest held)
registered address: 8f Bank of East ASIA Finance Tower, 66 Hua Yuan Shi Qiao Road, Pudong New Area, 200120 Shanghai (China) – share capital: 188,000,000 yuan/renminbi
5. SF Consulting Srl (35% interest held)
operating headquarters: Mantova, Via P.F. Calvi, 40 – share capital: €93,600
6. UFI Servizi Srl (23.1667% interest held by Prestitalia)
registered address: Roma, Via G. Severano, 24 – share capital: €150,000

Company that joined the Group following the acquisition of the New Banks in central Italy

7. Montefeltro Sviluppo SCRL (26.3699% interest held by Nuova Banca delle Marche)
registered address: Urbania (PU), Via A. Manzoni, 25 – share capital: €73,000

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11 A special purpose entity used in accordance with Law No. 130/1999 for the former Banca dell'Etruria e del Lazio securitisations performed in 2007, 2009 and 2011, relating to performing residential mortgages. It has already been decided to close down the operations put in place in 2009 and 2011.
12 A special purpose entity used in accordance with Law No. 130/1999 for a former Banca dell'Etruria e del Lazio securitisation performed in 2012, relating to ordinary and regulated mortgages and unsecured loans to SMEs and "small economic operators", which will be closed down early in the next few months. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. The Group holds no equity interests in this company.
13 This is a closed-end fund, reserved for "qualified investors" recognised within available-for-sale financial assets (balance sheet item 40), consolidated in relation to the investment made by the former Banca delle Marche and to the predominant position exercised in shareholders meetings by subscribers of the fund (80.7692% of the shares held).
14 A special purpose entity formed in compliance with Law 130/1999 for former Banca delle Marche securitisations formed in 2006 (*Marche Mutui 2*, an RMBS securitisation of a portfolio of performing regulated mortgages backed by first mortgage guarantees) in 2009 (*Marche Mutui 4*, a mixed securitisation of performing residential and commercial mortgages for which procedures for the early close down have already been commenced), in 2012 (*Marche M5*, an SME securitisation of a portfolio of commercial mortgages and unsecured loans to SMEs for which procedures for the early close down have already been commenced) and in 2013 (*Marche M6*, an RMBS securitisation of a portfolio of performing residential mortgages). They were consolidated because they are in reality controlled, since their assets and liabilities were originated by a Group member company. The Group holds no equity interests in the companies.

Changes in the scope of consolidation

The scope of consolidation underwent the changes reported below compared with 31st December 2016.

Completion of the Single Bank Project

With the "second wave" of the project the mergers into UBI Banca of Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare di Ancona, Banca Carime and Banca di Valle Camonica took effect in accordance with and within the meaning of articles 2501 *et seq* of the Italian Civil Code on 20th February 2017. As a consequence the last five network banks were eliminated from the consolidation with effect for accounting and tax purposes from 1st January 2017.

A summary is given below of the main steps involved, but it should be considered that as a result of the merger the shareholders of the merged banks other than the Parent were allotted newly issued UBI Banca shares on the basis of the share exchange ratios set, while the shares of the merged banks held by the Parent were cancelled with no share exchange and no cash settlement was provided for:

- Banco di Brescia – Banca Popolare di Bergamo: as these were fully owned by the Parent, no share exchange ratio was set. The mergers by incorporation were approved by the respective Boards of Directors in accordance with Article 2505 of the Italian Civil Code and with the Articles of Association on 29th September and 7th October 2016 respectively;
- as concerns the other network banks, the mergers of which into the Parent were approved by the relative Extraordinary Shareholders' Meetings held on 11th, 13th and 14th October 2016, exchange ratios were set which gave rise to the issue of new UBI Banca shares to non-controlling shareholders, as indicated below:
  - for BPA, 6.0815 UBI Banca shares for every single BPA share, amounting to 618,315 new shares of the merging bank;
  - for Carime, 0.1651 UBI Banca shares for every single Carime share, amounting to 24,050 new shares of the merging bank;
  - for BVC, 7.2848 UBI Banca shares for every single BVC share, amounting to 295,034[15] new shares of the merging bank.

  The new share capital of UBI Banca, amounting to €2,443,094,485.00 for a total of 977,237,794 shares with no nominal amount was filed with the Bergamo Company Registrar on 28th February 2017[16].

As of 20th February 2017 the equity investments and shareholdings of the former network banks transferred to the Parent were as follows:

- the percentages of shares held in UBI.S by BPB, BBS, BPA and Carime (2.8769% each) and by BVC (1.4385%), which brought the controlling interest held up to 92.0080% (79.0619% as at 31st December 2016);
- the ownership stakes held in UBI Academy by BPB, BBS, BPA and Carime of 3% each and by BVC of 1.5%, which brought UBI Banca's controlling interest up to 88% (from 74.5% at the end of 2016);
- the UBI Banca International shares held by BBS and BPB, amounting to 5.4825% and 3.1598% respectively of this Luxembourg bank's share capital, which gave UBI Banca total ownership (up from 91.3577% in December 2016);
- 500 shares held by Carime in the share capital of the Bank of Italy.

The acquisition of the three New Banks in central Italy

The acquisition of the New Banks was completed on 10th May 2017[17]:

- 10,000,000 shares of Nuova Banca dell'Etruria e del Lazio at a price of €0.33;
- 10,000,000 shares of Nuova Banca delle Marche at a price of €0.34;

15 Banca di Valle Camonica was 89.8867% controlled by the Parent and BBS held 8.8387%. All the relative shares were cancelled with no share exchange and therefore the new UBI Banca shares issued related only to the portion held by non-controlling interests.

16 On 20th February 2017, 936,467 new UBI Banca shares were issued in conjunction with the mergers, further increased by 932 following the application of rounding-off procedures on 28th February 2017.

17 The names that follow are those used until the time when the deal was closed. A detailed discussion on the acquisition process and the update to the Business Plan which resulted from it is given in the section "Significant events in the first half of 2017" in the interim management report on consolidated operations.

- 10,000,000 shares of Nuova Cassa di Risparmio di Chieti at a price of €0.33.

The enlargement of the consolidation, which now includes both the New Banks and their relative equity investments (banks and companies) subject to the rules and principles governing inclusion within the scope of consolidation, took place for accounting and tax purposes from the 1st April 2017.

As described in more detailed terms in the section mentioned above on significant events in the first half, these banks will be progressively merged into the Parent starting in October, while the other companies are or will be involved in the rationalisation process.

More specifically, Focus Gestioni SGR – in liquidation was removed from the Register of Companies on the 5th July 2017 following the final winding up of the companyliquidation procedure. The voluntary liquidation was approved by an Extraordinary Shareholders' Meeting held on the 15th September 2016 and took effect from the 1st October 2016.

The New Banks also hold in portfolio, amongst other things, 2,710 shares in the Bank of Italy, which when added to the 1,259 shares already held by the former BRE and by the former Carime bring the total held by the UBI Banca Group to 3,969 shares accounting for 1.3230% of the share capital.

Special purpose entities for securitisations

- UBI Lease Finance 5 Srl – in liquidation: a Shareholders' Meeting was held on 24th January 2017 to approve the final liquidation financial statements as the last administrative action taken before cancelling the entity from the Register of Companies, which took place on 6th March 2017;
- UBI Finance 3 Srl – in liquidation: a Shareholders' Meeting was held on 6th March 2017 to approve the final liquidation financial statements (reconvened) as the last administrative action taken before removing the entity from the Register of Companies, which took place on 19th April 2017.

* * *

To complete the information we report that on 17th July 2017, UBI Banca was authorised by the China Securities Regulatory Commission to sell an initial quota (10%) of the share capital held in Zhong Ou Asset Management Co. (a Chinese registered fund management company in which a 35% interest is held) to senior managers in that same company.
This is in accordance with agreements entered into at the end of 2013 which grant managers call options on 11.7% of the share capital held by UBI Banca on achieving certain quantitative objectives. In consideration of the achievement of those quantitative goals as early as 2015, the Group had reclassified the quota of the investment to be sold within non-current assets held for sale in accordance with IFRS 5.

* * *

The purchase by the Parent of 405,550 UBI Leasing shares sold by the non-controlling shareholder Banca Valsabbina for a total price of €1,850,000 was concluded on 1st August 2017. As a result of the purchase, UBI Banca now holds 100% of the share capital.

Information on the accounts

This section contains the principal information relating to the balance sheet, financial position and income statement. The changes in the balance sheet and financial position that occurred in the reporting period (first six months of 2017), together with the operating performance for the period January-June 2017, regarding also the acquisition of the New Banks, are commented on in the Interim Management Report on consolidated operations as at and for the period ended the 30th June 2017.

Explanatory tables for the consolidated income statement

Interest and similar income: composition (item 10)

Figures in thousands of euro	Debt instruments	Financing	Other transactions	1H 2017	1H 2016
1. Financial assets held for trading	438	-	1,032	1,470	2,800
2. Financial assets designated at fair value	-	-	-	-	-
3. Available-for-sale financial assets	76,686	-	-	76,686	159,442
3. Held-to-maturity investments	40,650	-	-	40,650	22,445
5. Loans and advances to banks	161	4,684	349	5,194	4,119
6. Loans and advances to customers	2,203	874,127	76	876,406	899,262
7. Hedging derivatives	X	X	55,601	55,601	29,329
8. Other assets	X	X	164	164	449
Total	**120,138**	**878,811**	**57,222**	**1,056,171**	**1,117,846**

Interest and similar expense: composition (item 20)

Figures in thousands of euro	Borrowings	Securities	Other transactions	1H 2017	1H 2016
1. Due to central banks	(4,866)	X	-	(4,866)	(3,652)
2. Due to banks	(9,816)	X	-	(9,816)	(6,233)
3. Due to customers	(41,073)	X	(20)	(41,093)	(26,969)
4. Debt securities issued	X	(246,400)	-	(246,400)	(312,864)
5. Financial liabilities held for trading	(425)	-	(61)	(486)	(2,532)
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and provisions	X	X	(46)	(46)	(24)
8. Hedging derivatives	X	X	-	-	-
Total	**(56,180)**	**(246,400)**	**(127)**	**(302,707)**	**(352,274)**

	1H 2017	1H 2016
Net interest income	**753,464**	**765,572**

Interest on impaired assets relates almost entirely to loans to customers and totalled €73,952 thousand.

Commission income: composition (item 40)

Figures in thousands of euro	1H 2017	1H 2016
a) guarantees granted	24,027	23,725
c) management, trading and advisory services	477,330	422,379
1. trading in financial instruments	7,753	9,342
2. foreign exchange trading	4,062	3,480
3. portfolio management	184,945	157,834
3.1. individual	39,390	36,597
3.2. collective	145,555	121,237
4. custody and administration of securities	4,771	4,003
5. depository banking	-	-
6. placement of securities	142,117	129,344
7. receipt and transmission of orders	18,383	19,364
8. advisory activities	3,695	3,297
8.1 on investments	3,695	3,297
9. distribution of third party services	111,604	95,715
9.1. portfolio management	187	11
9.1.1. individual	187	11
9.2. insurance products	100,919	84,987
9.3. other products	10,498	10,717
d) collection and payment services	84,816	71,884
f) services for factoring transactions	6,104	7,110
i) current account administration	111,246	90,318
j) other services	157,838	136,451
Total	**861,461**	**751,867**

Commission expense: composition (item 50)

Figures in thousands of euro	1H 2017	1H 2016
a) guarantees received	(271)	(796)
c) management and trading services:	(52,713)	(40,938)
1. trading in financial instruments	(5,497)	(5,364)
2. foreign exchange trading	(1)	(34)
3. portfolio management	(4,782)	(4,434)
3.1. own	(20)	-
3.2. on behalf of third parties	(4,762)	(4,434)
4. custody and administration of securities	(3,930)	(2,593)
5. placement of financial instruments	(5,441)	(2,471)
6. financial instruments, products and services distributed through indirect networks	(33,062)	(26,042)
d) collection and payment services	(24,777)	(21,515)
e) other services	(22,138)	(21,165)
Total	**(99,899)**	**(84,414)**

	1H 2017	1H 2016
Net fee and commission income	**761,562**	**667,453**

Net trading income (item 80)

Figures in thousands of euro	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net income 1H 2017 [(A+B)-(C+D)]	1H 2016
1. Financial assets held for trading	**3,748**	**6,332**	**(222)**	**(3,225)**	**6,633**	**11,372**
1.1 Debt instruments	764	2,858	(40)	(828)	2,754	3,963
1.2 Equity instruments	1,646	584	(117)	(79)	2,034	(945)
1.3 Units in UCITS	5	34	(65)	(2)	(28)	(572)
1.4 Financing	-	328	-	(1)	327	-
1.5 Other	1,333	2,528	-	(2,315)	1,546	8,926
2. Financial liabilities held for trading	**-**	**419**	**-**	**(90)**	**329**	**1,180**
2.1 Debt instruments	-	419	-	(90)	329	1,180
2.2 Payables	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**1,414**	**(2,976)**
4. Derivative instruments	**194,009**	**122,464**	**(166,219)**	**(130,764)**	**34,472**	**(4,001)**
4.1 Financial derivatives	194,009	122,464	(166,219)	(130,764)	34,472	(4,001)
- on debt instruments and interest rates	*191,109*	*106,760*	*(163,585)*	*(121,521)*	*12,763*	*(9,998)*
- on equity instruments and share indices	*960*	*9,839*	*(748)*	*(3,451)*	*6,600*	*(3,222)*
- on currencies and gold	*X*	*X*	*X*	*X*	*14,982*	*8,920*
- other	*1,940*	*5,865*	*(1,886)*	*(5,792)*	*127*	*299*
4.2 Credit derivatives	-	-	-	-	-	-
Total	**197,757**	**129,215**	**(166,441)**	**(134,079)**	**42,848**	**5,575**

Net hedging loss (item 90)

Figures in thousands of euro	1H 2017	1H 2016
Net hedging loss	**(1,368)**	**(1,250)**

Profit from disposal/repurchase (item 100)

Figures in thousands of euro	Profits	Losses	Net profit 1H 2017	1H 2016
Financial assets				
1. Loans and advances to banks	-	(978)	(978)	-
2. Loans and advances to customers	885	(27,235)	(26,350)	(1,593)
3. Available-for-sale financial assets	81,788	(160)	81,628	101,214
3.1 Debt instruments	*79,736*	*(34)*	*79,702*	*76,469*
3.2 Equity instruments	*670*	*(24)*	*646*	*15,463*
3.3 Units in UCITS	*1,382*	*(102)*	1,280	9,282
3.4 Financing	-	-	-	-
4. Held-to-maturity investments	*55,937*	-	55,937	-
Total assets	**138,610**	**(28,373)**	**110,237**	**99,621**
Financial liabilities				
1. Due to banks	-	-	-	-
2. Due to customers	-	-	-	-
3. Debt securities issued	632	(6,462)	(5,830)	(13,119)
Total liabilities	**632**	**(6,462)**	**(5,830)**	**(13,119)**
Total	**139,242**	**(34,835)**	**104,407**	**86,502**

Net profit (loss) on financial assets and liabilities designated at fair value (item 110)

Figures in thousands of euro	1H 2017	1H 2016
Net profit (loss) on financial assets and liabilities designated at fair value	**10,859**	**(8,238)**

Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	**156,746**	**82,589**

Net premiums: composition (item 150)

Premiums from insurance activities Figures in thousands of euro	Direct work	Indirect work	1H 2017	1H 2016
A. Life				
A.1 Gross premiums recognised (+)	57,354	-	57,354	-
A.2 Premiums reinsured (-)	(20)	X	(20)	-
A.3 Total	57,334	-	57,334	-
B. Non-life				
B.1 Gross premiums recognised (+)	682	-	682	-
B.2 Premiums reinsured (-)	(146)	X	(146)	-
B.3 Change in gross premiums reserve (+/-)	23	-	23	-
B.4 Change in premium reserve borne by reinsurers(-/+)	21	-	21	-
B.5 Total	580	-	580	-
C. Total net premiums	**57,914**	**-**	**57,914**	**-**

Balance for other income and expenses of insurance operations: composition (item 160)

Figures in thousands of euro	1H 2017	1H 2016
1. Net change in technical reserves	(40,754)	-
2. Claims paid during the year	(26,686)	-
3. Other income and expense on insurance operations	(719)	-
Total	**(68,159)**	**-**

Other administrative expenses: composition (item 180 b)

Figures in thousands of euro	1H 2017	1H 2016
A. Other administrative expenses	**(369,389)**	**(306,480)**
Rent payable	(31,402)	(24,796)
Professional and advisory services	(70,281)	(48,195)
Rentals hardware, software and other assets	(20,848)	(16,394)
Maintenance of hardware, software and other assets	(23,755)	(21,725)
Tenancy of premises	(24,067)	(21,643)
Property maintenance	(12,112)	(9,011)
Counting, transport and management of valuables	(6,831)	(5,756)
Membership fees	(34,802)	(37,958)
Information services and land registry searches	(6,190)	(4,563)
Books and periodicals	(592)	(592)
Postal	(9,458)	(6,690)
Insurance premiums	(16,021)	(16,175)
Advertising	(13,044)	(11,509)
Entertainment expenses	(798)	(729)
Telephone and data transmission expenses	(25,351)	(21,059)
Services in outsourcing	(29,260)	(22,155)
Travel expenses	(7,394)	(7,510)
Credit recovery expenses	(20,354)	(17,863)
Forms, stationery and consumables	(4,263)	(3,590)
Transport and removals	(4,413)	(2,992)
Security	(2,936)	(3,361)
Other expenses	(5,217)	(2,214)
B. Indirect taxes	**(138,218)**	**(137,523)**
Indirect taxes and duties	(7,806)	(12,447)
Stamp duty	(105,406)	(103,359)
Municipal property tax	(11,866)	(10,395)
Other taxes	(13,140)	(11,322)
Total	**(507,607)**	**(444,003)**

Explanatory tables for the consolidated balance sheet

ASSETS

Financial assets held for trading: composition by type (asset item 20)

Figures in thousands of euro	30.6.2017 L 1	30.6.2017 L 2	30.6.2017 L 3	30.6.2017 Total	31.12.2016 L 1	31.12.2016 L 2	31.12.2016 L 3	31.12.2016 Total
A. On-balance sheet assets								
1. Debt instruments	98,276	450	100	98,826	107,483	210	100	107,793
1.1 Structured instruments	824	21	100	945	1,698	20	100	1,818
1.2 Other debt instruments	97,452	429	-	97,881	105,785	190	-	105,975
2. Equity instruments	33,186	40	44	33,270	4,949	-	2	4,951
3. Units in UCITS	2,189	1,353	1,798	5,340	672	-	-	672
4. Financing	-	-	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total A	**133,651**	**1,843**	**1,942**	**137,436**	**113,104**	**210**	**102**	**113,416**
B. Derivative instruments								
1. Financial derivatives	1,791	505,608	26,647	534,046	1,403	599,680	15,117	616,200
1.1 for trading	1,791	505,608	26,647	534,046	1,403	599,680	15,117	616,200
1.2 connected with fair value options	-	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-	-	-
2.2 connected with fair value options	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total B	**1,791**	**505,608**	**26,647**	**534,046**	**1,403**	**599,680**	**15,117**	**616,200**
Total (A+B)	**135,442**	**507,451**	**28,589**	**671,482**	**114,507**	**599,890**	**15,219**	**729,616**

Financial assets designated at fair value: composition by type (asset item 30)

Figures in thousands of euro	30.6.2017 L 1	30.6.2017 L 2	30.6.2017 L 3	30.6.2017 Total	31.12.2016 L 1	31.12.2016 L 2	31.12.2016 L 3	31.12.2016 Total
1. Debt instruments	9,341	-	-	9,341	-	-	-	-
1.1 Structured instruments	-	-	-	-	-	-	-	-
1.2 Other debt instruments	9,341	-	-	9,341	-	-	-	-
2. Equity instruments	3,677	2,000	75,963	81,640	1,555	3,000	67,949	72,504
3. Units in UCITS	70,359	34	-	70,393	115,945	-	-	115,945
4. Financing	-	-	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total	**83,377**	**2,034**	**75,963**	**161,374**	**117,500**	**3,000**	**67,949**	**188,449**
Cost	**82,787**	**1,689**	**83,377**	**167,853**	**117,088**	**2,481**	**84,941**	**204,510**

Available-for-sale financial assets: composition by type (asset item 40)

Figures in thousands of euro	30.6.2017 L 1	30.6.2017 L 2	30.6.2017 L 3	30.6.2017 Total	31.12.2016 L 1	31.12.2016 L 2	31.12.2016 L 3	31.12.2016 Total
1. Debt instruments	10,247,172	281,712	14,308	10,543,192	9,094,524	157,437	13,347	9,265,308
1.1 Structured instruments	344,116	159,577	14,104	517,797	307,439	157,437	13,332	478,208
1.2 Other debt instruments	9,903,056	122,135	204	10,025,395	8,787,085	-	15	8,787,100
2. Equity instruments	25,587	239	309,200	335,026	25,098	-	182,892	207,990
2.1 At fair value	25,587	239	245,074	270,900	25,098	-	150,198	175,296
2.2 At cost	-	-	64,126	64,126	-	-	32,694	32,694
3. Units in UCITS	23,653	160,149	66,929	250,731	25,841	49,165	65,529	140,535
4. Financing	-	-	-	-	-	-	-	-
Total	**10,296,412**	**442,100**	**390,437**	**11,128,949**	**9,145,463**	**206,602**	**261,768**	**9,613,833**

Held-to-maturity investments: composition by type (asset item 50)

Figures in thousands of euro	30.6.2017 Carrying amount	30.6.2017 Fair value L 1	L 2	L 3	31.12.2016 Carrying amount	31.12.2016 Fair value L 1	L 2	L 3
1. Debt instruments	5,993,150	6,014,073	-	-	7,327,544	7,440,786	-	-
- structured	-	-	-	-	-	-	-	-
- other	5,993,150	6,014,073	-	-	7,327,544	7,440,786	-	-
2. Financing	-	-	-	-	-	-	-	-

Loans and advances to customers: composition by type (asset item 70)

Figures in thousands of euro	30.6.2017 Carrying amount Performing	Non-performing Purchased	Non-performing Other	Fair value L 1	L 2	L 3	31.12.2016 Carrying amount Performing	Non-performing Purchased	Non-performing Other	Fair value L 1	L 2	L 3
Financing	**85,755,907**	**-**	**8,998,569**	**-**	**33,938,787**	**62,058,020**	**73,791,644**	**-**	**8,055,608**	**-**	**28,968,668**	**54,479,317**
1. Current account overdrafts	8,910,293	-	1,268,106	X	X	X	6,867,723	-	1,071,247	X	X	X
2. Reverse repurchase agreements	61,274	-	-	X	X	X	120,991	-	-	X	X	X
3. Mortgages	57,328,787	-	5,470,549	X	X	X	48,076,059	-	4,715,396	X	X	X
4. Credit cards, personal loans and salary-backed loans	2,943,717	-	135,998	X	X	X	2,663,133	-	153,221	X	X	X
5. Finance leases	5,666,295	-	1,081,691	X	X	X	4,957,386	-	1,066,486	X	X	X
6. Factoring	1,901,279	-	250,553	X	X	X	2,195,893	-	270,071	X	X	X
7. Other financing	8,944,262	-	791,672	X	X	X	8,910,459	-	779,187	X	X	X
Debt instruments	**20,437**	**-**	**-**	**-**	**3,300**	**6,938**	**7,028**	**-**	**-**	**-**	**-**	**6,833**
8. Structured securities	6	-	-	X	X	X	3	-	-	X	X	X
9. Other debt instruments	20,431	-	-	X	X	X	7,025	-	-	X	X	X
Allocation of badwill *	**-**	**-**	**-546,330**	X	X	**-546,330**	-	-	-	X	X	-
Total	**85,776,344**	**-**	**8,452,239**	**-**	**33,942,087**	**61,518,628**	**73,798,672**	**-**	**8,055,608**	**-**	**28,968,668**	**54,486,150**

(*) The figures as at 30th June 2017 include the allocation of €560.8 million of badwill to the non-performing portfolio, which gave rise to a positive reversal amounting to €14.5 million in the second quarter.

Hedging derivatives: composition by type of hedge and by level (asset item 80)

Figures in thousands of euro	Fair value 30.6.2017 L 1	L 2	L 3	Notional amount	Fair value 31.12.2016 L 1	L 2	L 3	Notional amount
A) Financial derivatives	**-**	**423,051**	**2,036**	**19,772,713**	**-**	**461,767**	**-**	**15,771,457**
1) Fair value	-	423,051	-	19,746,713	-	461,697	-	15,767,762
2) Cash flow	-	-	2,036	26,000	-	70	-	3,695
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	-	**-**	**-**	**-**	-	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**423,051**	**2,036**	**19,772,713**	**-**	**461,767**	**-**	**15,771,457**

Technical reserves of reinsurers: composition (asset item 110)

Figures in thousands of euro	30.06.2017	30.6.2016
A. Non-life sector	**516**	**-**
A.1 Premium reserves	138	-
A.2 Claims reserves	378	-
A.3 Other reserves	-	-
B. Life sector	**-**	**-**
B.1 Mathematical reserves	-	-
B.2 Reserves for sums to be paid	-	-
B.3 Other reserves	-	-
C. Technical reserves where the investment risk is borne by the insurers	**-**	**-**
C.1 Reserves relating to contracts where the payouts are linked to investment funds and market indices	-	-
C.2 Reserves resulting from the management of pension funds	-	-
D. Total technical reserves of reinsurers	**516**	**-**

Property, plant and equipment

Property, plant and equipment for functional use: composition of assets measured at cost (asset item 120)

Figures in thousands of euro	30.6.2017	31.12.2016
1. Owned assets	**1,510,698**	**1,421,282**
a) land	811,554	764,341
b) buildings	582,843	549,199
c) furnishings	31,255	26,568
d) electronic equipment	52,853	46,951
e) other	32,193	34,223
2. Assets acquired through finance leases	**29,974**	**30,265**
a) land	16,546	16,546
b) buildings	13,428	13,719
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**1,540,672**	**1,451,547**

At the end of the first half of 2017 property plant and equipment used in operations totalled €1.54 billion, up €89 million net of depreciation for the period. This increase relates primarily to the inclusion of the New Banks and Companies acquired in the consolidation.

Tangible assets held for investment: composition of assets measured at cost (asset item 120)

Figures in thousands of euro	30.6.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L 1	L 2	L 3		L 1	L 2	L 3
1. Owned assets	**274,592**	**-**	**-**	**321,352**	**196,605**	**-**	**-**	**269,698**
a) land	152,758	-	-	183,075	130,914	-	-	144,767
b) buildings	121,834	-	-	138,277	65,691	-	-	124,931
2. Assets acquired through finance leases	**193**	**-**	-	**180**	**195**	**-**	**-**	**182**
a) land	33	-	-	31	33	-	-	27
b) buildings	160	-	-	149	162	-	-	155
Total	**274,785**	**-**	**-**	**321,532**	**196,800**	**-**	**-**	**269,880**

Intangible assets

Composition of the item "Goodwill" *

Figures in thousands of euro	30.6.2017	31.12.2016
UBI Banca Spa	1,195,840	315,815
Banco di Brescia Spa	-	570,392
Banca Popolare di Ancona Spa	-	166,364
UBI Pramerica SGR Spa	170,284	170,284
Banca Popolare di Bergamo Spa	-	100,045
IW Bank Spa	88,754	88,754
Banca di Valle Camonica Spa	-	43,224
UBI Factor Spa	8,260	8,260
UBI Sistemi e Servizi SCpA	2,122	2,122
Total	**1,465,260**	**1,465,260**

* As a result of the merger by incorporation of all the former network banks, the goodwill previously recognised by them was then recognised by UBI Banca Spa.

Commitments to purchase property, plant and equipment and intangible assets

Commitments to purchase property, plant and equipment

Assets/amounts	30.6.2017	31.12.2016
A. Assets for functional use		
1.1 owned	**15,350**	**6,092**
- land	-	-
- buildings	539	233
- furnishings	1,554	611
- electronic equipment	5,741	133
- other	7,516	5,115
1.2 In finance leases	**-**	**7**
- land	-	-
- buildings	-	7
- furnishings	-	-
- electronic equipment	-	-
- other	-	-
Total A	**15,350**	**6,099**
B. Assets held for investment		
2.1 owned	**-**	**-**
- land	-	-
- buildings	-	-
2.2 In finance leases	**-**	**-**
- land	-	-
- buildings	-	-
Total B	**-**	**-**
Total (A+B)	**15,350**	**6,099**

As shown in the table, the largest commitments undertaken by the Group in the first half relate to the purchase of other assets for use in operations amounting to €2.4 million (mainly relating to UBI.S) and also to buildings and furnishings amounting to €1.2 million (relating to UBI Banca). An increase of €5.6 million was also recorded for electronic equipment for use in operations, relating exclusively to UBI.S.

* * *

Commitments relating to intangible assets amounted to €26.8 million at the end of June 2017 (€20 million in December 2016) and related to the purchase of software by the Group's services company.

Non-current assets/liabilities held for sale

Non-current assets and disposal groups held for sale and the associated liabilities (asset item 150 and liability item 90)

Figures in thousands of euro	30.6.2017	31.12.2016
A. Single assets		
A.1 Financial assets	-	-
A.2 Equity investments	4,263	4,507
A.3 Property, plant and equipment	2,192	1,174
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**6,455**	**5,681**
of which measured at cost	*6,455*	*5,681*
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Groups of assets (discontinued operating units)		
B.1 Financial assets held for trading	-	-
B.2 Financial assets designated at fair value	-	-
B.3 Available-for-sale financial assets	-	-
B.4 Held-to-maturity investments	-	-
B.5 Loans and advances to banks	-	-
B.6 Loans and advances to customers	-	-
B.7 Equity investments	-	-
B.8 Property, plant and equipment	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with single assets held for sale		
C.1 Borrowings	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with assets held for sale		
D.1 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Debt securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value	-	-
D.6 Provisions	-	-
D.7 Other liabilities	-	-
Total D	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

Non-current assets held for sale, amounting to €6.5 million, increased by a total of €0.8 million and related almost exclusively to the sale of real estate properties and land relating to UBI Banca.

The item A.2 equity investments also incorporates a decrease of €0.2 million due to the currency translation effect on the price of the sale of the interest held in Zhong Ou.

LIABILITIES

Due to customers: composition by type (liability item 20)

Figures in thousands of euro	30.6.2017	31.12.2016
1. Current accounts and deposits	62,769,372	52,404,432
2. Term deposits	3,494,704	125,315
3. Financing	2,487,007	2,957,962
3.1 repurchase agreements	2,147,461	2,605,052
3.2 other	339,546	352,910
4. Amounts due for commitments to repurchase own equity instrui	-	-
5. Other payables	1,361,308	738,707
Total	**70,112,391**	**56,226,416**
Fair value - level 1	-	-
Fair value - level 2	*1,121,790*	*1,683,948*
Fair value - level 3	*68,994,602*	*54,533,948*
Total fair value	***70,116,392***	***56,217,896***

Securities issued: composition by type (liability item 30)

Figures in thousands of euro	30.6.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L 1	L 2	L 3		L 1	L 2	L 3
A. Securities								
1. Bonds	26,169,954	14,319,041	2,275,874	9,624,816	28,714,317	15,069,835	2,001,467	12,091,872
1.1 structured	4,024,157	2,259,279	1,639,268	161,715	3,549,233	1,725,747	1,642,477	177,698
1.2 other	22,145,797	12,059,762	636,606	9,463,101	25,165,084	13,344,088	358,990	11,914,174
2. Other securities	2,192,255	-	271,482	1,916,337	225,280	-	225,280	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,192,255	-	271,482	1,916,337	225,280	-	225,280	-
Total	**28,362,209**	**14,319,041**	**2,547,356**	**11,541,153**	**28,939,597**	**15,069,835**	**2,226,747**	**12,091,872**

Financial liabilities measured at fair value: composition by type (liability item 50)

Type of transaction/ Amount Figures in thousands of euro	30.6.2017					31.12.2016				
	Nominal amount	Fair value			Fair value*	Nominal amount	Fair value			Fair value*
		L 1	L 2	L 3			L 1	L 2	L 3	
1. Due to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**39,017**	-	**39,017**	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	X	-	-	-	-	X
2.2 other	39,017	-	39,017	-	X	-	-	-	-	X
3. Debt instruments	-	-	-	-		-	-	-	-	-
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**39,017**	-	**39,017**	-	-	-	-	-	-	-

* = Fair value calculated excluding changes in value resulting from a change in the credit rating of the bank since the date of issue

Hedging derivatives: composition by type of hedge and by level (liability item 60)

Figures in thousands of euro	Fair value 30.6.2017			Nominal amount	Fair value 31.12.2016			Nominal amount
	L 1	L 2	L 3		L 1	L 2	L 3	
A) Financial derivatives	**-**	**183,463**	**-**	**8,825,286**	**-**	**239,241**	**287**	**10,525,447**
1) Fair value	-	181,440	-	8,793,700	-	237,218	-	10,464,649
2) Cash flow	-	2,023	-	31,586	-	2,023	287	60,798
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	-	**-**	**-**	**-**	-	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**183,463**	**-**	**8,825,286**	**-**	**239,241**	**287**	**10,525,447**

Technical reserves: composition (liability item 130)

Figures in thousands of euro	Direct work	Indirect work	30.6.2017	31.12.2016
A. Non-life sector	**2,623**	**-**	**2,623**	**-**
A.1 Premium reserves	1,837	-	1,837	-
A.2 Claims reserves	769	-	769	-
A.3 Other reserves	17	-	17	-
B. Life sector	**1,721,020**	**-**	**1,721,020**	**-**
B.1 Mathematical reserves	1,713,550	-	1,713,550	-
B.2 Reserves for sums to be paid	6,448	-	6,448	-
B.3 Other reserves	1,022	-	1,022	-
C. Technical reserves where the investment risk is borne by the insurers	**-**	**-**	**-**	**-**
C.1 Reserves relating to contracts where the payouts are linked to investment funds and market indices	-	-	-	-
C.2 Reserves resulting from the management of pension funds	-	-	-	-
D. Total technical reserves	**1,723,643**	**-**	**1,723,643**	**-**

Provisions for risks and charges

Provisions for risks and charges: composition

Figures in thousands of euro	30.6.2017	31.12.2016
1. Company pension funds	140,033	70,361
2. Other provisions for risks and charges	607,394	386,765
2.1 litigation	117,841	78,730
2.2 costs for staff	257,940	236,153
2.3 other	231,613	71,882
Total	**747,427**	**457,126**

The overall total for provisions for risks and charges rose €290 million in the first half to stand at €747 million, of which €276 million relating to the New Banks and Companies that entered the scope of consolidation.

"Other provisions for risks and charges for staff" (line 2.2) amounted to €258 million and also included an estimate of redundancy expenses already set aside in 2016.

Provisions for risks and charges - other provisions

Figures in thousands of euro	30.6.2017	31.12.2016
1. Provision for revocation (clawback) risks	18,585	13,130
2. Provision for defaulted bonds	34,428	2,160
3. Other provisions for risks and charges	178,600	56,592
Total	**231,613**	**71,882**

Contingent liabilities

Contingent liabilities

Figures in thousands of euro	30.6.2017	31.12.2016
for staff litigation	100	100
for revocation risks	8,500	-
for tax litigation	142,469	142,506
for other litigation	463,679	263,928
Total	**614,748**	**406,534**

The increase of €208 million in contingent liabilities in the first half of 2017 related primarily to the following:

- approximately €200 million for other litigation attributable primarily to UBI Banca and relating mostly to one single counterparty;
- over €8 million relating to revocation (clawback) risks arising from a position of the former Banca Popolare di Ancona.

A detailed report on both ordinary litigation and tax litigation, for which provisions were made or for which contingent liabilities were identified, is given in the following sub-sections which may be consulted.

Litigation

Ordinary litigation

Significant litigation (claims of greater than or equal to €5 million) for which the probable risk has been estimated by Group banks and companies are as follows:

1. "revocation" bankruptcy clawback actions against UBI Banca (former Banca Popolare di Ancona), brought by Napoli Calcio Spa;
2. a "revocation" bankruptcy clawback action against UBI Banca (former Banca Popolare Commercio e Industria), brought by FDG Spa;
3. a "revocation" bankruptcy clawback action against UBI Banca (former Banca Carime) brought by Società Cooperativa Costruire Srl;
4. litigation involving a claim for damages against UBI Banca for contractual liability, resulting from withdrawal from a contract concerning software. The court rendered a judgment unfavourable to the Bank, ordering it to pay an amount less than the existing provision, on a joint and several basis with another bank named co-defendant. The position will remain open until the judgment becomes definitive;
5. a summons served on UBI Banca (former Banca Carime) seeking a refund of sums paid by way of compounding of interest, interest, fees, remuneration and costs not subject to agreement between the parties;
6. an action brought against UBI Banca (former Banca Popolare di Ancona) disputing various matters concerning loan transactions and damages for contractual and non-contractual liability;
7. arbitration proceedings initiated by a company operating in the naval sector involving a dispute over a derivatives transaction concluded with the UBI Banca (former Banco di Brescia), with a claim for the return on the one hand of the negative differentials paid by the customer and on the other hand the "implicit costs". The arbitration panel has announced that it will render a decision by 26th May 2018;
8. litigation with a party transferring receivables brought against UBI Factor relating to a request for the transfer of receivables carried out in 2006 to be ineffective or unenforceable due to the absence of advances or the non-existence of a connection between the advances made and the documents relating to the transfer of the receivables. A consequent request for the return of the amounts collected against the receivables transferred and revocation of the payments made by the transferor from April 2011. The proceedings are currently before the court of first instance.

Significant litigation (claims of greater than or equal to €5 million) for which a possible risk (or contingent liability) has been estimated by Group banks and companies are as follows:

UBI Banca

- a compensation action, now at the Supreme Court of cassation stage following a ruling in favour of the Bank at the courts of first and second instance, originating from the former Centrobanca for claimed damages brought by the official receiver of a company concerning the content of declarations made by the former Centrobanca to third parties regarding the availability of securities held on deposit at that bank;
- an action brought by a beneficiary of public contributions in relation to which UBI Banca Spa (which took the place of the former Centrobanca in arrangements the latter had entered into with authorities that subsidised loans to manage formalities connected with processing applications) was been summoned jointly and severally with those concessionary authorities in its capacity as the "concessionary bank" appointed by those same authorities. More specifically, this is a case pending before the Civil Court of Rome in which the other party has applied for the annulment of a ministerial provision revoking subsidies granted (due to persistent arrears in the repayment of the loan granted by the Ministry of Economic Development, in compliance with the clearly stated regulations governing the matter) and the consequent commencement of the enforced recovery of the subsidies amounting to €4.3 million in addition to a claim for consequent damages, quantified at €24 million caused by revocation of the presumed credit lines granted by banks to the company. The formalities for the subsidy application contested here were

processed by Banca Popolare dell'Emilia Romagna, a member of a "Temporary Grouping of Businesses" led by UBI Banca which should hold the Bank free from any resulting expense and risk;

- claims regarding securities trading made by a corporate counterparty, originating from the former Banca Popolare Commercio e Industria. The case was won by the Bank in the court of first instance in 2011 and also on appeal in 2015. In July 2015 the counterparty appealed to the Supreme Court of Cassation. A date for the hearing has not yet been set;
- a writ of summons, served on UBI Banca by a fund, a shareholder of the Bank (the claimants were originally three, but the two of these withdrew their claims) containing claims for compensation in relation to the amount of the redemption paid on shares subject to withdrawal following the transformation of UBI Banca into an ordinary joint-stock company which occurred in the context of the "reform of 'popular' co-operative banks" [pursuant to Art. 28, paragraph 2 *ter* of the Consolidated Banking Act – introduced with Decree Law No. 3/2015, converted into law with Law No. 33/2015 – which establishes that "the right in 'popular' banks (...) to the redemption of shares in the event of withdrawal, even following transformation (...) is limited according to the provisions made by the Bank of Italy, even as an exception to the provisions of the law, where that is necessary to ensure the inclusion of the shares in the Common Equity Tier 1 regulatory capital of the bank"].
  The bank considers that the position taken on the subject of the redemption of the shares of shareholders that have withdrawn is sound in view, amongst other things, of legal opinions received from advisers and it has filed a defence asking for the claims made to be rejected.
  On 15th December 2016, when hearing the appeal against the ruling by the TAR (administrative Court) which had rejected claims submitted by some consumer associations and the shareholders of some "popular" co-operative banks, the Council of State considered certain doubts over the constitutionality of the aforementioned legislation to be clearly groundless for the following reasons: (1) assumptions concerning the necessity and urgency which legitimise the issue of a decree law; (2) the possibility that the redemption paid to the withdrawing shareholders may be limited/excluded and not merely deferred in time, with payment of interest; (3) assignment to the Bank of Italy of regulatory powers even as an exception to the law. UBI Banca appeared in the two trials before the Council of State so that it could also appear before the Constitutional Court, which it then did in April 2017.
  It is not known when a ruling will be issued by the Constitutional Court. However, a ruling was made on 21st December 2016 by the Constitutional Court (issued with regard to a different action brought by the Region of Lombardy) which rejected, amongst other things, the first reason. Work is currently in progress to examine if there will be any impact on the operating and financial position of UBI Banca resulting from the rulings of the Council of State and the Constitutional Court and what they might be, with account also taken of the applicable EU regulatory framework. More specifically it is not possible to establish if there could be any payout by UBI Banca or what the amount might be, nor what negative impacts there might be on the operating and financial position of UBI Banca, both because we must wait for a ruling to be issued by the Constitutional Court and know the relative grounds and also because the legal question concerning the impacts on UBI Banca of a possible ruling which declares the unconstitutionality of the legislation in question is complex and there are no precedents. In this context possible legislative intervention which might be adopted in this respect will also have to be considered;
- a provision of 21st January 2016 with which the *Autorità Garante della Concorrenza e del Mercato* (AGCM – Antitrust Authority) launched an investigation into the Italian Banking Association concerning the possibility that the interbank agreement involving the service named "Sepa-compliant Electronic Database Alignment" (SEDA)[1] service, as set forth by the Italian Banking Association itself in 2013, might constitute a resolution for an association of companies that restricts competition. More specifically, although the documentation on the SEDA service had been submitted previously by the Italian Banking Association (ABI) to the AGCM, the AGCM focused on the remuneration model set out by the ABI which involves the payment, in place of the application of the Multilateral Interchange Fees ("MIF" used before the introduction of SEDA), by the creditor to the debtor's bank, of commissions negotiated between the two parties, within the limits of the maximum amounts published. On 13th April 2016 the AGCM broadened the investigation to include 11 banks, including UBI Banca. While these proceedings were going on, a "discussion table" was set up between the parties involved and the AGCM, designed to draw up a different remuneration system for SEDA. On 26th January 2017 the AGCM served a "communication of investigation results" on UBI Banca, according to which, amongst other things, the alleged agreement

[1] The SEDA (SEPA-compliant Electronic Database Alignment) is an optional service provided to customers to fill gaps in the new SEPA DD direct debit schemes, introduced in the SEPA area since February 2014, with respect to the previous RID direct debit domestic service.

also involves the SEPA DD service. By decision of 15th May 2017, AGCM – despite finding that the parties involved had reached an agreement restricting competition and that they therefore must desist from the behaviour in question, file a report in which they outline the measures adopted to remedy the infraction by 1st January 2018 and refrain from engaging in similar behaviour in the future – decided that no penalties were to be imposed on the parties, on the ground that the infraction was not serious. UBI Banca has appealed this decision before the administrative courts;

- a summons, originating from the former Banco di Brescia, served on 30th June 2014 by the receivership of a corporate counterparty which went bankrupt in 2010, with which a claim for damages against banks (including the former Banco di Brescia) is proposed for alleged improper credit support which it is claimed delayed the winding up of the company with consequent damages to creditor claims and the assets of the company. The bank has undertaken its defence and filed this with the court opposing the request because it is without grounds both in terms of its legitimacy and merit. Testimony has been ordered from a court-appointed technical expert. The process is still ongoing, following the extension granted by the judge of the time limit for the filing of this testimony, which had initially been set for last May, and the next hearing has been scheduled for November 2017;
- a summons served (originally against the former Banco di Brescia) by a company with a bankruptcy case which began in 1999 and is still in progress, which in the person of the receiver has requested the return of amounts drawn/used in the period September 1997-June 1998 by the sole director who ceased to be a director in September 1997 without the Bank being informed. In December 2012 the Judge accepted the objections raised by the bank and dismissed the case. The counterparty resumed the case within the relative time limits. In a hearing held on 26th April 2017 the case was held over for a ruling allowing the legal time limits for final written statements to be filed with the replies[2];
- claim for damages against UBI Banca, originating from the former Banca Popolare di Ancona, relating to alleged irregularities in the credit granting process;
- claim for damages against UBI Banca, originating from the former Banca Popolare di Ancona, relating to alleged irregularities in the credit granting process. The company's official receiver has lodged an appeal against the judgment of the first instance, which was favourable to the Bank;
- action brought against UBI Banca (former Banca Popolare di Ancona) by the official receiver of a shipping company claiming damages allegedly caused by a director of the company, in complicity with the former Banca Popolare di Ancona (and with all of the other banks that operated on the market, against which similar actions have been brought). The case revolves around the issuance of credit instruments that appeared to be bonds issued by the shipping company but that in reality did not have any legal relationship with that company;
- an action brought by beneficiaries of public contributions in relation to which UBI Banca (which took the place of Centrobanca Spa), in its capacity as the "concessionary bank" was summoned jointly and severally before the Civil Court of Rome (after similar proceedings initiated before the Latium TAR [administrative tribunal] – were terminated due to lack of jurisdiction) together with the "concessionary authorities" concerned, for which it is the agent, for a concessionary position under Law No. 46/1992 processed by a third party bank belonging to its "RTI" (temporary grouping of companies).

UBI Leasing

- litigation relating to ownership of finance leased assets.

UBI Factor

- Legal proceedings with a local health authority relating to receivables collected following an injunction of 2001 (this injunction is temporarily executive). As a result of a ruling of 25th November 2015 by the Supreme Court of Cassation the risk of possible losses was limited to the greater interest received compared with the amount calculated by applying the legal interest rate. The decision on the amount of the interest is still pending with the Supreme Court of Cassation. If the appeal before the Supreme Court of Cassation yields an unfavourable outcome, the amount not paid may be recovered from the seller.

* * *

[2] On the basis of the opinion received from external legal counsel, in the interim financial report as at and for the period ended 31st March 2017 the assessment of the likelihood of an unfavourable outcome was changed to *remote risk*.

With respect to the information contained in the notes to the financial statements in the 2016 Consolidated Annual Report, we report:

- no significant litigation was concluded during the reporting period;
- the following cases, which at the end of 2016 had been estimated to present a possible risk, were reclassified to the *remote risk* category:
  - a claim for damages brought against UBI Leasing for claimed failure to meet obligations under finance lease contracts relating to a property under construction. The assessment of the likelihood of losing the case was changed on the basis of testimony submitted by the court-appointed expert during the course of the hearings which found no failure to meet obligations on the part of UBI Leasing itself which in reality was a substantial creditor of the client;
  - claim for damages, originating from the former Banca Popolare di Bergamo, against presumed failure to comply with contractual obligations undertaken in relation to credit transactions. The assessment of the likelihood of losing the case was changed on the basis of an opinion received from an external legal advisor.
- in the case of the action brought against UBI Banca, deriving from the former Banca Popolare di Bergamo, concerning a claim by the adverse party's heirs that the Bank bears pre-contractual and contractual liability for investment transactions undertaken by the adverse party, the amount of the claim was reduced below the materiality threshold on the basis of a judgment of the first instance favourable to the Bank.

* * *

In the interest of completeness of information, we report the following litigation, initiated and concluded in the first half of 2017 (as already disclosed in the interim financial report as at and for the period ended 31st March 2017): the claim brought against UBI Banca (which succeeded Banca Popolare di Ancona) within the framework of opposition to an injunction. Following the negotiations immediately launched with the adverse party, a settlement involving the discontinuance of opposition was reached.

* * *

Finally, turning to the acquisition of the New Banks (Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti) and their subsidiaries, it is specified that these banks were parties to various disputes and proceedings of a legal nature deriving from the ordinary course of their business. On the basis of these disputes and proceedings, appropriate provisions have been made in the condensed interim consolidated financial statements according to a reconstruction of the amounts potentially at risk, an assessment of the risk in terms of the degree of "probability" and/or "possibility" (as defined in the accounting standard IAS 37) and the foremost case law on the subject. Therefore, while it is not possible to predict final outcomes with certainty, it is considered that an unfavourable conclusion of these proceedings, both taken singly or as a whole, would not have a significant effect on the financial and operating position of the UBI Banca Group.
It should also be recalled that the contract governing the acquisition of the New Banks includes certain representations, warranties and obligations to indemnify on the part of the seller (the Italian National Resolution Fund) for the benefit of UBI Banca[3], in respect of, among other matters, relations with REV Gestioni Crediti S.p.A. and the Atlante II Fund (as the transferors of the banks' loans classified as bad loans and unlikely to pay loans[4]), risks of a legal nature or relating generally to ongoing or threatened litigation, violations of the law and any contingent liabilities.

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[3] The warranties and indemnities also refer to the period prior to the date of incorporation of the "bridge entities" (23rd November 2015) and therefore also cover any liabilities originating from the activities of the banks (the "old banks") before they became subject to the resolution procedure.

[4] The loans were sold "without recourse" and the buyer therefore assumes all risks and benefits associated with the loans sold (IAS 39 – *Derecognition*).

Anti-money laundering notifications

In the first half of 2017 the UBI Banca Group was served with "Written notifications of findings" for failure to report suspect transactions in accordance with "Anti-Money Laundering" law.

In developments relating to the disputed cases, it is reported that in January the UBI Bank Group received[5] notification from the Ministry of the Economy and Finance (MEF) concerning a violation of Art. 51, paragraph 1, of Legislative Decree No. 231/2007, due to disclosure beyond the legal time limits to the competent Local State Accounting Office of a financial transaction undertaken in violation of Art. 49, paragraph 5, of the above Decree. The maximum penalty is €3 thousand: the appropriate defensive briefs were filed in a timely manner.

On 12th June 2017 a branch manager of the former Banca Popolare di Ancona, on a joint and several basis with the Bank, was served notice of a procedure for an administrative fine of €36 thousand due to alleged failure to file a report with the Guardia di Finanza (Finance Police) in 2015. For this position, which concerns total transactions of €360 thousand and entails a potential minimum penalty of €4 thousand and a maximum penalty of €144 thousand, the Bank decided to appeal the decision within the limits (30 days of service) and is awaiting the outcome to make payment.

The following is an account of developments concerning the positions listed below during the reporting period:

- a fine of €57 thousand levied in 2016 (on a notification dating back to 2011), served on a branch manager of the former Banco di Brescia, for total transactions of €566 thousand. The hearing for the argument and decision of the suit of the first instance has been set for 23rd February 2018. To date, no fine has been paid;
- a fine of €131 thousand levied in 2016 (on a notification dating back to 2011), served on a former branch manager of the former Banca Popolare Commercio e Industria, for total transactions of €1.3 million. Argument of the case has been continued until 2018. The judge has yet to render a decision on the appeal of the first instance and is expected to rule on the motion for a stay;
- a fine of €122 thousand levied in 2015 (on a notification dating back to 2010), served on a former branch manager of the former Banca Popolare di Ancona, for total transactions of €2.4 million, in respect of which in September 2016 the Court of Rome quashed the court order and injunction against the former BPA, while fully upholding the order rendered against the employee. The Ministry of the Economy and Finance (MEF) has appeared in the appeal proceedings, but has not lodged a cross-appeal against the decision of the first instance that overturned the judgment against the Bank. The hearing for decision of the suit has been set for 16th March 2021 and the application for a prohibition order has been denied;
- a fine of €47 thousand levied in 2015 (on a notification dating back to 2010), served on a former branch manager of the former Banca Popolare di Ancona, for total transactions of €973 thousand, for which a hearing was initially set for March 2017 and then continued until 13th September, for the argument of the application for a prohibition order. To date, no fine has been paid;
- a fine of €35 thousand levied in 2014 (on a notification dating back to 2010), served on a former branch manager of the former Banca Popolare di Ancona, for total transactions of €358 thousand, for which a hearing was initially set for February 2017 and then continued until 13th September, for the argument of the application for a prohibition order. To date, no fine has been paid;
- a fine of €25 thousand levied in 2014 (on a notification dating back to 2010), served on a branch manager of the former Banco di Ancona, for total transactions of €576 thousand. The application for a prohibition order was denied by the court of appeal and the trial was continued until 27th March 2020 for the specification of pleadings. To date, no fine has been paid;
- a fine of €100 thousand levied in 2014 (on a notification dating back to 2010), served on a former branch manager of the former Banca Popolare di Ancona, for total transactions of €1 million, in respect of which an unfavourable decision of the first instance was rendered in October 2016. The Bank had until April 2017 to lodge an appeal. The application for a prohibition order relating to the appeal was found to be inadmissible, since, in the court's view, the adverse effect was due to the order, for which a stay was not granted at first instance, and not to the appealed judgment. The first hearing on the merits has been set for 16th January 2018. To date, no fine has been paid.

[5] Addressed to the Head of UBI Investigations, on a joint and several basis with the Head of UBI Anti-Money Laundering&Claims and the Bank.

No new charges of failure to report suspicious transactions or significant infractions and/or violations of applicable legislation were received in respect of the New Banks acquired.

In the case of (i) Nuova Banca delle Marche, in May 2017 it was decided to pay the anti-money laundering fine (approximately €254 thousand, compared to existing provisions of €500 thousand) imposed on the Bank as jointly and severally liable with an employee (notification of findings served in 2012). It has been decided to waive an appeal (while reserving the right to reconsider if the law firm handling the case issues an opinion to the contrary) and recovery from the employee subject to the fine, whom the Internal Audit Function found to have essentially no involvement in the matters concerned. In the case of (ii) Nuova Banca dell'Etruria e del Lazio, on 27th April 2017 a fine of €797 thousand was levied against a branch manager, on a joint and several basis with the Bank, for total transactions of approximately €8 million. The Bank has appealed the fine and entered a motion for a stay. The first hearing has been set for 8th November 2017.

Turning to notifications that are still unresolved, but came to light before the banks became a part of the UBI Banca Group:

- Nuova Banca delle Marche received seven notifications of failure to report suspicious transactions (including the position discussed above);
- Nuova Banca dell'Etruria received seven notifications of failure to report suspicious transactions;
- Nuova Cassa di Risparmio di Chieti did not receive any notifications of failure to report suspicious transactions.

Tax litigation

Below we provide a summary of developments relating to the Group's main cases of tax litigation, following the disclosures previously provided in the notes to UBI Banca's consolidated financial statements as at and for the year ended 31st December 2016.

Tax inspections and other investigative activities

On 4th October 2016 the *Guardia di Finanza* (finance police) commenced a tax inspection into the former Banco di Brescia relating to the tax year 2012 in general and to the tax year 2016 for withholding taxes only.
The inspection concluded on 17th March 2017 without any findings.

On 29th May 2017 the Central Assessment Department of the tax authorities began a general tax inspection of UBI Banca concerning the year 2014. The inspection is still in progress.

Assessment notices

PREFERENCE SHARES – UBI BANCA AND THE FORMER BANCO DI BRESCIA – AND REGISTRATION DUTIES FOR BRANCH TRANSFER TRANSACTIONS – UBI BANCA AND THE FORMER NETWORK BANKS (BANCA POPOLARE DI BERGAMO, BANCO DI BRESCIA, BANCA POPOLARE COMMERCIO E INDUSTRIA AND BANCA REGIONALE EUROPEA)

The "branch switch" litigation has essentially been concluded, on the grounds that there was no case to answer in all proceedings. The Regional Tax Commission of Lombardy has yet to file the judgment of no case to answer in the suit involving the UBI Banca affair (on its own behalf and on behalf of the merged Banca Popolare Commercio Industria), which was duly rendered on 10th July 2017.

Activity is continuing to recover the taxes and fines paid on a provisional basis during proceedings but found not to be due on the basis of conciliation agreements entered into on the basis of the settlement agreement of 4th February 2016, which also extended to the preference shares litigation, which at a procedural level had already been concluded (the final judgment, concerning the appeal relating to position for the year 2004 of the former Banco di Bresca, was filed on 31st January 2017).

VALUE ADDED TAX – LOAN COLLECTION AND MANAGEMENT COMMISSIONS: THE FORMER NETWORK BANKS AND UBI FINANCE

This litigation has been substantially concluded, considering that all the competent tax commissions have declared that there is no case to answer, following the annulment under applications for internal review of the tax assessment notices as a consequence of the tax authorities' Resolution No. 106 of 17th November 2016 which clarifies that, with regard to the operations regulated by Law No. 130 of 30th April 1999, the servicing activities carried out by the party that granted the loan constitutes the provision of services exempt from VAT because they are classified as "loan management services provided by those granting the loan". In one sole case did the tax authorities not annul a ruling in favour of UBI Banca (the former Banca Regionale Europea), which has now become a "final judgement" with no need for further actions.

Activities are continuing to recover taxes paid provisionally during the course of the proceedings and not due in view of annulment under internal review procedures.

Finally, by judgment filed on 8th May 2017, the Tax Commission of the Province of Milan ruled that there was no case to answer following the annulment under internal review procedures of the decisions to impose penalties relating to the years 2009 and 2010 levied against UBI Finance Srl, the counterparty to the securitisation arrangements entering to by the banks involved in the litigation.

UBI Banca: 2003 IRPEG (former corporate income tax)

In November 2011 UBI Banca (the former BPU Banca) was served with a notice of assessment in relation to its tax treatment for IRPEG (former corporate income tax) purposes of the contribution of a bank made on 1st July 2003 to the then newly formed Banca Popolare di Bergamo and Banca Popolare Commercio e Industria. In particular, the full deduction by the transferor BPU Banca of the taxed provisions for risks and charges set aside in previous years was disputed.

In 2015, the Province of Milan Tax Commission accepted the Bank's appeal, acknowledging that the notice of assessment had been notified after the ordinary term had expired and in the absence of the necessary conditions for full assessment. As a result of that ruling the tax authorities issued a provision agreeing to withdraw the payment demand for €8.3 million notified in 2014 to UBI Banca, which had already been suspended by the Tax Commission.

The tax authorities lodged an appeal on 19th October 2015 to the Regional Tax Commission of Lombardy against which UBI Banca promptly filed its defence.

With a ruling filed on 1st March 2017 the Regional Tax Commission of Lombardy rejected the tax authorities appeal and ordered it to reimburse UBI Banca for the costs of the appeal. On 8th May 2017 the tax authorities lodged an appeal with the Supreme Court of Cassation and UBI Banca appeared in the proceedings within the legal limit. A hearing has yet to be scheduled.

UBI Banca former Banca Popolare Commercio e Industria –2014 refuse tax

On 6th July 2016 the City of Milan notified the former Banca Popolare Commercio e Industria of a demand for the payment of refuse tax for the year 2014 totalling €234 thousand. On the basis of an assessment carried out, the tax demand was inaccurate by approximately €114 thousand. As a consequence, the merged Banca Popolare Commercio e Industria lodged a partial appeal on 16th September 2016 with the Provincial Tax Commission of Milan.

The hearing of the appeal was continued until 25th September 2017 on a motion from the City of Milan for the formulation of a settlement proposal by the city.

UBI Banca former Banca di valle camonica: irpeg-ilor (former corporate income tax and former local income tax) 1977 and 1980

The Office for Direct Taxes of Breno issued notices of assessment for payment of greater IRPEG and ILOR (tax years 1977 and 1980) by the former Banca di Valle Camonica, which duly appealed against them. The merged bank lost the case in the court of first instance. On appeal, the Tax Commission of second instance of Brescia partly confirmed the arguments made by the tax authorities, declaring the assessment of greater taxable income for IRPEG and ILOR to be correct and disputing the full deductibility of certain costs because they did not relate entirely to fully taxable revenues. As a result of those rulings, greater taxation totalling €51 thousand became due, in addition to fines and interest.

Both the tax authorities and the former Banca di Valle Camonica lodged appeals with the Central Tax Commission of Rome against the rulings of the court of second instance. With rulings issued on 14th and 15th July 2010 the latter confirmed the partially unfavourable rulings of the court of second instance.

On 29th July 2011 the merged company lodged an appeal of the judgment of the Central Tax Commission before the Supreme Court of Cassation. The hearing for the two appeals was held on the 19th April 2017. The Judges have yet to announce their ruling.

UBI Banca (former Banca Popolare di Ancona): 2016 registry tax

The Pesaro office of the tax authorities served the following payment demands on UBI Banca:

- on 9th March 2017, for registry tax allegedly due on a debt restructuring agreement of a client firm, calculating the greater tax due to be €34 thousand;
- on 4th April 2017, for registry tax allegedly due on a debt restructuring agreement of another client firm, calculating the greater tax due to be €90 thousand.

In both cases, the tax authorities applied registry tax at a rate of 1% on the acknowledgement of the debt as undertaken in the restructuring agreements governed by Art. 182-*bis* of the Bankruptcy Law.
UBI Banca appealed the two payment demands before the Tax Commission of the Province of Pesaro within the legal limits. The date of the pertinent hearings has yet to be scheduled.

UBI LEASING: 2010 VAT

On 10th December 2015, UBI Leasing received a tax assessment report which concluded a tax inspection concerning the tax year 2010 conducted by the finance police of Brescia tax unit. More specifically, the latter alleged illegitimate deduction of VAT and consequent filing of an unfaithful annual VAT return for an undue deduction of VAT, in relation to a transaction objectively presumed to be non-existent (purchase of various industrial equipment subject to a finance lease contract).
On 20th December 2016, the tax authorities, who considered irregularities contained in the tax assessment report to be well-grounded, served a notice of assessment demanding payment of increased VAT amounting to €396 thousand plus interest and an administrative fine of €495 thousand.
In May 2017 UBI Leasing concluded the matter by entering into a deed of assessment with consent and paid the additional VAT demanded (€396 thousand) and a fine of one-sixth of the minimum amount (€82 thousand), plus interest. The matter has therefore been concluded.

NUOVA BANCA DELLE MARCHE: 2003 VAT

On 23rd December 2008, the Provincial Department for Ancona served Banca delle Marche with a notice of assessment demanding payment of increased VAT amounting to €210 thousand plus interest and an administrative fine of €263 thousand. The finding was based on the reclassification of a boat lease with an initial "maxi-instalment" as a purchase of the asset.
In February 2009 the former Banca delle Marche lodged an appeal against the Tax Commission of the Province of Ancona, which was initially granted. In May 2012 the tax authorities appealed the judgment before the Regional Tax Commission of the Marches: the Bank then appeared in the proceedings and submitted its defence. A hearing has yet to be scheduled.

NUOVA BANCA DELLE MARCHE (FORMER MEDIOLEASING): 2005 VAT

On 2nd December 2010, the Provincial Department for Ancona of the tax authorities served the former Medioleasing with a notice of assessment demanding payment of increased VAT amounting to €740 thousand plus interest and an administrative fine of €925 thousand. The finding was based on the reclassification of boat lease contracts (characterised by an initial "maxi-instalment") as sales of the assets concerned and a property sale-and-lease-back transactions.
The outcomes of the first and second instances were unfavourable to the former Medioleasing: in November 2013 it lodged an appeal before the Supreme Court of Cassation. In the meantime, the company has paid a total of €1,677 thousand of taxes, penalties and interest on the basis of the original demand for payment. A hearing has yet to be scheduled.

NUOVA BANCA DELLE MARCHE (FORMER MEDIOLEASING): SUBSTITUTE TAX ON MEDIUM-TO-LONG TERM LOANS PURSUANT TO PRESIDENTIAL DECREE NO. 601/1973, FOR THE YEAR 2008

On 21st December 2012, the Provincial Department for Ancona of the tax authorities served both the former Medioleasing and the former Banca delle Marche (on a joint and several basis) with a demand for payment containing a request for substitute tax pursuant to Presidential Decree No. 601/1973 of approximately €1 million, in addition to a penalty of €1.2 million and interest, in respect of a contract governing a loan from the Bank to the leasing company of €400 million entered into on 27th December 2007 in the Republic of San Marino.
Both the Bank and the company have lodged appeals before the Tax Commission of the Province of Ancona, which have been denied in full. In the interim, the former Medioleasing has paid a total of €2,599 thousand of taxes, penalties and interest in respect of the original demand for payment. Both companies have appealed the judgments before the Regional Tax Commission of the Marches within the legal limit, and the tax authorities have duly entered their appearance within the legal limits. A hearing has yet to be scheduled.

NUOVA BANCA DELLE MARCHE (FORMER MEDIOLEASING): MORTGAGE AND LAND REGISTRY TAXES FOR 2010

On 28th May 2015 Provincial Department I for Rome of the tax authorities served the former Medioleasing with an adjustment and settlement notification for mortgage and land registry taxes relating to the purchase of a property that was then granted on finance lease. The adjustment and settlement notification was also served on the seller of the property, as jointly and severally liable with the company; at the time of the sale, the seller had also issued a full declaration of indemnity for the benefit of the company. The mortgage and land registry taxes demanded by the tax authorities amounted to €132 thousand, plus penalties of the same amount and interest.
The former Medioleasing has appealed the demand for payment before the Tax Commission of the Province of Rome within the legal limits. The hearing, originally set for 5th May 2017, has been continued until a new date to be determined.

Nuova Banca dell'Etruria e del Lazio: 2008 registry tax

On 21st October 2010, the Provincial Department for Milan of the tax authorities served the former Banca Popolare dell'Etruria e del Lazio with three adjustment and settlement notifications demanding total greater registry tax of €110 thousand (plus interest) on the sale of bank branches to UniCredit, based on a revision of the way in which the goodwill on the sale was calculated.
The Bank lodged timely appeals against all three notices before the Tax Commission of the Province of Milan, which partially upheld the Bank's arguments, reducing the tax authorities' claim to approximately €55 thousand (plus interest).
The Bank lodged an appeal against these judgments before the Regional Tax Commission for Lombardy, which rendered an unfavourable decision. In March 2013 the Bank lodged an appeal of the three decisions before the Supreme Court of Cassation, but the date of the hearing has yet to be set.

Nuova Banca dell'Etruria e del Lazio and Oro Italia Trading: 2014 VAT

On 28th December 2015, Nuova Banca dell'Etruria e del Lazio and Oro Italia Trading, in the framework of the Group's VAT return, filed an application with the Regional Department for Tuscany of the tax authorities for a VAT refund for 2014, which according to a conservative approach was not deducted in the light of several possible claims relating to purported "carousel fraud" of approximately €3.2 million. The tax authorities denied the right to a refund and in April 2016 the two companies lodged an appeal before the Tax Commission of the Province of Florence. The hearing, originally set for May 2017, was continued until a new date to be determined.

Nuova Banca dell'Etruria e del Lazio (former Etruria Leasing): 2010 mortgage and land registry duties

On 23rd April 2012, the Provincial Department I for Rome of the tax authorities served the former Etruria Leasing with an adjustment and settlement notification for the market value of a property purchased in 2010 by the leasing company, assessing greater mortgage tax of €181 thousand and greater land registry tax of €60 thousand, plus interest and penalties.
Given the unfavourable outcome of the application for tax assessment by consent filed by the seller of the property (the jointly and severally liable co-obligor), in November 2012 the former Etruria Leasing lodged an appeal before the Tax Commission of the Province of Rome, which was granted in full.
The tax authorities appealed the judgment before the Regional Tax Commission of Lazio in February 2016 and Nuova Banca Popolare dell'Etruria e del Lazio has entered an appearance within the legal limits. A hearing has yet to be scheduled.

Segment Reporting

As at 30th June 2017 the Single Bank Project had been completed and defined in full detail in the sense that the organisational units and operating responsibilities underlying the Business Plan had been identified.

Furthermore, on 1st April 2017 the scope of consolidation was changed following the purchase of the New Banks.

In consideration of the fact (i) that the reorganisation relating to the Single Bank Project mainly affected the banking operating segment which incorporated within it the Corporate and Investment Banking perimeter (CIB) and the remaining portfolio of medium-term loans granted through indirect networks no longer operational (i.e. B@nca 24-7) and (ii) that the acquisitions made in the first half mainly regarded two banking groups and a commercial bank, then for the purposes of the condensed consolidated interim financial statements, the UBI Banca Group has not modified its operating segments pursuant to IFRS 8, which are as follows: banking, non-banking financial (consisting of the product companies of the Group); corporate centre. The exception to this is the introduction of the insurance operating segments which comprises BancAssurance Popolari, BancAssurance Popolari Danni and the interests held in the Bancassurance companies, Aviva Vita and Lombarda Vita, the latter two being consolidated with the equity method and included, until 31st December 2016, in the corporate centre segment.

The banking segment comprises the banking line of business attributable as at 30th June 2017 to UBI Banca relating to the former Banca Regionale Europea, the former Banca Popolare Commercio e Industria, the former Banca Popolare di Bergamo, the former Banco di Brescia, the former Banca Popolare di Ancona, the former Banca di Valle Camonica, the former Banca Carime, the CIB perimeter and the former B@nca 24-7 as well as IW Bank and UBI Banca International and, from 1st April 2017, the following New Banks acquired: Nuova Banca dell'Etruria e del Lazio, Nuova Banca delle Marche, Nuova Cassa di Risparmio di Chieti, Banca Federico del Vecchio and Cassa di Risparmio di Loreto.

The non-banking financial segment mainly comprises UBI Leasing, UBI Factor, UBI Pramerica SGR and Prestitalia Spa.

The corporate centre segment comprises UBI Banca (net of its banking business, as specified above, UBI Sistemi e Servizi, BPB Immobiliare, Kedomus and UBI Academy and, again from 1st April 2017, also the following companies: Oro Italia Trading, Etruria Informatica, Focus Impresa and Assieme.

The corporate centre also includes all the consolidation entries except for those relating to the purchase price allocation and to goodwill, which have been allocated to the individual segments to which they belong, and also those relating to the provisional allocation of badwill – regarding the acquisition of the New Banks – also allocated to the relative sectors to which it belongs.

The algebraic sum of the four segments identified in this manner represents the income statement and balance sheet of the UBI Banca Group as at and for the year ended 30th June 2017.

Distribution by business segment: income statement for the period ended 30th June 2017

Figures in thousands of euro

item/operating segment	**Banking** (Aggregate + Badwill Allocation and PPA)	**Non-banking financial** (Aggregate + PPA)	**Insurance** (Aggregate)	**Corporate Centre** (UBI Banca, UBI.S, Property Companies, UBI Academy, Oro Italia Trading, Etruria Informatica, Focus Gestione and Assieme + all the intercompany and consolidation entries)	**TOTAL**
Net interest income	590,372	88,815	8,262	66,015	753,464
Net fee and commission income	701,693	66,992	68	(7,191)	761,562
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	-	(51)	7,989	148,808	156,746
Dividends	4,128	43	430	5,872	10,473
Gross income	**1,296,193**	**155,799**	**16,749**	**213,504**	**1,682,245**
Net impairment losses on loans and financial assets *	(260,753)	(27,174)	-	(93,506)	(381,433)
Net financial income	**1,035,440**	**128,625**	**16,749**	**119,998**	**1,300,812**
Net income from insurance operations	-	-	(12,695)	2,450	(10,245)
Net income from banking and insurance operations	**1,035,440**	**128,625**	**4,054**	**122,448**	**1,290,567**
Administrative expenses	(939,554)	(63,131)	(2,149)	(221,950)	(1,226,784)
Net provisions for risks and charges	(1,610)	(3,742)	-	-	(5,352)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(30,424)	(1,613)	(155)	(40,771)	(72,963)
Other net operating income/expense	148,350	7,568	94	13,719	169,731
Operating expenses	**(823,238)**	**(60,918)**	**(2,210)**	**(249,002)**	**(1,135,368)**
Profits of equity investments	961	-	7,774	1,819	10,554
Negative consolidation difference	612,900	-	-	-	612,900
Profits on disposal of investments	281	-	-	375	656
Pre-tax profit (loss) from continuing operations	**826,344**	**67,707**	**9,618**	**(124,360)**	**779,309**
Taxes on income for the period from continuing operations	(56,775)	(19,611)	(206)	5,595	(70,997)
(profit) loss for the period attributable to non-controlling interests	(261)	(12,176)	(229)	399	(12,267)
Profit (loss) for the period	**769,308**	**35,920**	**9,183**	**(118,366)**	**696,045**

(*) The amount for the "Corporate Centre" segment relates primarily to the impairment loss on the Atlante Fund.

Distribution by operating segment: balance sheet as at 30th June 2017

Figures in thousands of euro

item/operating segment	**Banking** (Aggregate and entries)	**Non-banking financial** (Aggregate and entries)	**Insurance** (Aggregate and entries)	**Corporate Centre** (UBI Banca, UBI.S, Property Companies, UBI Academy, Oro Italia Trading, Etruria Informatica, Focus Gestione and Assieme + all the intercompany and consolidation entries)	**TOTAL**
Loans and advances to banks	-	-	65,559	1,531,230	1,596,789
Due to banks	-	9,334,176	-	-	9,334,176
Net financial assets	-	26,600	1,757,992	15,687,605	17,472,197
Loans and advances to customers	84,403,281	9,824,991	311	-	94,228,583
Due to customers	68,358,755	181,636	-	1,572,000	70,112,391
Debt securities issued	23,947,849	110,074	10,339	4,293,947	28,362,209
Technical reserves	-	-	1,723,643	-	1,723,643
Equity-accounted investees	20	35	220,127	25,576	245,758
Non-controlling interests	25,240	43,338	9,093	-10,111	67,560

The items "loans and advances to banks" and "due to banks" have been stated in the four segments on the basis of the prevailing balance and show an overall net interbank balance of -€7,737,387 thousand.

The items "loans and advances to banks" and "due to banks" for the banking segment have been included, together with the relative consolidation entries, in the corporate centre segment.

The item "non-controlling interests" in the "banking", "non-banking financial" and "insurance" segments relates only to the portion of equity and of the profit for the period of the companies not wholly owned. It does not include non-controlling interests in equity investments and consolidation entries attributable to non-controlling interests, included within the corporate centre segment.

Finally, absolute amounts are reported for liability items.

Transactions with related parties pursuant to IAS 24

In compliance with IAS 24, information is provided below on balance sheet and income statement transactions between related parties of UBI Banca and Group member companies, as well as those items as a percentage of the total for each item in the consolidated financial statements.

According to IAS 24, a related party is a person or entity that is related to the entity that is preparing its financial statements (the "reporting entity").

(a) A person or close family member of that person is related to the reporting entity if that person:
- (i) has control or joint control over the reporting entity:
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:
- (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

In compliance with the regulations in force, we report that all transactions carried out by Group member companies with related parties were conducted in observance of correct principles both in substance and form, under conditions analogous to those applied for transactions with independent parties.

More specifically, the Parent and its subsidiary UBI Sistemi e Servizi ScpA provide Group member companies with a series of services, governed by intragroup contracts drawn up in accordance with the principles of consistency, transparency and uniformity in line with the organisational model of the Group. Under this model, strategic, and management activities are centralised at UBI Banca and technical and operational activities in UBI Sistemi e Servizi SCpA.
The prices agreed for the services provided under the contracts, subject to revision in the first half, were determined on the basis of market prices or, where appropriate reference parameters could not be found in the marketplace, in accordance with the particular nature of the services provided and also in relation to the service contracts signed by UBI.S with its consortium shareholders, on the basis of the costs incurred for the services provided.
The main intragroup contracts existing at the end of the first half included those to implement the policy to centralise activities in the governance and business areas of the Parent, which involved the Parent and all the banks and companies in the Group, and also contracts to implement the "national tax consolidation" (in accordance with articles 117 to 129 of Presidential Decree No. 917/1986, the consolidated law on income tax) concluded by the Parent. There were also all the intercompany contracts which implement the centralisation in UBI Sistemi e Servizi of support activities for the principal companies in the Group.

We report with regard to transactions between companies in the Group and all of its related parties, that no atypical and/or unusual transactions were performed; furthermore, no transactions of that type were even performed with counterparties that were not related parties.
Atypical and/or unusual transactions, in compliance with Consob Communications No. 98015375 of 27th February 1998 and No. 1025564 of 6th April 2001, are intended to mean all those transactions which, because of their significance/importance, the nature of the counterparties, the content of the transaction (even in relation to ordinary operations), the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the correctness/completeness of the information in the accounts, a conflict of interests, the security of the company's assets and the rights of non-controlling shareholders.

The information pursuant to article 5, paragraph 8 of Consob Resolution 17221/2010 on transactions of "greater importance" concluded with related parties in the first half of 2017, is reported in the consolidated Interim Management Report on Operations, which may be consulted.

Principal transactions with related parties in the balance sheet

Figures in thousands of euro	Financial assets held for trading	Available-for-sale financial assets	Financial assets designated at fair value	Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued	Financial liabilities held for trading	Guarantees granted
Associates	-	22,593	-	-	90,734	-	181,551	-	-	-
Senior managers (1)	-	-	-	-	3,215	-	8,424	805	-	-
Other related parties	-	-	-	-	76,259	-	181,412	4,540	-	93,585
Total	**-**	**22,593**	**-**	**-**	**170,208**	**-**	**371,387**	**5,345**	**-**	**93,585**

(1) A "Senior manager" is defined as "a manager with strategic responsibilities of the entity or of its parent, where a manager with strategic responsibility is intended to mean those who have power and responsibility for the planning, management and control of the activities of the entity including its directors";

Percentage of related-party transactions in the consolidated balance sheet

Figures in thousands of euro	Financial assets held for trading	Available-for-sale financial assets	Financial assets designated at fair value	Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued	Financial liabilities held for trading	Guarantees granted
With related-parties (a)	-	22,593	-	-	170,208	-	371,387	5,345	-	93,585
Total (b)	671,482	11,128,949	161,374	8,793,116	94,228,583	16,530,503	70,112,391	28,362,209	710,665	6,752,620
Percentage (a/b*100)	-	0.20%	-	-	0.18%	-	0.53%	0.02%	-	1.39%

Principal transactions with related parties in the income statement

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
Associates	56	-	84,648	-4	37	-1,436
Senior managers [1]	4	-	109	-4,947	-	-37
Other related parties	530	-	838	-218	1	-3,167
Total	**590**	**-**	**85,595**	**-5,169**	**38**	**-4,640**

(1) A "Senior manager" is defined as "a manager with strategic responsibilities of the entity or of its parent, where a manager with strategic responsibility is intended to mean those who have power and responsibility for the planning, management and control of the activities of the entity including its directors";

Percentage of related-party transactions in the consolidated income statement

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
With related-parties (a)	590	-	85,595	-5,169	38	-4,640
Total (b)	753,464	10,473	761,562	-719,177	169,731	-507,607
Percentage (a/b*100)	0.08%	-	11.24%	0.72%	0.02%	0.91%

Principal balance sheet items with associate companies subject to significant influence

Figures in thousands of euro	Financial assets held for trading	Available-for-sale financial assets	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued	Financial liabilities held for trading	Guarantees granted
Aviva Vita Spa	-	-	60,300	-	166,264	-	-	-
Lombarda Vita Spa	-	-	29,674	-	7,678	-	-	-
Polis Fondi SGRpA	-	22,593	-	-	932	-	-	-
SF Consulting Srl	-	-	760	-	6,677	-	-	-
UFI Servizi Srl	-	-	-	-	-	-	-	-
Total	**-**	**22,593**	**90,734**	**-**	**181,551**	**-**	**-**	**-**

Principal income statement items with associate companies subject to significant influence

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
Aviva Vita Spa	55	-	55,520	-4	5	-
Lombarda Vita Spa	-	-	28,864	-	6	-1,436
Polis Fondi SGRpA	-	-	-	-	-	-
SF Consulting Srl	1	-	264	-	26	-
UFI Servizi Srl	-	-	-	-	-	-
Total	**56**	**-**	**84,648**	**-4**	**37**	**-1,436**

Events occurring after the end of the first half

No events of importance that might affect the operating and financial position presented occurred after 30th June 2017 the balance sheet date of this half year financial report, and until 4th August 2017 the date of its approval by the Management Board of UBI Banca Spa.

The following is nevertheless reported for your information:

- 7th July 2017: the share capital increase, amounting to €399,981,075.24, resulting from the issue of 167,006,712 ordinary UBI Banca shares, was fully subscribed. The section "Significant events in the first half of 2017" in the interim management report on consolidated operations may be consulted for further details.

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND OF THE SENIOR OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS

Statement on the condensed interim financial report pursuant to article 81-*ter* of Consob Regulation No. 11971 of 14th May 1999 and subsequent amendments and additions

1. The undersigned Victor Massiah, Chief Executive Officer, and Elisabetta Stegher, Senior Officer Responsible for preparing the company accounting documents of UBI Banca Spa, having taken account of the provisions of paragraphs 3 and 4 of article 154 *bis* of Legislative Decree No. 58 of 24th February 1998, hereby certify to:

    - the adequacy in relation to the characteristics of the company and
    - the effective application of

    the administrative and accounting procedures for the preparation of the half year condensed financial statements, during the first half of 2017.

2. The model employed

    The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed interim financial report as at and for the half year ended 30th June 2017 was based on an internal model defined by UBI Banca SpA, developed in accordance with the framework drawn up by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and with the framework Control Objectives for IT and related technology (COBIT) which represent the generally accepted international standards for internal control systems.

3. They also certify that:

3.1 the condensed interim financial report:

a) was prepared in compliance with the applicable international accounting standards recognised by the European Community in accordance with the Regulation No. 1606/2002 (EC) issued by the European Parliament on 19th July 2002;

b) corresponds to the records contained in the accounting books of the company;

c) provides a true and fair view of the capital, operating and cash flow position of the issuer and the companies included in the scope of the consolidation.

3.2 The half year management report comprises a reliable analysis of the important events that occurred in the first six months of the year and of their impact on the half year condensed financial statements, together with a description of the main risks and uncertainties relating to the remaining six months of the year. The half year management report also comprises a reliable analysis of information on significant related party transactions.

Bergamo, 4th August 2017

Victor Massiah

Chief Executive Officer

(signed on the original)

Elisabetta Stegher

Senior Officer Responsible for preparing the company accounting documents

(signed on the original)

INDEPENDENT AUDITORS' REPORT

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REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
UNIONE DI BANCHE ITALIANE S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Unione di Banche Italiane S.p.A. and its subsidiaries (the "Unione di Banche Italiane Group"), which comprise the balance sheet as of June 30, 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the six-month period then ended and the related explanatory notes. The parent's Management Board is responsible for the preparation of the condensed interim consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of Unione di Banche Italiane Group as at June 30, 2017 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco Miccoli
Partner

Milan, Italy
August 11, 2017

This report has been translated into the english language solely for the convenience of international readers.

UBI Banca calendar of corporate events for 2017

Date	Event
9th November 2017	Approval of the interim financial report as at and for the period ended 30th September 2017

The date for the presentation of figures to the financial community will be disclosed in due course.

Contacts

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