

Reports and Financial Statements 2018

*Translation from the Italian original which
remains the definitive version*

16th Financial year

UBI  **Banca**

Unione di Banche Italiane Società per azioni
abbreviated to **UBI Banca**

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
A member of the UBI VAT Group with VAT No. 04334690163
Tax Code 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 31st December 2018: Euro 2,843,177,160.24 fully paid-up
Certified email address (P.E.C.): ubibanca.pec@pecgruppoubi.it

www.ubibanca.it

Contents

UBI Banca: company officers	8
UBI Banca Group: key figures and performance indicators	9
UBI Banca Group: branch network as at 31 st December 2018	11
UBI Banca Group: main investments as at 31 st December 2018	12
The rating	13
Notice of call	17

CONSOLIDATED FINANCIAL STATEMENTS OF THE UBI BANCA GROUP AS AT AND FOR THE YEAR ENDED 31ST DECEMBER 2018

TRANSITION TO THE NEW FINANCIAL REPORTING STANDARDS IFRS 9 AND IFRS 15	23
▪ Introduction	24
▪ 1. IFRS 9 “Financial instruments”	25
- 1.1 The IFRS 9 transition project	25
- 1.2 The three pillars of IFRS 9	26
- 1.3 Summary of the impacts of First Time Adoption as at 1 st January 2018	26
- 1.4 The transition to IFRS 9 in the UBI Banca Group	27
- 1.5 Exemptions applied on First-Time Adoption (FTA)	36
▪ 2. IFRS 15 “Revenue from contracts with customers”	37
- 2.1 Scope	37
- 2.2 The pillars of IFRS 15	37
- 2.3 The IFRS 15 transition project	38
▪ 3. The impacts of First-Time Adoption of IFRS 9 and IFRS 15	38
- 3.1 Reconciliation statements and explanatory notes	39
- 3.2 The main balance sheet items	49

CONSOLIDATED MANAGEMENT REPORT	51
▪ The macroeconomic scenario	52
▪ Significant events in 2018	61
▪ Commercial activity	69
▪ The distribution network and market positioning	86
▪ Human resources	90
▪ The scope of consolidation	94
▪ Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules	98
▪ The consolidated income statement	107
▪ General banking business with customers: funding	117
- Total banking funding	117
- Direct banking funding	118
- Indirect banking funding and assets under management	123
- Insurance deposits and technical reserves	126
▪ General banking business with customers: lending	127
- Loans and advances to customers measured at fair value through profit or loss	127
- Loans and advances to customers measured at amortised cost	128
▪ The interbank market and the liquidity position	137
▪ Financial activities	141
▪ Equity and capital adequacy	159
▪ R&D and Innovation	165
▪ The internal control system	166
▪ Transactions with related parties and with connected persons	167
▪ Consolidated companies: the principal figures	171

- Information on the main Product Companies	174
▪ Other information	179
- Treasury shares.....	179
- Litigation.....	179
- Inspections and legal proceedings	179
- Developments in the regulatory context	185
- Tax aspects	192
- The “Italian Responsible Payments Code”	195
- Social and environmental responsibility	195
▪ The principal risks and uncertainties to which the UBI Banca Group is exposed	196
▪ Outlook for consolidated operations	203
 STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND OF THE SENIOR OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS	 205
 INDEPENDENT AUDITORS’ REPORT	 209
 CONSOLIDATED FINANCIAL STATEMENTS	 223
▪ Consolidated balance sheet	224
▪ Consolidated income statement	225
▪ Consolidated statement of comprehensive income	226
▪ Statements of changes in consolidated equity	227
▪ Consolidated statement of cash flow (Indirect Method)	229
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	 231
▪ Part A – Accounting policies	232
- A.1 – General part	232
- A.2 – The main items in the financial statements	254
- A.3 – Information on transfers between portfolios of financial assets.....	282
- A.4 – information on fair value	283
- A.5 – Information on “day one profit/loss”	293
▪ Part B – Notes to the consolidated balance sheet.....	294
- Assets	294
- Liabilities	327
- Other information.....	362
▪ Part C – Notes to the consolidated income statement.....	368
▪ Part D – Consolidated statement of comprehensive income	389
▪ Part E – Information on risks and the relative hedging policies	390
▪ Part F – Information on consolidated equity.....	512
▪ Part G – Business combination transactions concerning companies or lines of business	516
▪ Part H – Transactions with related parties	517
▪ Part I – Share-based payments	521
▪ Part L – Segment Reporting	525
 ATTACHMENTS TO THE CONSOLIDATED FINANCIAL STATEMENTS	 527
▪ Disclosures concerning the fees of the independent auditors and services other than auditing in compliance with Art. 149 duodecies of Consob Issuers’ Regulations	528
▪ Information pursuant to letters a), b) and c) of Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17 th December 2013 Situation as at 31 st December 2018	529

SEPARATE FINANCIAL STATEMENTS OF UBI BANCA SPA AS AT AND FOR THE YEAR ENDED 31ST DECEMBER 2018

TRANSITION TO THE NEW FINANCIAL REPORTING STANDARDS IFRS 9 AND IFRS 15

▪ Introduction.....	4*
▪ 1. IFRS 9 “Financial instruments”	5*
- 1.1 The IFRS 9 transition project	5*
- 1.2 The three pillars of IFRS 9	5*
- 1.3 Summary of the impacts of First-Time Adoption as at 1 st January 2018	5*
▪ 2. IFRS 15 “Revenue from contracts with customers”	6*
- 2.1 Scope	6*
- 2.2 The pillars of IFRS 15	6*
- 2.3 The IFRS 15 transition project	7*
▪ 3. The impacts of First-Time Adoption of IFRS 9 and IFRS 15	8*
- 3.1 Reconciliation statements and explanatory notes	8*

MANAGEMENT REPORT 19*

▪ UBI Banca: key figures and performance indicators	20*
▪ Introduction	21*
▪ The organisational structure of UBI Banca	21*
▪ Human resources	24*
▪ Reclassified financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules	26*
▪ The income statement	35*
▪ General banking business	43*
- Total banking funding	43*
- Lending	46*
- Operations on the interbank market	51*
▪ Financial activities	54*
▪ Equity and capital adequacy	63*
▪ Relations with Group member companies	65*
▪ Transactions with related parties and with connected persons	65*
▪ Share performance and shareholder structure	67*
- Share performance	67*
- Investor Relations: relations with analysts and institutional investors	69*
- Report on corporate governance and ownership structure	70*
- Treasury shares	71*
- De jure and delegated powers of the corporate bodies	71*
▪ Other information	72*
- Litigation	72*
- Complaint management	72*
▪ Principle risks and uncertainties to which UBI Banca is exposed	74*
▪ Outlook	74*
▪ Proposal for the allocation of profit for the year and dividend distribution	75*

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND OF THE SENIOR OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS 77*

INDEPENDENT AUDITORS’ REPORT 81*

SEPARATE FINANCIAL STATEMENTS 93*

▪ Balance sheet	94*
▪ Income statement	95*
▪ Statement of comprehensive income	96*
▪ Statement of changes in equity	97*

▪ Statement of cash flows	99*
NOTES TO THE FINANCIAL STATEMENTS	101*
▪ Part A – Accounting policies	102*
- A.1 – General part	102*
- A.2 – Main balance sheet items	118*
- A.3 – Information on transfers between portfolios of financial assets	143*
- A.4 – Information on fair value	144*
- A.5 – Information on “Day One Profit/Loss”	157*
▪ Part B – Notes to the balance sheet	158*
- Assets	158*
- Liabilities	193*
- Other information	222*
▪ Part C – Notes to the income statement	227*
▪ Part D – Comprehensive income	250*
▪ Part E – Information on risks and the relative hedging policies	252*
▪ Part F – Information on equity	375*
▪ Part G – Business combination transactions concerning companies or lines of business	381*
▪ Part H – Transactions with related parties	383*
▪ Part I – Share-based payments	390*
▪ Part L – Segment Reporting	494*
ATTACHMENTS TO THE SEPARATE FINANCIAL STATEMENTS	395*
▪ List of real estate properties	396*
▪ Disclosures concerning the fees for auditing and non-auditing services in compliance with Art. 149 duodecies of Consob Issuers’ Regulations	415*
▪ Information pursuant to Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17 th December 2013	416*
REPORT ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF UBI BANCA S.P.A. in accordance with Art.123-bis of the Consolidated Finance Law	1**
REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS’ MEETING in accordance with Art. 153, paragraph 1, of Legislative Decree No. 58 of 24 th February 1998 and Art. 38, paragraph 1, letter h) of the Articles of Association	99**
REPORTS ON THE OTHER ITEMS ON THE AGENDA OF THE SHAREHOLDERS’ MEETING	117**
▪ Appointment of members of the Board of Directors and the Management Control Committee for the years 2019-2020-2021 on the basis of slates of candidates presented by Shareholders; relative and consequent resolutions	118**
▪ Remuneration Report 2019	124**
▪ Determination of remuneration for members of the Board of Directors and members of the Management Control Committee in accordance with Art. 23 of the text of the Articles of Association approved by a Shareholders’ Meeting on the 19 th October 2018	182**
▪ Remuneration schemes based on financial instruments: proposal to pay a quota of the short-term (annual) variable component of remuneration for “Identified staff” in financial instruments and a proposal to authorise the purchase of treasury shares to service the incentive scheme	184**
- Information Document pursuant to Art. 84-bis of the Issuers’ Regulations – short-term (annual) incentive scheme for “Identified Staff”	187**
▪ Proposal regarding the criteria and limits for determining remuneration to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office	202**
▪ Proposal to the shareholders’ meeting for the definition of the ratio of fixed to variable components of remuneration up to a limit of 2:1 for the “identified staff” of the group	204**

GLOSSARY	207**

BRANCH NETWORK OF THE UBI BANCA GROUP	225**

CALENDAR OF CORPORATE EVENTS OF UBI BANCA FOR 2019

CONTACTS

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 on 2nd April 2016)

Chairman
Senior Deputy Chairman
Deputy Chairman
Deputy Chairman

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

Management Board

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

Chairwoman
Deputy Chairman
Chief Executive Officer

Letizia Maria Brichetto Arnaboldi Moratti
Flavio Pizzini
Victor Massiah (***)
Silvia Fidanza
Osvaldo Ranica
Elvio Sonnino
Elisabetta Stegher

General Management

General Manager
Senior Deputy General Manager
Deputy General Manager
Deputy General Manager

Victor Massiah (***)
Elvio Sonnino
Frederik Geertman
Rossella Leidi

Senior Officer Responsible in accordance with Art. 154 bis of the Consolidated Finance Law

Elisabetta Stegher

Independent Auditors

DELOITTE & TOUCHE Spa

(*) Appointed by an Ordinary Shareholders' Meeting on 14th December 2018 to fill a vacancy on the Supervisory Board following the resignation of Lorenzo Renato Guerini on 11th October 2018. 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 by an Ordinary Shareholders' Meeting held on 7th April 2017 to fill a vacancy on the Supervisory Board. 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)" for the financial year 2018, which may also be consulted in the Corporate Governance Section of the Group's corporate website www.ubibanca.it.

UBI Banca Group: key figures and performance indicators

	31.12.2018 IFRS 9	30.9.2018 IFRS 9	30.6.2018 IFRS 9	31.3.2018 IFRS 9	1.1.2018 IFRS 9	31.12.2017 (*) IAS 39
ALTERNATIVE PERFORMANCE MEASURES (1)						
STRUCTURAL INDICATORS						
Net loans and advances to customers at amortised cost/total assets	71.0%	71.5%	72.0%	72.4%	71.8%	72.5%
Direct banking funding from customers/total liabilities	73.6%	75.0%	74.9%	74.4%	74.6%	74.2%
Net loans and advances to customers at amortised cost/direct funding from customers	96.5%	95.3%	96.1%	97.2%	96.3%	97.8%
Equity (inclusive of profit/loss)/total liabilities	7.3%	7.1%	7.1%	7.3%	7.2%	7.8%
Assets under management/indirect banking funding from ordinary customers	70.0%	70.1%	69.7%	68.5%		67.8%
Financial leverage ratio (total assets - intangible assets)/(equity inclusive of profit/loss + equity attributable to minority interests - intangible assets)	16.5	17.0	17.1	16.3	16.7	15.2
PROFIT INDICATORS						
ROE (net profit/equity inclusive of profit/loss)	4.6%	3.2%	4.7%	5.1%		7.0%
ROTE [net profit/intangible equity (equity inclusive of profit/loss - intangible assets)]	5.7%	3.9%	5.8%	6.2%		8.4%
ROA (net profit/total assets)	0.34%	0.22%	0.33%	0.37%		0.54%
The cost:income ratio (operating expenses/operating income)	69.6%	69.3%	66.7%	67.4%		67.8%
Staff costs/operating income	42.4%	42.3%	40.8%	40.6%		41.4%
Net impairment losses on loans: loans to customers at amortised cost/net loans to customers at amortised cost (loan loss ratio)	0.72%	0.57%	0.57%	0.51%		0.79%
Net interest income/operating income	50.9%	51.0%	48.8%	47.3%		45.5%
Net fee and commission income/operating income	44.9%	44.9%	44.0%	44.0%		43.2%
Net result on financial activities/operating income	-0.2%	-0.3%	2.8%	3.6%		7.1%
RISK INDICATORS						
Net bad loans/net loans and advances to customers at amortised cost	3.11%	3.18%	3.80%	3.82%	3.87%	4.37%
Net impairment losses on bad loans / gross bad loans (coverage for bad loans)	48.96%	51.00%	51.71%	52.17%	52.06%	45.05%
Coverage for bad loans, gross of write-offs of positions subject to bankruptcy proceedings and the relative impairment losses	59.14%	59.43%	63.90%	63.77%	63.67%	58.36%
Net non-performing loans/net loans and advances to customers at amortised cost	6.72%	7.11%	7.82%	8.06%	8.19%	8.84%
CAPITAL RATIOS Basel 3 phased-in						
Tier 1 ratio (Tier 1 capital after filters and deductions/RWAs)	11.70%	11.79%	11.78%	12.00%		11.56%
Common Equity Tier 1 ratio (CET1 capital after filters and deductions/RWAs)	11.70%	11.79%	11.78%	12.00%		11.56%
Total capital ratio (total own funds/RWAs)	13.80%	14.25%	14.13%	14.47%		14.13%
Total own funds (figures in thousands of euro)	8,420,375	8,431,041	8,501,867	8,676,231		9,475,473
of which: Tier 1 capital after filters and deductions	7,138,925	6,976,114	7,090,112	7,195,245		7,754,502
Risk weighted assets (RWAs)	61,035,275	59,171,479	60,176,350	59,942,487		67,053,683
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	425,608	210,471	208,867	117,660		690,557
Profit (loss) for the period/year attributable to the shareholders of the Parent before the impact of the Business Plan	470,419	251,930	213,424	121,024		133,600
Profit (loss) for the period/year attributable to the shareholders of the Parent normalised	302,439	260,626	222,120	121,024		188,688
Operating income	3,519,343	2,644,551	1,836,502	925,094		3,578,481
Operating expenses	(2,448,195)	(1,831,949)	(1,224,417)	(623,065)		(2,427,035)
Net loans and advances to customers at amortised cost	88,987,596	89,554,538	91,342,643	91,575,231	90,980,959	92,338,083
of which: net bad loans	2,767,775	2,844,460	3,473,505	3,496,083	3,519,121	4,035,164
net non-performing loans	5,975,964	6,369,182	7,142,648	7,383,766	7,447,794	8,160,743
Direct banking funding from customers	92,211,085	93,955,113	95,010,055	94,212,149	94,449,770	94,449,770
Indirect banking funding from ordinary customers	94,742,917	98,753,436	98,525,550	97,663,650		96,465,661
of which: assets under management	66,291,471	69,248,041	68,682,945	66,870,798		65,443,496
Total banking funding from customers	186,954,002	192,708,549	193,535,605	191,875,799		190,915,431
Equity attributable to the shareholders of the Parent (inclusive of profit/loss)	9,163,288	8,898,567	8,964,893	9,300,846	9,138,404	9,925,183
Intangible assets	1,729,727	1,710,712	1,711,908	1,723,921	1,728,328	1,728,328
Total assets	125,306,197	125,206,399	126,904,174	126,563,380	126,647,876	127,376,141
Branches in Italy	1,648	1,812	1,812	1,817	1,838	1,838
Total staff at the end of the period/year (actual employees in service + workers on agency leasing contracts)	20,392	20,980	21,123	21,229		21,412
Average total staff (2) (actual employees in service + workers on agency leasing contracts)	19,541	19,675	19,733	19,784		19,433
Financial advisors	684	716	731	752	758	758

(*) The figures as at 31st December 2017 relate to the UBI Banca Group inclusive of the New Banks that were included in the consolidation from 1st April 2017.

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 Consolidated Management Report.

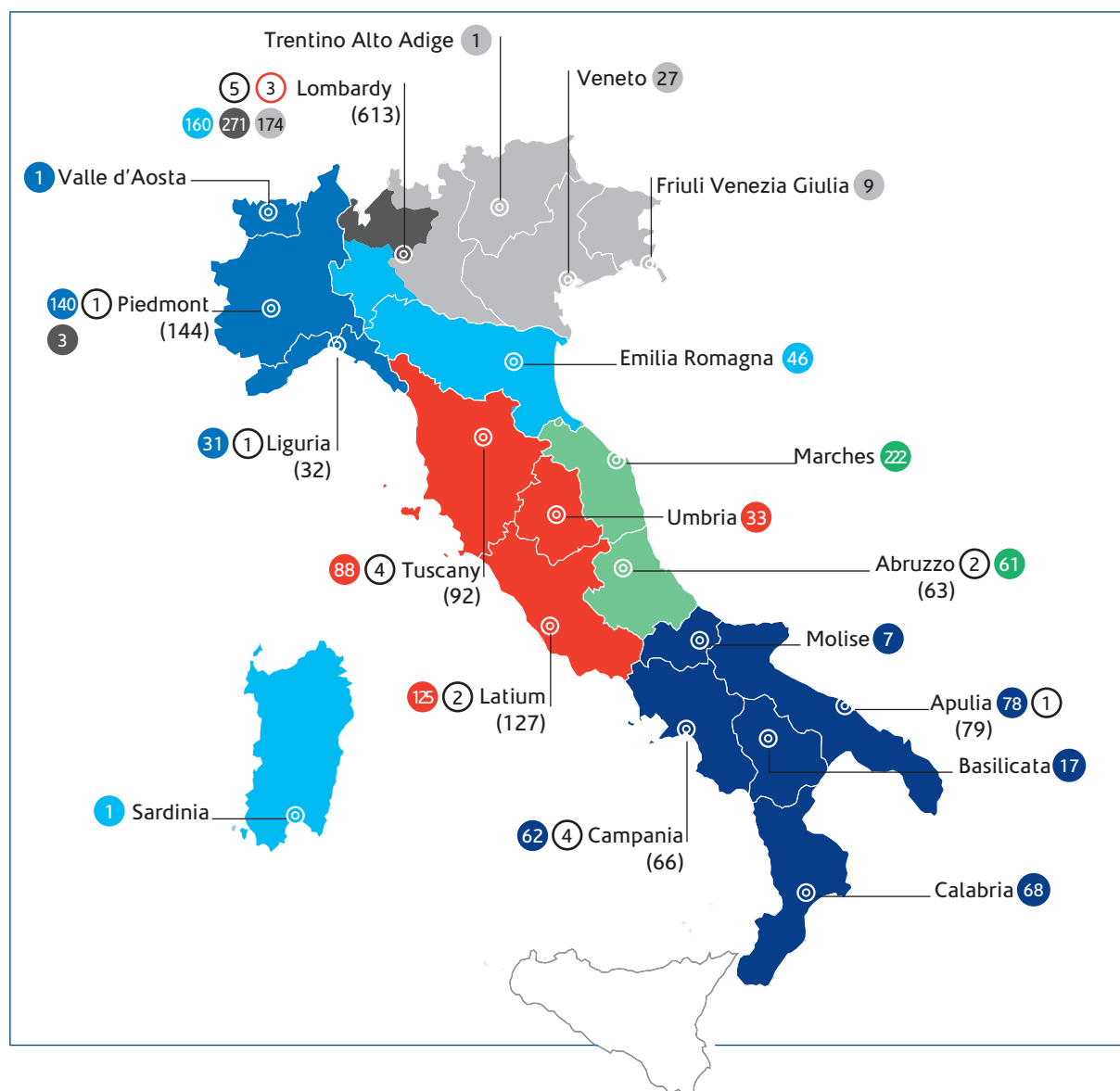
The [Alternative Performance Measures](#) (APM) reported in this document (in the Interim Consolidated Management Report) take account of the ESMA guidelines issued on 5th October 2015, which the Consob incorporated in its supervisory practices (Communication No. 0092543 of 3rd December 2015). Those guidelines became applicable from 3rd July 2016.

In this respect, 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](#) is reported in the relative section of the UBI Banca Management Report.

- (2) Part-time employees have been calculated within [average total staff](#) according to convention on a 50% basis.

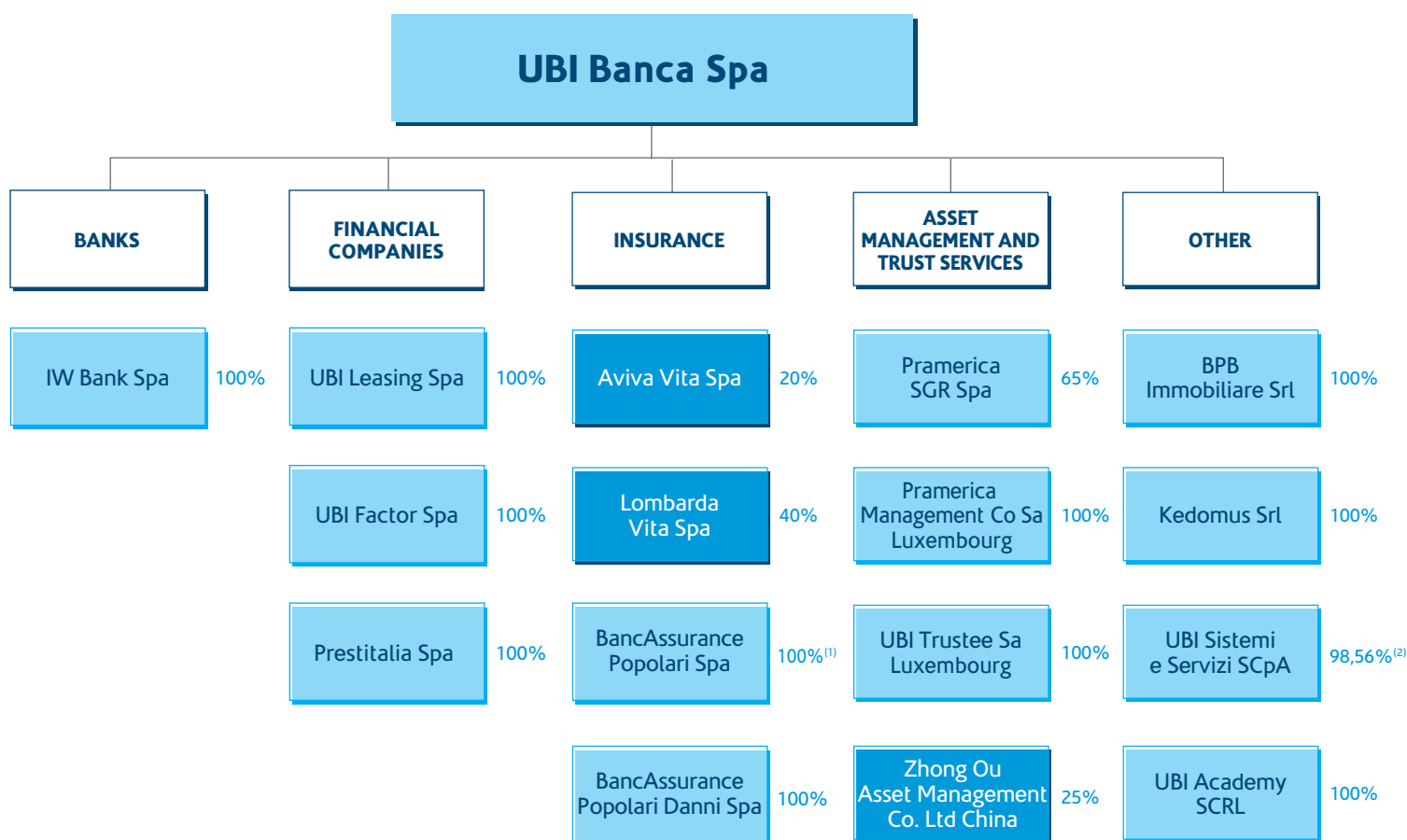
UBI Banca Group: branch network as at 31st December 2018



Branches in Italy		1,648	Branches abroad		5
	UBI Banca Spa	3	UBI Banca Spa Nizza, Mentone, Antibes (France), Munich (Germany)*, Madrid (Spain)*		
	UBI Banca Spa - North West Macro Geographical Area	172	International Presences		
	UBI Banca Spa - Milan and Emilia Romagna Macro Geographical Area	207	UBI Factor Spa Krakow (Poland)		
	UBI Banca Spa - Bergamo and West Lombardy Macro Geographical Area	274	Pramerica Management Co. Sa Luxembourg		
	UBI Banca Spa - Brescia and North East Macro Geographical Area	211	Zhong Ou Asset Management Co. Ltd Shanghai (China)		
	UBI Banca Spa - Latium Tuscany Umbria Macro Geographical Area	246	UBI Trustee Sa Luxembourg		
	UBI Banca Spa - Marche and Abruzzo Macro Geographical Area	283	Representative offices Russia (Moscow), Asia (Mumbai, Shanghai, Hong Kong and Dubai), North America (New York), South America (Sao Paulo) and Africa (Casablanca).		
	UBI Banca Spa - South Macro Geographical Area	232			
	IW Bank Spa	20			

* These two branches closed on the 1st January 2019.

Ubi Banca Group: main investments as at 31st December 2018



	Fully consolidated companies
	Companies accounted for using the equity method

(1) Interest raised to 100% on October 22nd, 2018.

(2) The remaining 1.44% is held by Cargas Assicurazioni Spa (the former UBI Assicurazioni Spa).

The percentages relate to the total interests held (directly or indirectly) by the Group in the entire share/quota capital.

The rating

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

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 Rating (V)	Baa2
Short-term Counterparty Risk Rating (V)	Prime-2
Long-term Counterparty Risk Assessment (VI)	Baa2 (cr)
Short-term Counterparty Risk Assessment (VI)	Prime-2 (cr)
Outlook (Long-term Bank Deposits Rating)	Stable
Outlook (Long-term Issuer Rating /Senior unsecured debt)	Negative
RATINGS ON ISSUES	
Senior unsecured debt	Baa3
Senior non-preferred debt	Ba3
Subordinated debt	Ba3
Covered Bond (First Programme – residential mortgages)	Aa3

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

(II) The ability to repay short-term deposits (with original maturity of 13 months or less)
(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 in the long-term
(Aaa: best rating – C: default)

(V) The Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (excluding those generated by a bank performing its essential operating functions) and they also reflect the expected financial losses in the event such liabilities are not honoured.
(Aaa: best rating – C: default)
[P-1]: best rating – Not Prime: not classifiable within any of the prime categories]

(VI) The Counterparty Risk (CR) Assessment is not a rating but an opinion on the likelihood of a bank defaulting on payment obligations generated by it performing its essential customer-serving operating functions
[Aaa (cr): best rating – C (cr): Default]
[P-1 (cr): best rating – Not Prime (cr): not classifiable within any of the Prime categories]

On 14th May 2018, as part of its periodic review, **Moody's** confirmed its ratings assigned to UBI Banca and a Stable Outlook on its long-term Bank Deposits Rating.

The confirmation of the ratings and Outlook mentioned above reflects the resilience of the Bank's credit profile notwithstanding challenges resulting from the continuing high level of non-performing loans and modest profit levels. It also reflects the Agency's expectation that the financial fundamentals will show gradual improvement as progress is made with the implementation of the 2020 Business Plan, which was updated after the acquisition of the banks placed in resolution.

On the other hand, the change in the Outlook on the Bank's long-term senior debt indicates a reduction over a time horizon of 12 to 18 months in senior liabilities that may be subject to bail-in as consequence of the amount of retail bonds maturing.

On 22nd June the agency announced the assignment of new Counterparty Risk Ratings to 18 Italian banks. These are opinions of the ability of entities to honour the uncollateralised portion of non-debt financial liabilities (excluding those generated by a bank performing its essential operating functions) which also reflect the expected financial losses in the event such liabilities are not honoured.

The following ratings have been assigned to UBI Banca: a Long-term Counterparty Risk Rating of "Baa2" (three notches above the maximum BCA) and a Short-term Counterparty Risk Rating of "P-2".

On 19th October 2018, on conclusion of its review commenced on 25th May¹, **Moody's** downgraded both its issuer rating assigned to Italy and its senior unsecured ratings on government bonds by one notch from "Baa2" to "Baa3". The Outlook became Stable. Similarly, the short-term rating was also downgraded from "P-2" to "P-3".

¹ In view of the new coalition government's programmes, on 25th May Moody's placed its Italian government ratings (Baa2/P-2/Negative) under review for a possible downgrade. On the following 30th May the Agency placed 12 Italian banking groups under review for possible downgrade. This action did not involve the UBI Banca Group.

The key drivers of the rating actions were as follows:

- a material shift in fiscal strategy with higher budget deficits forecast for coming years implies that the debt-to-GDP ratio will remain at high levels;
- the implications in the medium to long-term of the absence of plans for structural economic and fiscal reforms that will allow Italy to escape its current path of modest growth.

The Stable Outlook reflects the broadly balanced risk at the new rating level. It is recognised that Italy has important strengths that balance the weakening fiscal prospects. These include a very large and diversified economy with some highly competitive industries, a solid external position with substantial current account trade surpluses and a near balanced international investment position. Also Italian households have high wealth levels, a potentially substantial source of funding for the government.

The action had no impact on the ratings and Outlook assigned to UBI Banca².

Only the issues under UBI Banca's first covered bond programme were impacted by the sovereign downgrade: with a rating action announced on 24th October 2018, the ratings assigned to nine Italian bank programmes, including that of UBI Banca, were downgraded from "Aa2" to "Aa3".

S&P GLOBAL RATINGS	
Long-term Issuer Credit Rating (i)	BBB-
Short-term Issuer Credit Rating (i)	A-3
Long-term Resolution Counterparty Rating (ii)	BBB
Short-term Resolution Counterparty Rating (ii)	A-2
Stand Alone Credit Profile (SACP) (iii)	bbb-
Outlook (Long-term Issuer Credit Rating)	Stable
RATINGS ON ISSUES	
Senior unsecured debt	BBB-
Senior non-preferred debt	BB+
Subordinated debt	BB

- (i) The Issuer Credit Rating reflects the bank's ability to meet its financial commitments. It is based on an assessment of its intrinsic creditworthiness, supplemented by an assessment of the potential extraordinary support (from government or from the group to which it belongs or alternatively from its additional ability to absorb losses) on which the bank could count if it ran into difficulties
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 Resolution Counterparty Rating is a forward-looking opinion on the risk of default by certain senior liabilities that may be protected from default within a bail-in process [Long-term AAA: best rating – D: default; short-term A-1: best rating – D: default]
- (iii) The SACP is a rating of the intrinsic creditworthiness of the bank in the absence of external support (from government, from the group to which it belongs, or from additional capacity to absorb losses). It is calculated on the basis of an "Anchor SACP", which summarises economic and industry risks for the Italian banking sector. This is then adjusted to take account of bank-specific factors such as capital and earnings, business position, exposure to risk, funding and liquidity, which are also assessed from a comparative viewpoint.

When **S&P Global Ratings** carried out its annual review on 16th April 2018, it confirmed its ratings for UBI Banca with a Stable Outlook.

This confirmation reflects this agency's expectations that the Bank's rating will continue to benefit from its strong franchise and the conservative strategy pursued by management.

On the following 19th April, the Agency published its methodology for assigning a new type of rating to those financial institutions (mainly banks) subject, in situations of difficulty, to an effective resolution regime. These are its Long-term Resolution Counterparty Rating (LTRCR) and its Short-term Resolution Counterparty Rating (STRCR), which are forward-looking opinions on the risk of default by certain senior liabilities that may be protected from default within a bail-in process.

On 12th June 2018 S&P assigned these ratings to 31 European Banking Groups, including UBI Banca. The new ratings assigned were "BBB" for the long-term and "A-2" for the short-term, incorporating an upgrade of one notch on the Long-term Issuer Credit Rating.

On 26th October 2018, at the time of its half-yearly review, the ratings assigned to Italy were affirmed at "BBB"/"A-2", but the Outlook was revised from Stable to Negative.

This provision reflects the risk that the budget policies announced by the government, with a reversal of Italy's fiscal consolidation path and partial undoing of the pension system reforms, may weaken the country's economic recovery, placing the future trajectory of the debt-to-GDP ratio at risk.

² The Macro Profile incorporated in the Baseline Credit Assessment, used to capture risks intrinsic to the economic and operating context for Italian banks, remained unchanged at "Moderate+": the worsening that actually occurred was offset by the removal of one or two downward adjustment notches applied by the Agency on the system credit conditions, to reflect the trend of improvement in progress in terms of non-performing exposures.

The impacts on Italian banks of the rating action on the sovereign debt were announced on 30th October 2018. In this context UBI Banca's ratings ("BBB-"/"A-3") were affirmed, with a Stable Outlook.

In consideration of the effects that the current context of volatility may have on long-term access to institutional funding and therefore on the profits of Italian banks, the Agency revised (from stable) the trend associated with sector risk downwards as part of its Banking Industry Country Assessment from which the Anchor SACP is derived, the starting point of the methodology by which the Issuer Credit Rating is assigned.

FITCH RATINGS		
Short-term Issuer Default Rating (1)	F3	(1) The ability to repay debt in the short-term (original maturity of up to 13 months) (F1+: best rating – D: default)
Long-term Issuer Default Rating (2)	BBB-	(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 an issuer's vulnerability to default (AAA: best rating – D: default)
Viability Rating (3)	bbb-	(3) An assessment of a bank's intrinsic strength in the event that it cannot rely on forms of extraordinary external support (aaa: best rating – f: default)
Support Rating (4)	5	(4) A rating of the likelihood of possible extraordinary external support (from the state or large shareholders) if the bank runs into difficulty in honouring its senior obligations [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)]
Support Rating Floor (5)	NF (No Floor)	(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)
Outlook (Long-term Issuer Default Rating)	Negative	
RATINGS ON ISSUES		
Senior unsecured debt	BBB-	
Senior non-preferred debt	BBB-	
Subordinated debt	BB+	

When **Fitch Ratings** carried out its annual review on 2nd February 2018, it affirmed its ratings for UBI Banca, maintaining a Negative Outlook.

The confirmation reflected the Agency's expectation that in the medium-term UBI Banca would have accelerated its reduction of its stock of non-performing exposures compared with the targets set in its current Business Plan.

On 31st August the Agency revised its Outlook on Italy's Long-term Issuer Default Rating (unchanged at "BBB") from Stable to Negative.

The reasoning behind this action was a consideration of not just fiscal risks, but country risks, which are combined with the uncertainty inherent in the nature of the coalition and the government contract. Fitch therefore expects fiscal loosening which makes the high level of public debt more exposed to potential shocks.

As a consequence of this sovereign action, on 5th September the Long-term Issuer Default Rating's of five Italian banks saw their Outlook revised from Stable to Negative. The action did not affect UBI Banca.

UBI Banca's ratings were reviewed on 30th November 2018. Having taken note of the acceleration given by the Bank to its strategy to reduce its non-performing exposures and of the positive effects on capital, the Agency affirmed all its existing ratings.

The Outlook on the Long-term Issuer Rating remained Negative because it mainly reflects the risk of possible pressures on the rating resulting from a deterioration in the Italian economic environment and in the sovereign debt rating.

DBRS	
Long-term Issuer Rating (I)	BBB
Short-term Issuer Rating (I)	R-2 (high)
Long-term Senior Debt (II)	BBB
Short-term Debt (II)	R-2 (high)
Long-term Deposits (III)	BBB (high)
Short-term Deposits (III)	R-1 (low)
Intrinsic Assessment (IV)	BBB
Support Assessment (V)	SA3
Long-Term Critical Obligations Rating (VI)	A (low)
Short-Term Critical Obligations Rating (VI)	R-1 (low)
Trend (all ratings)	Stable
RATINGS ON ISSUES	
Senior unsecured debt	BBB
Senior non-preferred debt	BBB (low)
Subordinated debt	BB (high)
Covered Bonds (First Programme – residential mortgages)	AA
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 creditworthiness of a bank which incorporates both the Intrinsic Assessment and possible considerations regarding external support
LTIR – AAA: best rating – D: default
STIR – R-1 (high): best rating – D: default
- (II) The ability to repay long-term debt (maturing in more than one year), or short-term debt
LTSD – AAA: best rating – D: default
STD – R-1 (high): best rating – D: default
- (III) The ability to repay long-term deposits (maturing in more than one year) and short-term deposits.
LTD – AAA: best rating – D: Default
STD – R-1 (high): best rating – D: default
- (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 – CCC: 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
- (VI) The Critical Obligations Rating (COR) is a rating on default risks intrinsic to some classes of obligations/exposures with high probabilities of being excluded from bail-in (such as those resulting from derivatives, payment services, covered bond issues, etc.)
LTCOR – AAA: best rating – D: default
STCOR – R-1 (high): best rating – D: default

Following a full review of the programme, on 21st September 2018 **DBRS** upgraded its rating on the covered bond issues backed by residential mortgages from “AA (low)” to “AA”.

On 26th November 2018, at the time of its annual review, this Agency confirmed all its ratings assigned to UBI Banca with a Stable Trend. Similarly the Intrinsic Assessment (“BBB”) and the Support Assessment (“SA3”) were also confirmed.

This confirmation reflects recognition of progress made in terms of streamlining its organisational structure and in further reducing the stock of non-performing exposures. Notwithstanding the challenges posed by the difficult Italian economic environment and heightened volatility on markets, the Trend reflects DBRS's expectation that capital and liquidity ratios and buffers will remain at acceptable levels and that the Bank will continue to improve its risk profile.

In view of the entry into force from 1st January 2019 of the “full depositor preference” in the hierarchy of creditors in the event of a bank's insolvency, on 14th December 2018 the long-term ratings assigned to the deposits of some Italian banks, including UBI Banca, were upgraded by one notch, thereby positioning them one notch above the Intrinsic Assessment (an action accompanied by a rise in the ratings on short-term deposits consistent with the correlation map in accordance with the Agency's methodology). The ratings on UBI Banca's deposits were therefore upgraded from “BBB”/“R-2 (high)” to “BBB (high)”/“R-1 (low)”.

Finally on 11th January 2019, DBRS confirmed its ratings for Italy [“BBB (high)”/“R-1 (low)”] with the assignment of a Stable Trend.

Confirmation of the Trend reflects the combination of two factors: avoidance of the European Commission procedure for non-compliance with the debt criterion and the trend to improve the asset quality of Italian banks, even if they are still dealing with elevated sovereign yields and weak credit growth.

* * *

As already reported, on 23rd March 2018 S&P Global, Fitch and DBRS and Moody's, on 26th March”, assigned a rating to the new category of “senior non-preferred” debt, as part of the types of issuances planned under the Group's EMTN Programme. As reported in the Consolidated Management Report, which may be consulted, the first issuance of the new instruments was carried out by UBI Banca on 5th April 2018.

Notice of call¹

An ordinary General Meeting of the Shareholders of Unione di Banche Italiane Spa is convened for the day

Friday, 12th April 2019 at 9.30 a.m.

in a single call at the New Bergamo Trade Fair in via Lunga to discuss and resolve on the following

Agenda

1. Proposal for the allocation of profits for the year relating to the financial statements as at and for the year ended 31st December 2018 and the distribution of a dividend, following the presentation of the separate and consolidated financial statements as at and for the year ended 31st December 2018.
2. Appointment of members of the Board of Directors and the Management Control Committee for the years 2019-2020-2021 on the basis of slates of candidates presented by Shareholders; relative and consequent resolutions.
3. Report on remuneration, in accordance, amongst other things, with Art. 123 *ter* of Legislative Decree No. 58 of 24th February 1998, inclusive of the remuneration and incentive policies of the UBI Group for the financial year 2019 and the annual report on the implementation of remuneration and incentive policies in the financial year 2018; relative and consequent resolutions.
4. Determination of remuneration for members of the Board of Directors and members of the Management Control Committee in accordance with Art. 23 of the text of the Articles of Association approved by a Shareholders' Meeting on the 19th October 2018.
5. Remuneration schemes based on financial instruments: proposal to pay a portion of the short-term (annual) variable component of remuneration for "Identified Staff" in financial instruments; proposal to authorise the purchase of treasury shares and to make them available to service the incentive scheme.
6. Proposal regarding the criteria and limits for determining remuneration to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office.
7. Proposal for the definition of the ratio of fixed to variable components of remuneration up to a limit of 2:1 for the "Identified staff" of the UBI Banca Group.

INFORMATION ON THE SHARE CAPITAL

On the date of publication of this notice, the authorised, subscribed and paid-up share capital of Unione di Banche Italiane Società per azioni (hereinafter also the "Bank" or the "Company") amounts to €2,843,177,160.24, consisting of 1,144,285,146 ordinary shares with no nominal value.

Again at the date of publication of this notice, the Bank possesses 9,406,731 treasury shares.

PARTICIPATION IN THE SHAREHOLDERS' MEETING

Those persons with the right to vote for whom a communication certifying their legitimate right has been received by the Bank within the legal time limits may take part in the Shareholders' Meeting; according to the provisions of Art. 83-*sexies* of Legislative Decree No. 58/1998 (the "Consolidated Finance Law"), that communication is made to the Bank by an authorised intermediary on the basis of the records relating to the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting (3rd April 2019 – "record date").

Those who only became owners of shares of the Bank subsequent to that date shall have no right to take part and vote in the Shareholders' Meeting.

The communication from the intermediary must be received by the Bank by the end of the third trading day prior to the date set for the shareholders' meeting, and that is by 9th April 2019. The legitimate right to attend and vote nevertheless remains, should the communications be received by the Bank later than the aforementioned time limit, provided they are received before the commencement of the proceedings of the Shareholders' Meeting.

It is underlined that each share gives the right to one vote.

Voting by post is not permitted.

PARTICIPATION AND VOTING BY PROXY

Those with the right to vote may have themselves represented in Shareholders' Meetings in compliance with the relative provisions of the law by means of a proxy, with the option of using the facsimile proxy form available on the corporate website "www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2019".

The proxies may be conferred by means of an electronic document with an advanced electronic signature, qualified or digital in accordance with Art. 20, paragraph 1 of Legislative Decree No. 82/2005.

Proxies may be notified by means of email, at the address "notifica.delega@ubibanca.it".

If a proxy holder transmits or delivers a copy of the proxy to the Company, that person must certify under their own responsibility, when being accredited for access to the proceedings of the Shareholders' Meeting, that it is a true copy of the original proxy and to the identity of the principal.

¹ The notice of call to convene a Shareholders' Meeting was published on the corporate website of UBI Banca on 1st March 2019. An abstract of that same notice was also published on 2nd March 2010, not only in local newspapers but also in the national daily newspapers *Il Sole 24 Ore*, *MF* and *Corriere della Sera*, as well as in the *Financial Times*, one of the leading international financial newspapers.

PROXY HOLDER DESIGNATED BY THE BANK

A proxy may be granted, free of charge, with voting instructions on all or some of the items on the agenda, to Computershare Spa as the “Designated Proxy Holder” in accordance with Art. 135-*undecies* of the Consolidated Finance Law by the end of the second trading day prior to the date of the Shareholders’ Meeting (and therefore by **10th April 2019**). The proxy is valid solely for proposals in relation to which voting instructions have been given. The proxy and the voting instructions may always be revoked at any time within the time limit indicated above.

A special form must be made to confer a proxy on the Designated Proxy Holder which shall be made available on the corporate website “www.ubibanca.it – Shareholders Section – Shareholders’ Meetings – April 2019”. If necessary, the proxy form will be transmitted in hardcopy form to those who request this either of Computershare Spa on the Tel. No. 011.0923200, or of the Corporate Affairs Function of the Bank on No. 035/3922312.

The proxy must arrive with the voting instructions conferred on the Designated Proxy Holder by the aforementioned time limit of **10th April 2019**, following one of the procedures indicated on the proxy form itself.

ADDITIONS TO THE AGENDA AND THE SUBMISSION OF NEW PROPOSALS FOR RESOLUTIONS

On the basis of Art. 126 *bis* of the Consolidated Finance Law, Shareholders who, either alone or jointly, represent at least one fortieth of the share capital may ask, with a written application, within at least ten days of the publication of this notice (i.e. not later than **11th March 2019**) for items to be added to the agenda, indicating the additional matters proposed, or submitting proposals for resolutions regarding matters already on the agenda.

The written application must be sent according to one of the following procedures:

- delivery to the “Corporate Affairs Function” of the Bank at 8, Piazza Vittorio Veneto, Bergamo by **5.00 p.m. on 11th March 2019**;
- delivery by registered mail to the “Corporate Affairs Function” – UBI Banca S.p.A., at 8, Piazza Vittorio Veneto, Bergamo by **11th March 2019**;
- by sending them by certified electronic mail to the address “soci.comunicazioni@pecgruppoubi.it”, attaching the documents in pdf format with a digital signature by **11th March 2019**.

The applications must be accompanied by a report which gives the reasons for the proposals for resolutions on new matters which it is proposed should be addressed or the reason for the additional proposals for resolutions submitted on matters already on the agenda.

The applicants must send communications to the Company through their intermediaries certifying to the ownership of shares. If they have requested their intermediary to issue that communication, it is sufficient to provide references to that communication in the application or at least the name of the intermediary.

Any additions to the agenda or the submission of any proposals for resolutions regarding matters already on the agenda shall be disclosed at least fifteen days before the date set for the Shareholders’ Meeting (i.e. by **28th March 2019**) following the same procedures as those laid down for the publication of this notice. At the same time, the reports prepared by applicants for additions and/or relating to the submission of further proposals for resolutions submitted, accompanied by any assessments that may be presented by the Governing Bodies, shall be disclosed to the public according to the same procedures applying to documentation relating to the Shareholders’ Meeting.

It is underlined that additions are not permitted for matters on which the shareholders vote in accordance with the law on proposals submitted by the Management Board or the Supervisory Board or on the basis of a draft document or a report prepared by them, other than those indicated in article 125 *ter*, paragraph 1 of the Consolidated Finance Law.

THE RIGHT TO SUBMIT QUESTIONS ON MATTERS ON THE AGENDA

In accordance with Art. 127 *ter* of the Consolidated Finance Law, those holding the right to vote may submit questions on the items on the agenda even before the Shareholders’ Meeting, ensuring that they are received by the end of the third day prior to the date of the Shareholders’ Meeting, which is by **9th April 2019**. The questions can be sent by delivering them to the Corporate Affairs Function at 8, Piazza Vittorio Veneto, Bergamo or by email to the address domande.assemblea@ubibanca.it.

The applicants must send communications to the Company through their intermediaries certifying that they may legitimately exercise this right. If they have requested their intermediary to issue that communication to participate in the Shareholders’ Meeting, it is sufficient to provide references to that communication in the request or at least the name of the intermediary.

Questions received before the Shareholders’ Meeting and which are found to be relevant to the items on the agenda shall be given answers in accordance with the law not later than during the Shareholders’ Meeting. The Bank may provide a single answer to questions with the same content.

APPOINTMENT OF MEMBERS OF THE BOARD OF DIRECTORS AND OF THE MANAGEMENT CONTROL COMMITTEE

For resolutions regarding the appointment of members of the Board of Directors and of the Management Control Committee pursuant to item 2 on the agenda, the Meeting will proceed on the basis of the provisions contained in Articles 20 and 22 of the text of the Articles of Association of the Bank approved by a Shareholders’ Meeting held on the 19th October 2018 (which may be consulted on the website www.ubibanca.it – Shareholders Section – Corporate Statute–General Meetings Regulation).

For the appointment of members of the Board of Directors and of the Management Control Committee, the Meeting shall proceed on the basis of slates of candidates submitted by shareholders by the twentyfifth day prior to the Shareholders’ Meeting (i.e. by **18th March 2019**).

Composition of slates

The slates of candidates must contain the names of at least two and no more than fifteen candidates, of which at least one must be included in the second section. Each slate must be split into two sections of names, both ordered sequentially by number, and they must indicate, separately, in the first section, candidates to the role of Board Directors different from candidates also to the role of member of the Management Control Committee who must be indicated in the second section.

The relative documentation must be filed together with each slate and must contain the information required under Art. 22 of the Articles of Association of the Bank.

More specifically, together with each slate, comprehensive information must be filed on the personal and professional characteristics of the candidates, including any management or control offices held in other companies, along with (i) a declaration of their acceptance to be candidates and which certifies their possession of the requirements required by the pro tempore regulations in force and the Articles of Association and (ii) a questionnaire containing all items of information useful for the overall assessment of fitness for the office held.

In order to facilitate procedures for the submission of slates, a facsimile of the said documentation shall be made available on the website "www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2019".

Without prejudice to the above, in view of the considerable responsibilities that Members of the Board of Directors shall take on, for the purposes of submitting slates, Shareholders are invited to consider the information illustrated in the document "*Qualitative and quantitative composition of the Board*" approved by the outgoing Supervisory Board (available on the website "www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2019"), which defines the theoretical profile of candidates and the criteria for the overall composition of the Board of Directors.

The legitimate right to submit slates

In order to appoint the members of the Board of Directors one or more Shareholders who represent at least 1% of the share capital, or the different percentage established by the pro tempore regulations in force, may submit a slate of candidates.

By Executive Order of the Director of its Corporate Governance Division No. 13 of 24th January 2019, the Consob (Italian securities market authority) set the minimum percentage of the share capital required for the submission of slates of candidates for election to the management and control bodies at 1% for UBI Banca.

Each Shareholder and the Shareholders who are parties to a shareholders' agreement involving the Company's shares may not submit more than one slate, even through third person or trust companies: in the event of a breach, his/her signature is not calculated for any slate.

Each candidate may be entered in just one slate under penalty of ineligibility.

The slates must also be accompanied by information on the identity of the Shareholders submitting them, indicating the number of shares and thus the percentage of share capital held overall by the submitting Shareholders and, within the time limits established by laws and regulations in force, a communication indicating the ownership of that investment, as well as any other information required by the pro tempore regulations in force. In order to prove the ownership of the number of shares required to submit the slates, the respective communication may be produced even after the submission provided that this takes place at least twenty-one days before the date of the Shareholders' Meeting by the methods provided by existing regulations, and that is by 22nd March 2019.

Time limits and procedures for the submission of slates

The slates of candidates, together with the accompanying documentation, must be filed by the twentyfifth day prior to the Shareholders' Meeting (i.e. by 18th March 2019), in accordance with one of the following procedures:

- (i) delivery of the original copy to the "Corporate Affairs Service" of the Bank at the registered address of the Bank at 8, Piazza Vittorio Veneto, Bergamo by, as the final deadline, 5.00 p.m. on 18th March 2019;
- (ii) sent by certified electronic mail to the following address "soci.comunicazioni@pecgruppoubi.it", with the documents in PDF format attached provided that the person filing the slate, even if a legal person, uses their own certified electronic mailbox or, in the absence of this, signs the electronic document (PDF) with an advanced electronic signature, either qualified or digital, by, as the final deadline, 18th March 2019.

Slates submitted that fail to observe the procedures laid down by Art. 22 of the Articles of Association are considered as not submitted.

Slates of candidates shall be given a serial number on the basis of the order of receipt.

The slates shall be subject to the forms of disclosure as laid down by the regulations currently in force. More specifically, the slates shall be made available to the public at least twentyone days prior to the date of the Shareholders' Meeting (i.e. by 22nd March 2019) at the registered address of the Bank and published in accordance with the law and regulations on the website of the company and following the procedures laid down by the Consob (Italian securities market authority) in its regulations.

If, at the deadline indicated in paragraph 2 of Art. 22 of the Articles of Association (i.e. 18th March 2019, the twentyfifth day prior to the Shareholders' Meeting convened in a single call), only one slate has been filed, or a slate has been filed having candidates only in the first section or only in the second section, or, in any case, in the circumstances provided for by the regulations in force, the Company promptly communicates this to the public by way of a special notice. In this event, slates may be submitted up until the third day following the aforementioned deadline (i.e. until 21st March 2019) and the minimum threshold for the submission of slates shall be reduced to one-half (this shall therefore be 0.5% of the share capital).

For further information reference is made to the more detailed information provided in the Illustrative Report on the second item on the agenda of the Shareholders' Meeting and more generally to the applicable provisions of the law and the Articles of Association.

DOCUMENTATION FOR THE SHAREHOLDERS' MEETING

The documentation relating to the items on the agenda shall be made available to the public at the registered offices of the Bank at 8 Piazza Vittorio Veneto, Bergamo, on the website of the Bank (www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2019) and on the authorised storage facility named "linfo" (www.linfo.it) within the time limits and according to the procedures of the Law and regulations.

Shareholders may view and obtain copies of the aforementioned documentation at the Registered Office of the Bank in accordance with the law by applying in advance to the "Corporate Affairs Function" of the Bank at 8, Piazza Vittorio Veneto, Bergamo.

This notice to convene is published in accordance with Art. 125 bis of the Consolidated Finance Law, with Consob regulations and with the Articles of Association on the corporate website of the Bank (www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2019) and an abstract of it is published in daily newspapers ("Il Sole 24 Ore", "MF" and "Financial Times"); it is also published on the authorised storage facility named "linfo" (www.linfo.it) in accordance with the procedures of the Law and regulations.

In accordance with regulation (EU) 679/2016, the personal data controller is Unione di Banche Italiane Società per azioni. Full information on personal data processing is provided on the website www.ubibanca.it.

Bergamo, 1st March 2019

The Chairwoman of the Management Board
Letizia Maria Brichetto Arnaboldi Moratti

Consolidated Financial Statements of the UBI Banca Group

*as at and for the year
ended 31st December 2018*

**TRANSITION TO THE NEW
FINANCIAL REPORTING
STANDARDS IFRS 9 AND IFRS 15**

Introduction

The IFRS 9 accounting standard “Financial Instruments” replaces the provisions of IAS 39 “Financial Instruments: Recognition and Measurement” as from 1st January 2018. The process to replace IAS 39 was initiated by the IASB mainly in order to respond to concerns that arose during the financial crisis concerning the timeliness with which the impairment of financial assets is recognised.

IFRS 9 was published by the IASB on 24th July 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union¹ of Regulation (EU) No. 2016/2067 of 22nd November 2016.

Accounting standard IFRS 15, “Revenue from Contracts with Customers” has superseded, effective from 1st January 2018, standards 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”.

IFRS 15 was published by the IASB on 28th May 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union² of Regulation (EU) No. 2016/1905 of 22nd September 2016.

The interim financial report for the period ended 31st March 2018 therefore constituted the first accounting period prepared with the application of IFRS 9 and IFRS 15 accounting rules. This annual financial report reproduces the information given on the transition to the aforementioned standards provided in the interim report just mentioned, as well as in the half-year financial report for the period ended the 30th June 2018. With a view to progressively completing this information, this section provides a greater degree of detail and granularity than that which has already been published.

This information has been prepared to allow an adequate understanding of the process of the transition from the international reporting standards IAS 39 “Financial instruments: recognition and measurement” and IAS 18 “Revenue Income”, which were applied until 31st December 2017 to the international reporting standard IFRS 9 “Financial instruments” and the international reporting standard IFRS 15 “Revenues from contracts with customers” respectively.

It is composed of a summary overview of the most important aspects of the new standards, together with a description of the transition process in the UBI Banca Group and information on first time adoption of IFRS 9 and IFRS 15 in terms of qualitative and quantitative impacts.

The reconciliation schedules and the relative explanatory notes have been subject to a voluntary accounting audit by the independent auditors Deloitte & Touche Spa.

To complete the information, we underline that in accordance with an express provision of Legislative Decree No. 38/2005, at national level, having maintained its powers to define accounting statements and schedules and the contents of the notes of financial statements, on 22nd December 2017 the Bank of Italy issued the 5th update of Circular No. 262/05 “Financial statements of banks, presentations and compilations”³.

¹ Which took place on 29th November 2016.

² Which took place on 29th October 2016.

³ The update, which consists of a full revision of the circular, is applicable starting from financial statements ending as at 31st December 2018 or still open on that date.

1 IFRS 9 “Financial instruments”

1.1 The IFRS 9 transition project

In view of the first time adoption of this new accounting standard IFRS 9, in the second half of 2015 the UBI Banca Group started a project, now concluded, which required considerable effort in terms of interpretation, application, administration, organisation and management on the basis of which a thorough knowledge of the provisions of the accounting standard was acquired.

Given the importance of the changes required for IFRS 9, the Group took part in projects which were carried out by the Italian Banking Association.

These projects were subject to a special “Thematic Review”, initiated by the ECB through the relative Joint Supervisory Team with the objective of assessing the proper oversight and direction of the thematic projects, in view of their complexity. The review was concluded on 31st March 2017 and highlighted adequate involvement of the management in the implementation project and also room for improvement in the formalisation of the methodological and implementation choices, an aspect to which the Group paid careful attention as it continued with its own projects and in particular with regard to the formulation of company regulations.

As already reported, the project, described in detail in previous financial reports, covered three main lines of activity, summarised below.

a. Assessment Stage

The Assessment stage commenced in the second half of 2015 and was concluded in the first half of 2016.

The main aims of this stage were to:

- identify the regulatory and accounting changes and, consequently, decide the preliminary accounting approaches for the necessary aspects;
- identify the preliminary impacts in terms of business, risk models, organisation and IT systems;
- define the 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).

b. Design Stage

The Design stage, which was carried out throughout 2016, involved performing 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.

c. Implementation Stage

According to the architecture of the project, the final stage was the Implementation which began in 2017 and was concluded in the first quarter of 2018. Its aim was to execute the actions identified and defined during the previous stages.

That stage was designed to carry out the following:

- share the analysis and results that emerged from the Design stage with all operational units involved;
- implement the choices and interpretations of the standard made during the Assessment and Design stages into company processes and procedures;
- establish detailed accounting policies in accordance with the evidence that emerged and with the regulatory clarifications provided by the Supervisory Authorities;
- carry out activities for the implementation of the First-Time Adoption (FTA) of the standard in question.

1.2 The three pillars of IFRS 9

IFRS 9 contains the following three main pillars:

- **Classification and measurement:** the accounting categories provided for under IAS 39, relating to financial assets have been replaced by new categories in which financial assets are classified and measured on the basis of the business model employed for their management and also of their objective characteristics.

Categories pursuant to IAS 39
Fair Value Through Profit and Loss (FVTPL)
Available-For-Sale (AFS)
Held-To-Maturity (HTM)
Loans and Receivables (L&R)

Categories pursuant to IFRS 9
Fair Value Through Profit and Loss (FVTPL)
Fair Value Other Comprehensive Income (FVOCI)
Amortised Cost (AC)

- **Impairment:** the loss estimated model “incurred loss” has been replaced by a model based on the “Expected Credit Loss” (ECL). This represents a significant change and also the fundamental rationale behind the issuance of the new accounting standard.
- **Hedge Accounting:** the general framework of IAS 39 has been replaced with a new framework where the objective is to provide a better view of the risk management policies adopted by management in financial reports. The benefits of this change are expected to be particularly useful for non-financial institutions.

1.3 Summary of the impacts of First-Time Adoption as at 1st January 2018

- **Shareholders’ equity:** the impact of the introduction of the new standard on equity (shareholders of the Parent and minorities) as at 1st January 2018 amounted to -€786.8 million⁴, net of tax, of which:
 - -€853.5 million relating to the increase in provisions as result of the new impairment rules;
 - +€262 million relating to the application of the new classification and measurement rules;
 - -€192 million relating to the new “modification accounting” rules.
 - -€3.4 million relating to the tax impact.

<i>(figures in millions of euro)</i>	31.12.2017 pursuant to IAS 39	Classification and measurement	Modification	Impairment (ECL)	Tax impact	1.1.2018 pursuant to IFRS 9
Shareholders’ equity	10,004.9	+262.0	-192.0	-853.5	-3.4	9,218.1

- **CET1 ratio:** the UBI Banca Group has decided to opt for the transition rules pursuant to EU Regulation 2017/2395, which seeks to mitigate the impact of the introduction of IFRS 9 on own funds, especially with regard to higher provisions for estimated credit losses, including therefore a portion of these in the Common Equity Tier 1 (CET1) capital for the five-year transitional period. In the first five years since the introduction of IFRS 9, the transition rules progressively reduce the entire effect on the CET1 ratio by 95%, 85%, 70%, 50% and 25%.
The introduction of IFRS 9 led to a slight increase in the phased-in CET1 ratio by a total of four basis points. The impact of the new rules governing classification and measurement which were positive by 39 basis points was offset by the negative impact of the rules governing modification accounting and impairment for a total of 35 basis points.

⁴ In this respect we report that, as mentioned in a press release dated 9th February 2018, the pre-tax impact on Shareholders’ equity had previously been estimated at approximately €930 million.

	31.12.2017 pursuant to IAS 39	Classification and measurement	Modification	Impair- ment (ECL)	Tax impact	1.1.2018 pursuant to IFRS 9
CET1 ratio Transitional arrangement	11.56%	+39 bp	-29 bp	-6 bp	-0.5 bp	11.60%

It is underlined that the IFRS 9 phased-in ratio as at 1st January 2018 does not include the effects of the “model change”, authorised by the European Central Bank on 21st March 2018 and used for regulatory reporting dated as at 31st March 2018. See in this respect the section entitled “Equity and capital adequacy” in the Consolidated management report.

- **Expected Credit Loss:** the increase recognised in provisions resulting from the transition as at 1st January 2018, reported in the table below, is attributable to the new rules governing impairment of on- and off-balance sheet exposures to banking and ordinary customer counterparties.

(figures in millions of euro)

31.12.2017 Impairment pursuant to IAS 39	Derecognition of provisions pursuant to IAS 39	Stages 1 and 2	Stage 3	1.1.2018 ECL pursuant to IFRS 9
4,949.7	-97.8	+261.6	+591.9	5,705.3

1.4 The transition to IFRS 9 in the UBI Banca Group

1.4.1 Application choices

This sub-section describes the application choices made by the Group on First-Time Adoption together with a brief prior consideration of the provisions of the new accounting standard in the Group context.

Quantification of the impacts of First-Time Adoption of IFRS 9 was carried out on the basis of the findings of the project activity and the application of decisions made by the Group of which detailed information is provided below.

1.4.1.1 Classification and measurement

Financial assets

IFRS 9 lays down the following criteria for the classification of financial assets⁵:

- a) the Business Model adopted by the Bank to manage financial assets;
- b) the characteristics of the contractual cash flows from the financial assets.

a) The Business Models pursuant to IFRS 9

The UBI Group has defined its Business Models by analysing and surveying the different ways in which financial instruments are managed in order to generate cash flows, thereby substantially confirming the portfolio management strategies conducted under IAS 39 rules.

Given the strategic importance of Business Models pursuant to IFRS 9, the Group analysed its portfolios of financial instruments (debt instruments, equity instruments, loans and receivables and shares in funds) existing as at 31st December 2017 and it formulated a special Policy for the definition of these.

In compliance with the provisions of the Group’s “Risk Appetite Framework” and consistent with the bank’s approach to staff remuneration, the portfolio management strategy determined their association with the Business Models described below.

⁵ Financial assets are classified in their entirety, and therefore those that contain embedded derivatives are not subject to bifurcation rules.

Hold to Collect (HTC)

The objective of this Business Model is to hold assets with the objective of collecting contractual cash flows over the life of the instrument.

Given the management strategy underlying the HTC Business Model, sales of portfolios associated with it must be appropriately assessed. According to the standard the following may nevertheless be deemed consistent with the HTC Business Model:

- sales of determined assets due to an increase in the credit risk for those assets;
- infrequent sales (even if the value is significant) or sales of insignificant value, both individually and in aggregate (even if frequent);
- sales made close to the maturity date of the financial assets and when the proceeds from the sales approximate the collection of the remaining contractual cash flows.

The Group has formulated criteria in a special internal Regulation, with specific reference to the “significance” of the sales, for considering sales carried out for reasons not explicitly specified by the standard as admissible, which is to say sales of financial instruments made close maturity, or due to a deterioration in related credit risk or in order to meet an unforeseen need for liquidity.

The UBI Banca Group has associated the HTC Business Model to the following:

- debt instruments, which in view of the size of the banking book as planned under the 2017-2020 Business Plan and the characteristics of the instruments themselves (e.g. in terms of residual life), may be subject to the management approach applied under this Business Model;
- almost all the portfolios of loans to customers and to banks considering that the UBI Banca Group conducts mainly conventional banking business and holds a portfolio of loans originated in order to finance households, individuals and companies in their business activities.

Hold to Collect and Sell (HTC&S)

The objective of the HTC&S Business Model is pursued both by the collection of the contractual cash flows and by the sale of the financial assets.

By definition therefore the Business Model involves a number of sales, of greater significance and frequency than for the HTC Business Model, without nevertheless setting frequency or significance limits for them.

The UBI Banca Group has associated the HTC&S Business Model to the following:

- debt instruments that may be subject to the management approaches of that Business Model such as for example portfolios of instruments held to:
 - manage current liquidity requirements;
 - maintain a particular level of return;
- syndicated loans yet to be disbursed that the Group intends to sell to third parties and for which the relative loan approval decisions entail such a Business Model.

Others (FVTPL)

An entity adopts this Business Model when decisions are taken on the basis of the fair values of the financial assets and it manages them in order to realise these (typically by means of active buying and selling) or in any event when the objective of the Business Model cannot be classified among those described above (HTC&S and HTC).

The sales associated with this Business Model are normally more frequent and more significant than for the HTC&S Business Model.

The UBI Banca Group has associated the Business Model “Others” to the following:

- financial instruments held for trading;
- shares of investment funds, both open-ended or closed-ended, because the Group manages these assets with a view to realising increases in the assets’ fair values;
- equity instruments, in view of the characteristics of these instruments.

As concerns the measurement of equity instruments assigned to the Business Model “Others”, the Group has decided to opt for the “OCI election”, which is to say to measure equity instruments at fair value with recognition through other comprehensive income (i.e. in equity⁶) for instruments held in the shareholdings portfolio which constitute “long-term strategic equity investments”⁷, because it considers that this method of measurement is deemed most appropriate to reflect the aims and reasons for which the equity instruments have been subscribed.

b) The objective characteristics of the financial assets

The provisions of IFRS 9 state that only financial instruments the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding may be classified as financial assets measured at amortised cost or in other words as financial assets measured at fair value through Other Comprehensive Income.

In order to ascertain whether financial instruments meet the aforementioned characteristics, they must be tested by using the “Solely Payments of Principal and Interest Test” (SPPI test)⁸, as well as the “Benchmark Test”⁹ in the presence of clauses involving the “Modified Time Value of Money”.

Solely Payments of Principal and Interest (SPPI test)

Steps were taken on first-time adoption to analyse the portfolios of debt and credit instruments existing as at 31st December 2017 by taking a differentiated approach for the following aggregations identified:

- for “standard” credit products, typically marketed through the distribution network, the test was carried out on the basis of uniform types of product and the terms and conditions that are applied;
- for “non-standard” products, generally customised on the basis of specific borrower requirements, the test was normally carried out on the basis of a significant sample of selected transactions representative of specific products subject to analysis;
- for debt instruments, the test was carried out on the basis of special clusters identified for instruments with same characteristics.

To complete the information we report that the UBI Group envisages carrying out this test when the standard is fully phased in as follows:

- for “standard” products, typically marketed through the distribution network, the test will be carried out in the product companies, with the result automatically displayed at the time of each single grant;
- for “non-standard” products, generally customised on the basis of specific borrower requirements, the test is carried out for each single transaction;
- for debt securities, the test is carried out for each single credit agreement.

This division is also useful for identifying the most efficient solutions in terms of organisation and application.

The tests are conducted by using “lending tools”, (structured questionnaires with a “decision-making tree”), which on the basis of the answers given provides output on the possibility of measuring a financial asset held using an HTC approach at amortised cost or measuring a financial asset held using an HTC&S approach at FV through OCI.

⁶ The exercise of that option involves measurement at fair value of the financial instruments and subsequent recognition through other comprehensive income, with no recognition through profit or loss (neither for the recognition of impairment, nor for recognition of the result of the sale), unless it is for dividends paid on the shareholdings.

⁷ In addition to a limited number of equity instruments not acquired through conversions of loans.

⁸ 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 test result is negative, then the financial instrument is classified under the “fair value through profit or loss” category.

⁹ This quantitative test is an integral part of the SPPI whenever the financial instrument shows characteristics of the “modified time value of money”, that is, where there is an imperfect relationship between the reference interest rate (e.g. Euribor 3M) and the actual passage of time (e.g. monthly repayments). In this case, the goal of the test is to determine whether there is a significant difference in cash flow as compared to the cash flows of a ‘benchmark’ instrument that does not involve a modified time value of money. If the test result is negative, then the financial instrument is classified under the “fair value through profit or loss” category.

With regard to the Benchmark Test, for all financial assets with contract clauses requiring such verification, it is carried out using essentially automatic methods, by building a grid that accounts for results in each possible case of inconsistency or mismatch between the contractual interest rate and the payment period. This grid is subject to periodic updates and can be consulted when the loan is disbursed.

We report that only an extremely limited portion of debt and credit instruments did not pass the Solely Payments of Principal and Interest Test (SPPI test) on the basis of their objective characteristics and were therefore classified within assets at fair value through profit or loss.

Financial assets are classified and measured as shown below on the basis of the business model and the objective characteristics mentioned above.

Balance sheet items Pursuant to Bank of Italy Circ. No. 262/2005	Category	Subjective/objective characteristics	Type of financial instrument
<i>"20. Financial assets measured at fair value through profit or loss"</i> a) <i>Financial assets held for trading</i> b) <i>Financial assets designated at fair value</i> c) <i>Other financial assets mandatorily measured at fair value</i>	<i>Financial assets measured at "FVTPL"</i>	Financial assets are classified and measured according to that criterion, which - are managed for trading purposes; - by measuring them at fair value allows accounting mismatches to be eliminated; - while they are associated with HTC and HTC&S Business Models, the cash flows do NOT solely consist of payments of principal and interest; - they are managed with a view to increases in their fair value.	All types of financial instrument may be recognised within this category.
<i>"30. Financial assets measured at fair value through other comprehensive income"</i>	<i>Financial assets measured at "FVOCI"</i>	This category is for the classification of: a) debt securities and loans: - associated with the HTC&S Business Model; and - the contractual cash flows of which consist solely of payments of principal and interest. b) equity instruments for which an "OCI election" option has been taken.	Debt instruments (securities and loans) and equity instruments may be recognised within this category.
<i>"40. Financial assets measured at amortised cost"</i> a) <i>Loans and advances to banks</i> b) <i>Loans and advances to customers</i>	<i>Financial assets measured at amortised cost</i>	Financial assets are classified and measured according to that criterion: - associated with the HTC Business Model; and - for which the contractual cash flows consist solely of the payment of principal and interest, held in order to receive the contractual cash flows.	Only debt instruments (securities and loans) may be recognised within this category.

Financial liabilities

As concerns financial liabilities, the provisions of IAS 39 have been reproduced almost entirely in IFRS 9. The standard allows entities to opt (in continuity with IAS 39), if determined conditions are met, to measure financial liabilities on the basis of the "Fair Value Through Profit or Loss" criterion (i.e. the "fair value option"), but nevertheless recognising changes in the fair value of financial liabilities due to changes in the credit rating of the issuer through other comprehensive income and no longer through profit or loss, unless the accounting

treatment would create or enlarge an accounting mismatch in profit or loss. In the latter case the changes in question would be recognised through profit or loss.

In this respect, the UBI Banca Group's insurance companies have all fair value changes in these same assets, connected in operational terms with the liabilities to which the fair value option applies, recognised through profit or loss and they also recognise changes in fair value related to credit ratings through profit or loss.

Derivative financial instruments

Lastly, to complete the information, we report that IFRS 9 does not have any impact on the classification of derivative financial instruments, which in line with IAS 39 accounting, continue to be measured at fair value through profit or loss¹⁰.

Modification

As already reported, IFRS 9 rules continue in line with the provisions of IAS 39 with regard to derecognition.

However, the new standard requires the accounting treatment summarised in the table below with regard to modifications to the contractual cash flows of financial assets.

Renegotiation/modification of the contractual terms and conditions	Accounting treatment
<i>"SUBSTANTIAL" modification</i>	The entity must derecognise the financial instrument that has been modified and recognise a new financial asset on the basis of the new contractual terms and conditions.
<i>"NON-SUBSTANTIAL" modification</i>	If the modification is not deemed "substantial" and does not therefore result in derecognition of the instrument, the entity shall calculate the present value of the renegotiated or modified cash flows ¹¹ of the financial asset and recognise the difference between that value and the gross book value prior to the modification through profit or loss.

The practice adopted by the UBI Banca Group regarding the interpretation of the term "substantial" is shown in the table below.

Nature of the contractual modification	Quantitatively or quantitatively substantial
<i>Modification for counterparties in financial difficulty¹²</i>	The meaning given to the term "substantial" is essentially qualitative, because its objective is to maximise the recovery of the original exposure.
<i>Modification of a "commercial" nature¹³</i>	The meaning given to the term "substantial" is both qualitative and quantitative because normally, and also on the basis of current Italian legislation (the "Bersani" Law) applicable to mortgage loans to individuals, the modification frequently regards revisions made to the interest rates in order to bring them into line with the current market rate. With specific regard to the quantitative aspect of the term, the UBI Banca Group assesses the magnitude of the contract modifications on the basis of percentage changes in the present value of the cash flows of the financial instrument before and after the modification.

1.4.1.2 Impairment

The IFRS 9 impairment model, which has a forward-looking vision, requires immediate recognition of credit losses even if they are only forecast as opposed to IAS 39, according to which the measurement of credit losses is based solely on those resulting from past events and current conditions.

¹⁰ An exception is made for the measurement of derivatives used as cash flow hedges.

¹¹ These cash flows must be discounted at the original effective interest rate of the financial asset.

¹² The reference is to forbearance measures, both for performing or non-performing counterparties.

¹³ In other words, situations where the counterparty is not in financial difficulty

Unlike in IAS 39, IFRS 9 contains a single impairment model that must be applied to all financial assets measured at amortised cost and to those measured at fair value through Other Comprehensive Income¹⁴ (i.e. in equity) as well as to financial guarantees and loan commitments.

The most discretionary aspects of the standard identified during the project activities, relate to how to calculate the impairment of financial instruments (loans and receivables and debt instruments) classified and measured at amortised cost or as at fair value through other comprehensive income, relate to the following:

- the stage allocation of financial instruments following the determination of a significant increase in credit risk; and
- incorporation of 'forward-looking' scenarios in the definition of both stage allocation and the expected credit loss (ECL)¹⁵.

Stage Allocation

For financial assets that are not impaired at the time they are purchased (or originated), in accordance with IFRS 9 impairment rules, they are divided into three stages and the recognition of credit losses is determined on the basis of the stage to which they are assigned, as summarised in the table below.

Stage	Performing/Non-performing	Calculation of the expected loss amount
<i>Stage 1</i>	Performing financial assets for which no significant increase in credit risk has been recorded since initial recognition for which the credit risk is considered low.	In proportion to the amount of the expected credit losses over the next 12 months (expected losses resulting from default events on the financial asset that are considered possible within 12 months of the reporting period).
<i>Stage 2</i>	Performing financial assets for which a significant increase in credit risk has been recorded since initial recognition.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).
<i>Stage 3</i>	Non-performing financial assets.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).

Given the above, we specify that the Group's stage allocation model, based on a case-by-case or tranche approach, in the case of debt securities (see the information given below), involves both qualitative and quantitative criteria in order to measure a significant increase in credit risk between the date of initial recognition of the financial instrument and the measurement date.

More specifically, moving a financial instrument from stage 1 to stage 2 is caused mainly by one of the following:

- the counterparty becomes past due by more than 30 days, with a significance threshold;

¹⁴ Except for equity instruments for which the entity decides to opt for the OCI election.

¹⁵ The standard defines expected credit losses as the "weighted average of credit losses with the respective risks of a default occurring as the weights". Expected losses must be estimated by considering possible scenarios and therefore by considering the best available information on past events, current conditions and supportable forecasts of future events (known as a "forward looking approach").

- a forbearance measure has been agreed;
- lifetime probability of default (PD) changes with respect to a threshold value, specific for each transaction, calculated on the basis of the significant risk characteristics.

More specifically, with regard to the quantitative indicator (change in lifetime PD), a significant increase in credit risk is normally determined by comparing the change in lifetime PD recorded between the date of initial recognition of an individual transaction, or tranche if it is a debt instrument, and that of the observation, with threshold values specific to each transaction which consider the relevant risk characteristics.

The attribution of a lifetime PD to single transactions is carried out on the basis of the segment and rating class assigned to the debtor, or issuer of debt securities, both at the date of initial recognition and that of the observation. The PDs used to measure SICR are the same as those used to calculate expected credit losses, which include forecasts of future macroeconomic factors by applying special satellite models (see the information reported below).

The relative changes in lifetime PD described above represent the quantitative indicators of changes in credit risk encountered in the reporting period. Special thresholds are defined as follows in order to establish whether an increase is considered significant and therefore requires allocation to a different stage:

- if the relative change in lifetime PD observed on a position is below the significance threshold, then the increase in credit risk is deemed not significant and the position is classified in stage 1 with measurement of the expected credit loss over the next 12 months;
- if the relative change in lifetime PD observed on a position is above the significance threshold, then the increase in credit risk is deemed significant and the position is classified in stage 2 with measurement of the expected credit loss over the lifetime of the instrument.

That threshold is determined by using statistical models based on an analysis of the distribution of lifetime changes in PD in the portfolio. The calibration of the threshold is set at a level for which the significant increase in credit risk is set at least equal to the level of the long-term deterioration of the portfolio, which is observed by means of historical migration tables of the ratings.

The thresholds are differentiated by counterparty segment and type of exposure and they are determined by the relevant risk characteristics:

- the risk of default for a financial instrument at initial recognition;
- the time the instrument has been in the portfolio;
- the remaining term of the instrument.

Furthermore, the Group has decided to:

- rebut the presumption according to which a position at least 30 days past due should automatically be classified in stage 2, though only with respect to loans relating to certain business areas;
- exercise, both on first-time adoption and once fully operative, the “low credit risk exemption”¹⁶ on the sovereign bond portfolio only, considering the characteristics of those securities in the portfolio;
- use the “first in, first out” (FIFO) method to compare the tranche’s original credit rating to its rating on the reporting date for each single tranche of debt securities acquired.

For the purpose of allocating exposures to the various stages on first-time adoption of the accounting standard, performing exposures are classified in stages 1 and 2, whereas non-performing exposures are allocated to stage 3. For the latter, we specify that the UBI Banca Group has adopted the definition provided in Bank of Italy Circular No. 262/2005, according to which non-performing exposures are the sum of all exposures considered non-performing: past due, unlikely to pay or bad, as defined under supervisory regulations in force.

¹⁶ In other words, instruments that as at the FTA date had a low credit risk, identified by an investment grade credit rating, were classified in stage 1. Thereafter, if those securities lose their investment grade rating, they are transferred to another stage only in the event of a significant increase in credit risk since the initial recognition date.

Estimating the expected credit loss (ECL) and incorporating forward-looking scenarios

• Stages 1 and 2

As concerns the model for the calculation of expected credit losses for the measurement of expected losses on instruments classified in stages 1 and 2, specific adjustments have been made to the estimated risk parameters for regulatory purposes in order to ensure full consistency, net of the different regulatory provisions, between the accounting and the regulatory treatments. The main adjustments developed are designed to:

- introduce point-in-time components estimated using a through-the-cycle approach¹⁷ in accordance with regulatory provisions;
- introduce forward-looking scenarios;
- extend credit risk parameters to cover a long-term horizon.

With particular reference to the accounting standard's guidance to incorporate forward-looking scenarios, including macroeconomic scenarios, in expected loss estimates, the UBI Banca Group has decided to include these, as well as geo-sectoral trend forecasts (in sectors where the counterparty does business), in its internal models, which are already available, having been developed for stress tests on credit risk and adjusted as needed to make them compatible with the rules of the new standard.

In compliance with IFRS 9, for which estimates of ECLs must be the result of a series of the probability-weighted possible forward-looking scenarios, these models consider the use of 'most likely' scenarios combined with best and worst scenarios, each of which is assigned a percentage likelihood. These scenarios are consistent with those assumed for budget and capital allocation purposes.

In order to draw up macroeconomic scenarios that include projections of national and international, macroeconomic and financial indicators, the UBI Banca Group uses an "Integrated Forecast Model", which generates forecasts that are updated periodically. The model is used to construct a **baseline scenario (most likely)** which is normally based exclusively on the output of its own equations. Following this, both a benchmarking analysis is carried out, which takes its benchmarks from major international institutions (e.g. IMF, ECB and OECD), and checks are made for the presence of external factors, such as international and monetary policies, exogenous to the model and which usually can neither be predicted nor analysed using statistical models, but which can nevertheless have a non-negligible impact on forecasts.

As concerns the main variables (e.g. Italian GDP, Italian inflation, the Italian unemployment rate, residential and other domestic real estate prices, the euro-to-dollar exchange rate, the 3-month Euribor, the yield on 10-year BTPs), **alternative (add-on) scenarios** are constructed using special calculation software.

These best and worst scenarios are constructed using statistical simulation techniques and then two extreme scenarios with the equal probabilities of occurring are selected. Use is also made of external scenarios which incorporate given assumptions or simulate the impact of shocks. Thresholds for the acceptability of the estimates are normally calculated for all variables contained in the model on the basis of forecasts provided by a benchmark from at least two specialist international institutions. If the value generated by the model is beyond the threshold of acceptability then it is replaced by the benchmark value.

• Stage 3

With specific reference to the inclusion of forward-looking aspects in expected credit loss estimates, we note that for bad loans, the case-by-case measurement rules for these positions, carried out using a "gone concern" approach, include forward-looking elements for estimating the percentage impairment of real estate pledged as collateral (as estimated using up-to-date appraisals or based on the report of a court-appointed expert), along with, for the adoption of IFRS 9, the introduction of specific alternative exposure recovery scenarios, considering that

¹⁷ On the basis of that approach cyclical factors are removed from the estimate of risk parameters, by using the long-term component for the credit ratings of debtors independently of the state of the economy at the time of the measurement. On the other hand, a "point-in-time" approach produces risk parameters sensitive to short-term macroeconomic changes in the business cycle.

the Group intends to sell, within a reasonable timeframe, a certain amount of its bad loans to third parties, both in order to maximise cash flows and to pursue a specific non-performing loan management strategy. Consequently, the ECL estimates reflect not only the expected recovery amount through ordinary credit management activity, but also a sale scenario and therefore cash flows resulting from that transaction.

The wish to include “sale scenarios” in the IFRS 9 impairment model is seen partly in the company’s historically observed exposure recovery strategy, but mainly in its future plans, consistent with the UBI Banca Group’s “NPL Strategy” submitted to the supervisory authority in April 2018.

Purchased or Originated Credit Impaired (“POCI”)

In accordance with IFRS 9 “Purchased or Originated Credit Impaired assets” (POCI) are defined as exposures that are non-performing at the purchase or origination date¹⁸.

IFRS 9 states the following with regard to these exposures:

- the estimate of the expected credit loss should always be calculated on the basis of the lifetime expected loss of the financial instrument¹⁹;
- the interest recognised should be calculated by applying the “credit adjusted effective interest rate”, which is the interest rate which at the time of initial recognition discounts estimated future cash flows at amortised cost of the asset, with account taken in the estimate also of expected credit losses.

The UBI Banca Group has classified the credit exposures acquired as part of the business combination operation pursuant to IFRS 3 relating to the former New Banks, in compliance, amongst other things, with the provisions of Bank of Italy Circular No. 262/2005.

1.4.1.3 Hedge accounting

IFRS 9 contains provisions relating to what is termed the “General Hedge Accounting Model” designed to better reflect risk management policies pursued by management in its financial reporting.

To give examples, but not limited to these, the standard therefore broadens the range of risks for which hedge accounting may be applied to non-financial items. It eliminates the compulsory quantitative effectiveness test, it no longer requires retroactive assessment of the effectiveness of a hedge and it no longer allows hedge accounting to be voluntarily revoked once it has been designated.

While more flexibility is introduced, the new standard requires even more detailed disclosure on risk management activities by management.

The standard does not consider the accounting treatment for the collective hedging of loan portfolios, termed “macro hedges”. In this respect, in April 2014 the IASB published the discussion paper “Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging” which, in line with the dynamic procedures for the management of interest rate risk adopted by banks, sets out a possible accounting approach (a “portfolio revaluation approach”) designed to better reflect the dynamic management of risk by management in the financial statements of an entity.

Following the observations received during the consultation stage, in July 2015 the IASB decided to assign the “macro hedging” project to the relative research programme and it postponed publication of the Exposure Draft until after a further discussion paper had been prepared.

As a consequence of this, pending completion of the accounting standard in relation to macro hedging, IFRS 9 allows those preparing financial statements to continue to apply IAS 39 rules governing hedging policies.

¹⁸ These exposures are not identified by any specific balance sheet item, but are classified on the basis of the business model with which they are managed along the same lines as other financial assets.

¹⁹ Therefore there is no possibility of these exposures transferring to 12-month expected credit losses should there be a significant improvement in the credit risk of the exposure.

With specific regard to new guidance on general hedge accounting, the UBI Banca Group, pending completion by the IASB of new macro hedging rules, has decided to take the opt-out option, that is, it has elected to continue applying IAS 39 (carve out) rules²⁰.

On this basis and also that of the new IFRS 9 classification rules, which no longer contain a “held-to-maturity investment” (HTM) category, the Group has proceeded to apply hedge accounting treatment to government securities previously classified within HTM assets, which under IAS 39 classification rules could not be hedged for interest rate risk.

1.5 Exemptions applied on First-Time Adoption (FTA)

Subject	Exemptions/options applied by the UBI Banca Group
<i>Hedge accounting</i>	The UBI Banca Group has decided to take the “opt-out” option allowed by IFRS 9, and that is the option to continue to apply IAS 39 rules. The Group may continue to confirm that option until the entry into force of the macro hedging accounting standard. As of that future date the Group will mandatorily apply the IFRS 9 general hedge accounting rules.
<i>Comparative financial statements</i>	On First-Time Adoption, IFRS 9 does not mandatorily require the restatement of comparative figures relating to prior periods on a consistent basis. As a consequence, the UBI Banca Group has not taken steps to prepare these. In this respect, in the 5th update of Bank of Italy Circular 262/2005 “Banking financial statements: presentations and compilation rules”, the supervisory authority has clearly stated that banks that do not produce consistent comparative figures must include a reconciliation statement in the first financial statements that they prepare on the basis of the aforementioned update, which shows the methodology used and provides a reconciliation between the figures of the last financial statements approved and the first financial statements prepared on the basis of the new rules. The form and content of that statement are also to be decided at the discretion of the competent governing bodies. In this respect, reference is made to the “Reconciliation statements” contained in the subsequent point 3.1 of this section.
<i>Adoption of IFRS 9 by the Insurance Companies</i>	Since the Group does not constitute a “financial conglomerate”²¹ (in accordance with IFRS 4 “Insurance contracts” rules) the insurance companies that are subsidiaries of the Parent, UBI Banca, and which are therefore consolidated on a line-by-line basis, have not opted to apply a “deferral approach”²². In view of this, they have not opted to apply an “overlay approach” in the preparation of their separate financial statements. That optional method allows the amount needed for the income statement result at the end of the year to be the same as it would have been had the company applied the provisions of IAS 39 in place of IFRS 9 to be reclassified from the income statement to the statement of OCI²³. As concerns the associate insurance companies, the UBI Banca takes advantage of the temporary exemption under IAS 28 provisions which allows the use of uniform accounting standards when the equity method is used. On this basis the figures for the companies in question are still determined according to IAS 39 rules.

²⁰ Relating to IAS 39 rules on macro hedging.

²¹ In accordance with Art. 2 of Directive 2002/87/EC, a group or sub-group of a group constitutes a financial conglomerate when it satisfies the following conditions:

- a) a regulated entity is at the head of the group or at least one of the subsidiaries in the group is a regulated entity;
- b) where there is a regulated entity at the head of the group, this is either a parent undertaking of another entity in the financial sector, an entity which holds a participation in another entity in the financial sector, or an entity linked with an entity in the financial sector by a relationship which involves management on a unified basis pursuant to a contract concluded with that undertaking or provisions in the articles of association or in which the administrative, management or supervisory bodies consist for the major part of the same persons;
- c) where there is no regulated entity at the head of the group, the group's activities mainly occur in the financial sector;
- d) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector;
- e) the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant.

²² This approach allows an entity not to apply the provisions of IFRS 9 for the preparation of consolidated financial statements until the financial year ending 31st December 2020 and to continue to apply the provisions of IAS 39.

²³ Which is to say in equity.

2 IFRS 15 “Revenue from contracts with customers”

The accounting standard IFRS 15 “Revenue from contracts with customers” sets out the rules for the recognition of revenue resulting from contractual obligations towards customers. IFRS 15 shall only be applied if the counterparty is a customer. Customers are parties that have stipulated a contract with an entity in order to obtain goods or services in exchange for consideration as a result of the ordinary activities of the entity.

2.1 Scope

An entity shall apply IFRS 15 to all contracts with customers, except the following:

- lease contracts within the scope of IAS 17 “Leases”;
- insurance contracts within the scope of IFRS 4 “Insurance contracts”;
- financial instruments and other contractual rights or obligations within the scope of: IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”; and
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

2.2 The pillars of IFRS 15

The new accounting standard requires revenues to be recognised by adopting an approach based on the following five steps:

- 1) **identification of contracts with the customer**: a contract is an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by an entity's customary business practices.
- 2) **identification of the performance obligations present in the contract**: a single contract may contain a promise to deliver more than one good or service. At the time when the details of the contract are recognised, the entity estimates the goods or services explicitly or implicitly promised in the contract and identifies, as a performance obligation, each commitment to transfer a given good or service;
- 3) **determination of the transaction price**: the price is the amount expected to be received in return for the transfer of goods or services to a customer. The price set may be a fixed amount, include variable consideration or non-cash consideration. With regard to variable consideration, the standard introduces potential estimation procedures for determining the total transaction price;
- 4) **allocation of the transaction price to the performance obligations**: this allocation takes place in cases where a contract includes more than one performance obligation and the price must be allocated to each obligation on the basis of the stand-alone selling price for each single good or service stipulated in the contract. The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers;
- 5) **recognition of revenue in the financial statements when an entity satisfies the performance obligations**: revenue is only recognised when the customer obtains control over the good or service transferred. The amount of the revenue to be recognised is that allocated to the performance obligation which has been satisfied at a point in time or over time. Where performance obligations are satisfied “over time”, the entity recognises the revenue over the relative period of time using an appropriate method for measuring the progress made with respect to complete satisfaction of the obligation.

2.3 The IFRS 15 transition project

The UBI Banca Group implemented a special project to analyse the provisions of the standard in question and also the main types of revenue generated by contracts with customers in order to identify the impacts of the introduction of IFRS 15.

Consistent with the choices made regarding IFRS 9, the Group opted to recognise the possible impacts of the application of the standard retrospectively.

The revenue analysed was that generated by contracts with customers recognised within the item “Fee and commission income” (with particular reference to “asset management” and “payment card” business and services provided in relation to current accounts) and the item “Other operating income”.

This analysis found that the accounting treatment for these items was already compliant with the provisions of the new standard and as a consequence no impacts on Group equity were found following the introduction of IFRS 15.

Consequently the only impacts identified were on the disclosures to be made in the financial statements relating to the aforementioned revenues.

The impact analysis focused on the following matters:

- **recognition of placement commissions for “asset management” business:** in view of the existence of a separate “performance obligation” carried out on behalf of the fund and remunerated by means of that type of commission, and considering that the placement activity ends at a point in time, it was considered that amounts for placement commissions could be recognised in the income statement “at a point in time”, in compliance with standards in use prior to the application of the standard;
- **consideration regarding current account and payment card activities and the treatment of the relative performance obligations:** the analysis carried out confirmed that the current procedures for recognising these revenues are compliant with the provisions of IFRS 15. Separate information will be provided in the notes to the financial statements on single products or services which make up the various packages and stand-alone prices allocated to them solely for the purposes of satisfying the disclosure requirements set by the standard.

3 The impacts of First-Time Adoption of IFRS 9 and IFRS 15

The date of First-Time Adoption of IFRS 9 is 1st January 2018. Consequently, the impacts of that standard on Shareholders’ equity will appear as at that date, because IAS 8, “Accounting policies, changes in accounting estimates and errors”, states that the impacts of the transition to a new standard should be recognised in separate reserves in equity.

That provision is essentially designed to reconstruct the effects that would have occurred in the balance sheet if the provisions of the new standards had been applied continuously.

In this respect, because the First-Time Adoption of IFRS 15 has had no impacts for the UBI Banca Group on Shareholders’ equity, the matters described in point 3.1 relate solely to the impacts of the first-time adoption of IFRS 9.

Having stated the above, in order to illustrate how the transition from IAS 39 rules to the new IFRS 9 standard affects the capital and financial position (also in accordance with the provisions of IFRS 7 “Financial instruments: disclosures”), this section contains the following statements:

- *restated statement of balance sheet items as at 31st December 2017 (pursuant to IAS 39) reclassified into the new balance sheet items (pursuant to IFRS 9) required under the 5th update of Bank of Italy Circular No. 262/2005.*

On the basis of the amounts recognised under IAS 39 this statement will show the reclassifications made under IFRS 9 on the basis of the business models associated with the financial instruments and also of their objective characteristics;

- *reconciliation between balance sheet items as at 31st December 2017 (pursuant to IAS 39) and the balance sheet items as at 1st January 2018 (pursuant to IFRS 9).*

This statement will show the impacts on-balance sheet items resulting from the provisions of IFRS 9 regarding measurement and impairment. Similarly to the statement mentioned above, this reconciliation also divides financial instruments on the basis of the class to which they belong;

- *reconciliation between equity as at 31st December 2017 (pursuant to IAS 39) and equity as at 1st January 2018 (pursuant to IFRS 9).*

That reconciliation provides details of the impacts of First-Time Adoption of IFRS 9 on the shareholders' equity of the UBI Banca Group.

3.1 Reconciliation statements and explanatory notes

Restated statement of balance sheet items as at 31st December 2017 (pursuant to IAS 39) reclassified into the new balance sheet items (pursuant to IFRS 9) required under the 5th update of Bank of Italy Circular No. 262/2005

This statement reconciles items in the assets and liabilities sections of the balance sheet published in the consolidated financial statements as at and for the period ended 31st December 2017, with the items introduced by the 5th update of Bank of Italy Circular No. 262/2005.

It represents the results of the application of the provisions of the IFRS 9 financial reporting standard, in terms of the classification of financial instruments. The amounts for the assets and liabilities in the balance sheet, calculated by applying the measurement rules of IAS 39 are then restated in the new items in accordance with the business model defined by the UBI Group in accordance with the financial reporting standard IFRS 9. The results of the SPPI test, which constitutes an integral part of the classification process, are considered in that restatement.

Restated statement of balance sheet items as at 31st December 2017 (pursuant to IAS 39) reclassified into the new balance sheet items (pursuant to IFRS 9) required under the 5th update of Bank of Italy Circular No. 262/2005

		Circular No 262/2005 5th update ASSETS																
Circular No. 262/2005 4th update ASSETS	31.12.2017 IAS 39	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured at amortised cost		50. Hedging derivatives	60. Fair value change in hedged financial assets (+/-)	70. Equity investments	80. Technical reserves of reinsurers	90. Property, plant and equipment	100. Intangible assets	110. Tax assets		120. Non-current assets and disposal groups held for sale	130. Other assets
			a) financial assets held for trading	b) financial assets designated at fair value	c) other financial assets mandatorily measured at fair value		a) loans and advances to banks	b) loans and advances to customers							a) current	b) deferred		
10. Cash and cash equivalents	811,578	811,578																
20. Financial assets held for trading			887,153		37,322													
Debt securities	482,049		448,256		33,793													
Equity securities	17,784		17,784		-													
Shares of UCITS	3,529		-		3,529													
Derivative instruments	421,113		421,113		-													
30. Financial assets designated at fair value				11,271	81,019													
Debt securities	11,271			11,271	-													
Equity securities	9,592			-	9,592													
Shares of UCITS	71,427			-	71,427													
40. Available-for-sale financial assets	9,861,978				584,641	7,429,504	1,847,833											
Debt securities	9,311,396				92,570	7,370,993	1,847,833											
Equity securities	291,448				232,937	58,511	-											
Shares of UCITS	259,134				259,134	-	-											
50. Held-to-maturity investments	5,937,872					4,940,112	997,760											
Debt securities	5,937,872					4,940,112	997,760											
60. Loans and advances to banks	7,836,002				14,870		7,821,132											
Loans to central banks	5,799,045				-		5,799,045											
Loans to banks:	2,036,957				14,870		2,022,087											
Financing	2,036,746				14,870		2,021,876											
Debt securities	211				-		211											
70. Loans and advances to customers	92,338,083				355,933		91,982,150											
Financing:	92,331,424				354,676		91,976,748											
Performing	84,171,935				224,855		83,947,080											
Non-performing	8,159,489				129,821		8,029,668											
Debt securities:	6,659				1,257		5,402											
Performing	5,405				3		5,402											
Non-performing	1,254				1,254		-											
80. Hedging derivatives	169,907							169,907										
90. Fair value change in hedged financial assets (+/-)	-2,035								-2,035									
100. Equity investments	243,165									243,165								
110. Technical reserves of reinsurers	347										347							
120. Property, plant and equipment	1,811,743											1,811,743						
130. Intangible assets	1,728,328												1,728,328					
140. Tax assets	4,170,387														1,497,551	2,672,836		
a) current	1,497,551														1,497,551			
b) deferred	2,672,836															2,672,836		
150. Non-current assets and disposal groups held for sale	962																962	
160. Other assets	1,451,059																	1,451,059
Total assets	127,376,141	811,578	887,153	11,271	1,073,785	12,369,616	7,821,132	94,827,743	169,907	-2,035	243,165	347	1,811,743	1,728,328	1,497,551	2,672,836	962	1,451,059

Figures in thousands of euro

**Restated statement of balance sheet items as at 31st December 2017 (pursuant to IAS 39) reclassified into the new balance sheet items
(pursuant to IFRS 9) required under the 5th update of Bank of Italy Circular No. 262/2005**

Figures in thousands of euro		Circular No.262/2005 5th update LIABILITIES																				
Circular No. 262/2005 4th update LIABILITIES	31.12.2017 IAS 39	10. Financial liabilities measured at amortised cost			20. Financial liabilities held for trading	30. Financial liabilities designated at fair value	40. Hedging derivatives	60. Tax liabilities		80. Other liabilities	90. Provision for post- employment benefits	100. Provisions for risks and charges			110. Technical reserves	120. Valuation reserves	150. Reserves	160. Share premiums	170. Share capital	180. Treasury shares (-)	190. Minority interests (+/-)	200. Profit (loss) for the year (+/-)
		a) due to banks	b) due to customers	C) debt securities issued				a) current	b) deferred			a) commit- ments and guarantees granted	b) pension and similar obligations	c) other provisions for risks and charges								
10. Due to banks	16,733,006	16,733,006																				
<i>Due to central banks</i>	12,428,723	12,428,723																				
<i>Due to banks</i>	4,304,283	4,304,283																				
20. Due to customers	68,434,827		68,434,827																			
<i>Current accounts and deposits</i>	64,258,153		64,258,153																			
<i>Term deposits</i>	2,364,594		2,364,594																			
<i>Financing</i>	513,627		513,627																			
<i>Other payables</i>	1,298,453		1,298,453																			
30. Debt securities issued	26,014,943			26,014,943																		
<i>Bonds</i>	24,865,262			24,865,262																		
<i>Other certificates</i>	1,149,681			1,149,681																		
40. Financial liabilities held for trading	411,653				411,653																	
<i>Derivative instruments</i>	411,653				411,653																	
50. Financial liabilities measured at fair value	43,021					43,021																
<i>Due to customers</i>	43,021					43,021																
60. Hedging derivatives	100,590						100,590															
80. Tax liabilities	223,397							68,565	154,832													
<i>a) current</i>	68,565							68,565	-													
<i>b) deferred</i>	154,832							-	154,832													
100. Other liabilities	2,742,088									2,694,744		47,344										
110. Provision for post-employment benefits	350,779										350,779											
120. Provisions for risks and charges	536,265												137,213	399,052								
<i>a) pension and similar obligations</i>	137,213												137,213	-								
<i>b) other provisions</i>	399,052												-	399,052								
130. Technical reserves	1,780,701														1,780,701							
140. Valuation reserves	-114,820															-54,901	-59,919					
170. Reserves	3,209,460																3,209,460					
180. Share premiums	3,306,627																	3,306,627				
190. Share capital	2,843,177																		2,843,177			
200. Treasury shares (-)	-9,818																			-9,818		
210. Minority interests (+/-)	79,688																				79,688	
220. Profit (loss) for the year (+/-)	690,557																					690,557
Total liabilities and equity	127,376,141	16,733,006	68,434,827	26,014,943	411,653	43,021	100,590	68,565	154,832	2,694,744	350,779	47,344	137,213	399,052	1,780,701	-54,901	3,149,541	3,306,627	2,843,177	-9,818	79,688	690,557

Item “20. Financial assets measured at fair value through profit or loss” contains the following:

- financial instruments held for trading purposes, recognised under the sub item a) financial assets held for trading (already present under IAS 39);
- financial assets for which IFRS 9 allows a “fair value option”²⁴ recognised under sub-item b) financial assets designated at fair value (already present under IAS 39);
- financial assets, that are not financial assets held for trading, assigned to the business model “Others” and for which the objective contractual cash flow characteristics do not allow them to pass the Solely Payment of Principal and Interest test (“SPPI” test), recognised under sub item c) other financial assets mandatorily measured at fair value.

It is underlined that, since there has been no change in the management strategy for them, the financial instruments previously classified within “Financial assets held for trading” amounting to €887.2 million have been entirely classified within the item “20. Financial assets measured at fair value through profit or loss a) financial assets held for trading”. Furthermore, debt securities, held as part of insurance business, previously classified within the item “Financial assets designated at fair value” amounting to €11.3 million have been recognised within item “20. Financial assets measured at fair value through profit or loss b) financial assets designated at fair value”.

At the First-Time Adoption stage the following were reclassified into the new item “20. Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value”:

- €37.3 million relating to debt instruments, equity instruments and UCITS shares for which there was no longer any intention to trade them;
- €81.0 million relating to UCITS shares and equity instruments held for merchant banking and private equity purposes previously classified within “Financial assets designated at fair value” which no longer met the requirements for the exercise of the fair value option (FVO)²⁵;
- €955.4 million relating to debt securities, equity securities and loans and receivables, to be mandatorily measured at fair value because they failed to pass the SPPI test or because the Group decided not to make an “OCI election”.

Item “30. Financial assets measured at fair value through other comprehensive income” contains the following:

- financial instruments associated with the “Hold to Collect and Sell” Business Model for which the SPPI test has been passed;
- equity instruments for which an “OCI election” has been made to present changes in the fair value in other comprehensive income²⁶.

IFRS 9 establishes that financial instruments²⁷ measured at fair value through other comprehensive income are subject to the provisions that govern impairment.

On First-Time Adoption, €4,940.1 million relating to debt instruments previously classified within “Held-to-maturity investments” was reclassified within “Financial assets measured at fair value through other comprehensive income”.

Item “40. Financial assets measured at amortised cost” contains financial assets associated with the “Hold to Collect” Business Model the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

²⁴ A financial asset can only be designated at fair value through profit or loss on initial recognition when that designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’), which otherwise would result in the measurement of assets or liabilities or recognition of profit or loss on a different basis.

²⁵ In compliance with IFRS 9, the fair value option may only be used in order to reduce or eliminate an accounting mismatch.

²⁶ In fact in compliance with the provisions of IFRS 9, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

²⁷ Debt or credit instruments.

On First-Time Adoption, €1,847.8 million relating to debt instruments previously classified within “Available-for-sale financial assets” was reclassified within “Financial assets measured at amortised cost”.

The liability item “100. Provisions for risks and charges a) commitments and guarantees granted” contains reclassifications made on the basis of provisions relating to expected losses on financial guarantees and loan commitments amounting to €47.3 million.

Reconciliation between balance sheet items as at 31st December 2017 (pursuant to IAS 39) and the balance sheet items as at 1st January 2018 (pursuant to IFRS 9).

This statement shows the impact of the adoption of IFRS 9 on individual asset and liability items in the balance sheet according to the 5th update of Bank of Italy Circular No. 262/2005 in terms of “measurement” and “impairment” and it also reports the “tax impacts”.

More precisely:

- the column “Measurement” shows changes in value for individual balance sheet items arising from a different measurement criterion. This column also includes impacts relating to modifications made to the original contractual clauses of the financial instruments that are considered “substantial”;
- the column “Impairment” shows changes in value for individual balance sheet items arising from the adoption of the new impairment model introduced by the reporting standard IFRS 9;
- the column “FTA tax impacts” shows the tax impacts of first-time adoption of IFRS 9, calculated according to procedures illustrated later in this document.

The column “1.1.2018 IFRS 9” shows the new amounts for assets, liabilities and equity items for each balance sheet item resulting from the transition to IFRS 9, consisting of the algebraic sum of the amounts stated in the previous columns mentioned above.

In compliance with IAS 8 “Accounting policies, changes in accounting estimates and errors”, the impacts of first-time adoption of the new accounting standard are recognised in equity.

More specifically, the item “120. Valuation reserves” mainly contains the impacts resulting from:

- the recognition at fair value of debt instruments previously classified within HTM investments and which are therefore measured at amortised cost;
- the reconstitution of the amount for the amortised cost of securities previously classified within AFS financial assets, reclassified on first-time adoption within assets measured at amortised cost, by means of the elimination of the previous AFS reserve.

All other effects arising from the introduction of IFRS 9 are recognised within the item “150. Reserves”.

Reconciliation between balance sheet items as at 31st December 2017 (pursuant to IAS 39) and the balance sheet items as at 1st January 2018 (pursuant to IFRS 9).

Figures in thousands of euro

Circular No 262/2005 5th update ASSETS	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Cash and cash equivalents	811,578				811,578
20. Financial assets measured at fair value through profit or loss	1,972,209	7,593			1,979,802
a) financial assets held for trading	887,153				887,153
Debt securities	448,256				448,256
Equity securities	17,784				17,784
Shares of UCITS	-				-
Financing	-				-
Derivative instruments	421,113				421,113
b) financial assets designated at fair value	11,271				11,271
Debt securities	11,271				11,271
Financing	-				-
c) other financial assets mandatorily measured at fair value	1,073,785	7,593			1,081,378
Debt securities	127,620	-41			127,579
Equity securities	242,529	-			242,529
Shares of UCITS	334,090	-			334,090
Financing	369,546	7,634			377,180
30. Financial assets measured at fair value through other comprehensive income	12,369,616	65,691			12,435,307
Debt securities	12,311,105	65,448			12,376,553
Equity securities	58,511	243			58,754
Financing	-	-			-
40. Financial assets measured at amortised cost	102,648,875	-3,235	-812,451		101,833,189
a) loans and advances to banks	7,821,132		-6,110		7,815,022
Loans to central banks	5,799,045		-		5,799,045
Loans to banks:	2,022,087		-6,110		2,015,977
Financing	2,021,876		-6,106		2,015,770
Debt securities	211		-4		207
b) loans and advances to customers	94,827,743	-3,235	-806,341		94,018,167
Financing:	91,976,748	-191,994	-803,795		90,980,959
Stages one and two	83,947,080	-181,082	-232,833		83,533,165
Stage three	8,029,668	-10,912	-570,962		7,447,794
Debt securities:	2,850,995	188,759	-2,546		3,037,208
Stages one and two	2,850,995	188,759	-2,546		3,037,208
Stage three	-	-	-		-
50. Hedging derivatives	169,907				169,907
60. Fair value change in hedged financial assets (+/-)	-2,035				-2,035
70. Equity investments	243,165				243,165
80. Technical reserves of reinsurers	347				347
90. Property, plant and equipment	1,811,743				1,811,743
100. Intangible assets	1,728,328				1,728,328
110. Tax assets	4,170,387			14,137	4,184,524
a) current	1,497,551			80,000	1,577,551
b) deferred	2,672,836			-65,863	2,606,973
120. Non-current assets and disposal groups held for sale	962				962
130. Other assets	1,451,059				1,451,059
Total assets	127,376,141	70,049	-812,451	14,137	126,647,876

Figures in thousands of euro

Circular No.262/2005 5th update LIABILITIES	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Financial liabilities measured at amortised cost	111,182,776				111,182,776
a) due to banks	16,733,006				16,733,006
Due to central banks	12,428,723				12,428,723
Due to banks	4,304,283				4,304,283
b) due to customers	68,434,827				68,434,827
Current accounts and deposits	64,258,153				64,258,153
Term deposits	2,364,594				2,364,594
Financing	513,627				513,627
Amounts due for commitments to repurchase own equity instruments	-				-
Other payables	1,298,453				1,298,453
C) debt securities issued	26,014,943				26,014,943
Bonds	24,865,262				24,865,262
Other certificates	1,149,681				1,149,681
20. Financial liabilities held for trading	411,653				411,653
Due to banks	-				-
Due to customers	-				-
Debt securities	-				-
Derivative instruments	411,653				411,653
30. Financial liabilities designated at fair value	43,021				43,021
Due to banks	-				-
Due to customers	43,021				43,021
Debt securities	-				-
40. Hedging derivatives	100,590				100,590
60. Tax liabilities	223,397			17,511	240,908
a) current	68,565			82	68,647
b) deferred	154,832			17,429	172,261
80. Other liabilities	2,694,744				2,694,744
90. Provision for post-employment benefits	350,779				350,779
100. Provisions for risks and charges	583,609		41,003		624,612
a) commitments and guarantees granted	47,344		41,003		88,347
b) pension and similar obligations	137,213				137,213
c) other provisions for risks and charges	399,052				399,052
110. Technical reserves	1,780,701				1,780,701
120. Valuation reserves	-54,901	25,478	13,593	-18,914	-34,744
150. Reserves	3,149,541	44,571	-867,047	15,540	2,342,605
160. Share premiums	3,306,627				3,306,627
170. Share capital	2,843,177				2,843,177
180. Treasury shares (-)	-9,818				-9,818
190. Minority interests (+/-)	79,688				79,688
200. Profit (loss) for the year (+/-)	690,557				690,557
Total liabilities and equity	127,376,141	70,049	-812,451	14,137	126,647,876

Details of the impacts reported in the statement are given below:

1) **Measurement.** The total impact, amounting to +€70 million, was composed as follows:

- +€262 million due to the measurement of financial instruments:
 - +€7.6 million due to the measurement at fair value of financial instruments reclassified within “Financial assets measured at fair through profit or loss” previously measured at amortised cost;
 - +€65.7 million due to the measurement at fair value of debt instruments classified within “Financial assets measured at fair value through other comprehensive income” previously measured at amortised cost because they were classified within the item “Held-to-maturity investments”;
 - +€188.7 million due to the measurement at amortised cost of debt instruments classified within “Financial assets measured at amortised cost” previously measured at fair value because they were classified within the item “Available-for-sale financial assets”;
- -€192 million due to the new “modification accounting” rules.

2) **Impairment.** The total impact, amounting to -€853.5 million, was composed as follows:

- -€812.5 million due to “Financial assets measured at amortised cost” of which:
 - -€241.5 million due to greater impairment losses on performing positions classified according to the rules within stage 1 and stage 2;

- -€571 million due to greater impairment losses on performing positions classified according to the rules within stage 3;
- -€41 million due to guarantees and commitments of which:
 - -€20.1 million due to greater impairment losses on performing positions classified according to the rules within stage 1 and stage 2;
 - -€20.9 million due to greater impairment losses on performing positions classified according to the rules within stage 3.

Reference is made for greater details to the relative sub-section with specific reference to the [reconciliation between impairment provisions \(pursuant to IAS 39\) as at 31st December 2017 and impairment provisions \(pursuant to IFRS 9\) as at 1st January 2018](#).

3) **FTA tax impacts.** The tax impact of first-time adoption of IFRS 9, which was negative by €3.4 million, was the result of the following:

- the realignment of deferred tax assets and liabilities as a result of the impacts resulting from the attribution of the business models pursuant to IFRS 9 which involved the original IAS 39 portfolios (“Available-for-sale financial assets” and “Held-to-maturity investments” in particular), amounting to -€65.9 million and -€17.5 million respectively, with a total negative impact of -€83.4 million on Shareholders’ equity;
- the recognition of current tax assets based on the deductible impacts of First-Time Adoption (on the basis of the provisions of the IFRS 9 Tax Decree) up to the amount of estimated consolidated taxable income for the year ending 31st December 2018 and with account taken of the results of the “probability test” defined by the Group’s accounting policies.

That amount was calculated by a downwards adjustment to pre-tax consolidated profit for 2018 for the following impacts:

- a. the estimated profits of Group companies that do not form part of the tax consolidation which have not recognised first-time adoption impacts;
- b. deferred tax assets (not qualified) net of deferred tax liabilities, recognised in the balance sheet as at 31st December 2017 for that part which it was considered would have reversed during 2018;
- c. components of expected income, that are immaterial for tax purposes, such as for example dividends, profits of companies consolidated with the equity method and the results of the insurance companies.

The estimated amount was +€80 million with a consequent positive impact on shareholders’ equity by the same amount.

No further deferred tax assets were recognised on the basis of the negative difference resulting from the calculations illustrated in the second point – 2018 estimated consolidated taxable income – and of the deductible impacts of First-Time Adoption, because the probability test defined by the Group’s accounting policies allows recognition of tax assets up to the amount of estimated taxable income over a limited time horizon.

It must nevertheless be underlined that following the approval of the 2019 Budget (Law No. 145 of 30th December 2018) a change was made to the criterion for the tax deductibility of write-downs on loans to customers recognised on First-Time Adoption (“FTA”) of the accounting standard IFRS 9 (which according to the original rules was provided for fully in 2018) allowing for the deduction of one tenth in 2018 and the remaining 90% at constant rates over the following nine years.

On the basis of the above, the following steps were therefore taken as at 31st December 2018:

- a) recognition of deferred tax assets for the purposes of corporate income tax (IRES) and the regional production tax (IRAP) for the temporary differences deductible over nine future years (€240 million approx.) with account taken of the results of the “probability test” laid down in Group accounting policies;
- b) derecognition of that part of current deferred tax assets that had been recognised that is no longer deductible in 2018 (€53.6 million approx.).

Reconciliation between equity as at 31st December 2017 (pursuant to IAS 39) and equity as at 1st January 2018 (pursuant to IFRS 9).

This statement summarises the impacts on equity as a consequence of First-Time Adoption of the accounting standards IFRS 9, which totalled -€786.8 million, net of tax.

Consolidated equity as at 1st January 2018 (pursuant to IFRS 9) amounted to €9,218.1 million, down on equity as at 31st December 2017 (pursuant to IAS 39) amounting to €10,004.9 million.

In detail, the impact relating to “measurement” and “impairment” before tax (reported separately) is reported separately for each balance sheet item affected.

Figures in thousands of euro

Impact of transition to IFRS 9	
Equity attributable to the shareholders of the Parent as at 31 st December 2017 pursuant to IAS 39	10,004,871
- of which attributable to the shareholders of the Parent	9,925,183
- of which minority interests	79,688
	Net impact
20. Financial assets measured at fair value through profit or loss	7,593
Measurement	
Measurement at fair value of the financial instruments measured at amortised cost pursuant to IAS 39	7,593
30. Financial assets measured at fair value through other comprehensive income	65,691
Measurement	
Measurement at fair value of the financial instruments measured at amortised cost pursuant to IAS 39	65,691
40. Financial assets measured at amortised cost	-815,686
Measurement	
Measurement at amortised cost of the financial instruments measured at fair value through equity pursuant to IAS 39	188,759
Modification accounting	-191,994
Impairment	
Stage 1 and Stage 2	-241,489
Stage 3	-570,962
Financial guarantees and commitments	-41,003
Impairment	
Stage 1 and Stage 2	-20,111
Stage 3	-20,892
Impacts on equity	-783,405
Impacts on minority interests	-
Tax impact on FTA	-3,374
Total transition impacts	-786,779
Equity attributable to the shareholders of the Parent as at 1 st January 2018 pursuant to IFRS 9	9,218,092
- of which attributable to the shareholders of the Parent	9,138,404
- of which minority interests	79,688

Reconciliations between impairment provisions (pursuant to IAS 39) and provisions for guarantees and commitments (pursuant to IAS 37) as at 31st December 2017 and ECLs (pursuant to IFRS 9) as at 1st January 2018

These reconciliations show the impacts of the application of IFRS 9 on the determination of estimated expected credit losses relating to:

- “Financial assets measured at fair value through other comprehensive income”;
- “Financial assets measured at amortised cost”; and
- “Financial guarantees and loan commitments”.

The impacts in question are divided by allocation stage, gross amounts and the relative provisions for impairment.

Figures in thousands of euro

	31.12.2017 IAS 39				Reclassifications and FTA adjustments				1.1.2018 IFRS 9			
Items	Gross exposure	Impairment losses	Net exposure	Coverage	Reclassifications	Reclassifications value adjustments	FTA value adjustments (gross)	FTA value adjustments (provisions)	Gross exposure	Impairment losses	Net exposure	Coverage
- Bad loans	7,343,564	3,307,950	4,035,614	45.05%	-1,421	-554	-1,909	513,717	7,340,234	3,821,113	3,519,121	52.06%
- Unlikely-to-pay loans	5,141,450	1,172,769	3,968,681	22.81%	-223,134	-95,755	-8,242	52,012	4,910,074	1,129,026	3,781,048	22.99%
- Past-due loans	165,736	10,542	155,194	6.36%	-1,671	-97	-761	5,234	163,304	15,679	147,625	9.60%
Non-performing exposures (Stage three)	12,650,750	4,491,261	8,159,489	35.50%	-226,226	-96,405	-10,912	570,962	12,413,612	4,965,818	7,447,794	40.00%
Performing loans (stages one and two)	84,582,958	411,023	84,171,935	0.49%	-226,367	-1,512	-181,082	232,833	84,175,509	642,344	83,533,165	0.76%
of which: stage 1									70,753,695	204,137	70,549,558	
of which: stage 2									13,421,814	438,207	12,983,607	
Other financial assets	6,659	-	6,659	0.00%	2,844,336	-	188,759	2,546	3,039,754	2,546	3,037,208	0.08%
of which former L&R	6,659	-	6,659		-1,257			5				
of which former AFS					1,847,833			1,650				
of which former HTM					997,760			891				
Loans and advances to customers	97,240,367	4,902,284	92,338,083	5.04%	2,391,743	-97,917	-3,235	806,341	99,628,875	5,610,708	94,018,167	5.63%
Loans and advances to banks	7,835,791	-	7,835,791	0.00%	-14,870			6,106	7,820,921	6,106	7,814,815	0.08%
of which: stage 1									6,769,446	1,586	6,767,860	
of which: stage 2									1,051,475	4,520	1,046,955	
Securities (L&R-Banks)	211	-	211	0.00%				4	211	4	207	0.08%
Loans and advances to banks	7,836,002	-	7,836,002	0.00%	-14,870			6,110	7,821,132	6,110	7,815,022	0.08%
Financial assets measured at fair value through profit or loss -					1,171,702	97,917	7,593				1,081,378	
Mandatorily measured at fair value												
of which non-performing loans to customers					226,226	96,405			226,226	96,405	129,821	
of which performing loans to customers					226,367	1,512	7,749				232,604	
of which loans to banks					14,870		-115				14,755	
of which securities (former L&R)					1,257		-41				1,216	
of which former HFT					37,322						37,322	
of which former FVO					81,019						81,019	
of which former AFS					584,641						584,641	
Other financial assets	16,816,615	-	16,816,615		-3,548,575		65,691		13,333,731		13,333,731	
Financial assets held for trading	924,475	-	924,475		-37,322				887,153		887,153	
Financial assets designated as at fair value (former FVO)	92,290	-	92,290		-92,290							
Available-for-sale financial assets (former AFS)	9,861,978	-	9,861,978		-9,861,978							
Held to maturity investments (former HTM)	5,937,872	-	5,937,872		-5,937,872							
Financial assets designated at fair value					11,271				11,271		11,271	
Financial assets at fair value through other comprehensive income					12,369,616 (*)		65,691		12,435,307		12,435,307	

(*) The relative expected credit loss was recognised in valuation reserves and amounted to €13,593 thousand euro.

Figures in thousands of euro

Items	31.12.2017				FTA adjustments			1.1.2018			
	Gross exposure	Impairment losses	Net exposure	Coverage	FTA value adjustments (gross)	FTA value adjustments (provisions)	FTA adjustments	Gross exposure	Impairment losses	Net exposure	Coverage
- Bad loans	44,808	5,975	38,833	13.33%	-	3,014	3,014	44,808	8,989	35,819	20.06%
- Unlikely-to-pay loans	318,623	9,548	309,075	3.00%	-	17,785	17,785	318,623	27,333	291,290	8.58%
- Past-due loans	2,835	16	2,819	0.56%	-	93	93	2,835	109	2,726	3.84%
Non-performing unsecured guarantees (Stage three)	366,266	15,539	350,727	4.24%	-	20,892	20,892	366,266	36,431	329,835	9.95%
- Guarantees granted	5,234,632	28,490	5,206,142	0.54%	-	12,518	12,518	5,234,632	41,008	5,193,624	0.78%
- Irrevocable commitments and other	5,684,137	3,315	5,680,822	0.06%	-	3,977	3,977	5,684,137	7,292	5,676,845	0.13%
- Revocable commitments					31,752,501	3,616	31,756,117	31,752,501	3,616	31,748,885	0.01%
Performing unsecured guarantees and commitments (Stages one and two)	10,918,769	31,805	10,886,964	0.29%	31,752,501	20,111	31,772,612	42,671,270	51,916	42,619,354	0.12%
of which: stage 1								32,988,631	26,222	32,962,409	0.08%
of which: stage 2								9,682,639	25,694	9,656,945	0.27%
Total unsecured guarantees and commitments	11,285,035	47,344	11,237,691		31,752,501	41,003	31,793,504	43,037,536	88,347	42,949,189	

3.2 The main balance sheet items

The new accounting criteria adopted as of 1st January 2018 with regard to the recognition, classification, measurement and derecognition of the various items in the financial statements are illustrated in the part “A.2 – Part on the main balance sheet items” in the Notes to the Consolidated Financial Statements.

Legislative Decree No. 254 of 30th December 2016, which implemented Directive 2014/95/EU regarding disclosures of a non-financial nature was published in the Official Journal on 10th January 2017. It came into force on 25th January 2017, but the relative provisions relating to declarations and reports were applicable to financial years starting from 1st January 2017.

The new regulations required public-interest entities (including banks) with over 500 employees and assets of more than €20 million to prepare a declaration of a non-financial nature each financial year which covers environmental and social matters relating to personnel, respect for human rights and the proactive and passive fight against corruption that are significant with regard to the activities and nature of the company. The declaration may be contained in the management report pursuant to Art. 2428 of the Italian Civil Code and to Art. 41 of legislative Decree No. 136/2015, or it may constitute a separate report, with similar wording, approved by the management body and made available to the supervisory body and the body engaged to carry out the external statutory audit, within the same time limits set for proposed financial statements and it is subject to publication in the Company Register, together with the Management Report.

In view of the above, UBI Banca decided to prepare a separate report entitled “Consolidated declaration of a non-financial nature prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (“Sustainability Report)”, published at the same time as the Consolidated Management Report. The two reports are therefore to be read jointly, one in relation to the other.



CONSOLIDATED MANAGEMENT REPORT

The macroeconomic scenario¹

Despite remaining steady, over the year economic growth became more uneven and began to show the first signs of levelling out, mainly in the euro area. The tensions brought about by the protectionist measures introduced by the United States and the threats of retaliations from its trading partners² led to a slowdown in trade and growing volatility on the financial markets, which may have negative repercussions on world growth.

The overall macroeconomic scenario is still being overshadowed by numerous variables of a geopolitical nature:

- the delicate diplomatic relations between the US and North Korea³;
- the equally fragile relations between Russia and the US (despite the summit held in Helsinki on 16th July, the US Department of State introduced new sanctions against Russia between August and September);
- the departure of the US from the 2015 nuclear agreement with Iran and imposition of new sanctions against the Islamic Republic⁴;
- the difficult economic and social situations in Argentina, Turkey and Venezuela⁵;
- the result of the mid-term US elections, which is limiting President Trump's room for manoeuvre⁶;
- the uncertainties surrounding the effective outcome of Brexit⁷;
- the approaching European Parliament elections in May 2019, with the fear of the possibility of success of nationalist parties that have gained increasingly strong positions in governments in various EU countries.

¹ Prepared on the basis of data available as at 24th January 2019.

² The protectionist trade policies of the United States were applied to China first and foremost, but also to Canada, Mexico and the European Union. The United States introduced duty on Chinese imports, which China duly matched. After months of considerable tensions, negotiations restarted in December, but the goal of arriving at a general trade agreement within 90 days – set at the meeting in Buenos Aires at the end of November – is anything but certain given the underlying structural differences (such as the issue of safeguarding intellectual property). The European Union, Canada and Mexico applied duty to US products in response to the US duties on steel and aluminium. Since then they have embarked on negotiations. In October Canada and Mexico signed a new free trade agreement with the US Government that will only partially alter the existing North American Free Trade Agreement (NAFTA), but will make the rules governing origin and production standards in the automotive industry more restrictive. On 18th January 2019 the EU Commission presented two mandate proposals with the aim of agreeing to a free trade agreement with the US for industrial goods, with the exclusion of cars. Both proposals will need to be debated by the European Council.

³ On 12th June on the Singapore island of Sentosa the leader of North Korea and the president of the United States met to put an end to the dispute around North Korea's nuclear programme, one of the main causes of instability and tension in recent years. The meeting ended with the signature of a document that is still a statement of intent; US sanctions against North Korea will remain in place until denuclearisation of the peninsula is complete, a process that will be supervised by US and international bodies.

⁴ After the adoption in August of an initial set of restrictive measures, in November new economic sanctions were imposed against banks, the naval and the energy industries in the Islamic Republic. Eight nations including Italy were exempted from these measures, enabling them to temporarily purchase oil produced by Iran.

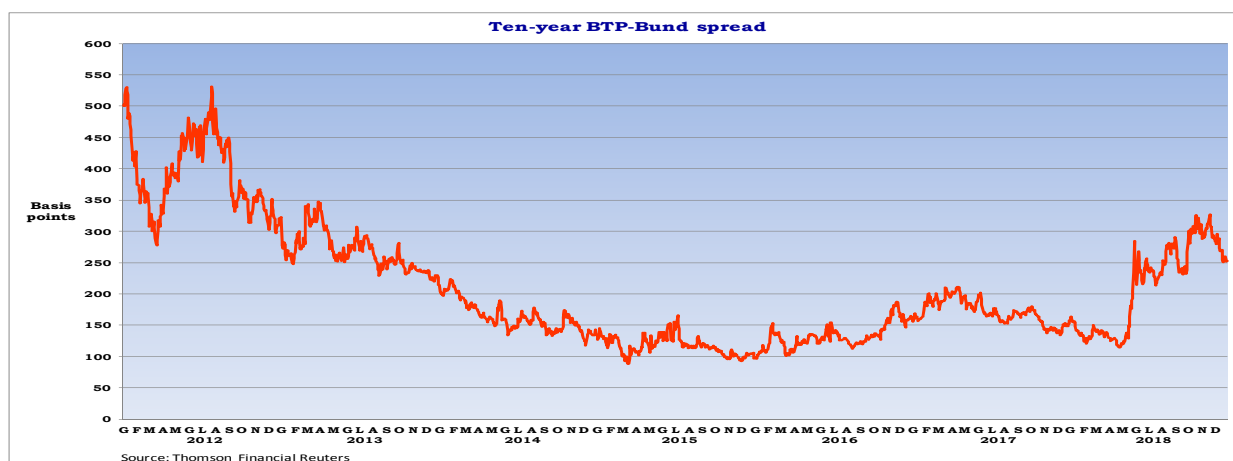
⁵ At the end of June the International Monetary Fund approved the granting of a three-year line of credit worth an initial 50 billion USD to Argentina, increased to 56.3 billion USD in October. Approximately 28.1 billion USD were paid out in 2018. In August significant tensions emerged between Turkey and the US; the US introduced duty on Turkish exports, causing a dramatic fall in the currency and price of government bonds, which partially recovered in the following weeks. In Venezuela the serious economic crisis – which peaked in 2018 with sky-high inflation and large-scale migration as people fled the country – has also had serious political repercussions in the early weeks of the new year.

⁶ In the elections held on 6th November 2018, the republicans increased their majority in the Senate, but the democrats took control of Congress. This result is in effect acting as a curb on the White House's ambitions to change the law in important areas such as tax cuts and international trade wars, as well as electoral promises involving controlling the border with Mexico.

⁷ After 20 months of intense negotiations, the Brexit deal was signed on 25th November having been agreed with the 27 EU leaders a few days earlier. The deal governs the terms under which the United Kingdom will leave the EU on 29th March 2019 and its relations with the EU after 2020. It needs to be ratified by the UK Parliament, where there is strong opposition, because the agreement is not considered to be particularly favourable for the UK. On 15th January 2019 the agreement was rejected by 432 votes to 202, forcing the British Prime Minister to submit to a vote of confidence the following day, which she won by a narrow majority. Theresa May has in any case announced her intention not to abandon the deal she has agreed even though it does not look as if there is much room for manoeuvre in further negotiations with the EU.

In Europe, Brexit-related uncertainty and the problem of managing migrants⁸ have gradually added to the issues of the economic slowdown, change of government in Spain⁹, problems in Germany¹⁰ and France¹¹, and complex negotiations between the EU and the new Italian government concerning Italy's budget.

In Italy the results of the elections on 4th March, which ended with the defeat of the traditional political parties, led to a period of uncertainty that only ended in early June with the installation of a new government supported by the Five Star Movement and the League. Despite confirming its intention not to leave the single currency, the new Government drafted a budget that did not meet the targets for public finances required under the Stability and Growth Pact (SGP). After the European Commission officially rejected Italy's budget proposals in November, the Italian Government agreed to revise the budget figures, mitigating tensions between the Commission and the Government for the first time since May. The Commission then formally decided not to fine Italy for exceeding its deficit levels. The budget was finally approved on 30th December 2018, just in time to avoid a temporary budget having to be put in place. The European Commission has retained the right to ask for more information about the definitive text from January 2019.



As a consequence of Italy's political problems, the gap between the Italian 10-year Government Bonds and the German Bund increased considerably after mid-May, stabilising over the summer at levels double those prior to the formation of the new Government. As the graph shows, the volatility returned in autumn, when the spread reached 330 basis points, the highest level since April 2013, after official rejection of the budget by the European Commission on 20th November. The resumption of talks and subsequent revision of the budget figures led to a marginal reduction in the spread, which fell to 253 basis points at the end of 2018 (157 basis points at the end of 2017), thanks also to the expansionary stance of the ECB, which lasted until year end.

⁸ At the end of June a European summit was held on the issue of immigration, which concluded with a rather vague overall agreement. In the summer the Italian government then adopted a stricter approach on migration, resulting in the conversion into Law on 28th November of the "Security Decree", a measure that incorporates a series of specific provisions on immigration.

⁹ The Spanish internal political crisis led to a vote of no confidence in the prime minister Rajoy, who was replaced by the socialist Pedro Sanchez. The new head of government formed a government on the Portuguese model, relying on the extreme left, with women taking the majority of the top ministerial roles.

¹⁰ After the failure of various attempts at forming a coalition, in January 2018 an agreement was reached between Schulz's social-democrat party and Angela Merkel's Christian Democrats, which allowed a government to be formed in the spring, although the following months saw internal disputes over the management of migration flows. At the end of October the Chancellor announced that she would not be standing at the 2021 elections: the outcome of the elections in Hesse and Bavaria, which saw the worst post-war results for the CDU party, reflected internal divisions within the coalition.

¹¹ Violent protests broke out in France in mid-November. Starting with protests about fuel tax, these rapidly led to ongoing, widespread opposition to the social policies of President Macron. The growing violence of the clashes forced Macron to announce a series of measures to help the poorest sectors of society on 10th December (for example, an increase in the minimum wage), which will increase public spending levels and could push the deficit to GDP ratio to 3%.

In **monetary** policy, the major central banks have continued with accommodative policies, despite many signs that stimuli will be reduced.

As concerns the **European Central Bank**:

- the Steering Committee announced an extension of the Quantitative Easing programme from September to December 2018, with a reduction of the monthly amount of purchases from €30 billion to €15 billion from October. This trend was confirmed in the subsequent meetings, and it was confirmed that the programme would come to an end at the end of the year¹². The Steering Committee also announced its intention of continuing to reinvest all of the capital repaid on securities reaching maturity within the framework of the Asset Purchase Programme for a prolonged period after the date on which it starts to raise reference interest rates and in any case for as long as it is necessary to maintain liquidity rates that will help a broad level of monetary easing;
- the rate on principal refinancing operations was kept at its record low of 0%, while the rate on deposits held by banks with the ECB remained at -0.40%. These levels will remain unchanged at least until the end of summer 2019 and in any case for as long as it is necessary in order to ensure that the medium-term inflationary target is achieved and maintained.
-

The **Federal Reserve** raised reference rates four times (March, June, September and December) by 25 basis points, bringing them to 2.25%-2.50%, showing its confidence in the consolidation of the US economy and strengthening of the labour market. However the most recent statements look likely to lead to a gradual increase in rates during 2019.

The **Bank of Japan** kept its interest rate unchanged at below zero (-0.10%), continuing with its expansionary strategy focused on controlling rates on the various maturities, rather than on a monetary-based target that it will be able to vary according to control of the yield curve (Qualitative and Quantitative Easing, QQE). At the meeting at the end of July, despite not making any changes to its overall approach, it introduced projections about the official exchange rates and announced that they would be kept at the current low levels for a prolonged period.

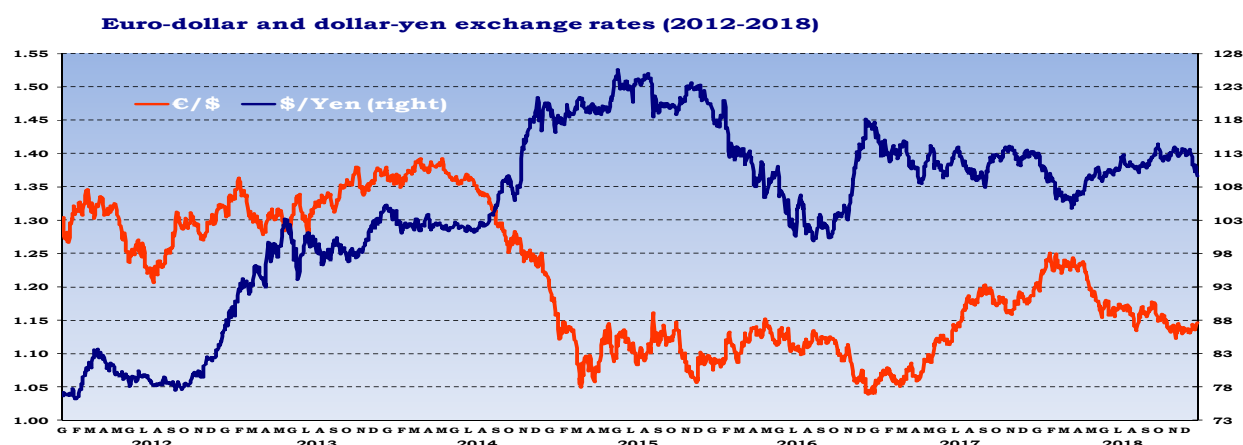
At the beginning of August the **Bank of England** also raised its official interest rate by 25 basis points to 0.75%, to combat inflationary pressures caused by the depreciation of sterling. It also changed its guidelines on the timing of reducing its assets in the first six months, announcing that it could begin selling the securities purchased under QE once the cost of money has reached 1.5% (previously 2%).

In the main emerging countries monetary policy varied considerably.

In 2018 the **Central Bank of Brazil** cut the official rate twice [25 basis points (b.p.) in February and March], to 6.5%, while the **Central Bank of the Russian Federation** took the reference rate back to 7.75% of the end of 2017, after two 25 b.p. hikes in September and December following two 25 b.p. cuts in February and March. In **India** the monetary authorities raised the repo rate to 6.5% with two 25 b.p. rises in June and August, while in China the **People's Bank of China** maintained the current reference interest rate of 4.35%, but eased monetary conditions, gradually reducing the required reserve ratio, which now stands at 13.5%.

On the **Forex** market, in March the euro came to the end of a period of growth against the major international currencies. Specifically, the euro/dollar exchange rate weakened in the months after a first quarter during which the euro had continued to benefit from favourable economic growth in the Area and continued expansionary support from the ECB. The trend was affected by signs of moderation in the recovery, fears of an escalation in the trade war, divergence in the monetary policies of the respective Central Banks, the absence of significant progress in EU governance and political stability within the EU, with the difficult situation in Italy at the forefront.

¹² As at 11th January 2019, a total of €2,101 billion in government securities, €263 billion in covered bonds, €28 billion in ABS and €178 billion in corporate bonds had been purchased.



As the table shows, from the second quarter onwards, the yuan weakened against the dollar, partly offsetting the effect of US tariffs, while sterling was negatively impacted by slow progress in the Brexit negotiations for much of the year. Finally, the yen gained ground against the dollar, but especially against the euro, in the course of the year.

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

	Dec-18 A	Sep-18 B	Jun-18 C	Mar-18 D	Dec-17 E	%change A/E
Euro/Dollar	1.1469	1.1608	1.1683	1.2301	1.1996	-4.4%
Euro/Yen	125.65	131.96	129.28	130.89	135.16	-7.0%
Euro/Yuan	7.886	7.9724	7.7308	7.7331	7.805	1.0%
Euro/Franc CH	1.1260	1.1398	1.1569	1.1763	1.1688	-3.7%
Euro/Sterling	0.899	0.8907	0.8844	0.8772	0.8875	1.3%
Dollar/Yen	109.56	113.68	110.66	106.42	112.67	-2.8%
Dollar/Yuan	6.8760	6.8680	6.6171	6.2876	6.5063	5.7%
Futures - Brent (in \$)	54.15	82.73	79.23	69.34	66.87	-19.0%
CRB Index (commodities)	175.96	201	205	119.25	196.95	-10.7%

Source: Thomson Financial Reuters

The macroeconomic framework

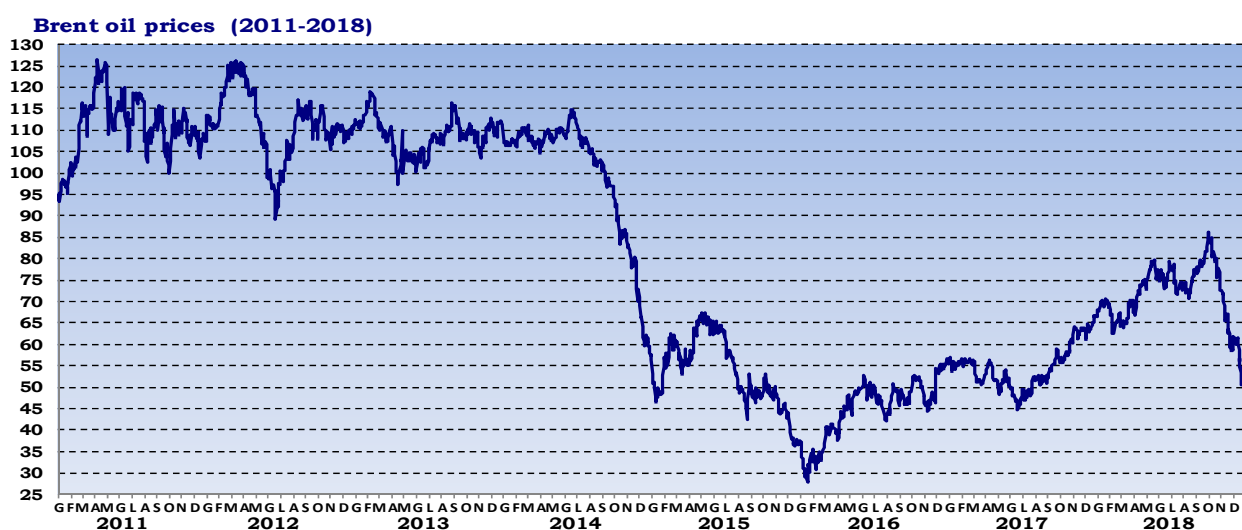
According to the International Monetary Fund's latest forecasts¹³ the **world economy** grew 3.7% in 2018 (compared with +3.8% in 2017), remaining uneven across different geographical areas (+4.6% in emerging areas and +2.3% in advanced countries). The world economic cycle continued to be sustained by the strength of the US economy, along with that of the leading emerging Asian countries – in which India performed brilliantly and China essentially held steady – while Europe saw growing signs of moderation.

The forecasts for 2019¹⁴ are affected by the worsening outlook for the euro area, Japan and the emerging economies (especially in China), accompanied by the expected slowdown in the US, also due to the gradual reduction in the expansionary effects of the fiscal stimulus.

The **commodities** price index was very volatile over the year, incorporating the trend in energy prices. From the end of August, Brent oil prices, which had already reached high levels in spring, began rising again to a peak of 85 USD a barrel in early October, mainly due to fears of a reduction in the global supply resulting from the US applying sanctions to the Iranian energy sector. In the weeks that followed, the downward revisions in the prospects for the worldwide economy and global oil consumption, the increase in US oil production and exemption of some countries (including Italy) from the US programme of sanctions against Iran fed the strongest fall in oil prices since 2015, bringing prices per barrel down to around 50 USD. After ending 2018 at 54.15 USD (66.87 USD at the end of 2017), Brent crude rapidly gained ground in the first few weeks of the new year, rising to more than 60 USD a barrel, also as a result of the agreement reached on 6th December 2018 between OPEC and Russia, involving a cut in supply of 1.2 million barrels a day from 1st January 2019.

¹³ World Economic Outlook update, January 2019.

¹⁴ +3.5%, of which +4.5% for emerging areas and +2% for advanced countries.



All of the above drove **inflation** up in the main industrialised countries until September, albeit at low levels close to the targets of the respective central banks, with the exception of Japan. The reversal in the trend for oil prices also led to a generalised slowdown in prices in the last few months of the year. Conversely, in the BRIC emerging economies – with the exception of China and Russia – prices continued to vary considerably.

Actual and forecast data: industrialised countries

Percentages	Gross domestic product			Consumer prices (average annual rate)			Unemployment (average annual rate)			Deficit (+) Surplus (-) Public sector (% of GDP)			Reference interest rates	
	2017	2018 ⁽²⁾	2019 ⁽²⁾	2017	2018 ⁽¹⁾	2019 ⁽²⁾	2017	2018 ⁽¹⁾	2019 ⁽²⁾	2017	2018 ⁽¹⁾	2019 ⁽²⁾	Dec-17	Dec-18
United States	2.2	2.9	2.5	2.1	2.4	1.9	4.4	3.9	3.6	4.6	5.7	5.9	1,25-1,50	2,25-2,50
Japan	1.7	0.9	1.1	0.7	0.9	1.2	2.7	2.5	2.7	3.5	3.4	2.6	-0,10-0	-0,10-0
Euro Area	2.5	1.8	1.6	1.5	1.7	1.5	9.1	8.3	8.0	1.0	0.6	0.9	0.00	0.00
Italy	1.6	0.9	0.6	1.3	1.2	1.0	11.3	10.5	10.3	2.4	1.9	2.0	-	-
Germany	2.2	1.5	1.3	1.7	1.9	1.8	3.8	3.5	3.4	-1.0	-1.5	-1.0	-	-
France	2.2	1.5	1.5	1.2	2.1	1.4	9.4	8.8	8.5	2.7	2.6	3.1	-	-
Portugal	2.7	2.2	1.7	1.6	1.5	1.2	8.9	7.0	6.7	3.0	0.7	0.3	-	-
Ireland	7.2	7.5	4.9	0.3	0.8	1.0	6.7	5.3	5.1	0.2	0.2	0.1	-	-
Greece	1.3	2.2	1.2	1.1	0.9	1.4	21.5	19.9	18.1	-0.8	-1.3	-1.4	-	-
Spain	3.0	2.5	2.2	2.0	1.8	1.6	17.2	15.6	14.7	3.1	2.7	2.0	-	-
United Kingdom	1.7	1.4	1.5	2.7	2.4	2.1	4.4	4.1	4.0	1.8	1.1	0.9	0.50	0.75

(1) Official statistics or, if unavailable, forecasts

(2) Forecasts

Source: IMF, Prometeia and Official Statistics

In the third quarter **US** GDP rose quarter-on-quarter by an annualised 3.4%, a strong rate of growth although lower than the 4.2% growth recorded in the second quarter (2.2% growth in the first quarter): the main factors were consumption levels and increased inventories, while non-residential fixed investments made a positive, but modest contribution, against a substantial fall in net exports (which has affected both imports and exports). The solid labour market, substantial corporate profits and still favourable financial conditions seem to be the precursors to consolidation of the US economy, which could however be affected by the mid-term elections held in November. The failure to reach an agreement between the democratic majority in Congress and President Trump regarding the allocation a sum of more than 5 billion USD to build a wall at the border with Mexico led to the expenditure laws being postponed (the shutdown) and a consequent partial paralysis in the administration from 21st December 2018¹⁵.

¹⁵ According to the White House economic advisors, every week of the shutdown has reduced GDP by 0.13%.

Actual and forecast data: the principal emerging countries

Percentages	Gross domestic product			Consumer prices (average annual rate)			Unemployment (average annual rate)			Reference interest rates	
	2017	2018 ⁽¹⁾	2019 ⁽²⁾	2017	2018 ⁽¹⁾	2019 ⁽²⁾	2017	2018 ⁽²⁾	2019 ⁽²⁾	Dec-17	Dec-18
China	6.8	6.6	6.2	1.6	2.1	2.4	3.9	4.0	4.0	4.35	4.35
India	6.7	7.3	7.5	3.6	4.7	4.9	n.a.	n.a.	n.a.	6.00	6.50
Brazil	1.0	1.3	2.5	3.4	3.7	4.2	12.8	11.8	10.7	7.00	6.50
Russia	1.5	1.7	1.6	3.7	2.8	5.1	5.2	5.5	5.3	7.75	7.75

(1) Official statistics or, if unavailable, forecasts

Source: IMF, Prometeia and Official Statistics

(2) Forecasts

In **China** the economy has gradually slowed – in the autumn months the year-on-year change in GDP was +6.4% (+6.8%, +6.7% and +6.5% respectively in the first three quarters of the year) – supported by solid consumption levels. The robustness of exports – probably also driven in the summer months by the bringing forward of orders before tariff increases – were adversely affected by trade tensions with the US in the latter months of the year, with effects only being partially mitigated by recently adopted fiscal and monetary policy stimulus measures.

In the third quarter – which felt the negative impact of a series of natural disasters – **Japanese** GDP fell 0.6% quarter-on-quarter (rising 0.7% and falling 0.3% respectively in the first and second quarters), incorporating an overall fall in all the components of demand, especially investments in machinery and plant. The first available data for the fourth quarter shows on the one hand a significant bounceback in industrial production due to a return to normal levels of activity, and on the other substantial growth in imports, which together with stable exports, will result in a negative contribution from net exports to the economy in general.

In the **euro area** growth was more moderate in the summer months, leading to a 0.2% quarter-on-quarter rise in GDP (+0.4% in the first and second quarters), due to an increase in stocks and a positive but modest contribution from consumption, against a zero contribution from investments and a negative balance of trade¹⁶. The slowdown in the third quarter seems mainly due to a temporary stall in car production¹⁷, especially in Germany. The first available information on the fourth quarter seems to indicate a slowdown in the economy, partly due to temporary factors, but also to a decline in business expectations and weakness in foreign demand. In November industrial production fell sharply in all the leading economies, leading to a year-on-year overall reduction of 3.3%, the worst figure for the last three years. The €-coin indicator developed by the Bank of Italy – which gives an estimate of core trends for European GDP – fell further in December to its lowest level since 2016.

In the third quarter the **Italian economy** recorded negative quarterly growth of 0.1%, bringing to an end the growth phase in progress since the second quarter of 2014. The fall, which follows a gradual slowdown in growth (+0.3% and +0.2% respectively in the first and second quarters), is essentially the result of a contraction in domestic demand. The fall in consumption was marginal, while the reduction in investments was more substantial. Meanwhile the rise in exports was moderate but ensured the foreign component held its own. The latest information shows that in the autumn months economic activity appears to have stagnated, as the overall weakness in industrial production seems to indicate. After the +1% of October, the seasonally adjusted year-on-year index fell 2.6% in November, representative of a trend that was more or less negative across the board, albeit at varying levels of intensity. The only increases were in the "textile" industry (+2.7%), "pharmaceutical" industry (+1.3%) and "other manufacturing industries" (+1.1%).

After an improvement over the summer months (10.1% in August), in November unemployment levels returned to 10.5% (10.9% in December 2017), a similar level to the end of spring, while unemployment in the 15-24 age bracket fell to 31.6% (32.9% at the end of 2017)¹⁸.

The overall figure continues to be mitigated by government-backed temporary redundancy schemes, which saw a year-on-year reduction in the Wage Integration Fund over the year: the

¹⁶ Bucking the trend of American isolationism, in July the European Union and Japan signed an economic and strategic partnership framework agreement called the EPA (Economic Partnership Agreement), involving on the one hand the elimination of duty by Japan on more than 90% of imports from the EU (especially in the food and agriculture sector), and on the other the cancellation of duty on almost all Japanese goods, as well as greater openness towards the Japanese car market in seven years time. A Strategic Partnership Agreement was also signed at the same time. This provides a legal framework for extensive cooperation between the two partners in promoting strategies based on shared values including in the international forum.

¹⁷ The entry into force of the worldwide harmonised light vehicles test procedure governing automotive industry emissions, has caused a stall in the production and licensing of new vehicles.

¹⁸ This figure gives young people unemployed as a percentage of total young people in employment and in the process of being employed.

hours authorised totalled 217.7 million against 349.1 million in 2017 (-37.6%), the effect of a more significant fall in extraordinary benefits (-44.2%) and exceptional benefits (-91.7%) and a more moderate fall in the ordinary fund (-8.7%).

Inflation (according to the Harmonised Index of Consumer Prices) – constantly lower than in the euro area – closed the year at 1.2% (1% in December 2017), a clear slowdown compared with the peak in July (1.9%), with a dynamic that over the year was largely influenced by the trend in energy prices.

In January to November the surplus on the balance of trade totalled €36.1 billion (€42.6 billion in the same period of 2017) due to a substantial increase in the surplus on non-energy products, approximately 60% of which is stably attributable to capital goods, which more than offset the energy deficit (-€37.5 billion). The overall surplus was driven by higher volumes of trade, with imports growing 5.7%, especially in non-EU countries, and exports 3.5% year-on-year, with more marked progress in markets within the EU.

With regard to public finance, the budget approved on 30th December, which is overtly expansionist, focuses on relaunching the economy also through the introduction of two key measures, the citizen's wage and pension reforms. In its final form, the deficit increases by an average of half a percentage point of GDP per year in the 2019-2021 three-year period, deactivating the safeguard clauses for the current year, but substantially increasing their amount in the following two years. In 2019 the deficit to GDP ratio is expected to be 2.04% (1.9% in 2018) while the debt-to-GDP ratio should settle at around 130.7% (131.7% in 2018).

Financial markets

After three quarters of reduced volatility, the beginning of October marked the start of significant losses in all the leading share indexes and, unlike the previous phases during which falls took place over the year, these losses also significantly affected the US market, which had achieved new highs in the previous weeks. The sudden correction in share prices – triggered by the Chair of the Federal Reserve's statements on possible acceleration of the US restrictive monetary policy – was also driven by fears of an economic slowdown, continuing tensions relating to trade tariffs and widespread geopolitical factors. The European share indexes were also affected by negative local factors such as political uncertainties surrounding Brexit and the complex negotiations on the Italian budget between the new Italian Government and the EU. In the fourth quarter, Italian shares – especially those in the banking sector –

The principal share indices in local currency

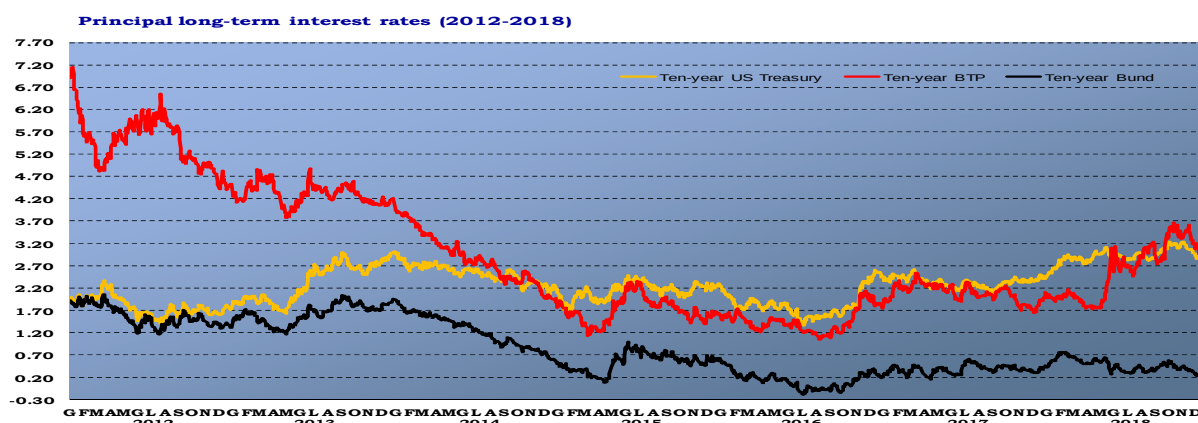
	Dec-18 A	Sep-18 B	Jun-18 C	Mar-18 D	Dec-17 E	%change A/E
Ftse Mib (Milan)	18,324	20,712	21,626	22,411	21,853	-16.1%
Ftse Italia All Share (Milan)	20,148	22,918	23,827	24,661	24,192	-16.7%
Xetra DAX (Frankfurt)	10,559	12,247	12,306	12,097	12,918	-18.3%
Cac 40 (Paris)	4,731	5,493	5,324	5,167	5,313	-11.0%
Ftse 100 (London)	6,728	7,510	7,637	7,057	7,688	-12.5%
S&P 500 (New York)	2,507	2,914	2,718	2,641	2,674	-6.2%
DJ Industrial (New York)	23,327	26,458	24,271	24,103	24,719	-5.6%
Nasdaq Composite (New York)	6,635	8,046	7,510	7,063	6,903	-3.9%
Nikkei 225 (Tokyo)	20,015	24,246	21,812	21,159	22,765	-12.1%
Topix (Tokyo)	1,494	1,818	1,695	1,704	1,818	-17.8%
MSCI emerging markets	966	1,048	1,070	1,169	1,158	-16.6%

Source: Thomson Financial Reuters

felt the effects of the increase in the BTP-Bund spread, which was also impacted by the opinion of the rating agencies: in October Moody's downgraded Italy to BBB - while S&P Global changed its outlook from stable to negative (Fitch had already done so at the end of August).

In the above context, the MSCI index – which summarises the performance of emerging countries – recorded a 16.6% fall over the twelve months.

In the first few weeks of 2019 there was a general recovery in share prices, supported by announcements of greater caution in the restrictive monetary policy process by the Federal Reserve, as well as the prospects of a possible agreement on trade tariffs between China and the US.



In line with the negative performance of other European stock markets, the markets managed by **Borsa Italiana** ended the year with a fall of more than 16%. The result – conditioned by the banking industry dynamic as the latter holds significant investments in government bonds – was accompanied by a slight fall in trading volumes in terms of the amounts (€626.5 billion; down 0.4%) and a slight increase in the numbers of shares traded (71.2 million; up 1.4%).

Borsa Italiana confirmed its position as European leader in the volume of contracts traded on the electronic systems, including both ETF Plus and MOT. ETF Plus¹⁹, in fact, reached €66.6 billion in terms of assets managed (+2.6% year-on-year), while the value of trading rose to €109.1 billion during the year (up 11.7%). The volume of trading in terms of the amount on the fixed-income markets (MOT and ExtraMOT) fell to €170 billion (down 17.9%), while the number trades rose to 3.7 million, (up 6.3%).

At year end, 452 companies were listed on the Milan Stock Exchange, up from 421 at the end of 2017. Over the year 13 new companies registered on the Global Equity Market (GEM) and 18 on the Italian AIM, where trading increased considerably in terms of value (up 23%) despite a reduction in volumes (down 8.8%). Reflecting the fall in share prices, stock market cap reached €542.4 billion, down from €640 billion at the end of 2017, equivalent to 33.5% of Italian GDP (40% the previous year). Turnover velocity²⁰ rose from 98.3% in 2017 to 115.5% in 2018, reflecting the different dynamics of trading value and capitalisation.

The banking system

The gradual worsening in the economic situation, together with an increased perception of the Italy risk inherent in the spread, reflected on the banking system where there was a slowdown in loans – despite consolidation of the improvement in credit quality – and a higher cost of access to funding on international markets.

According to initial estimates published by Italian Banking Association (ABI)²¹, at the end of December the year-on-year trend in *direct funding* (deposits of residents and bonds) in Italian banks was slightly negative at -0.6% (-0.01% in December 2017), after small but positive increases for much of the year (+2.1% the highest level, reached in June).

There was a continued gap between the positive trend in deposits (+2.2% from +4.1% in December 2017²²), slower than earlier in the year, and the negative trend in bond funding (-15.3% from -17% at the end of 2017²³), again the result of redemptions exceeding new issues.

As shown by detailed Bank of Italy data for November²⁴, deposits have benefited mainly from an increase in current accounts (+5.9% over twelve months; +2.2% compared with December

¹⁹ On 1st October 2018 the ATFund dedicated to Open UCIs was launched. Previously these were traded on a dedicated segment of ETF Plus.

²⁰ An indicator which, as a ratio of the volumes of shares traded to capitalisation, gives a measure of the turnover of shares traded.

²¹ ABI Monthly Outlook, *Economia e Mercati Finanziari-Creditizi*, January 2019.

²² The changes were calculated by excluding from deposits amounts relating to disposals of loans and transactions with central counterparties.

²³ The changes were calculated by excluding the portion included within securities portfolio investments from bond funding.

²⁴ Supplement to the Statistics Bulletin *“Banche e moneta: serie nazionali”*, January 2019.

2017) and in repurchase agreements (+3.4% over twelve months; +26.5% compared with end 2017), against a reduction in term deposits (-6.5% over the year; -11% since December 2017).

Initial data for December published by the Italian Banking Association (ABI) shows that²⁵ *loans to residents belonging to the private sector* increased year-on-year by 2% (+1.8% in December 2017), in terms of borrowers showing a continuation of the overall positive trend for households and non-financial companies (+2.2% from the +1.4% of end 2017).

The detailed information provided by Bank of Italy for November²⁶ shows that annual growth in household loans remained solid (+2.7%) both for residential mortgages and consumer credit. As regards businesses – given lending conditions that only started to show signs of tightening in the third quarter due to tensions on the sovereign debt market – the annual trend appears to be improving (+1.1%), albeit conditioned by the performance of investments and the economic situation in general²⁷.

In terms of risk, asset quality has continued to improve, boosted by a reduction in the inflows of new non-performing exposures. In November *private sector bad loans gross of impairment*²⁴ fell to €117 billion, a significant year-on-year fall (-32.2%). Total outstanding loans comprised €35.4 billion to households (-27.2%) and €80 billion to businesses (-34.1%).

The ratio of *gross private sector bad loans to private sector loans* therefore fell to 7.59% (10.6% in December).

Net bad loans, amounting to €37.5 billion, fell by 43% year-on-year. The ratio of *net bad loans to total loans* fell as a consequence to 2.18% (3.71% at the end of 2017).

On the basis of the “Financial Stability Report” published by the Bank of Italy in November, gross non-performing exposures (bad loans, unlikely-to-pay loans and past-due loans) totalled €225 billion in June 2018, accounting for 10.2% of total gross loans (€2,197 billion)²⁸. Net of impairment losses, total non-performing exposures amounted to €103 billion, accounting for 5% of total net exposures (€2,064 billion). Coverage, measured as the ratio of impairment losses to gross non-performing loans, stood at 54.3%, while that for bad loans was 67.7%, compared with 37.7% for unlikely-to-pay loans and 22.4% for exposures past due and/or in arrears.

Securities issued by residents in Italy held in the portfolios of Italian banks amounted to €571.9 billion in November, down by 14.7% over the twelve months (-€98.6 billion), but up on December 2017 (+9.2%). The trend mainly reflects the performance of “Other securities” (€185.6 billion), down year-on-year particularly in the bank bond sector (down €154 billion), which fell by more than half to 31.2%. In contrast, investments in Italian Government securities (€378.9 billion) made progress over the twelve months (+€42.3 billion; +12.6%), over two thirds of which were longer-term securities which, after the temporary fall in August, showed a return to growth in stocks in the autumn months.

As concerns business with households and non-financial companies, the *average interest rate on bank funding from customers* calculated by the Italian Banking Association²¹ (which includes the yield on deposits, bonds and repurchase agreements) fell to 0.66% (0.76% at the end of 2017), while the *weighted average interest rate on loans* reached a record low of 2.55% (2.69% in December 2017).

²⁵ ABI Monthly Outlook, “Economia e Mercati Finanziari-Creditizi”, January 2019. The change was calculated by the Italian Banking Association based on the Bank of Italy criterion referred to in note 26.

²⁶ Supplement to the Statistics Bulletin “Banche e moneta: serie nazionali”, January 2019. Growth rates of loans are adjusted by the Bank of Italy to take into account securitisations and other loans transferred and derecognised from bank books.

²⁷ Lending may benefit from the positive contribution of the banking package of amendments to banking industry regulations (CRD, CRR and BRDD) approved by Ecofin in December. The most important regulations for lending include the possibility of neutralising the greater capital absorption brought about by the increase in the expected loss parameter (LGD) relating to the sale of non-performing loans, as well as further reducing capital absorption for loans of up to €2.5 million to SMEs and for loans guaranteed by one-fifth of salaries.

²⁸ To bring the method for calculating the incidence of non-performing exposures on total loans in line with that used by the ECB, in addition to customer loans the total shown includes interbank and central bank exposures.

Significant events in 2018

Implementation of the 2017-2020 Business Plan

Completion of the integration of the New Banks with the third step of the merger

As already reported in detail in the previous financial report, to which reference is made, the integration project for the New Banks led to the merger both at IT system and business model level into the Parent of the three banks acquired – Banca Adriatica (the former Nuova Banca delle Marche), Banca Tirrenica (the former Nuova Banca dell'Etruria e del Lazio) and Banca Teatina (the former Nuova Cassa di Risparmio di Chieti) – as well as the two subsidiary banks held by these (CARILO - Cassa di Risparmio di Loreto and Banca Federico del Vecchio), in accordance with the Single Bank model adopted by the UBI Banca Group.

The three-step integration process began in the fourth quarter of 2017 and came to completion in February 2018. In detail:

- the first step involved Banca Adriatica and Cassa di Risparmio di Loreto (CARILO) and was concluded on 23rd October 2017;
- the second step, which concerned Banca Tirrenica and Banca Federico del Vecchio, was concluded on 27th November 2017;
- the third step, which involved Banca Teatina, was concluded on 26th February 2018.

On 20th February 2018 a deed for the merger of Banca Teatina into the Parent was signed and filed on the following 22nd February with the competent Company Registrar of Bergamo in accordance with Art. 2504 of the Italian Civil Code. It took effect with regard to third parties from 26th February and for accounting and tax purposes from 1st January 2018.

Because Banca Teatina was 100% controlled by the Parent, the merger had no effect on the number of shares and the share capital, nor more generally did any change in the Articles of Association of UBI Banca occur.

The migration of the bank onto UBI Banca's IT system was successfully completed over the weekend of 24th-25th February. It regarded a total of 58 branches and operating facilities, over 682 thousand registered customers, more than 73 thousand current accounts and around 31 thousand securities deposits with the operational involvement of approximately 1,100 employees involved in the preparatory and post migration stages.

When the operation was performed, 12 Banca Teatina branches¹ were closed and another 12 were transformed into mini-branches, while 8 UBI Banca branches were merged with units of the merged bank and transferred to their premises.

The main impacts on the Parent Company's organisational structure are described in the specific chapter of the Management Report of UBI Banca.

The transfer of a line of business originating from Banca Teatina to UBI Sistemi e Servizi by UBI Banca was finally concluded with a deed dated 27th February 2018 and with effect from 1st March. It related to IT and Back Office activities (mainly IT, administrative support and supplies, logistics and real estate management).

Trade union agreements

In 2018, discussions with the trade unions made it possible to harmonise the contracts of the various members of the Group and to govern a further phase of the voluntary redundancies

¹ Details of the closures carried out on 26th February 2018 are as follows: Perugia Via Pietro Soriano, 69; Rome Via Parioli, 45, Via Leone IV, 119/123; Teramo Piazza Sant'Agostino, 9; Giulianova Via Galileo Galilei, 83/91 (Teramo); Pescara Via Chieti, Via D'Avalos, 61, Via Gobetti, 102/108, Viale Bovio, 77; Vasto Corso Mazzini, 194/196 (Chieti); Chieti Piazza Garibaldi, 1 and Loc. Selva Piana SS. 84 c/o Frenatana Snc.

plan in relation to efficiencies and synergies defined within the scope of the 2017-2020 Business Plan.

Based on the Memorandum of Intent of 11th December 2016, which confirmed the desire and commitment of the parties to standardise the labour agreements for all companies of the UBI Banca Group, on 11th January 2018 an agreement was signed with the trade unions concerning the supplementary company agreements for IW Bank, Prestitalia, UBI Factor, UBI Leasing, and Pramerica SGR. These new provisions have been applied from 1st March 2018 with the exception of Prestitalia, which adopted the new provisions as of 1st July 2018 in conjunction with adoption of the new national collective bargaining agreement for the banking industry.

Based on the Framework Agreement reached on 26th October 2017, which stipulated that the second-level contract terms currently in force at UBI Banca would be applied to employees of the newly acquired banks, with the methods and timeframe to be determined through an agreement with the trade unions, a specific memo was signed on 1st February 2018 establishing that gradual alignment of company regulations will take place by 2020.

Upon completion and integration of these two agreements, on 31st August 2018 an understanding was also reached concerning “social policies” aimed at expanding measures of work-life balance (particularly with regard to smart working and parental leave) through actions that could be implemented immediately.

Following the merger of the new banks into the Parent, an agreement was signed on 13th June 2018 concerning supplementary pensions in relation to the transfer, which was then completed in October, of the individual positions of current and former employees with contributions to the pension funds of the former Cassa di Risparmio di Loreto (CARILO) and the former Banca Teatina into one of two funds within the Group.

In terms of efficiency improvements – and in line with previous redundancy plans – on 6th September 2018, an agreement was signed with all trade union representatives to accept a further 369 applications for admission to the Solidarity Fund for the sector, submitted on the basis of the Framework Agreement of 26th October 2017², which had received applications for voluntary redundancy in excess of those admitted and finalised in the first stage of the implementation of this scheme.

These redundancies began in October 2018 (275 of which were completed by year end) and the relative costs, amounting to €55.1 million gross (€36.9 million net), have been recognised in the income statement for the third quarter. The savings on costs generated are estimated at €28.5 million per year starting from 2019.

Furthermore, the generation turnover plan to support youth employment is continuing, together with the confirmation of temporary contract positions currently existing in the Group as permanent.

* * *

Finally, in accordance with the provisions of the Italian national agreement on commercial policies and the organisation of labour of February 2017, on 7th December a memo was signed that, in light of the changing marketplace and commercial landscape, identified a number of fundamental goals to pursue in this regard (e.g. to promote responsible, sustainable commercial policies, to establish guiding principles and values to constantly improve the quality of relations between the Bank and its employees and customers, to ensure respect of the principles of ethics and personal dignity, etc.).

At the same time, a number of implementation objectives (e.g. to identify improper conduct and to streamline reporting) and the procedures of commercial guidance and objective setting were also defined.

² The agreement of 26th October 2017 defined a framework of rules to be applied in the steps of the progressive implementation of the Business Plan and the integration of the New Banks Acquired, to designed to go hand-in-hand with processes for the Group's reorganisation and strategic development and at the same time to manage the repercussions on the working conditions of staff according to criteria of social and economic sustainability, but nevertheless within the necessary limits set for the overall restructuring and increased efficiency of the Group.

The new distribution model: rationalisation and reorganisation of the Group's branch network in Italy

In addition to the aforementioned measures implemented in February, and in conjunction with the merger of the former Banca Teatina, in the third quarter a new phase of branch rationalisation was defined and then implemented on 15th October 2018.

The action involved the large-scale closure of 50 branches [6 in the Brescia and the North East Macro Geographical Area (MGA), 13 in the Latium Tuscany Umbria MGA, 1 in the Marches and Abruzzo MGA, 13 in the Milan and Emilia Romagna MGA, 4 in the North West MGA, 12 in the South MGA and 1 at IW Bank] and 111 mini-branches (29 in the Bergamo and West Lombardy MGA, 16 in the Brescia and the North East MGA, 5 in the Latium Tuscany Umbria MGA, 25 in the Marches and Abruzzo MGA, 6 in the Milan and Emilia Romagna MGA, 17 in the North West MGA, 12 in the South MGA and 1 not comprised within the Macro Geographical Areas).

At the same time 33 branches were reclassified as mini-branches, while 5 mini-branches were converted into branches.

In concert with this rationalisation of the branch network, the UBI Banca Group is pursuing a plan of significant modernisation and reorganisation of the branches in line with the 2019-2020 Business Plan and aimed at innovating technologically and in terms of the service model, while also modernising the banking products and services as a whole. The branches have been categorised into three types (Flagship, Full, and Traditional) based on size, importance, and ties to the community³, and the reorganisation has affected both their physical layout and the technology being used in order to meet customer needs and establish a distinctive new image for the Group⁴.

The three-year reorganisation plan – which began in 2017 with three pilot branches in Bergamo and Milan – is expected to be extended to some 700 branches by 2020 for a total investment of roughly €240 million and affecting more than 70% of the Group's customers.

• In 2018, around 180 branches throughout Italy, in the seven Macro Geographical Areas, were involved in modernisation efforts.

• In addition to the branch reorganisation efforts, the Group is also working to replace and modernise around 180 automated teller machines (ATMs) and add about one hundred advanced self-service teller machines in order to promote the digitalisation of teller services, and this effort is being supported by the new Customer Assistance and Digital Development staff, which began working in 2018 at both the reorganised branches and in those yet to be modernised.

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 top management in order to constantly assess the achievement of the expected results and that these initiatives comply with the goals set.

In order to further simplify the Group's organisational structure, a programme was begun in the first quarter of the year to [merge Etruria Informatica Srl into UBI Sistemi e Servizi](#) with the drafting on 7th February 2018 of a merger project pursuant to Art. 2501 *ter* of the Italian Civil Code by the two companies' Boards of Directors.

³ In detail:

- *Flagship*: large branches in high-visibility areas featuring an innovative design and layout, with branch operations being highly automated, with the support of dedicated staff, in order to promote customer migration to digital services;
- *Full*: branches that serve all customer segments with at least one employee dedicated to each role; branches feature an innovative design and layout, with branch operations being highly automated, with the support of dedicated staff, in order to promote customer migration to digital services;
- *Traditional*: small and mid-sized branches that include itinerant staff responsible for assisting customers and promoting the use of digital channels.

⁴ Respecting the customers' privacy needs, the new branch concept calls for a modular structure featuring specific reception areas with personnel dedicated to assistance during the wait and to providing advisory services, as well as a great deal of technological innovation, including touch screens in the “digital education” areas, video rooms for remote expert consulting, and an advanced system for managing wait times. The new branches are also equipped with next-generation self-service teller machines, which customers can use for the main types of transactions, including bank transfers, tax payments, and traditional deposits and withdrawals.

On 9th May, the deed of merger was signed and was then filed with the competent Company Registrars on 16th May. The effects of the merger for third parties began on 1st June 2018 (1st January 2018 for accounting and tax purposes).

Finally, the [UBI Welfare project](#), which was launched in March 2017 with the creation of the Wealth & Welfare unit and is a part of the development strategy defined in the Group's Business Plan, is aimed at meeting the social needs of supplemental welfare, and agreements were signed during the year with numerous leading employment and community associations in many sectors and areas within Italy. For more information, see the section "Commercial activity".

Developments in Group governance

As already reported in the previous financial report, on 12th December 2017 the Supervisory Board approved guidelines for the revision of governance involving the adoption of a [one-tier system of management and control](#) in place of the two tier system because it would be: (i) more easily recognisable in consideration of its widespread use internationally; (ii) more efficient from an organisational viewpoint; and (iii) able to maintain a strong focus on the control function within the Board, with the consequent participation of that function in strategic decision-making and in the management of the bank.

The text of the new Articles of Association approved by the Management Board and the Supervisory Board, for those matters that concern them, received authorisation from the European Central Bank on 24th August 2018 and was approved by an Extraordinary Shareholders' Meeting on 19th October 2018.

The process for the adoption of the new governance system, which involves the revision, in progress, of policies and internal procedures, will be concluded by the time of 12th April 2019 Annual General Meeting, which will appoint Board Members for the following three-year term of office, on the basis of the rules of the new corporate governance system.

Resolutions approved by the Shareholders of UBI Banca on 19th October 2018

A General Meeting of the Shareholders of UBI Banca, held on 19th October 2018, was called in order to vote, in extraordinary and ordinary sessions, on the items on the agenda.

In the [extraordinary session](#) the Shareholders' meeting approved, with a majority of 99.8635% of the share capital in attendance, a new text of the Articles of Association composed of 38 articles, in relation to the adoption of a one-tier system of management and control which involves a Board of Directors composed of 15 members, 5 of whom are also members of the Management Control Committee.

The two-tier system currently in force involves a Supervisory Board and a Management Board composed of 15 members and 7 members respectively.

All the amendments to the Articles of Association will take effect when the first renewal of the governing bodies to which they apply takes place, except for articles 20, 21 and 22 which will become applicable from the date on which the Shareholders' Meeting called to vote on the appointment of new governing bodies is convened.

One of the changes in the new Articles of Association regards the transitional nature of the provisions introduced by Law No. 120 of 12th July 2011 (the "Golfo-Mosca Law") on parity between genders. It does in fact establish that the composition of the Board must ensure a balance between genders, which is to say even after the specific period set by the law cited.

In the [ordinary session](#) the Shareholders' Meeting approved, with a majority of 99.7587% of the share capital in attendance, certain amendments to the regulations for shareholders meetings, essentially for compliance with the new Articles of Association. These amendments

will become applicable from the first Shareholders' Meeting held subsequent to that which appoints the new governing bodies.

* * *

On 14th December 2018, a Shareholders' Meeting of UBI Banca was called in ordinary session in order to vote on the appointment of a member to the Supervisory Board following the resignation of Lorenzo Renato Guerini on 11th October.

By way of a favourable vote of 99.7227% of the share capital represented, the Shareholders appointed Alberto Carrara to the Supervisory Board, and he is to remain in office until the Meeting of Shareholders to be held on 12th April 2019.

The Strategic Non-Performing Loans Plan

The annual update of the Strategic Plan required by the guidelines on Non-Performing Loans (NPLs) published by the European Central Bank in March 2017, was submitted to the supervisory authority in April 2018.

The NPL Plan, the first for the new perimeter of the Group after the acquisition of the New Banks, not only confirmed the priority of the strategy for the internal management of credit recovery, but also provided for the disposal of non-performing positions with the goal of substantially accelerating the process with respect to the aims contained in the 2017-2020 Business Plan.

In this regard, the (GACS-backed⁵) securitisation of a significant portfolio of bad loans and the preparation of a second portfolio of bad loans for without-recourse securitisation between the end of 2018 and the start of 2019 was announced on 1st August 2018.

The conclusion on 28th September of this securitisation, together with disposals carried out over nine months as part of ordinary problem loan management, made it possible to reach the total volume of disposals envisaged under the NPL Plan for 2018 already by the end of September.

These operations, conducted in parallel with positive results from credit recovery and reduced inflows from performing status, helped to bring down total volumes of gross non-performing exposures, which as at 30th September already stood at levels lower than the targets set for year-end 2018 in the plan.

The second disposal of bad loans was completed on 14th December, ahead of the original schedule due to the keen interest of investors.

As already mentioned, both operations are consistent with the disposal scenarios considered for the estimate of expected losses calculated on First-Time Adoption of the new IFRS 9.

In terms of capital, both operations resulted in a reduction of the RWAs related to the bad loans sold without having a negative impact on the capital ratios, even when factoring in future updates of LGD following these disposals.

The GACS-backed securitisation

The following are the steps that characterised the operation:

- on 20th July 2018 the transfer was completed of a portfolio of bad loans to the independent securitisation vehicle Maior SPV Srl for a Gross Book Value (GBV) as at the reference date (1st January 2018) of €2,748.8 million (recognised gross exposure of €1,615 million).
The transfer price is essentially in line with the carrying value of the net loans sold and meets the requirements of applicable legislation for the release of the guarantee on the securitisation of bad loans in accordance with Decree Law No. 18/2016 (the "GACS"). Consistent with the Group's management strategy, focused primarily on direct credit

⁵ Bad loan securitisation guarantee.

recovery, in terms of GBV the portfolio was composed mainly of unsecured loans (53.4%), while secured loans accounted for 46.6% of the portfolio;

- on 1st August 2018, the securitisation vehicle Maior SPV S.r.l. issued senior, mezzanine and junior notes, which were fully subscribed by UBI Banca S.p.A. only as follows:
 - Senior investment-grade notes for a nominal amount of €628.5 million, equal to 22.9% of the gross book value and 38.9% of the recognised gross exposure of the loans transferred. These percentages are high, notwithstanding the large presence of unsecured loans, which confirms the high quality of the securitised portfolio.
The ratings of the specialist agencies⁶ Scope Ratings GmbH and DBRS were of BBBsf and BBB (low)(sf), respectively;
 - Mezzanine notes for a nominal amount of €60 million (with no rating);
 - Junior notes for a nominal amount of €26.9 million (with no rating).

The sale by UBI Banca of 95% of the nominal value of the mezzanine and junior notes⁷ to third-party investors settled on 28th September 2018 gave rise to the following:

- the deconsolidation of the bad loans underlying the securitisation, in view of the substantial transfer of the related risks and rewards for a gross value of €1,500.2 million (€667.1 million net);
- the recognition, within balance sheet assets, of the notes resulting from the securitisation not subject to transfer to third-party investors⁸, for a total of €629.6 million⁹.

In P&L terms, the disposal of the mezzanine and junior loans resulted in recognition, for the third quarter, under Item 100. a) “Income (losses) from disposal or repurchase of: financial assets measured at amortised cost” of a loss of €65.3 million and further loss of €8.7 million inclusive of the costs strictly connected with the operation.

Disposal of a second portfolio of bad loans

In line with the announcement of 1st August 2018, the second operation for the disposal of bad loans was completed by the Group on 14th December.

UBI Banca sold portfolios of bad loans, almost entirely unsecured, to international institutional investors for a total gross book value as at 30th August 2018 of €416.2 million (€353 million in gross exposure at the same date).

The direct sale on the market resulted in the recognition in the fourth quarter, under Item 100. a) “Income (losses) from disposal or repurchase of: financial assets measured at amortised cost”, of a gain of €8.8 million and a loss of €2.1 million for the costs directly connected with the operation.

In terms of the quality of gross bad loans, the disposal resulted in an increase in the percentage of bad loans backed by collateral, for which higher recovery rates are expected.

UBI Banca therefore proceeded to deconsolidate the bad loans disposed of from the accounts as at 14th December 2018 for a gross value of €351.8 million (€27.6 million net).

⁶ The press releases concerning the ratings assigned by Scope Ratings GmbH and DBRS are available on their respective websites.

⁷ The remaining 5% must be held in portfolio until maturity (2040) in compliance with supervisory regulations [Regulation EU 575/2013 (“CRR”) Art. 405, paragraph 1, letter e)].

⁸ In addition to the 5% of the mezzanine and junior notes already mentioned, UBI Banca also maintained all the senior notes in portfolio.

⁹ Of which:

- Senior notes amounting to €628.5 million classified within Item 40. B) “Financial assets measured at amortised cost: Loans and advances to customers”, with maturity in 2040 and a coupon equal to the 6M Euribor +0.50%. On 3rd October 2018, the Ministry of the Economy and Finance (MEF) issued the Decree to the bank relating to the grant of the State guarantee on the senior notes issued on 5th September;
- Mezzanine and junior notes for a total value of €1.1 million recognised within Item 20. c) “Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value”.

The Model Change

On 21st March 2018 UBI Banca reported that it had received authorisation from the European Central Bank for the implementation of a “Model Change”, which will modify the Bank’s internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions.

Supervisory reports based on the new models have been prepared as of 31st March 2018.

The results of the 2018 stress test

UBI Banca took part in the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in co-operation with the Bank of Italy, the European Central Bank (ECB), and the European Systemic Risk Board (ESRB).

The exercise involved 48 major banking groups, of which four Italian, which represent approximately 70% of the total assets of the European banking system.

The 2018 stress test did not contain a minimum CET1 ratio pass fail threshold, but constituted one of the instruments available to the supervisory authority for measuring the capital strength of banks when faced with hypothetical adverse economic and financial scenarios. The results of the exercise, together with other factors, formed part of the Supervisory Review and Evaluation Process (SREP).

The adverse stress-test scenario was set by the ECB/ESRB and covered a three-year time horizon (2018-2020). The stress test employs a “static balance sheet” methodology whereby the overall size of the banks’ balance sheets remains unchanged compared with December 2017, and it therefore does not take into account future business strategies and management actions. As such, the stress test cannot be read as a forecast of future earnings of the banks involved.

While this was a particularly severe test (both in terms of the macroeconomic scenario and the methodology), based on an extraordinary year for UBI Banca, the Group’s capital ratios remained very resilient. They recorded an impact on the phased-in CET1 ratio under the adverse scenario hypothesis of 338 basis points, lower than the European average of 410 basis points and an impact on the fully loaded CET1 ratio of 374 basis points, also lower than the European average of 395 basis points.

On conclusion of the stress test, under the adverse scenario UBI Banca had a phased-in CET1 ratio of 8.32% (compared with 11.70% pro forma as at 1st January 2018¹⁰ and a fully loaded CET1 ratio of 7.46% (compared with 11.20% pro forma at the beginning of the year¹⁰).

It should be noted that the exercise was based on 2017 year-end figures, which did not yet reflect the expected benefits from the Business Plan which was updated in May 2017 and is now being progressively implemented, and more specifically it did not reflect the strong curb on operating expenses following the rapid integration which took place of the New Banks in Central Italy and also a significant substantial reduction in staff numbers and branches. Furthermore, the “static balance sheet” approach prescribed by the stress test methodology did not allow account to be taken of the progressive reduction in non-performing loans, due to the importance of both the credit recoveries and disposals which have taken place in 2018.

The 2018 SREP

On 5th December 2018, UBI Banca received a first draft of the supervisory authority’s decision establishing the regulatory capital requirements for 2019 based on the Supervisory Review and Evaluation Process (SREP) conducted in accordance with Article 4(1), point f), of Regulation (EU) No. 1024/2013 as at 31st December 2017.

¹⁰ Pro-forma to include the effects of IFRS 9 and the Model Change authorised on 21st March 2018.

The following recommendations that the UBI Banca Group must comply with for 2019 emerged from the draft and from subsequent communications that were received:

- a minimum CET1 ratio requirement of 9.25%, higher than for 2018 due solely to the full phase in of the Capital Conservation Buffer¹¹ *[the minimum CET1 ratio requirement is the result of the sum of the minimum Pillar 1 Regulatory Capital Ratio (4.5%), the Pillar 2 requirement (2.25%) and the Capital Conservation Buffer (2.50%)];*
- a minimum SREP Total Capital Ratio requirement of 10.25%, unchanged compared with 2018 *[the result of the sum of the minimum Pillar 1 Regulatory Capital ratio requirement (8%) and the Pillar 2 Capital ratio requirement (2.25%)].* That requirement, added to the Capital Conservation Buffer of 2.50%, gives a minimum requirement in terms of the Total Capital ratio of 12.75%.

The final SREP decision is expected after the approval date of this financial report.

With a CET1 ratio of 11.70% phased-in and of 11.34% fully loaded and a Total Capital Ratio of 13.80% phased-in and 13.44% fully loaded, at the end of 2018 the Group was already positioned well above the levels required by the authority for 2019.

Rationalisation of our international presence abroad

Following the sale of UBI Banca International, effective as of 1st November 2017, the process of rationalising the Group's presence internationally affected branches in Madrid and Munich, which were originally held by the former Luxembourg subsidiary and ceased operations on 1st January 2019.

Early in the year, a plan was defined and launched containing all the preparatory activities aimed at closing the branches, including reporting to the supervisory authorities, notifying customers, meeting union obligations established by local laws and regulations, and fulfilling other administrative, accounting and fiscal obligations.

New commercial developments for the Chinese joint venture Zhong Ou Asset Management

A commercial agreement has been operational since 4th May 2018 between Zhong Ou Asset Management, the Chinese joint venture in which the UBI Banca Group has a 25% interest, and Ant Financial Services Group, the financial and online-payment services company of the Alibaba Group, a global e-commerce company.

Zhong Ou was selected for the money market fund offerings proposed on the Yu'e Bao platform of Ant Financial Services, which uses money market funds to manage customer deposits for online payments and purchases. In 2018, in relation to these offerings, Zhong Ou recorded cash inflows of roughly €11 billion from more than 9 million customers.

¹¹ The CCB is included on the basis of its fully loaded value (2.50%) from 2019, while it had been included at a percentage of 1.875% in the requirements for 2018 and at 1.25% in the requirements for 2017, in application of the phased-in transition rules set for the sector by the Bank of Italy.

Commercial activity

In 2018 the UBI Banca Group implemented its new distribution model, completing the integration of the New Banks and continuing with the branch restructuring programme included in the 2017-2020 Business Plan, following on from the positive experience with the pilot branches at the end of 2017: over 180 of the approximately 700 branches planned for the end of 2020 were involved during the year.

In accordance with the distribution model, commercial coverage of the Italian national territory is provided by the seven [General Geographical Areas](#) and [48 Local Departments](#), together with two specialised divisions, [Corporate & Investment Banking](#) and [Top Private Banking](#).

At the level of customer segments, in 2018 the [Private Individuals](#) segment saw the introduction of a number of new products and services designed for ease of use according to a multi-channel approach, while also adopting innovative solutions to meet customers' growing needs.

In the [corporate segment](#), initiatives primarily focused on supporting working capital needs and investment plans, as well as use of more traditional forms of credit, with assistance and advice from specialised business lines. The working capital financing range was expanded to include a product specially designed for the commerce sector ([PrestiShop](#)).

The Group devoted significant effort to honing its capabilities to develop specialist skills in its various business areas. In particular, in the corporate market, it released tools in support of client relationship management with the aim of facilitating a more synergistic approach together with the specialist areas.

The [Product Companies](#) continued to develop and reinforce their respective ranges and the relevant operating and commercial support tools in view of an improved operating focus, above all in synergy with the Parent's banking network.

In 2018 the goal of improving the customer relationship quality – and thus also [customer satisfaction](#) indicators – drove a revamping of the complaint handling model for preventing or resolving disputes from the earliest stages, i.e. before a formal complaint is filed.

Commercial activity: private individual customers¹

In 2018 technologies and new products continued to be developed in the payment cards and payment systems area. The following are particularly worthy of note:

- the launch of the massive replacement of credit cards with the innovative new [Hybrid card](#) that can be used for electronic payments via NFC² telephones by activating the Samsung Pay and Google Pay services³. Holders of UBI Banca credit cards (Hybrid, Libra and Kalia) can thus use the new mobile payment services to pay directly from their smartphones and smartwatches at all contactless POS terminals and online with participating merchants. In early 2019 the service will also be extended to debit cards and prepaid cards;
- the development programme for the Bancomat/PagoBancomat circuit aimed at revitalising the Italian domestic system, featuring a new version of the debit product that allows payments to be made in NFC/contactless mode;
- the extension of the [Jiffy](#) money-sending service to the Enjoy account and prepaid card, making a new method of executing payments available for these products.

¹ The private individual customers served by retail branches are divided into two categories: Mass Market (natural persons with financial assets – direct and indirect funding – of less than €100,000) and Affluent (natural persons with financial assets of €100,000 to €1,000,000).

² Near-field communication, a technology for sending and receiving that provides bidirectional, short-range wireless connectivity.

³ Activating the new services is extremely simple: cardholders need only enter the details of their UBI Banca credit cards and the security code that will be sent by text message to their certified mobile telephone numbers directly into the Samsung Pay or Google Pay apps. The services are protected by the strong security protocols made available by the two providers, which do not store the original card details on the device nor share them with merchants.

Jiffy allows consumer customers:

- to send or request funds to or from other consumer customers participating in the system, identifying the payment account to be debited (when money is sent) or credited (when money is requested) using only the mobile telephone number associated with the service (instead of an IBAN);
- to make payments to merchants or public administrations participating in the service according to innovative methods made available by the merchant and the Bank.

At the end of July, SIA and Bancomat signed an agreement that resulted in the creation of Bancomat Pay, an innovative payment service based on the creation of a new system that effectively represents the next stage in Jiffy's development, expanding the user base from the current five million to over 37 million.

In 2019 the Group will implement a unilateral contract amendment to migrate active Jiffy customers to the new payment service;

- the launch in December of [Ricariconto](#), the new service linked to a current account that allows deferred payment of already booked transactions of €250 to €5,000 in monthly instalments. Customers can thus optimise management of day-to-day liquidity and their personal/family budgets easily and quickly;
- the activation of marketing techniques termed "[Customer Journeys](#)", in which, primarily through remote channels (UBI online, email, text message, etc.), customers are engaged, leading them to discover the commercial behaviour suggested by the Bank. The activities focus in particular on encouraging the use of digital channels, on education and the use of instalment plans (using Hybrid cards and Ricariconto) and the offering of Pre-evaluated Loans;
- the Group's commitment to increasing the usability of its products and services from an omnichannel perspective, through the development of new IT platforms that allow customers to make combined use of physical and virtual channels. Amongst initiatives encouraging the use of alternative non-branch channels, mention should also be made of the Digital Migration Programme, conducted, amongst other things, through in-branch actions by Customer and Digital Development Assistants;
- the launch of the new UBI Banca app, into which all the features previously managed in separate apps (UBI Protection, UBI Money, UBI Trading and UBI Pay), now obsolete, have been integrated.

The new application is characterised by four fundamental aspects supported by a solid security foundation increasingly invisible to the customer:

- a tailor-made approach, i.e. the application is structured according to the customer's habits and the products possessed;
- ease of use, meaning the visual language used incorporates easily recognisable elements;
- immediacy, meaning that the interface offers a fluid experience;
- conversation, i.e. a channel for launching a personal relationship with customers, responding to their requests and beginning to offer solutions to their needs, designed to evolve into a means of offering products tailored to the customer's needs.

The app's new features include: creation of an area dedicated to online purchases (to request a personal loan or request an estimate for a car insurance policy with the support from a specialist and conclude the purchase directly in the app); the ability to extend card and account balance and activity features to an Apple Watch or Android smartwatch; and the ability to set up push notifications on the use of such devices.

In [Digital Lending](#), a fully digital, paperless approval procedure was also extended to branches, allowing customers to receive loan proposals suited to their needs.

Thanks to the complete digitalisation of the pre-evaluation process, credit assessment and loan disbursement, customers can access the same proposal through all channels (physical and/or remote) and receive the amount in their accounts, where approved, expeditiously. With effect from July, loans can also now be paired with BluPrestito, a policy that offers combined life and non-life cover for unforeseen events.

Activities relating to the activation of the strategic [Digital Marketing](#) platforms such as Web Analytics and the Data Management Platform also continued in 2018.

In Web Analytics, (i) the phases of technical implementation of the platform were completed and (ii) user browsing behaviour analyses were launched for both the public site and reserved areas, via both Web and app, on the various devices (desktop PCs, mobile telephones and tablets). That platform will allow the various "Customer Journeys" developed by UBI Banca for priority business areas through Marketing Automation and Digital Campaign initiatives to be adapted to customer preferences.

From the standpoint of commercial offerings, the main initiatives in the two general areas of lending and investments/insurance are summarised below.

LENDING

Initiatives were primarily focused on home purchase and family support plans, particularly for employees and pensioners, in the form of both traditional loans and loans secured by one-fifth of salary or pension. Specifically, with regard to first home purchases, in June 2018 the Bank formally signed the memorandum of understanding between the Ministry of Economy and Finance (MEF) and the Italian Banking Association (ABI)⁴.

INVESTMENTS AND INSURANCE

- the Bank continued to invest in further improving the “Customer Journey”, for example by allowing individual investment scheme (PIR) funds to be traded both at the customer's initiative and by advisor recommendation;
- asset management and life insurance policies continued to be offered, and financial education of customers played a significant role in connection with marketing of fund-based savings schemes. In particular, mention should be made of the investment savings plans of Pramerica and the new individual savings schemes (PIR);
- the strategy of completing and innovating the range of investment and retirement products and services continued, involving a new commercial offer in life bancassurance and asset management:

- in partnership with the BancAssurance Popolari (BAP), Aviva and Lombarda Vita insurance companies, two new policies were developed to meet the increasingly clear need by customers for investment solutions for their wealth and protection solutions for their families. The policies in question, Twin Selection and Twin Top Selection, are innovative financial instruments that build on the comprehensive advisory service that the Group offers its customers, with all-encompassing planning of family needs over the course of an entire lifetime.

The two new solutions, which combine the traditional “Life Insurance/Pension” component with a “Personal and Family Protection” component, and the “Financial” component with a “Value-added Service” component, represent a response to the context in which Italian families operate.

The new life policies Twin Selection and Twin Top Selection combine both investment solutions (Business Sector I and Business Sector III components) with family protection solutions (term life insurance, dread disease and long-term care cover) in a single product;

- in the offering of asset management products and services, Pramerica SGR's new Luxembourg SICAV PrimaClasse began to be marketed. PrimaClasse is a revolutionary new asset management product represented by an open investment solution consisting of a range of over 30 sub-funds belonging to various asset classes that enable customers to diversify their investment portfolio in accordance with their risk profile and investment horizon. In addition, the sub-funds of PrimaClasse pay out periodic coupons – a distinctive trait of this solution, which meets the need expressed by customers for an investment product that offers periodic income streams over the course of the year.

The launch of distribution of these new investment and pension solutions was accompanied by an extensive training programme for the Group's sales network aimed at presenting and illustrating the related media, tools and arguments needed to be able to win over customers, strengthening the bonds of trust, through a holistic, professional advisory service⁵;

- finally, in the second half of the year, bond placement resumed, involving mostly fixed-rate instruments, to meet the rising demand from customers for fixed-income solutions with redemption at maturity to be included in their portfolios.

Efforts to comply with the new [MiFID II regulations](#), intended to enhance investor protection and improve the transparency of the financial markets, also had a strong impact on the reporting year.

Amongst the aspects that will contribute to increasing investor protection, mention should be made of:

- the preparation of new documentation to be delivered to customers to provide information on the characteristics of financial instruments;
- the expansion of the periodic statement to include an explicit account of all costs and expenses borne by the customer during the year;

⁴ The 2014 *Legge di stabilità* (“stability law” – annual finance law) – A guarantee fund that covers 50% of mortgage loan principal, up to €250,000, with the possibility of a loan-to-value ratio of over 80%. The initiative is intended for all citizens, but with priority access to guarantees for young couples, single-parent households with minor children, workers under 35 with atypical contracts (Law No. 92 of 28th June 2012) and tenants occupying properties owned by autonomous public housing authorities.

⁵ In support of advisory activity, dedicated FAP (Financial Advisory Planning platform) strategies were designed, along with ad hoc commercial initiatives, and a new guided recommendation service was also implemented with the aim of facilitating diversification of the range of products and services offered to customers.

- the offering of products increasingly suited to the demands of customers with differing needs and expectations and the introduction of a cost/benefit check when financial products are purchased and sold.

Compliance with MiFID II required certification of the investment competencies of the network of advisors, including through the mapping of their financial knowledge and expertise. Where necessary, new training courses were designed to ensure that customers receive increasingly professional advisory service.

Lastly, the Group continues to develop its advisory models to suit the investment needs and financial profiles of its customers in accordance with the new regulatory guidelines.

Finally, in the **protection** segment, the Bank focused on developing non-life policies, launching an extensive communications campaign⁶ based on traditional, digital and social media, emphasising the variety and breadth of the cover offered by the products of our insurance partner Cargeas in the home, health and automotive sectors.

The new policy BluReddito – for the details of which, see the section below entitled “UBI Welfare” – also began to be marketed in 2018.

Commercial activity: Corporate⁷

The most important initiatives of 2018. are listed below.

“Uscire per Business” (“Going Out for Business”)

Measures in support of small and medium enterprises (SMEs) continued in the reporting period, confirming the importance of an approach focused on customer relations.

In particular, “Uscire per Business” initiatives continued, with the aim of supporting corporate clients with the need to increase short-term credit facilities and to finance investments, with the involvement of loan evaluation personnel to streamline the granting process and of UBI Leasing and SF Consulting to ensure effective exploitation of the tax relief offered by the *Piano Nazionale Industria 4.0* (“National Plan for Industry 4.0”) legislation through a specialised consulting service.

Sectoral approach and supply chain credit

With regard to the sectoral approach, commercial and credit information was adapted to each sector according to the instructions from the Research Service, in order to ensure even more effective service for clients.

The focus on various specific sectors also continued, following those examined in the previous year. In particular, with the aim of providing companies with a distinctive service consisting of custom proposals and specialist advice, further attention was devoted to key sectors for the Italian economy, such as packaging, plastics, utilities, food and agriculture, tourism and commerce.

Turning to supply chain credit, after a pilot phase at branches serving key supply chain participants with turnover of over €250 million (Large-Corporate category), based on the identification of strategic suppliers, followed by an offer specifically tailored to the supply chain's needs, in 2018 the approach was also extended to key supply chain participants in the corporate segment. Meetings are currently being held with various key participants in the supply chain in order to verify their needs and create custom offers.

Agreement with Confindustria

The co-operation agreement entered into with Confindustria in 2017 with the goal of developing the role played by the Digital Innovation Hubs⁸ (DIHs) and creating a dedicated lounge environment in Borsa Italiana's Elite programme⁹ underwent further development, with the expansion in 2018 of content relating to supply chains, sustainable development and welfare.

In particular, in supply chain credit the UBI Banca Group created a dedicated range of products based on understanding the needs and characteristics of individual investment projects aimed at digital development

⁶ The campaign's claim: “*E vissero tutti sereni e protetti*” (“*And they all lived happily and securely ever after*”).

⁷ The corporate customers served by Retail Branches and Corporate Centres are divided into: Micro-Enterprises (small businesses with turnover of less than €300,000 or total systemic credit facilities of less than €50,000); Medium Enterprises (businesses with turnover of €300,000 to €10,000,000 or total systemic credit facilities of €50,000 to €6,000,000); and Core Corporate (businesses with turnover of €10,000,000 to €250,000,000 or total systemic credit facilities of €6,000,000 to €150,000,000).

⁸ Technology districts created to help SMEs adapt to the new industrial revolution.

⁹ Elite is the London Stock Exchange Group's international programme in co-operation with Confindustria dedicated to the most ambitious companies with solid business models and clear growth strategies; the programme provides access to numerous financing opportunities, improves companies' visibility and attractiveness, puts them in touch with potential investors and assists management with the process of cultural and organisational change. New Italian companies are presented through the established lounge model with the innovative goal of creating a dedicated environment that places the bank's customer in the middle of a web of opportunities and value.

in supply chains.

As part of efforts to support investment 4.0 projects with a sustainable development theme, the Group will provide companies with access to a research, development and innovation loan pool for investments resulting, for example, in a reduced environmental impact and/or the protection or addition of jobs. The Bank will make provide access to methods for assessing "sustainable" projects aimed at optimising/measuring social impact, and will also collaborate with Confindustria on developing and protecting a culture of welfare amongst Confindustria member firms.

PrestiShop

PrestiShop, a new business loan designed specially for retailers with the aim of meeting their short-term financing needs, offering flexible repayment options compatible with each business's cash flow situation, began to be marketed in the third quarter of 2018.

PrestiShop has a fixed term of six months, with repayment in bullet form, i.e. a single payment, inclusive of principal and interest, at maturity. Customers may gradually repay the loan in advance using sums collected via POS terminals, as well as according to the customary methods.

By November 2018, i.e. in just four months, over 900 PrestiShop loans had been disbursed, for a total amount of approximately €23 million.

Factoring of accounts receivable claimed from the public administration by private sector companies

In the area of financing options for accounts receivable claimed by private companies from the public administration, the product range was expanded to include a new advance mechanism based on an irrevocable collection order and the use of the Public Receivables Platform implemented by the Minister of Economy and Finance, which simplifies the process of closing transactions.

Capital Goods Loan Pool (known as the “Nuova Sabatini”)

These are loans granted to small and medium enterprises some of the interest payments on which are subsidised by the Ministry for Economic Development.

The subsidy was renewed in 2017 on the basis of the additional funds made available by the Ministry, while also extending it to investments in digital technologies and waste tracking and weighing systems to facilitate the transition of the economy to digital manufacturing and increase innovation and efficiency in the business system. The programme was suspended by Decree of Ministry for Economic Development on 3rd December 2018 due to the lack of further funds. Additional funding for the initiative was appropriated in the 2019 Budget Act.

From the beginning of the year to November 2018, 414 loans were issued for a total of €100 million. As at that same date, there were 913 outstanding loans with a residual balance due of €196 million.

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

During the year, the UBI Banca Group continued to offer medium to long-term loans (maximum term of ten years) to companies under attractive terms thanks to the positive collaboration with the European Investment Bank.

In particular, three credit facilities were contracted from the EIB during the year for a total amount of €450 million:

- a facility of €50 million intended for social activities;
- a facility of €300 million intended for SMEs and mid-caps; and
- a facility of €100 million intended for SMEs and mid-caps.

At the end of 2018, approximately 1,100 loans amounting to approximately €440 million had been disbursed.

Initiatives benefiting victims of natural disasters

- **Measures aimed at resolving the Morandi Bridge Emergency**

In November 2018 the Bank signed the agreement with Fi.L.S.E. Spa. (a state-owned economic development company) allowing SMEs damaged by the events of 14th August in Genoa to benefit from the “Morandi Bridge Emergency” Guarantee Fund, set up and funded by the Region of Liguria. Through access to the fund, companies can benefit from a direct guarantee or a counter-guarantee backing unsecured loans intended to finance working capital needs to survive the period of emergency caused by the collapse of the Morandi Bridge.

Loans may be granted for amounts of up to €180 thousand, with terms of up to 90 months, inclusive of a pre-amortisation period, at particularly favourable economic conditions, subject to a fast track approval procedure.

- **Measures for populations hit by the 2012 earthquake in Emilia Romagna, Lombardy and Veneto**

Unsecured loans continued to be granted under the agreement between the Italian Banking Association and Cassa Depositi e Prestiti (a state controlled fund and deposit institution) dated 17th December 2012 known as “Plafond Ricostruzione Sisma 2012” (the “2012 Earthquake Reconstruction Loan Pool”). The loans in question have terms of 15 to 25 years, depending on the amount of the loan.

Loans for agricultural companies – the deadline for which had been set as 31st December 2018, on pain of forfeiture of the right to receive the contributions in question – were also added in the second half of the year.

The loans are repaid solely using the tax credit granted to the borrower and then transferred by the borrower to the Bank.

- [UBI Banca Group loan pools for earthquake victims in the regions of Lazio, Marche, Umbria and Abruzzo](#)

To support victims of the series of earthquakes that began on 24th August 2016, the loan pools totalling €150 million formed in 2017 continued to be used to repair and rebuild homes and businesses and to earthquake-proof homes.

- [Legally mandated suspension of repayment of UBI Banca loans](#)

In the municipalities officially damaged by the 2016 earthquake, UBI Banca suspended repayment of mortgage and other loans for businesses and mortgage loans for first homes rendered unfit for use or destroyed until 31st December 2020 (31st December 2021 for the “red zone”).

- [Agreement between the Italian Banking Association and Cassa Depositi e Prestiti on the “Central Italy Earthquake Loan Pool”](#)

Subsidised loans with terms of 15 to 25 years, depending on the amount, for the repair or reconstruction of properties damaged by earthquakes also continued to be granted under the agreement between the Italian Banking Association and the Cassa Depositi e Prestiti (a state controlled fund and deposit institution) dated 18th November 2016. These loans, which are guaranteed by the Italian central government, are funded by the Cassa Depositi e Prestiti and issued at fixed interest rates established by the latter institution, with terms of 15 to 25 years.

The borrowers are eligible for a tax credit equal to the instalments due, which they transfer to the Bank as the sole means of repayment of the loans.

From January to November 2018, 362 loans were granted to companies for approximately €23 million.

- [Agreement between the Italian Banking Association and Cassa Depositi e Prestiti on the “Central Italy Earthquake Moratorium Loan Pool”](#)

A further agreement dated 3rd July 2017 is in effect between the two above institutions governing the granting of subsidised loans to be used to pay suspended 2018 taxes due by 31st December 2018 (2018 loan pool), intended for business owners and self-employed workers in the areas affected by the seismic events.

The loans, which bear interest at a rate set by the Cassa Depositi e Prestiti (2.779% for the 2018 loan pool), have a term of 85 months (including a pre-amortisation period of 25 months). Principal is repaid by the borrowers, whereas the Bank receives a tax credit equivalent to the interest payment (on the single date of 31st December 2018). The loans are guaranteed by the Italian central government and thus have no impact on capital absorption.

At the end of November the Group had finalised 763 loans totalling €33.5 million drawing on the 2018 loan pool.

Digital services

In 2018 the migration to Corporate Digital Banking – UBI Banca's new Corporate Banking Interbank (CBI) Internet service – was completed both from a functional standpoint, following the conclusion of development activities and the launch of the fine-tuning process, and from an operational perspective, with the transfer of the final batches of customers to the target application. The number of customers who have signed new Corporate Digital Banking contracts is positive and constantly rising.

Online advances against invoices were also introduced for both the “Qui UBI Affari” business service and “Digital Banking Imprese” (corporate digital banking). This is a completely automated document presentation system, long requested by customers and branches, that allows customers to manage the process in complete autonomy and monitor the status of open cases in real time.

Commercial activity of divisions focused on HNWIs

Top Private Banking

UBI Top Private Banking is the division of the UBI Banca Group dedicated to the private banking market¹⁰. It currently manages over €34 billion in assets through 27 dedicated Private Banking Centres spread throughout Italy and 290 Private Relationship Bankers.

Customers are managed through personalised services models integrated with their needs, differentiated by type (individuals, entrepreneurs, companies and institutions) and wealth bracket. The service model is designed to meet customers' every need, ranging from the core wealth management service (based on bespoke advisory solutions) to family advisory service, which provides solutions for managing, governing and protecting the wealth of households and companies and for succession planning, including trusts and fiduciary companies, through specialised offices in Italy and abroad. The division operates in synergy with the Corporate & Investment Banking Division to complete the range of offerings to corporate clients through specialised products and services dedicated to companies.

In 2018 UBI Top Private Banking developed and enhanced its distribution structure in the Emilia Romagna area following the opening in late 2017 of the Modena and Parma locations and the expansion of the Bologna office, in addition to shoring up its coverage of the areas served by the New Banks. Innovation projects were also launched in the areas of advisory platforms and the digitalisation of distribution channels (in-branch, indirect network and remote) and are set to continue in 2019, in addition to initiatives aimed at developing and increasing the new brand's visibility in the press and through financial events for customers in the local community, in partnership with Pramerica SGR, with a focus on economic themes and financial market performance.

In internal communications efforts, an innovative corporate portal was developed to constantly expand the wealth of information supporting the operations of the network of Private Relationship Bankers and training was conducted with major universities to touch up the relevant skills, in addition to intensive efforts focusing on digitalisation projects.

In both 2017 and 2018 UBI Top Private Banking received important recognition from the industry, further strengthening UBI Banca's leading position in the Italian private banking sector.

Corporate & Investment Banking

During the year, the Corporate & Investment Banking Division continued to complete its investment banking offices in support of the Advisory-Centric service model for the 700 directly served Large-Corporate relationships and the Mid-Corporate counterparties served by the General Geographic Areas. In addition, a plan was launched to expand the Global Market Sales unit to complement the value chain in the Debt & Equity Capital Markets segment and to serve the Financial Institutions segment.

The integration of specialist skills in investment banking services and the relationship approach in Traditional Banking services for the Large-Corporate segment¹¹, through the network of 26 Global Relationship Managers, permitted significant development of directly managed Large-Corporate clients and an increase in the fee-based M&A business (Structured Finance and Advisory). The implementation of the new organisation and the reinforcement of the skill-set allowed senior personnel to be involved in major market transactions in 2018, while also permitting relationships with the main private-equity funds operating on the Italian market to be improved. This development also lays the foundation for honing sector- and product-specific skills that can be put to good use serving the Group's corporate clients, thereby facilitating thorough satisfaction of customers' extraordinary needs. One example of the successful focus on investment banking is the aforementioned launch in early 2018 of the

¹⁰ UBI Top Private Banking Division manages private banking clients with financial wealth (direct and indirect funding) of greater than €1 million.

¹¹ The Large-Corporate segment includes corporate clients with annual group turnover of greater than €250 million or with authorised credit at sector level of greater than €150 million.

first Elite Lounge sponsored by UBI Banca in partnership with the Italian national Confindustria, which granted 21 high-potential companies access to Borsa Italiana's Elite programme.

Commercial activity in specialist areas and companies

UBI Welfare

Company welfare – defined as a set of initiatives taken by an employer with the aim of increasing the wellbeing and social security of workers and their families, by complementing public services in the areas of health, retirement, education, leisure time, protection and work/life balance – underwent further development in 2018.

Benefiting from its many years of experience in managing company welfare with a focus on its employees, in 2017 UBI Banca was a first-mover amongst banks in a market that soon saw the entry of almost all banking competitors and the proliferation of specialist players and insurance brokers.

The Bank's range was made even more distinctive during the year, accompanied by a variety of initiatives, some of which were carried out in collaboration with socially beneficial companies and third sector organisations: alongside the services [UBI Welfare](#)¹² and [UBI Welfare Network](#)¹³, the service [UBI Welfare Light](#) – a simple, rapid and economical management solution – began to be marketed. This service uses an IT platform with predefined content in terms of goods and services that can be personalised with a company logo to provide workers with easy access to their welfare credits.

Amongst their other benefits, welfare solutions provide access to the benefits envisaged by the law¹⁴, in some cases eliminating the tax wedge, thus making companies more competitive and increasing workers' purchasing power, while also improving their satisfaction levels.

UBI Banca's services in this area were marketed with increasing success throughout the distribution network, owing in part to the presence of Welfare Specialists spread throughout the country.

In accordance with its mission of maintaining close ties to local communities and with its goal of building and expanding a full-fledged local network (a “welfare ecosystem”) in which third sector companies and organisations may become providers of the related services, in 2018 the Bank signed [partnership agreements with eleven employers' and trade associations](#) operating in various sectors (including, amongst business associations, organisations representing small and medium enterprises and pharmacy owners) and Italian regions.

We cite, in particular:

- the business innovation and digitalisation protocol signed with the [Italian National Confindustria](#) on 4th October, designed to further spur investments relating to the Industry 4.0 National Plan, formalising the mutual commitment to spreading a culture of company welfare and the adoption of the relevant plans;
- the partnership struck on 18th July with [Consorzio Nazionale della Cooperazione Sociale Gino Mattarelli](#) (CGM – the Gino Mattarelli national consortium of social co-operation), whose members include more than 700 social enterprises throughout Italy, allowing clients that use UBI Welfare services to rely on cooperatives operating at a national level in services dedicated to personal care, health and education.

¹² It represents an end-to-end solution that can be tailored to meet client firms' needs.

¹³ It involves an aggregator for managing the flexible benefits of the workers of participating companies.

¹⁴ The 2016 *Legge di Stabilità* (“stability law” – annual finance law) and the 2017 and 2018 budget laws introduced and maintained significant tax benefits associated with performance bonuses (i.e., for improvements in productivity, profitability, quality, efficiency and innovation) paid by private-sector companies and employee profit-sharing, such as:

- 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.

The [UBI Welfare Observatory](#) also continued its activities. On 14th March, this organisation – promoted by UBI Banca in partnership with [ADAPT](#), the school of higher education in labour relations established in 2000 by Marco Biagi, and under the scientific coordination of Michele Tiraboschi – published and presented in Milan its first “Welfare for People” report on company and employment welfare in Italy, based on observations conducted in the local areas in which the Group operates.

The study was based on an analysis of the main national collective bargaining agreements which considered the subject and on a reading of a database containing over 2,000 second tier collective bargaining agreements (predominantly supplementary company agreements), in addition to the most significant local area agreements ordered by economic sector.

Finally, with regard to the initiatives promoted for clients in supplementary healthcare and protection, the following is a description of the offerings made available in the two segments during the year:

- [Cassa di Assistenza Aziende Italia](#)

This solution designed for corporate clients features a modular combination of health benefits that can be configured to form various health plans at the participant's discretion.

By enrolling in the Cassa di Assistenza Aziende Italia ("Italian Corporate Health Fund"), established in 2016, client firms and organisations may sign up for health plans for their employees and associates and their families, granting them access to tax benefits, where applicable, and contributing to the improvement of the company welfare environment.

The health plans are modular and insurance risk is covered and benefits paid out under collective health policies contracted by the fund from partner insurance companies.

- [New BluReddito policy](#)

This is a new single-premium insurance package protecting individuals that combines a non-life policy (offered by Cargeas Assicurazioni) with an optional term life insurance policy that may only be contracted together with the non-life policy (offered by AVIVA Vita and BAP Assicurazioni), distribution of which began on 15th October. Similar policies to be offered by Lombarda Vita are also being developed.

The policy is designed to ensure the economic peace of mind of customers and their families in the event of unforeseen personal events with the potential to jeopardise their financial situation: the cover offered includes [permanent invalidity resulting from an accident](#), [involuntary loss of employment](#) and [temporary total disability due to an accident or illness](#). Finally, in the event of the death of the insured, the [term life insurance](#) policy pays out a fixed, pre-determined benefit to the insured's heirs or other beneficiaries.

- [New BluImpresa multi-risk policy](#)

This product is designed to provide protection against the main risks affecting businesses in the sectors of commerce, trades and crafts, small business, services, offices, and small and medium professional firms with no more than ten employees. The policy, which began to be distributed on 31st October, is issued by Cargeas Assicurazioni.

It provides companies with comprehensive protection against direct damages to business premises and their contents, indirect damages due to business interruption and damages caused to third parties or employees as a result of accidents in the course of the insured activity, together with support services in various emergency situations. The policy is organised into four tiers of increasing coverage and is based on a modular, flexible structure.

Abroad

Opening up new foreign markets remains an indispensable target/condition for Italian businesses, given the continued moderate growth recorded in the domestic market in recent years.

UBI Global Transaction Banking (UBI GTB) is the area of the Group specialised providing advice and specific services to clients in the field of trade finance through a network of business specialists spread throughout the Group's area of operation and 24 operations centres in Italy.

The advice and operational support provided include a wide range of products focused on the management of contracts and payment methods for the foreign import and export activities of Italian companies, with particular attention to covering the risks related to these activities (country risk, foreign bank risk, currency risk etc.).

During 2018 the Bank reinforced and rationalised its network of GTB specialists. Specific joint commercial initiatives between the branch network, corporate centres and the specialists themselves were also organised.

For over 20 years the Group has adopted a direct presence strategy (mainly through Representative Offices) in the areas of the world that are most attractive for Italian exporters.

There are currently eight Representative Offices around the world (New York, Sao Paulo, Casablanca, Moscow, Dubai, Mumbai, Hong Kong and Shanghai) and three Foreign Branches in Europe (Antibes, Menton and Nice). The Monaco and Madrid branches were closed with effect from 1st January 2019 as part of a plan to rationalise the foreign branch network. The Group's international market presence, together with a co-ordinated range of export-related banking and financial products and services and the specialist services offering advice on planning and studying foreign markets, makes it possible to satisfy the foreign growth requirements of Italian SMEs.

The consultancy advice offered, both directly through its Representative Offices and through partnerships with specialised Italian and foreign companies, is intended to support companies with their projects to go international as well as helping them during the implementation stage of their operational plans. The consultants working with the Group and our close network of relationships with foreign banks (approximately 2,000) enable us to support the needs of companies in over 140 foreign countries.

This year the Bank once again received awards for transaction management from leading organisations worldwide.

The eighth edition of the International Banking Forum "Widening our World" was organised in June 2018, involving the participation of over 160 representatives of international banks from more than 30 countries.

UBI Leasing

In 2018 UBI Leasing's commercial policies were set in continuity with the strategic guidelines already planned for the medium to long-term, with a greater focus in particular on machinery and equipment and car leasing, permitting an ongoing rebalancing of the product mix for outstanding leases to reduce the real-estate component.

Business development was achieved through a strong, constant focus on risk allocation, privileging clients of high standing and with a systematic focus on the profitability of individual transactions. The intensification of competition on the market already seen in 2017 led to ever increasing selectivity with the conclusion only of those transactions that present adequate margins in terms of RORAC¹⁵, even where this entailed a reduction in volumes.

The company has continued to offer its clients medium to long-term financing of up to twelve years, at advantageous conditions, partly thanks to the long-term collaboration of the Group with the EIB: around 460 loans were granted in 2018 amounting to around €93 million using funds facilitated by the EIB.

Concerning the relationship with the network banks, intense activity to develop potential target customers has continued in conjunction with the Parent, taking full advantage of the opportunities resulting in part from current tax incentives to support businesses.

At the same time, there was also an internal focus on identifying any additional product and/or process initiatives aimed at further stimulating the distribution of car and equipment and machinery products, culminating in the launch of an important project aimed at a thorough revamping of the IT tools used to distribute the products, together with the gradual digitalisation of processes.

Network training – provided by the UBI Leasing sales office – was focused in particular on the content of the Finance Act affecting corporate investments (super/hyper-amortisation and the Sabatini Law), with the aim of adequately supporting companies with typical investment advisory services. New Bank personnel also received intensive training regarding full alignment with the products and processes offered by the company. During the year, specific commercial initiatives were also aimed at companies in order to support investments in the most attractive segments (equipment and vehicles).

Lastly, commercial activities relating to the public sector have continued, involving constant monitoring of tenders and participating in those that are considered most interesting and profitable, using an approach of market coverage in the area of operation, particularly for chosen operators with an adequate repayment capacity.

¹⁵ A management target used to calculate the return below which transactions are not accepted: it is calculated by using the expected results of the transactions relating to a financial instrument, project or operational activity as the numerator and the capital to be used, corrected to take account of the associated risks, as the denominator.

UBI Factor

In 2018 the Company continued to operate in a market characterised by strong competition at the level of pricing for clients, particularly in the Large-Corporate segment.

Within this framework, UBI Factor completed its organisational restructuring, implementing an appropriate structure more consistent with that of UBI Banca, with particular regard to the adoption by the Commercial Area of the segment-based distribution model: Mid-Corporate (with the implementation of the three General Geographical Areas) and Large-Corporate (with two dedicated markets, in addition to the branch in Poland). According to the previously adopted guidelines, this new structure permitted a closer focus on the development of Mid-Corporate clients, due above all to the synergy with the Bank's distribution network.

The new UBI><Digital platform, which can be used to upload invoices in digital format, was developed and released during the year as part of efforts to simplify and modernise sales processes. In addition, new target client criteria and new commercial monitoring methods were defined in collaboration with the Parent's commercial planning functions. In the latter part of the year, a platform known as the “Dashboard” was released to track commercial offerings to clients from the client's first visit to finalisation of the offer.

Finally, the company played a significant part within the Marketing Committee of the Italian factoring company trade association Assifact, promoting initiatives aimed at spreading and ensuring a better understanding of factoring products, which will take concrete form in 2019.

Prestitalia

During the year, Prestitalia continued to improve its positioning amongst the top players in the salary-backed lending business, achieving market share of 10% due to the positive results reported by all sales channels: UBI Banca branches, branch agents and traditional agents.

In 2018 the Bank of Italy also published its “Supervisory guidelines on salary- and pension-backed loans”, which largely recommend practices already followed by Prestitalia in adopting the “Memorandum of understanding between Assofin and consumers associations”, which provides clarification on the application of the principles set out in the regulations, aimed at promoting proper behaviour in relations with customers. In order to ensure full, comprehensive convergence towards the supervisory guidelines, in implementation of the Group's policies, the Product Development and Management Process was activated, enabling the identification and circulation of various organisational and application solutions, together with corrections and improvements.

The company continued development during the year, improving its range of products and services and the related operational and commercial support tools through:

- enhancement of the commercial commitment to training of the distribution network with the aim of improving customer relationships;
- expansion of the catalogue of insurance companies through the [new partnership with Aviva](#) with the aim of further reducing concentration risk: at present there are nine partnerships in place with insurance companies carefully selected for their solidity, reliability and reputation;
- expansion of the product catalogue available to the agents network due a new commercial agreement signed with the Parent for the [promotion of mortgage lending products](#) through the reporting of the contact details of individual clients interested in contracting home mortgage loans;
- the updating of the agency [network remuneration system](#) with the adoption of quality indicators that take adequate account of customer protection needs;
- the new version of the [monthly agents performance review report](#) as a tool for monitoring and analysis in support of agents and identifying areas of improvement.

Finally, the following new projects were launched and will be activated in 2019:

- internationalisation of the Prestitalia Customer Support Service;
- activation of the remote manager channel for the pension-backed loan product.

IW Bank

In 2018 the Company continued development, improving its range of products and services and the related operational and commercial support tools.

In particular, new product and service development related to the following areas:

- **innovation aimed at the digitalisation of operating processes** based on indirect networks, an area that saw an expansion of the range of services and instruments that may be distributed through the new Omnichannel Advanced Electronic Signature – OTP Signature service to digital management of the phases of provision of advisory service, the distribution of asset management and custody products, the distribution of certificates on the primary market and the launch of the IWConto package account;
- the **expansion of the range of asset management products** that may be distributed through indirect networks, with the launch of the process of standardising the asset management catalogue relating to the marketing of Italian funds and SICAVs via the various sales channels: extension of the distribution channel to various UCITS via indirect networks, with the concurrent activation of the paperless Web order and OTP signature service and the launch of new services combined with the existing range;
- the **launch of two multi-line bancassurance solutions**, one with the option for separate management of up to 50%, with the remainder in external funds, and the other up to 80%, with investment of the remainder in a fund managed by Pramerica;
- the **launch of two new portfolio management schemes**, IW Top Selection, which offers a choice of over 50 indices, and Active Allocation, with three new management lines dedicated to clients of high standing with management of an increasing risk/return profile;
- the launch of **new upfront placements of specifically designed certificates for the customers of the financial advisors**;
- the expansion of the line of **credit cards** offered, with the launch of the new Hybrid card that can be used to convert payments to an instalment plan;
- the **execution of commercial campaigns and initiatives** aimed at acquiring and/or developing customers (“Trading Bonus 2000” and the “IWBank Stamp Duty Rebate”).

Lastly, work also continued on the project launched in 2017 to develop the application platform for financial advisors with the objective of optimising the existing range and creating new functions that can support advanced financial advisory services, thus increasing the commercial effectiveness of the network, in line with trends and market benchmarks.

UBI Comunità

The UBI Comunità Area's positioning strategy is designed to strengthen and build on the relationships with the various communities, by involving their various economic and social constituents, in view of the creation of shared value for the entire community concerned. This goal is pursued by strengthening, serving and developing lines of business and commercial relationships with the lay and religious non-profit sector, private sector, government and associations.

Initiatives, synergies, ventures and partnerships continued to be promoted and supported together with the various players in the socio-economic ecosystem (public, private and private non-profit sectors) in order to form fruitful relationships, due in part to support from products and services designed to meet specific needs. Through financial support and the sharing of the Group's abilities, professionalism and skills, an attempt was made to support sustainable development and social value creation projects, including in view of the objectives set by the UN in its Agenda 2030.

The launch of training processes designed to increase specialisation, the implementation of various application and management changes to increase relationship and business development levels and the expansion of the range of specific financing instruments made it possible to enhance both central and network resources.

Finally, synergistic activities with the General Geographical Areas and specialist markets were consolidated for cross-segment value creation through commercial actions dedicated to development of relationships with current and prospective customers.

UBI Comunità seeks to strengthen and develop the role of strategic partner played by third sector organisations, assisting them in the pursuit of their social objectives and in innovation and growth processes, while also supporting investments focusing on social impact and supporting social entrepreneurship projects linked to local, community and new industry development. UBI Banca views the third sector as a strategic segment from a relationship and economic standpoint, recognising it as a partner with which to share objectives, projects and development processes in support of communities, through a dedicated, specialised approach,

including in the light of the scenarios and development trends arising from reform of the third sector.

The dedicated service model continued to be implemented during the year, with further expansion of the sales force through measures aimed at a better, more effective credit process, as well as at managing and developing the business, and the product range was updated to include dedicated credit cards aimed at maximising the social impact generated in the affected communities and areas.

While particular attention should be drawn to the following activities, for a complete account of the initiatives carried out during the year reference should be made to the consolidated non-financial disclosure:

- the issue of the UBI Comunità Social Bonds, involving the placement of four new bonds with a value of €65.5 million nominal in 2018.
Since 2012 the programme has made it possible to support 92 socially relevant projects through the purchase of dedicated bonds of approximately €1,038 million, resulting in charitable contributions of over €4.9 million and access to loan pools of approximately €21 million. In projects with a national scope, the SROI (social return on investment) continued to be applied as an instrument for measuring social impact;
- the activation of the “BEI Social Activities” loan pool of €50 million in support of social investments by lay and religious non-profit organisations.

The commercial model adopted in the management of relationships with the over 2,100 organisations in treasury services, involving specialised, dedicated personnel, made it possible to continue with the process of increasing the segment's efficiency and improving the level of service provided.

During the year, measures continued to be taken to promote services for the public administration, such as the “IT Ordinance” payment and management system, and the development of private-public synergies, through the release of support aimed at facilitating the use of the factoring platform for accounts receivable from the public administration.

Within the overall programme for the development of synergies with public and private sector institutions, UBI Comunità again maintained its commitment to assisting with financial education and increasing it, with a special focus on youth. In co-operation with “FEDUF - Fondazione per l'Educazione Finanziaria e al Risparmio” (Foundation for Financial and Savings Education), during the year approximately 4,700 students took part in educational events, and specific training courses were delivered to over 12,000 students.

Co-operation with universities to which UBI Banca provides treasury services continued with the aim of providing digital tools and services designed for students, including through the dedicated Enjoy card.

Customer Satisfaction

Customers' perceptions

UBI Banca's customer satisfaction monitoring system has been constantly expanded over the years in order to ensure customers' expectations of the Bank are met.

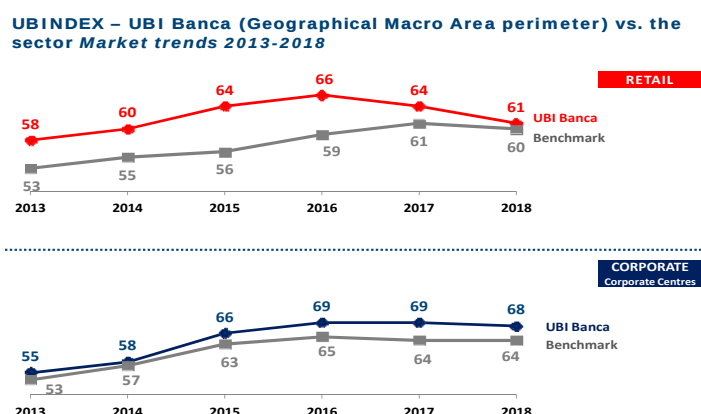
The analyses enable ongoing observation of customer satisfaction, company service level KPIs and comparison with the market.

The research methods adopted differ according to the objectives and characteristics of the customers involved. The set of inquiries includes quantitative and qualitative studies conducted of both external clients and employees, together with online surveys.

The resulting deep pool of data can be used to identify the Bank's perceived strengths in the eyes of its customers and the improvement actions to be implemented. The data is summarised by the **UBIndex**, used to measure overall customer satisfaction.

The UBIndex is an indicator of perceived quality represented by four basic components: overall satisfaction, willingness to recommend, loyalty and added value compared with competitors. The index is assigned to all network operating units within UBI Banca¹⁶ and Group companies and is also a part of the personnel incentive system.

In 2018 the Retail UBIndex was 61, slightly above the benchmark (60). The Corporate Clients of UBI Corporate Centres have a satisfaction index of 68, four points above the relevant benchmark¹⁷.



The Top Private and Corporate Investment Banking (CIB) business units had satisfaction indices of 62 and 75, respectively, remaining above the Retail index.

In 2018 the level of quality perceived by companies operating with foreign markets was measured with the aid of the services offered by UBI Banca: the satisfaction level was also high for this target, with a UBIndex of 70.

It should be noted that the 2018 indices also refer to the surveys of the acquired New Banks, which presented lower values due to the effects of the recent transformations. However, during the year the UBIndex for the said banks recovered and is tending towards alignment with the UBI Banca figure.

Looking more closely at the levels of service provided, the positive view by customers of the customer relationship and the Bank's image continued to be consolidated across all client segments (the most recognised characteristics included professionalism, transparency and empathy).



¹⁶ It is calculated monthly by Market, Segment, Business Unit, General Geographical Area and Branch.

¹⁷ The surveys affected approximately 100 thousand UBI Banca individual and corporate clients. The comparison benchmark was constructed by interviewing over 10 thousand customers of competitor banks using the same methodology as that used for UBI Banca customers.

The constant monitoring of customer complaints indicated that the phenomenon declined compared with the previous year in the various markets (from 14% to 13% for Retail and from 9% to 7% for Corporate CIB).

New customers are very young – 26% are in the 18-24 age range – and there continued to be a high index of satisfaction (73) amongst such customers this year. The choice of UBI Banca is linked mostly to factors of value for money (better terms and conditions and special offers on products) and the competence and helpfulness of personnel.

In 2018 all UBI Banca Group product companies continued to be involved in a wide range of surveys relating to UBIndex analysis themes. The results indicate that the products and services offered by these companies are a fundamental driver in increasing the satisfaction of the Bank's customers.

Internal Customer Satisfaction and the Mystery Client Programme - Customer service

Internal Customer Satisfaction (CSI) surveys are conducted by interviewing "internal customers", first and foremost the distribution network staff, who are asked for their opinions on different products, apps and processes provided by units at UBI Banca, UBI Sistemi e Servizi and the product companies.

In 2018, surveys were conducted on quality standards in the following areas:

- *training*: training processes for new employees and Top Private Bankers;
- *finance*: products/services offered by Pramerica SGR;
- *credit*: services in support of problem loan management;
- *sustainability*: the set of initiatives that contribute to the achievement of long-term economic, social and environmental goals.

Around 8,000 staff took part, with an average redemption rate (active participation in the survey) of approximately 60%. The highest scores were for the efficacy of processes and usefulness of the initiatives/support provided, with these results recurring repeatedly through almost all surveys.

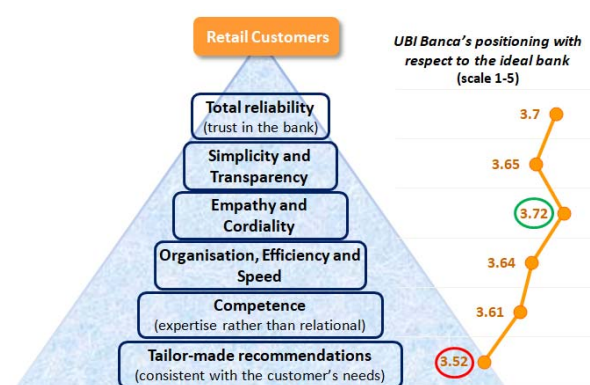
"Mystery Client" surveys, on the other hand, monitor the quality delivered by the Bank during the initial stages of the purchasing process followed for products and services by a potential customer.

Over the course of the year, over 1,400 Mystery Client visits¹⁸ were made to an equal number of branches, under this programme. The results were positive for all the surveys conducted. Customers tend to express greatest appreciation for their welcome and the way staff listen to their needs.

Quality control - Customers' expectations

Expected quality is explored through qualitative and quantitative assessments, through which the Bank gathers strategic information each year to react as flexibly as possible to customers' changing needs and expectations.

The **Quality Pyramid**, on the basis of which customer confidence remains the main objective to be achieved, remained at essentially the same values in 2018 as in 2017. A relationship of trust is built above all on a guarantee of a banking institution's financial solidity and secondly on reinforcement of the technical expertise of staff, who are expected to be both empathetic and cordial. There is also a growing need for a custom range tailored to the customer's actual needs.

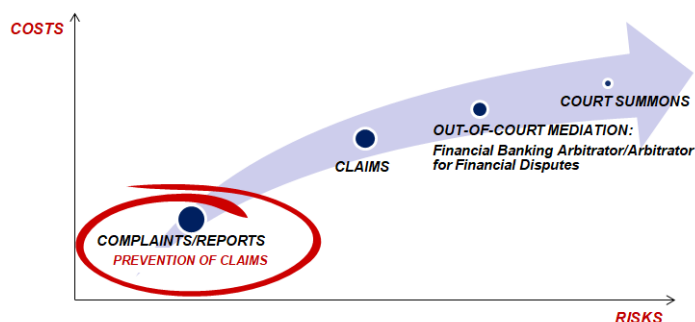


¹⁸ The visits included analysis of the range of products/services for the following: package accounts for individual customers; package accounts for small businesses customers (including self-employed professionals and retailers); and financial consulting concerning investments and home mortgages.

UBI Banca's positioning in 2018 with regard to quality items was satisfactory and indicates the Bank's ability to maintain standards close to the ideal quality recommended by customers.

Customer support for complaint prevention

The goal of improving the quality of customer relationships, and thus customer satisfaction, through constant monitoring of high levels of service, resulted in a redesign of the complaint management model in 2018.



The optimised process of managing the complaints and reports received from customers involves timely participation by the entire network, in co-operation with the departments responsible for the various aspects, in order to prevent and resolve disputes from the moment they arise.

To achieve this, a new reimbursement management procedure known as Felix is used to ensure thorough tracking of customer complaints and submissions

and a more structured and punctual reimbursement procedure. The procedure records not only cases involving reimbursement requests, but also significant and/or recurring expressions of dissatisfaction by customers through the various contact channels.

New departments were created for this purpose: overall management and monitoring of the complaint prevention process has been assigned to the new Customer Support department, which consists of an office for each General Geographical Area staffed by personnel providing support to customers and the network. This personnel plays a supporting role in managing and resolving complaints and submissions received by network units, headquarters or remote channels, thereby contributing to identifying and implementing mitigating measures on processes and procedures in order to prevent the recurrence of negative customer experiences.

Complaint and dispute management

Dissatisfaction expressed by customers through complaints is monitored with the care and attention for which the Group is known. Appropriate, proactive complaint management, pursued as part of the mission of “banking as a force for good”, is a significant aspect of the strategy for improving the quality of the bank-customer relationship.

Timely evaluation and effective management of complaints make it possible to identify the causes of the unsatisfactory situation promptly and to take the appropriate corrective action.

Complaints therefore become the driver of a process which continues through all stages: in the planning, design, functioning and improvements of products and services, and in the implementation of operational processes. Thanks to efficient interaction between the departments assigned to complaint management and other company departments, this process has decisive impacts on service standards and on the design of the range of products and services, helping them to evolve constantly and/or to undertake appropriate action.

It is therefore of central importance to “listen” when complaints and claims are brought to the Bank's attention, and to act with utmost care in ensuring direct, timely and thorough responses, satisfying the customers' requests and expectations.

From an operational point of view, the UBI Banca Group uses a single app that enables immediate sharing of information on problems, as well as providing an intragroup support and coordination tool for monitoring and analysing results.

Initial complaints received by the Group in 2018 are as follows:

Total UBI Banca Group 30,597

- of which UBI Banca 18,453

- of which other Group companies 12,144

In line with the directives on transparency and Group guidelines, customers may use all possible means of communication: traditional mail, email, certified email, fax, or links via Internet and apps.

Monitoring shows that 97%, of complaints were filed via remote channels and 3%. using hardcopy methods.

Claims and dispute management at the Parent

For information concerning the Parent please see the contents of the UBI Banca Spa consolidated management report.

Complaint and dispute management in other Group companies

During the year, the other UBI Banca Group companies (Prestitalia, IW Bank, UBI Factor, UBI Leasing and Pramerica) received a total of 12,144 first instance complaints (-1% on the previous year), 3,775 responses, 3,142 appeals to the Financial Banking Arbitrator (ABF), 13 appeals to the Arbitrator for Financial Disputes (ACF), 277 applications for mediation and 95 complaints to the supervisory authority.

The complaints received are almost completely (90%) due to those recorded by Prestitalia related to requests (still very frequent throughout the sector) for reimbursement requests for loan fees and commissions and insurance costs related to salary and pension-backed loans repaid ahead of schedule over the last ten years. These complaints continue to consist of class action law suits brought by “specialised” law firms, for which appropriate provisions have been made.

The share of complaints received by IW Bank was 9% while only very marginal numbers related to UBI Leasing, UBI Factor and Pramerica.

In 2018 96% of complaints managed by other Group companies was resolved with an acceptance rate of 57% (60% in 2017) and a decline in the total amount paid out of 2% on the previous year. Additionally, almost all sums paid out (98%) related to disputes regarding salary-backed lending.

The distribution network and market positioning

The branch network of the Group

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

Number of branches	31.12.2018	31.12.2017	Change
UBI Banca Spa	1,633	1,762	-129
of which North West Macro Geographical Area (1)	175	199	-24
of which Milan and Emilia Romagna Macro Geographical Area (2)	207	225	-18
of which Bergamo and West Lombardy Macro Geographical Area	274	303	-29
of which Brescia and North East Macro Geographical Area	211	235	-24
of which Latium, Tuscany and Umbria Macro Geographical Area	246	265	-19
of which the Marches and Abruzzo Macro Geographical Area	283	272	11
of which South Macro Geographical Area	232	257	-25
of which branches not comprised within Macro geographical areas (3)	5	6	-1
IW Bank Spa	20	21	-1
former Banca Teatina Spa		60	-60
TOTAL	1,653	1,843	-190
Total branches in Italy	1,648	1,838	-190
Financial advisors (4)	684	758	-74

(1) The figures are inclusive of 3 foreign branches.

(2) The figures do not include the 12 units dedicated exclusively to pawn credit.

(3) The figures include 2 foreign branches closed as of 1st January 2019.

(4) The figures also include financial advisors belonging to the Wealth Management Area of IW Bank Spa.

The branch network of the UBI Group as at 31st December 2018 consisted of **1,653 branches**, of which 1,648 operating in Italy, down by 190 compared with the end of 2017, which had fallen further to 1,644 at the date of this report.

As shown in the table “Action taken on branches in 2018”, the fall over twelve months mainly reflects local rationalisation which took place in February and October, already reported in the previous section “Significant events in 2018”, and to a minor extent the closure of nine mini-branches which were not part of the aforementioned actions¹.

Action taken on branches in 2018

	Incorporations/Acquisitions of:		Closures of:		Mergers of:		Transformation of branches into mini-branches	Transformation of mini-branches into branches
	branches	mini-branches	branches	mini-branches	branches	mini-branches		
UBI Banca Spa	60	-	69	120	-	-	45	5
of which:								
- North West Macro Geographical Area	-	-	4	20	-	-	9	-
- Milan and Emilia Romagna Macro Geographical Area	1	-	13	6	-	-	3	1
- Bergamo and West Lombardy Macro Geographical Area	-	-	-	29	-	-	10	-
- Brescia and North East Macro Geographical Area	-	-	6	18	-	-	8	-
- Latium, Tuscany and Umbria Geographical Macro Area	3	-	16	6	-	-	1	-
- Marches and Abruzzo Macro Geographical Area	56	-	18	27	-	-	13	-
- South Macro Geographical Area	-	-	12	13	-	-	1	4
- branches not comprised within Macro Geographical Areas	-	-	-	1	-	-	-	-
Banca Teatina	-	-	-	-	60	-	-	-
IW Bank	-	-	1	-	-	-	-	-
TOTAL	60	-	70	120	60	-	45	5

¹ The Manerbio mini-branch in the Brescia and North East Macro Geographical Area (MGA) closed on 20th January 2018, while three mini-branches in the North West MGA closed on 31st May 2018: at the Santi Antonio e Biagio hospital in Alessandria, in the public health centre operated by local health organisation 21 in Casale Monferrato and the public health centre operated by local health organisation 20 in Tortona. The mini-branch at Sarnano and that at Morro d'Alba of the Marches and Abruzzo MGA ceased to operate in June, while three mini-branches were closed in December as follows: at Desenzano, Via Marconi 97 of the Brescia of the North East MGA, in Naples in Via Santo Strato (Posillipo district) of the South MGA and in Rome, Via Appia Nuova of the Latium, Tuscany and Umbria MGA.

The following were also recorded since the beginning of the year and until the date of this report:

- the closure in Italy of seven mini-branches²;
- the cease of operations abroad of two branches in Madrid and Munich, as already anticipated in the previous section “Significant events in 2018” which may be consulted.

The distribution network of the UBI Banca Group as at 31st December 2018 – divided into seven Macro Geographical Areas – is shown on the map inserted in the initial pages of this publication. A full list of all Group branches in Italy and abroad relating to the date of approval of the proposed Annual Report is, however, given in an attachment.

Furthermore, the new distribution model, outlined in the 2019/2020 Business Plan³, is fully operational and was composed as follows at year-end:

- 27 **Top Private Banking Centres** and 55 “**Corners**” reporting to the Head of Top Private Banking (unchanged since December 2017);
- 49 **Corporate Centres** and 32 “**Corners**” belonging to the Macro Geographical Areas; Corporate Centres increased by one unit compared with 48 a year before as a result of the merger of Banca Teatina⁴. On the other hand, the total number of “Corners” fell from 59 to 32 mainly due to 22 “Corners” ceasing operations from 30th July 2018⁵, after closures at Mondovì, Trescore, Tivoli, Coccaglio and Montichiari which took place in the first half of the year;
- the **Corporate & Investment Banking (CIB) Division**, the exclusive manager for Large-Corporate Groups through its “Large-Corporate G.R.M.” unit in Milan, employs an innovative team of experts, the Global Relationship Managers, who are single points of client contact for complex, ordinary and extraordinary operations.

Corporate & Investment Banking, Corporate Centres and Top Private Banking Centres

	31.12.2018	31.12.2017
Corporate & Investment Banking	1	1
G.R.M. Large Corporate	1	1
Corporate Centres (*)	49	48
North West Macro Geographical Area	5	5
Milan and Emilia Romagna Macro Geographical Area	7	7
Bergamo and West Lombardy Macro Geographical Area	7	7
Brescia and North East Macro Geographical Area	6	6
Latium, Tuscany and Umbria Macro Geographical Area	8	8
The Marches and Abruzzo Macro Geographical Area	9	8
South Macro Geographical Area	7	7
“Corners”	32	59
North West Macro Geographical Area	3	4
Milan and Emilia Romagna Macro Geographical Area	9	11
Bergamo and West Lombardy Macro Geographical Area	4	20
Brescia and North East Macro Geographical Area	8	12
Latium, Tuscany and Umbria Macro Geographical Area	1	2
The Marches and Abruzzo Macro Geographical Area	4	4
South Macro Geographical Area	3	6
Total	81	107
Top Private Banking Centres	27	27
“Corners”	55	55
Total	82	82

(*) The figures do not include the three UBI Banca units in operation since 6th May 2013, which specialise solely in corporate clients.

Finally, we report that **geographical market coverage** also continues to be provided by a network of 684 financial advisors belonging to IW Bank (758 at the end of 2017), currently undergoing a process to rationalise the associated portfolios managed.

² Mini-branches at Rho, Via Meda of the Milan and Emilia Romagna MGA; at Ospitaletto, Via Padana Superiore and at Salò, Via Pietro da Salò (Rive district) of the Brescia and the North East MGA; in Rome, Via Antonina and Viale Regina Elena of the Latium, Tuscany and Umbria MGA; and at Macerata, Corso Cairoli and at Cagliari, Via Alessandri of the Marches and Abruzzo MGA.

³ As already reported, the new structure became fully operational in 2017. Staff who worked with Top Private Banking clients within the former Private & Corporate Unity units joined the Top Private Banking Centres and “Corners” reporting to the Top Private Banking Manager, while, with the transfer of the remaining Private Bankers to branches, the previous PCUs and the relative “Corners” were converted into Corporate Centres under the Macro Geographical Areas.

⁴ The opening of a Corporate Centre at Chieti.

⁵ The following Corners ceased to operate on 30th July: Rossano Scalo, Reggio Calabria and Matera in the South Macro Geographical Area; Brescia. Via Trieste and Corso Martiri della Libertà in the Brescia and North East Macro Geographical Area; Sassuolo and Trezzo sull’Adda in the Milan and Emilia Romagna Macro Geographical Area and Alzano Lombardo, Leffe, Nembro, Sarnico, Dalmine, Zogno, Ponte San Pietro, Cantù, Erba, Monza Piazza Duomo, Arcore, Binzago, Luino, Tradate and Gallarate in the Bergamo and West Lombardy Macro Geographical Area.

The international presence

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

- three foreign UBI Banca branches in France (Nice, Menton and Antibes), while the branches in Munich and Madrid ceased operations on 1st January 2019;
- representative offices in Russia (Moscow), Asia (Mumbai, Shanghai, Hong Kong and Dubai), North America (New York), South America (Sao Paolo) and Africa (Casablanca);
- equity investments (mainly controlling interests) in three foreign companies: UBI Trustee Sa (Luxembourg), Pramerica 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, unchanged compared with twelve months before (covering over 50 countries) – 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 Banca Group 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: 31st December 2018 for branches and 30th September 2018 for balance sheet items [the data relates to branches and banks (including foreign banks) operating in Italy (with the exclusion therefore of foreign branches of Italian banks)].

The rapid and profound changes in progress in the financial sector, which include the restructuring of the financial companies segment, the intensification of the process to dispose of non-performing loans and the multiplication of banks that operate solely through remote channels have made it appropriate to change the method of analysis for calculating market shares in terms of balance sheet items.

While previously Bank of Italy "matrix items" were used with a breakdown based on the location of the branch, the items used from 31st December 2017 are those with a breakdown by residence of the counterparty, which for lending means that it is only possible to consider performing loans with the exclusion of bad loans.

The national market share of branches stood at 6.7%, down compared with the figure for December (7.2%) as a consequence of local streamlining action taken in October, with a significant presence in the regions of Central Italy, which reflects the high concentration in that area of the branches of the acquired banks.

Furthermore, the Group continues to have a substantial presence in Milan (8.8%) and in Rome (5.9%), with shares of higher than 10% in as many as 21 Italian provinces.

The national market share of conventional funding – which does not include bonds – stood at 4.5% (unchanged compared with the previous figure recorded in June; 4.6% at the end of 2017) while the share for loans in the private sector, excluding bad loans, was 6.1% (6.2% in June).

As a result, amongst other things, of the characteristics of the 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^(*)

	31.12.2018	30.9.2018	
	Branches	Deposits ^(**)	Lending ^(***)
North Italy	6.3%	4.9%	6.9%
Lombardy	12.9%	9.1%	11.0%
Prov. of Bergamo	24.3%	25.3%	24.4%
Prov. of Brescia	21.6%	19.8%	26.6%
Prov. of Como	5.8%	5.5%	8.8%
Prov. of Cremona	3.5%	3.4%	5.3%
Prov. of Lecco	4.8%	4.9%	7.5%
Prov. of Lodi	3.1%	3.6%	4.8%
Prov. of Mantua	4.9%	2.8%	3.4%
Prov. of Milan	8.8%	5.1%	6.9%
Prov. of Monza Brianza	9.7%	6.4%	9.9%
Prov. of Pavia	14.3%	10.2%	9.9%
Prov. of Sondrio	4.7%	2.7%	6.3%
Prov. of Varese	24.9%	20.2%	16.8%
Piedmont	7.1%	4.0%	6.0%
Prov. of Turin	2.7%	2.0%	4.5%
Prov. of Alessandria	11.2%	4.7%	7.3%
Prov. of Biella	1.8%	1.4%	5.9%
Prov. of Cuneo	19.7%	13.9%	12.2%
Prov. of Novara	4.5%	2.8%	4.6%
Prov. of Vercelli	1.9%	1.3%	5.8%
Prov. of Verbano Cusio Ossola	3.1%	1.8%	4.5%
Liguria	4.7%	3.2%	6.3%
Prov. of Genoa	4.5%	2.6%	6.5%
Prov. of Imperia	4.7%	3.4%	6.1%
Prov. of La Spezia	5.4%	6.7%	5.6%
Prov. of Savona	4.4%	2.6%	5.8%
Emilia Romagna	1.9%	1.1%	2.9%
Prov. of Rimini	5.1%	3.1%	6.5%
Prov. of Bologna	1.6%	0.8%	2.4%
Prov. of Piacenza	3.9%	2.2%	4.1%
Central Italy	9.1%	4.7%	6.1%
Marches	27.0%	21.1%	21.9%
Prov. of Ancona	30.1%	23.1%	24.1%
Prov. of Macerata	35.6%	32.3%	28.3%
Prov. of Pesaro and Urbino	26.9%	19.7%	20.2%
Prov. of Fermo	22.6%	13.1%	17.7%
Prov. of Ascoli Piceno	10.4%	6.7%	13.8%
Umbria	7.9%	4.1%	6.9%
Prov. of Perugia	9.1%	4.7%	7.4%
Prov. of Terni	3.9%	2.0%	5.2%
Lazio	6.0%	2.9%	5.2%
Prov. of Rome	5.9%	3.0%	5.3%
Prov. of Viterbo	14.6%	9.0%	9.9%
Prov. of Rieti	10.8%	3.6%	5.0%
Tuscany	4.9%	2.5%	2.1%
Prov. of Arezzo	20.1%	12.8%	9.9%
Prov. of Florence	3.8%	1.7%	1.4%
Prov. of Siena	7.1%	3.1%	1.7%
Prov. of Grosseto	5.2%	3.3%	2.8%
Prov. of Livorno	4.1%	2.2%	1.9%
South Italy	8.2%	4.3%	6.0%
Calabria	17.0%	9.0%	10.2%
Prov. of Catanzaro	10.3%	6.5%	7.8%
Prov. of Cosenza	20.1%	12.2%	13.6%
Prov. of Crotone	15.6%	6.2%	7.1%
Prov. of Reggio Calabria	19.4%	7.0%	8.2%
Prov. of Vibo Valentia	13.8%	9.6%	11.1%
Abruzzo	11.7%	6.6%	9.0%
Prov. of Chieti	29.0%	14.7%	15.0%
Prov. of Aquila	4.0%	1.8%	2.4%
Prov. of Pescara	8.3%	5.5%	9.7%
Prov. of Teramo	4.1%	2.2%	6.0%
Molise	6.4%	2.5%	7.1%
Prov. of Isernia	13.6%	3.8%	9.0%
Prov. of Campobasso	4.6%	1.8%	6.5%
Basilicata	7.7%	4.9%	6.7%
Prov. of Potenza	7.4%	4.6%	7.1%
Prov. of Matera	8.2%	5.4%	6.0%
Apulia	7.1%	4.2%	4.6%
Prov. of Bari	9.2%	5.4%	5.1%
Prov. of Brindisi	9.5%	5.5%	4.8%
Prov. of Foggia	4.9%	4.1%	4.8%
Prov. of Lecce	4.0%	1.5%	3.7%
Prov. of Barletta Andria Trani	5.9%	4.4%	3.6%
Prov. of Taranto	8.2%	4.2%	4.4%
Campania	5.3%	2.4%	5.1%
Prov. of Naples	4.8%	2.5%	4.8%
Prov. of Caserta	8.7%	2.7%	6.8%
Prov. of Benevento	3.8%	2.0%	4.5%
Prov. of Salerno	6.2%	2.9%	5.4%
Total Italy	6.7%	4.5%	6.1%

(*) Source Bank of Italy: regulatory registers and lists for branch shares; matrix reports for balance sheet to totals.

(**) Market shares by residence of the counterparty. The matrix report for funding is based on item 58030 relating to current accounts, certificates of deposit, savings deposits and repurchase agreements. Bonds and repurchase agreements with central counterparties are excluded.

(***) Market shares by residence of the counterparty. The matrix report for lending is based on item 58005 relating to loans to the private sector excluding the following types of bad loans: advances on receivables, current account overdrafts, mortgages, credit cards, salary-backed loans, personal loans, factoring, leasing and other types of financing.

Human resources

The composition of Group personnel and changes in 2018

Group staff

Number	Employees actually in service			Employees on the payroll		
	31.12.2018 A	31.12.2017 pro forma B	Changes A-B	31.12.2018 C	31.12.2017 pro forma D	Changes C-D
UBI Banca Spa*	17,477	18,407	-930	18,445	19,364	-919
IW Bank Spa	305	298	7	251	282	-31
UBI Sistemi e Servizi SCpA**	1,831	1,913	-82	1,123	1,152	-29
UBI Leasing Spa	218	226	-8	208	222	-14
Prestitalia Spa	173	173	-	90	88	2
Pramerica SGR Spa	159	160	-1	125	125	-
UBI Factor Spa	138	145	-7	113	121	-8
BancAssurance Popolari Spa	44	38	6	40	39	1
UBI Academy SCRL	16	15	1	-	-	-
BancAssurance Popolari Danni Spa	9	10	-1	8	8	-
Kedomus Srl	6	5	1	-	-	-
UBI Trustee Sa	5	6	-1	5	5	-
BPB Immobiliare Srl	5	5	-	5	5	-
UBI Management Company Sa	4	4	-	3	3	-
Oro Italia Trading Spa - in liquidation	-	2	-2	-	2	-2
Assieme Srl - in liquidation***	-	5	-5	-	5	-5
Centrobanca Sviluppo Impresa Spa****	-	-	-	-	-	-
TOTAL	20,390	21,412	-1,022	20,416	21,421	-1,005
Workers on staff leasing contracts	2	-	2	2	-	2
TOTAL UBI BANCA GROUP STAFF	20,392	21,412	-1,020			
TOTAL FTE STAFF	19,690.9	20,711.3	-1,020.4			
On secondment outside the Group						
- out*****	32	14	18			
- in				6	5	
TOTAL WORKFORCE	20,424	21,426	-1,002	20,424	21,426	-1,002

* The merger of Banca Teatina into UBI Banca was concluded in February 2018. Staff numbers as at 31st December have been stated on a pro forma basis to take account of the operation.
As reported previously, in October and November 2017 Banca Adriatica, together with CARILO - Cassa di Risparmio di Loreto, and Banca Tirrenica, together with Banca Federico del Vecchio, respectively had already been merged into UBI Banca.

** Staff numbers as at 31st December 2017 have been stated on a pro forma basis to take account of the staff from Etruria Informatica, merged into UBI Sistemi e Servizi with effect from 1st June 2018.

*** The Extraordinary Shareholders' Meeting held on 10th September 2018 resolved on its early dissolution and voluntary liquidation (three of the staff previously employed by the company remained with the Group, while two staff stayed within the perimeter of the company division sold prior to the company being put into liquidation).

**** As at 31st December 2018 one person on partial secondment from other Group companies was working at the company (two as at 31st December 2017) and was therefore not included among employees actually in service.

***** The increase relates to staff seconded to the pension funds of the New Banks acquired.

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 31st December 2018, adjusted to take account of secondments to and from other entities within or external to the Group (column A) compared with the position at the end of 2017 (column B) restated on a consistent basis. On the other hand, columns C and D give the number of employees on the payroll for each company as at the same dates. The figures for December 2017 have been restated on a pro forma basis to take account of the merger of Banca Teatina into UBI Banca with effect from 26th February 2018, and the merger of Etruria Informatica into UBI Sistemi e Servizi with effect from 1st June 2018.

The figures stated as at 31st December 2017 have been adjusted with respect to those published in the previous financial report as follows:

- in addition to being restated on a pro forma basis to take account of the merger of Banca Teatina, staff numbers for UBI Banca have been adjusted downwards by one to take account of the net effect of three dismissals and two reinstatements, with backdated effect, during the year;
- the personnel of UBI Leasing was reduced by one due to a backdated dismissal.

At the end of 2018 the total staff of the UBI Banca Group numbered 20,392 (two of whom were on personnel leasing contracts to UBI Trustee Sa and UBI Management Company Sa respectively) and were down by 1,020 from 21,412 in December 2017. In addition to natural attrition, the reduction was determined primarily by redundancy incentive schemes as part of agreements reached.

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 19,690.9.

As shown in the table, the reduction in staff has been mainly in the Parent and UBI Sistemi e Servizi.

All the other Group companies recorded no substantial changes, except for the effects of normal turnover. [IW Bank](#), [BancAssurance Popolari](#), [UBI Academy](#) and [Kedomus](#) in particular recorded increases due to role changes/hiring of staff in order to meet changes in operational requirements, while in the case of [Assieme](#), the lack of staff is a result of the company having been put into liquidation.

During the year a total of 837 incentivised redundancies were recorded, 344 of which in the fourth quarter, as detailed below.

As concerns the [stand-alone UBI Banca Group](#), voluntary redundancies under incentive schemes came to 672, 301 in the last quarter, as follows:

- 12 staff left in the first half under the “2019/2020 Business Plan Trade Union Memorandum of Intent” signed on 11th December 2016, which involved 620 voluntary redundancies¹ in the first organisational restructuring stage related to the implementation of the Single Bank Project. There is one contract still due to end during 2019;
- 123 (of which only three in the fourth quarter) under the agreement signed on 26th July 2017 which received 623 applications for access to the “solidarity fund” submitted under the December 2016 memorandum of intent (the remaining portion of the redundancies already decided resulting from the completion of the Single Bank Project). At year end the redundancies were fully completed;
- 262 (23 in the fourth quarter) on the basis of the agreement of 26th October 2017 which had received 323 applications². Redundancies concluded at the end of December accounted for 81% of the total.
- 275 under the agreement of 6th September 2018 concerning the acceptance of a further 369 applications for access to the industry solidarity fund presented on the basis of the framework agreement of 26th October 2017, which had received a higher number of voluntary redundancy applications than was permitted.

Total staff waiting to leave as at 31st December 2018 numbered 156.

As concerns [New Banks](#) acquired, on the other hand, 165 redundancies were recorded, 43 of which in the fourth quarter, categorised as follows:

- 101 (23 in the last quarter) under agreements signed in March and April 2017 which involved a total of 359 redundancies. At the end of the year the redundancy scheme was more than 83% complete (299 staff);
- 52 (14 in the last quarter) under redundancy schemes previously agreed, with 27 staff remaining;
- 12 (6 in the last quarter) under the agreement dated 26th October 2017, which had received 73 applications, inclusive of 11 under the July 2017 memorandum of understanding signed by Banca Teatina (the former Nuova Cassa di Risparmio di Chieti), which completed and added to the April 2017 agreement. At year-end there were still 60 staff awaiting voluntary redundancy.

• *Total staff still waiting to leave as at 31st December 2018 numbered 147.*

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. The 622 redundancies planned were reduced to 620 as a result of adjustments made in the first quarter of 2018.

² The total number of applications accepted was subject to a marginal adjustment during the second quarter of 2018 due to two withdrawals.

The redundancies described above were only partially offset by new appointments provided for as part of the agreements reached. With regard to generational turnover and support for youth employment, consistently with commitments entered into by the Group in recent years, 417 new staff members were recruited in 2018, of whom 115 on permanent contracts, 253 on temporary contracts³ and 49 on apprenticeships.

In addition, 29 staff were “stabilised”, i.e. their temporary contracts were converted to permanent contracts.

The table giving figures for the type of contract shows that during 2018 net staff on permanent contracts leaving were accompanied by a net reduction in staff on temporary contracts (including apprentices) despite the number of people hired during the year. The provisions of the “Dignity Decree” (Law No. 96 of 9th August 2018) in fact set limits on the renewal of temporary contracts, so the majority of the staff whose contracts were coming to an end at the latter end of the year were hired on permanent contracts at the beginning of 2019.

As at 31st December 2018 temporary staff and apprentices represented 1.6% of the total staff on the payroll (1.7% at the end of 2017).

The percentage of employees on part-time contracts at the end of 2018 was 14.5% (13.3% in December 2017), while that of female personnel was 42.8% (42.3%).

Finally, under the 26th October 2017 framework agreement provisions concerning periods of special leave, taking into account the production and organisational requirements of the individual Group companies and departments, 167 thousand days were granted and taken in 2018. Whereas requests for more than 39.6 thousand days of parental leave were granted and taken⁴.

Employees on the payroll

Number	31.12.2018	31/12/2017 pro forma
Total employees	20,416	21,421
of which: permanent	20,098	21,061
on temporary contracts	77	150
apprentices (*)	241	210

(*) 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.

Composition of staff on the payroll of Group Banks* by rank

Number	31.12.2018	%	31/12/2017 pro forma	%
Senior managers	321	1.7%	331	1.7%
Middle managers 3rd and 4th level	3,123	16.7%	3,254	16.6%
Middle managers 1st and 2nd level	4,634	24.8%	4,731	24.0%
3rd Professional Area (office staff)	10,521	56.3%	11,210	57.1%
1st and 2nd Professional Area (other staff)	97	0.5%	120	0.6%
TOTAL FOR BANKS	18,696	100.0%	19,646	100.0%

* The figures reported include UBI Banca and IW Bank staff

As regards the composition of banking staff by rank, the highest band (management) has remained low, in line with the average of the top five Italian banking groups, and below the industry average (2.1%)⁵. The table also shows that, as a result of the voluntary redundancy scheme operating during the year, there was a higher

relative number of staff in management roles, accounting for a total of 41.5%, in line with the industry average and slightly below the average of the top five Italian banking groups (41.5% and 43.3%)⁴.

As at 31st December 2018, the average age of Group employees was 46 years and 9 months compared with 46 years and 4 months at the end of 2017, while the average length of service was 19 years and 6 months compared with 19 years and 3 months in December 2017.

For more information about Group personnel (personnel development and wellbeing, composition, employment and turnover, benefits and work-life balance tools, health and safety, professional development and training) and trade union relations, see the relevant section in the “Non-financial

³ BPB Immobiliare hired 49 staff on seasonal contracts.

⁴ The data includes Banca Teatina from 1st March 2018.

⁵ Source ABI “Rapporto 2018 sul mercato del lavoro nell’industria finanziaria”, January 2019.

* * *

In the **fourth quarter** of 2018 the Group workforce decreased from 20,980⁶ to 20,392, a reduction of 588. In addition to natural attrition, this number comprised: 344 departures through voluntary redundancy schemes during the period on the one hand, and on the other the expiring of 213 temporary contracts (including apprenticeship contracts), approximately 87% of which were converted into permanent job contracts in early January 2019. In the fourth quarter 48 people were hired, 19 of which on permanent contracts, and five people on temporary contracts were hired on permanent contracts.

Remuneration and incentive policies

The remuneration and incentives policies are found in the remuneration report in another part of this publication and may also be consulted on the corporate website at www.ubibanca.it under “Reports to Shareholders’ Meetings” in the Shareholders Section – Shareholders’ Meeting of 12th April 2019.

The report was prepared in accordance with articles 123-*ter* of the Consolidated Banking Act and 84-*quater* of the Issuers’ Regulations and with the supervisory regulations on “Remuneration and Incentive Policies and Practices” of banks and banking groups issued on 18th November 2014 and updated on 23rd October 2018, which implemented the provisions contained in European Union Directive CRD IV (2013/36/EU) and the policies developed internationally.

Reference is also made to public disclosure requirements under Pillar III as regulated by EU Regulation No. 575/2013 (known as the CRR).

Further information on the matter is provided in the UBI Banca corporate governance report, available in the Corporate Governance section of the company website www.ubibanca.it.

⁶ The figure differs by one from the figure provided in the Interim Management Report as at 30th September 2018 due to a dismissal, with effect back dated to September 2018, which was finalised in October.

The scope of consolidation

The companies that formed part of the consolidation as at 31st December 2018, are listed below, divided into subsidiaries (consolidated line-by-line) 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: €2,843,177,160,24
2. UBI Trustee Sa (100% controlled)
registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €250,000
3. Prestitalia Spa (100% controlled)
registered address: Bergamo, Via A. Stoppani, 15 – share capital: €205,722,715
4. IW Bank Spa (100% controlled)
registered address: Milan, Piazzale F.lli Zavattari, 12 – share capital: €67,950,000
5. Centrobanca Sviluppo Impresa SGR Spa¹ (100% controlled by Centrobanca)
registered address: Milano, Corso Europa, 16 – share capital: €2,000,000
6. Pramerica SGR Spa (65% controlled)
operating headquarters: Milano, Via Monte di Pietà, 5 – share capital: €19,955,465
7. Pramerica Management Company Sa (100% controlled by Pramerica SGR)
registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €125.000
8. UBI Leasing Spa (100% controlled)
registered address: Brescia, Via Cefalonia, 74 – share capital: €644,952,808
9. 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
10. BPB Immobiliare Srl (100% controlled)
registered address: Bergamo, Piazza Vittorio Veneto, 8 – share capital: €185,680,000
11. Bancassurance Popolari Spa (“BAP Vita e Previdenza Spa”, 100% controlled)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €61,080,900
12. BancAssurance Popolari Danni Spa (50.7655% controlled and 49.2345% held by BancAssurance Popolari)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €5,500,000
13. Assieme Srl - in liquidation (89.7933% controlled by Bancassurance Popolari)
registered address: Arezzo, Via T. Edison, 45 – share capital: €30,000
14. Oro Italia Trading Spa - in liquidation (100% controlled)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €500,000
15. Kedomus Srl (100% controlled)
registered address: Brescia, Via Cefalonia, 74 – share capital: €300,000

¹ With a note dated 12th January 2018, the Bank of Italy notified the removal of this company from the register of asset management companies. As already reported, this asset management company managed the Sviluppo Imprese Fund, which was liquidated on 16th August 2016.

16. UBI Sistemi e Servizi Scpa² – Consortium Stock Company (91.9362% controlled and 4.3141% interest held by IW Bank; 1.4385% held by Pramerica SGR 0.7192% held by UBI Factor; 0.0719% held by Prestitalia and by BancAssurance Popolari Spa; and 0.0097% held by UBI Academy)
registered address: Brescia, Via Cefalonia, 62 – share capital: €36,149,948.64
17. UBI Academy SCRL - Limited Consortium Company (88% controlled and 3% held by: IW Bank and UBI.S; 1.5% held by: Pramerica SGR, UBI Leasing, UBI Factor and Prestitalia)
registered address: Bergamo, Via f.lli Calvi, 9 – share capital: €100,000
18. UBI Finance Srl³ (60% controlled)
registered address: Milano, Foro Bonaparte, 70 – share capital: €10,000
19. UBI Finance CB 2 Srl⁴ (60% controlled)
registered address: Milano, Foro Bonaparte, 70 – share capital: €10,000
20. 24-7 Finance Srl⁵
21. UBI Finance 2 Srl - in liquidation⁶
22. UBI SPV BBS 2012 Srl - in liquidation⁷
23. UBI SPV BPCI 2012 Srl - in liquidation⁷
24. UBI SPV BPA 2012 Srl - in liquidation⁷
25. UBI SPV Group 2016 Srl⁸
26. UBI SPV Lease 2016 Srl⁹
27. Mecenate Srl¹⁰ (95% controlled)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €10,000
28. Marche Mutui 2 Società per la Cartolarizzazione a r.l.¹¹
29. Marche M6 Srl¹¹
30. Focus Impresa¹²

2 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).

3 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.

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 20th December 2011 to allow the UBI Banca to implement a second programme to issue covered bonds backed mainly by commercial non-residential mortgages.

5 A special purpose entity used in compliance with Law No. 130/1999 for the securitisations of the former Banca 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.

6 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.

7 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).

7 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of the performing loans to SMEs of some former network banks (Banco di Brescia, Banca Popolare Commercio e Industria and Banca Popolare di Ancona) carried out in the last part of 2012. The three companies are currently in voluntary liquidation in accordance with company records filed with the Company Registrar on 15th May 2018 after the respective boards of directors had resolved to voluntarily wind the companies up on 9th May. 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.

8 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.

9 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.

10 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. The securitisations structured in 2009 and 2011 were closed down.

11 A special purpose entity formed in accordance with Law No. 130/1999 for securitisations by the former Banca delle Marche. Two securitisations exist carried out in 2006 (Marche Mutui 2, an RMBS securitisation of a portfolio of performing regulated mortgages backed by first mortgage guarantees) and in 2013 (Marche M6, an RMBS securitisation of a portfolio of performing residential mortgages) respectively. 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.

12 This is a closed-end fund, reserved for "qualified investors", recognised within financial assets measured at FVTPL [balance sheet Item 20 c)], consolidated in relation to an investment that had been 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).

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 (25% interest held¹³)
registered address: 5th Floor, 333 Lujiuzui Ring Road, Shanghai 200120 (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
7. Montefeltro Sviluppo SCRL (26.3699% interest held)
registered address: Urbania (PU), Via A. Manzoni, 25 – share capital: €73,000

Changes in the scope of consolidation

The scope of consolidation underwent the changes reported below compared with 31st December 2017.

- **Banca Teatina Spa**: on 20th February 2018 a deed for the merger of Banca Teatina into the Parent was signed and filed on the following 22nd February with the competent Company Registrar of Bergamo. It took effect with regard to third parties from 26th February and for accounting and tax purposes from 1st January 2018.
Because the surviving bank held 100% control, the merger had no effect on the number of shares and the share capital of UBI Banca;
- **Etruria Informatica Srl**: this was merged into UBI Sistemi e Servizi SpA with effect from 1st June 2018 and took effect for accounting and tax purposes from 1st January 2018. All relationships of an operating and financial nature were fully taken over by the surviving company.
- **Assieme Srl**: on 10th September 2018 in the presence of **i)** BancaAssurance Popolari Spa, in its capacity as the direct Parent and guarantor, and of **ii)** UBI Banca Spa, in its capacity as the indirect Parent and counter-guarantor, this company signed a deed for the sale of its line of business, consisting of the total assets organised for carrying on its insurance brokerage business, to Sinergie Italia Broker di Assicurazioni Srl.
On the same day, an Extraordinary Shareholders' Meeting of the company resolved its early dissolution and voluntary liquidation. This was filed with the Company Registrar of Arezzo and took place on the following 18th September;
- **Bancassurance Popolari Spa**: on 12th October 2018 UBI Banca increased its investment in the share capital to 92.4903% from 89.5342% in 2017, by purchasing shares from Crédit Agricole Cariparma Spa (2.9561% of the share capital). On 22nd October the investment was brought up to 100% following further purchases concluded with Mint Street Holding Spa (5.3486% of the share capital) and with IG. Group Srl (2.1611% of the share capital).
As a consequence of a reduction recorded during the year in the solvency ratio of the company, the result of both the market environment (the spreads on yields of Italian government securities) and greater growth in forecasts for reserves of Business Sector I products that have a high absorption of capital, on 21st December UBI Banca made

¹³ On the basis of agreements reached at the end of 2013 (see the information given in the previous financial report in this respect) 1.7% of the share capital was recognised within assets held for disposal.

payment of €25 million into the capital account. The share capital remained unchanged at €61,080,900.

* * *

To complete the information, we report that a shareholders meeting of UBI Pramerica SGR Spa held on 31st July 2018 passed a motion to change the registered name of the company to [Pramerica SGR Spa](#) on the basis of prior approval at the end of June by the Management Board and Supervisory Board of the Parent, with effect from 5th November 2018. The corporate governance remained unchanged: the two shareholders, UBI Banca and Prudential International Investments Corporation, have maintained their holdings in the share capital at 65% and 35% respectively.

The objective pursued was to enhance the distinctive traits of the company, which are its capacity for global investment combined with its knowledge of distribution networks and investors, by broadening its potential client base.

The rebranding project regarded the entire range of investment solutions offered: in fact the names of funds and Sicav's were changed in line with the new company name.

With the same date of effect (5th November) the change of the name of the company UBI Management Company Sa (100% controlled by Pramerica SGR) to [Pramerica Management Company Sa.](#), was filed with the Luxembourg "Registre de Commerce et des Sociétés".

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		31.12.2018	1.1.2018	Changes	% changes
ASSETS					
10.	Cash and cash equivalents	735,249	811,578	-76,329	-9.4%
20.	Financial assets measured at fair value through profit or loss	1,463,529	1,979,802	-516,273	-26.1%
	1) loans and advances to banks	14,054	14,755	-701	-4.8%
	2) loans and advances to customers	274,262	362,425	-88,163	-24.3%
	3) securities and derivatives	1,175,213	1,602,622	-427,409	-26.7%
30.	Financial assets measured at fair value through other comprehensive income	10,726,179	12,435,307	-1,709,128	-13.7%
	1) loans and advances to banks	-	-	-	-
	2) loans and advances to customers	15	-	15	-
	3) securities	10,726,164	12,435,307	-1,709,143	-13.7%
40.	Financial assets measured at amortised cost	102,798,587	101,833,189	965,398	0.9%
	1) loans and advances to banks	10,065,772	7,814,815	2,250,957	28.8%
	2) loans and advances to customers	88,987,596	90,980,959	-1,993,363	-2.2%
	3) securities	3,745,219	3,037,415	707,804	23.3%
50.	Hedging derivatives	44,084	169,907	-125,823	-74.1%
60.	Fair value change in hedged financial assets (+/-)	97,429	-2,035	99,464	n.s.
70.	Equity investments	254,128	243,165	10,963	4.5%
80.	Technical reserves of reinsurers	-	347	-347	-100.0%
90.	Property, plant and equipment	1,965,234	1,811,743	153,491	8.5%
100.	Intangible assets	1,729,727	1,728,328	1,399	0.1%
	of which: goodwill	1,465,260	1,465,260	-	-
110.	Tax assets	4,210,362	4,184,524	25,838	0.6%
120.	Non-current assets and disposal groups held for sale	2,972	962	2,010	n.s.
130.	Other assets	1,278,717	1,451,059	-172,342	-11.9%
	Total assets	125,306,197	126,647,876	-1,341,679	-1.1%
LIABILITIES AND EQUITY					
10.	Financial liabilities measured at amortised cost	109,445,664	111,182,776	-1,737,112	-1.6%
	a) Due to banks	17,234,579	16,733,006	501,573	3.0%
	b) Due to customers	68,421,387	68,434,827	-13,440	0.0%
	c) Debt securities issued	23,789,698	26,014,943	-2,225,245	-8.6%
20.	Financial liabilities held for trading	410,977	411,653	-676	-0.2%
30.	Financial liabilities designated as at fair value	105,836	43,021	62,815	146.0%
40.	Hedging derivatives	110,801	100,590	10,211	10.2%
50.	Fair value change in hedged financial liabilities (+/-)	74,297	-	74,297	-
60.	Tax liabilities	162,272	240,908	-78,636	-32.6%
80.	Other liabilities	3,092,941	2,694,744	398,197	14.8%
90.	Provision for post-employment benefits	306,697	350,779	-44,082	-12.6%
100.	Provisions for risks and charges:	505,191	624,612	-119,421	-19.1%
	a) commitments and guarantees granted	64,410	88,347	-23,937	-27.1%
	b) pension and similar obligations	91,932	137,213	-45,281	-33.0%
	c) other provisions for risks and charges	348,849	399,052	-50,203	-12.6%
110.	Technical reserves	1,877,449	1,780,701	96,748	5.4%
120.+150.+160. +170.+180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	8,737,680	8,447,847	289,833	3.4%
190.	Minority interests (+/-)	50,784	79,688	-28,904	-36.3%
200.	Profit (loss) for the year (+/-)	425,608	690,557	-264,949	-38.4%
	Total liabilities and equity	125,306,197	126,647,876	-1,341,679	-1.1%

Reclassified consolidated quarterly balance sheets

Figures in thousands of euro		31.12.2018	30.9.2018	30.6.2018	31.3.2018	1.1.2018
ASSETS						
10.	Cash and cash equivalents	735,249	625,652	616,368	612,826	811,578
20.	Financial assets measured at fair value through profit or loss	1,463,529	1,469,508	1,488,445	1,541,428	1,979,802
	1) loans and advances to banks	14,054	13,444	14,796	14,900	14,755
	2) loans and advances to customers	274,262	283,496	313,580	340,800	362,425
	3) securities and derivatives	1,175,213	1,172,568	1,160,069	1,185,728	1,602,622
30.	Financial assets measured at fair value through other comprehensive income	10,726,179	10,640,301	11,527,974	12,645,089	12,435,307
	1) loans and advances to banks	-	-	-	-	-
	2) loans and advances to customers	15	15	-	-	-
	3) securities	10,726,164	10,640,286	11,527,974	12,645,089	12,435,307
40.	Financial assets measured at amortised cost	102,798,587	103,431,623	103,886,299	102,740,393	101,833,189
	1) loans and advances to banks	10,065,772	10,248,127	9,513,708	8,142,802	7,814,815
	2) loans and advances to customers	88,987,596	89,554,538	91,342,643	91,575,231	90,980,959
	3) securities	3,745,219	3,628,958	3,029,948	3,022,360	3,037,415
50.	Hedging derivatives	44,084	65,350	59,804	67,656	169,907
60.	Fair value change in hedged financial assets (+/-)	97,429	-6,002	33,826	-181	-2,035
70.	Equity investments	254,128	243,646	240,509	248,267	243,165
80.	Technical reserves of reinsurers	-	195	373	331	347
90.	Property, plant and equipment	1,965,234	1,824,737	1,799,295	1,799,070	1,811,743
100.	Intangible assets	1,729,727	1,710,712	1,711,908	1,723,921	1,728,328
	of which: goodwill	1,465,260	1,465,260	1,465,260	1,465,260	1,465,260
110.	Tax assets	4,210,362	4,076,685	4,122,268	4,017,911	4,184,524
120.	Non-current assets and disposal groups held for sale	2,972	735	1,384	995	962
130.	Other assets	1,278,717	1,123,257	1,415,721	1,165,674	1,451,059
Total assets		125,306,197	125,206,399	126,904,174	126,563,380	126,647,876
LIABILITIES AND EQUITY						
10.	Financial liabilities measured at amortised cost	109,445,664	110,633,386	111,617,355	111,520,617	111,182,776
	a) Due to banks	17,234,579	16,678,273	16,607,300	17,308,468	16,733,006
	b) Due to customers	68,421,387	70,258,101	70,582,753	68,944,514	68,434,827
	c) Debt securities issued	23,789,698	23,697,012	24,427,302	25,267,635	26,014,943
20.	Financial liabilities held for trading	410,977	347,184	386,959	367,105	411,653
30.	Financial liabilities designated as at fair value	105,836	95,434	75,488	59,019	43,021
40.	Hedging derivatives	110,801	93,351	102,961	98,872	100,590
50.	Fair value change in hedged financial liabilities (+/-)	74,297	30,103	54,008	27,825	-
60.	Tax liabilities	162,272	188,193	208,390	271,990	240,908
80.	Other liabilities	3,092,941	2,116,819	2,654,081	2,035,487	2,694,744
90.	Provision for post-employment benefits	306,697	323,809	328,484	336,807	350,779
100.	Provisions for risks and charges:	505,191	567,401	565,147	584,088	624,612
	a) commitments and guarantees granted	64,410	76,803	73,964	77,284	88,347
	b) pension and similar obligations	91,932	128,496	130,215	135,190	137,213
	c) other provisions for risks and charges	348,849	362,102	360,968	371,614	399,052
110.	Technical reserves	1,877,449	1,856,585	1,879,072	1,901,000	1,780,701
120.+150.+160. +170.+180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	8,737,680	8,688,096	8,756,026	9,183,186	8,447,847
190.	Minority interests (+/-)	50,784	55,567	67,336	59,724	79,688
200.	Profit (loss) for the period/year (+/-)	425,608	210,471	208,867	117,660	690,557
Total liabilities and equity		125,306,197	125,206,399	126,904,174	126,563,380	126,647,876

Reclassified consolidated income statement

	FY 2018 IFRS 9	FY 2017 IAS 39	Change	%change	4Q 2018 IFRS 9	4Q 2017 IAS 39	Change	%change
Figures in thousands of euro	A	B	B-C	B/C	C	D	C-D	C/D
10.-20.-140. Net interest income	1,790,231	1,626,615			441,066	478,943		
of which: TLTRO II	50,788	68,806			12,750	68,806		
of which: IFRS 9 credit components	121,985				29,961			
of which: IFRS 9 contractual modifications without derecognition components	(37,383)				(6,961)			
70. Dividends and similar income	22,931	13,090	9,841	75.2%	14,417	2,723	11,694	n.s.
Profits (losses) of equity-accounted investees	24,602	23,391	1,211	5.2%	10,460	6,845	3,615	52.8%
40.-50. Net fee and commission income	1,579,060	1,546,263	32,797	2.1%	390,578	395,031	(4,453)	(1.1%)
of which: performance fees	13,889	22,894	(9,005)	(39.3%)	1,755	13,295	(11,540)	(86.8%)
80.+90. +100.+110. Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	(5,404)	252,613			(6,770)	67,492		
160.+170. Net income from insurance operations	17,034	12,369	4,665	37.7%	2,000	3,662	(1,662)	(45.4%)
230. Other net operating income/expense	90,889	104,140	(13,251)	(12.7%)	14,199	28,460	(14,261)	(50.1%)
Operating income	3,519,343	3,578,481			865,950	983,156		
190. a) Staff costs	(1,490,626)	(1,480,942)	9,684	0.7%	(372,896)	(384,268)	(11,372)	(3.0%)
190. b) Other administrative expenses	(789,994)	(787,630)	2,364	0.3%	(198,738)	(209,757)	(11,019)	(5.3%)
210.+220. Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(167,575)	(158,463)	9,112	5.8%	(44,612)	(43,521)	1,091	2.5%
Operating expenses	(2,448,195)	(2,427,035)	21,160	0.9%	(616,246)	(637,546)	(21,300)	(3.3%)
Net operating income	1,071,148	1,151,446			249,704	345,610		
130. Net impairment losses for credit risk relating to:	(638,277)	(893,967)			(239,138)	(338,453)		
130. a) - financial assets measured at amortised cost: loans and advances to banks	2,867	-			4,110	-		
130. a) - financial assets measured at amortised cost: loans and advances to customers	(624,909)	(728,343)			(242,976)	(310,663)		
130. a) - financial assets measured at amortised cost: loans and advances to customers subject to disposal	(17,877)				(10,505)			
130. a) - financial assets measured at amortised cost: securities	916				1,622			
130. b) - financial assets measured at fair value through other comprehensive income	2,192	(165,624)			8,607	(27,790)		
130. b) - financial assets measured at fair value through other comprehensive income subject to disposal	(1,466)				4			
200. a) Net provisions for risks and charges - commitments and guarantees granted	23,923	31,661			12,322	24,190		
200. b) Net provisions for risks and charges - other net provisions	(4,491)	(9,009)			14,767	1,452		
250.+280. Profits (losses) from the disposal of equity investments	5,344	859	4,485	n.s.	4,083	(221)	4,304	n.s.
290. Profit (loss) from continuing operations before tax	457,647	280,990			41,738	32,578		
300. Taxes on income for the period/year from continuing operations	38,754	(120,367)	159,121	n.s.	181,828	(8,173)	190,001	n.s.
340. (Profit) loss for the period/year attributable to minority interests	(25,982)	(27,023)	(1,041)	(3.9%)	(5,077)	(8,186)	(3,109)	(38.0%)
Profit (loss) for the period/year attributable to the shareholders of the Parent before the Business Plan and other impacts	470,419	133,600			218,489	16,219		
190. a) Redundancy expenses net of taxes and minority interests	(36,983)	(41,093)	(4,110)	(10.0%)	(103)	(37,500)	(37,397)	(99.7%)
190. b) Business Plan Project expenses net of taxes and minority interests	(4,930)	(39,852)	(34,922)	(87.6%)	(351)	(12,239)	(11,888)	(97.1%)
210. Impairment losses on property, plant and equipment net of taxes and minority interests	(2,898)	(2,908)	(10)	(0.3%)	(2,898)	(2,908)	(10)	(0.3%)
275. Negative consolidation difference	-	640,810	(640,810)	(100.0%)	-	24,570	(24,570)	(100.0%)
350. Profit (loss) for the period/year attributable to the shareholders of the Parent	425,608	690,557	(264,949)	(38.4%)	215,137	(11,858)	226,995	n.s.

The figures at 31st December 2018 and as at 31st December 2017 are calculated on the basis of two different accounting standards and are therefore not fully comparable. Also where the changes have been left because the accounting standards applied have had no impact, it must be considered that the first quarter of 2017 did not include the New Banks acquired.

Reclassified consolidated quarterly income statements

Figures in thousands of euro	2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
10.-20.-140. Net interest income	441,066	452,749	458,605	437,811
<i>of which: TLTRO II</i>	12,750	12,791	12,693	12,554
<i>of which: IFRS 9 credit components</i>	29,961	30,818	35,543	25,663
<i>of which: IFRS 9 contractual modifications without derecognition components</i>	(6,961)	(8,350)	(13,412)	(8,660)
70. Dividends and similar income	14,417	145	3,232	5,137
Profits (losses) of equity-accounted investees	10,460	5,129	1,752	7,261
40.-50. Net fee and commission income	390,578	380,514	400,630	407,338
<i>of which: performance fees</i>	1,755	3,645	6,745	1,744
80.+90. Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	(6,770)	(54,739)	22,123	33,982
160.+170. Net income from insurance operations	2,000	4,031	5,548	5,455
230. Other net operating income/expense	14,199	24,929	23,394	28,367
Operating income	865,950	812,758	915,284	925,351
190. a) Staff costs	(372,896)	(367,871)	(374,325)	(375,534)
190. b) Other administrative expenses	(198,738)	(198,699)	(186,643)	(205,914)
210.+220. Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(44,612)	(40,962)	(40,384)	(41,617)
Operating expenses	(616,246)	(607,532)	(601,352)	(623,065)
Net operating income	249,704	205,226	313,932	302,286
130. Net impairment losses for credit risk relating to:	(239,138)	(128,666)	(146,128)	(124,345)
130. a) - financial assets measured at amortised cost: loans and advances to banks	4,110	217	265	(1,725)
130. a) - financial assets measured at amortised cost: loans and advances to customers	(242,976)	(123,767)	(140,495)	(117,671)
130. a) - financial assets measured at amortised cost: loans and advances to customers subject to disposal	(10,505)	(3,914)	(3,189)	(269)
130. a) - financial assets measured at amortised cost: securities	1,622	(602)	15	(119)
130. b) - financial assets measured at fair value through other comprehensive income	8,607	195	(2,037)	(4,573)
130. b) - financial assets measured at fair value through other comprehensive income subject to disposal	4	(795)	(687)	12
200. a) Net provisions for risks and charges - commitments and guarantees granted	12,322	(2,939)	3,477	11,063
200. b) Net provisions for risks and charges - other net provisions	14,767	(2,145)	(15,700)	(1,413)
250.+280. Profits (losses) from the disposal of equity investments	4,083	298	170	793
290. Profit (loss) from continuing operations before tax	41,738	71,774	155,751	188,384
300. Taxes on income for the period from continuing operations	181,828	(26,166)	(55,557)	(61,351)
340. (Profit) loss for the period attributable to minority interests	(5,077)	(7,102)	(7,794)	(6,009)
Profit (loss) for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	218,489	38,506	92,400	121,024
190. a) Redundancy expenses net of taxes and minority interests	(103)	(36,880)	(164)	164
190. b) Business Plan Project expenses net of taxes and minority interests	(351)	(22)	(1,029)	(3,528)
210. Impairment losses on property, plant and equipment net of taxes and minority interests	(2,898)	-	-	-
350. Profit (loss) for the period attributable to the shareholders of the Parent	215,137	1,604	91,207	117,660

In compliance with the clarifications contained in the Bank of Italy addendum letter dated 30th October 2018, the figures reported in the statement incorporate the reclassifications of items 100 and 130. a)/130. b) and differ therefore from the interim positions published previously.

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

	FY 2018	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018
Figures in thousands of euro	<i>net of non-recurring items</i>	<i>net of non-recurring items</i>	<i>net of non-recurring items</i>	<i>net of non-recurring items</i>	<i>net of non-recurring items</i>
Net interest income	1,790,231	441,066	452,749	458,605	437,811
<i>of which: TLTRO II</i>	50,788	12,750	12,791	12,693	12,554
<i>of which: IFRS 9 credit components</i>	121,985	29,961	30,818	35,543	25,663
<i>of which: IFRS 9 contractual modifications without derecognition components</i>	(37,383)	(6,961)	(8,350)	(13,412)	(8,660)
Dividends and similar income	22,931	14,417	145	3,232	5,137
Profits (losses) of equity-accounted investees	24,602	10,460	5,129	1,752	7,261
Net fee and commission income	1,579,060	390,578	380,514	400,630	407,338
<i>of which: performance fees</i>	13,889	1,755	3,645	6,745	1,744
Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	16,574	15,208	(54,739)	22,123	33,982
Net income from insurance operations	17,034	2,000	4,031	5,548	5,455
Other net operating income/expense	90,889	14,199	24,929	23,394	28,367
Operating income	3,541,321	887,928	812,758	915,284	925,351
Staff costs	(1,490,626)	(372,896)	(367,871)	(374,325)	(375,534)
Other administrative expenses	(777,109)	(198,738)	(198,699)	(173,758)	(205,914)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(167,575)	(44,612)	(40,962)	(40,384)	(41,617)
Operating expenses	(2,435,310)	(616,246)	(607,532)	(588,467)	(623,065)
Net operating income	1,106,011	271,682	205,226	326,817	302,286
Net impairment losses for credit risk relating to:	(638,277)	(239,138)	(128,666)	(146,128)	(124,345)
- financial assets measured at amortised cost: loans and advances to banks	2,867	4,110	217	265	(1,725)
- financial assets measured at amortised cost: loans and advances to customers	(624,909)	(242,976)	(123,767)	(140,495)	(117,671)
- financial assets measured at amortised cost: loans and advances to customers subject to disposal	(17,877)	(10,505)	(3,914)	(3,189)	(269)
- financial assets measured at amortised cost: securities	916	1,622	(602)	15	(119)
- financial assets measured at fair value through other comprehensive income	2,192	8,607	195	(2,037)	(4,573)
- financial assets measured at fair value through other comprehensive income subject to disposal	(1,466)	4	(795)	(687)	12
Net provisions for risks and charges - commitments and guarantees granted	23,923	12,322	(2,939)	3,477	11,063
Net provisions for risks and charges - other net provisions	(4,491)	14,767	(2,145)	(15,700)	(1,413)
Profits (losses) from the disposal of equity investments	-	(1,261)	298	170	793
Profit (loss) from continuing operations before tax	487,166	58,372	71,774	168,636	188,384
Taxes on income for the period/year from continuing operations	(158,745)	(11,482)	(26,166)	(59,746)	(61,351)
(Profit) loss for the period/year attributable to minority interests	(25,982)	(5,077)	(7,102)	(7,794)	(6,009)
Profit (loss) for the period attributable to the shareholders of the Parent	302,439	41,813	38,506	101,096	121,024

In compliance with the clarifications contained in the Bank of Italy addendum letter dated 30th October 2018, the figures reported in the statement incorporate the reclassifications of items 100 and 130. a)/130. b) and differ therefore from the interim positions published previously.

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

	2017-2020 Business Plan								
	2018	Redundancy expenses	Business Plan Project Expenses	Budget impact	IDPF Intervention	Extraordinary Contribution to Resolution Fund	Profit/losses on disposal of investments	Impairment of property, plant and equipment	2018 net of non-recurring items
Figures in thousands of euro									
Net interest income	1,790,231								1,790,231
of which: TLTRO II	50,788								50,788
of which: IFRS 9 credit components	121,985								121,985
of which: IFRS 9 contractual modifications without derecognition components	(37,383)								(37,383)
Dividends and similar income	22,931								22,931
Profits (losses) of equity-accounted investees	24,602								24,602
Net fee and commission income	1,579,060								1,579,060
of which: performance fees	13,889								13,889
Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	(5,404)				21,978				16,574
Net income from insurance operations	17,034								17,034
Other net operating income/expense	90,889								90,889
Operating income	3,519,343	-	-	-	21,978	-	-	-	3,541,321
Staff costs	(1,490,626)								(1,490,626)
Other administrative expenses	(789,994)					12,885			(777,109)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(167,575)								(167,575)
Operating expenses	(2,448,195)	-	-	-	-	12,885	-	-	(2,435,310)
Net operating income	1,071,148	-	-	-	21,978	12,885	-	-	1,106,011
Net impairment losses for credit risk relating to:	(638,277)								(638,277)
- financial assets measured at amortised cost: loans and advances to banks	2,867								2,867
- financial assets measured at amortised cost: loans and advances to customers	(624,909)								(624,909)
- financial assets measured at amortised cost: loans and advances to customers subject to disposal	(17,877)								(17,877)
- financial assets measured at amortised cost: securities	916								916
- financial assets measured at fair value through other comprehensive income	2,192								2,192
- financial assets measured at fair value through other comprehensive income subject to disposal	(1,466)								(1,466)
Net provisions for risks and charges - commitments and guarantees granted	23,923								23,923
Net provisions for risks and charges - other net provisions	(4,491)								(4,491)
Profits (losses) from the disposal of equity investments	5,344						(5,344)		-
Profit (loss) from continuing operations before tax	457,647	-	-	-	21,978	12,885	(5,344)	-	487,166
Taxes on income for the year for continuing operations	38,754			(186,424)	(7,268)	(4,189)	382		(158,745)
Profit (loss) for the period attributable to minority interests	(25,982)								(25,982)
Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	470,419	-	-	(186,424)	14,710	8,696	(4,962)	-	302,439
Redundancy expenses net of taxes and minority interests	(36,983)	36,983							-
Business Plan Project expenses net of taxes and minority interests	(4,930)		4,930						-
Impairment losses on property, plant and equipment net of taxes and minority interests	(2,898)							2,898	-
Negative consolidation difference	-								-
Profit (loss) for the year attributable to the shareholders of the Parent	425,608	36,983	4,930	(186,424)	14,710	8,696	(4,962)	2,898	302,439

Reconciliation schedule for the year ended 31st December 2018

RECLASSIFIED CONSOLIDATED INCOME STATEMENT		Reclassifications								31.12.2018
Items	31.12.2018 Mandatory consolidated financial statements	Tax recoveries	Depreciation for improvements to leased assets	Profit of equity-accounted investees	Net income from insurance operations	Profits (losses) from contractual modifications without derecognition	Impairment losses on real estate properties	2017-2020 BP Redundancy expenses	2017-2020 BP Project Expenses	Reclassified financial statements
Figures in thousands of euro										
10.-20.-140. Net interest income	1,873,285				(45,671)	(37,383)				1,790,231
of which: TLTRO II	50,788									50,788
of which: IFRS 9 credit components	121,985									121,985
of which: IFRS 9 contractual modifications without derecognition components	-					(37,383)				(37,383)
70. Dividends and similar income	24,779				(1,848)					22,931
Profits (losses) of equity-accounted investees	-			24,602						24,602
40.-50. Net fee and commission income	1,580,917				(1,857)					1,579,060
80.+90. Net income (loss) from trading, hedging and disposal/repurchase activities and +100.+110. from assets/liabilities measured at fair value through profit or loss	3,815				(9,219)					(5,404)
160.+170. Net income from insurance operations	(22,320)				39,354					17,034
230. Other net operating income/expense	293,471	(227,245)	5,422		19,241					90,889
Operating income	3,753,947	(227,245)	5,422	24,602	-	(37,383)	-	-	-	3,519,343
190.a Staff costs	(1,545,909)							55,283		(1,490,626)
190.b Other administrative expenses	(1,024,648)	227,245							7,409	(789,994)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(166,447)		(5,422)				4,294			(167,575)
Operating expenses	(2,737,004)	227,245	(5,422)	-	-	-	4,294	55,283	7,409	(2,448,195)
Net operating income	1,016,943	-	-	24,602	-	(37,383)	4,294	55,283	7,409	1,071,148
130. Net impairment losses for credit risk relating to:	(638,277)									(638,277)
130.a) - financial assets measured at amortised cost: loans and advances to banks	2,867									2,867
130.a) - financial assets measured at amortised cost: loans and advances to customers	(624,909)									(624,909)
130.a) - financial assets measured at amortised cost: loans and advances to customers subject to disposal	(17,877)									(17,877)
130.a) - financial assets measured at amortised cost: securities	916									916
130.b) - financial assets measured at fair value through other comprehensive income	2,192									2,192
130.b) - financial assets measured at fair value through other comprehensive income subject to disposal	(1,466)									(1,466)
140. Profit (loss) from contractual modifications without derecognition	(37,383)					37,383				-
200.a) Net provisions for risks and charges - commitments and guarantees granted	23,923									23,923
200.b) Net provisions for risks and charges - other net provisions	(4,491)									(4,491)
250.+280. Profits (losses) from the disposal of equity investments	29,946			(24,602)						5,344
290. Profit (loss) from continuing operations before tax	390,661	-	-	-	-	-	4,294	55,283	7,409	457,647
300. Taxes on income for the year for continuing operations	60,841						(1,396)	(18,282)	(2,409)	38,754
340. Profit (loss) for the year attributable to minority interests	(25,894)							(18)	(70)	(25,982)
Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	425,608	-	-	-	-	-	2,898	36,983	4,930	470,419
190.a) Redundancy expenses net of taxes and minority interests	-							(36,983)		(36,983)
190.b) Business Plan Project expenses net of taxes and minority interests	-								(4,930)	(4,930)
210. Impairment losses on real estate net of taxes and minority interests	-						(2,898)			(2,898)
350. Profit (loss) for the year attributable to the shareholders of the Parent	425,608	-	-	-	-	-	-	-	-	425,608

Notes to the reclassified consolidated financial statements

The **Mandatory Financial Statements** have been prepared according to of Bank of Italy Circular No. 262/2005 of 22nd December 2005 as introduced by the 5th update, dated 22nd December 2017¹. The latter introduced changes to the statements mainly to implement the introduction of the international financial reporting standard IFRS 9 “Financial instruments”, which replaced IAS 39 “Financial instruments: recognition and measurement” as of 1st January 2018.

For the reason just mentioned, the mandatory financial statements are different from those used for the Consolidated financial statements of the UBI Group for the year ended 31st December 2017². The section entitled “Transition to the new financial reporting standards IFRS 9 and IFRS 15” in this financial report may be consulted for further details.

Reclassified financial statements³ have been prepared in order to allow a meaningful management accounting commentary on capital and operating figures, not subject to audit by the independent auditors, on the basis of the financial statements pursuant to the 5th update of Bank of Italy Circular No. 262/2005. In detail:

- from a *balance sheet perspective*, details of the items specifically affected by the adoption of IFRS 9 have been given by type of financial instrument and counterparty. This was done in order to show their contribution to the capital position of the UBI Banca Group consistent with past financial reports. In terms of comparability with previous periods, the reclassified financial statements for the period ended 31st December 2018 provide information on figures calculated as at 1st January 2018, after the application of the new financial reporting standard. This allows a consistent management accounting commentary of changes occurring over the twelve month period. The table of quarterly financial statements is also provided, which in addition allows comparisons to be made between interim periods in the year. We report that in application of the provisions of the aforementioned circular, non-performing exposures resulting from the acquisition of the New Banks (stated with “closed balances” in accordance with IFRS 3) have been classified as “Purchased or originated credit impaired” (“POCI”) and they have therefore mainly been recognised within item 40 “Financial assets measured at amortised cost”;
- from an *income statement perspective*, in order to allow a management accounting commentary on the fourth quarter of 2018, the income statement also provides information on figures for the fourth quarter of 2017, appropriately restated. This comparison provides consistency in terms of the scope of consolidation given the inclusion of the contribution of the New Banks from 1st April 2017. It is nevertheless underlined that the comparative figures for the fourth quarter of 2017 have been calculated on the basis of the application of IAS 39 and therefore, while these amounts have been stated in compliance with the measurement rules of that standard, in order to allow a better comparison they have been reclassified as follows:

IAS 39	IFRS 9
Reclassified financial statements pursuant to Bank of Italy Circular No. 262/05, 4 th update	Reclassified financial statements pursuant to Bank of Italy Circular No. 262/05, 5 th update
[10.-20.] Net interest income	[10.-20.-140.] Net interest income
[80.+90.+100.+110.] “Net income (loss) from trading, hedging and disposal/repurchase activity and from assets and liabilities at fair value”	[80.+90.+100.+110.] “Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss”
[130a.] “Net impairment losses on: loans”	[130a.] “Net impairment losses for credit risk relating to: financial assets measured at amortised cost” - loans and advances to banks - loans and advances to customers - securities
[130b.] “Net impairment losses on: available-for-sale financial assets”	[130b.] “Net impairment losses for credit risk relating to: financial assets measured at fair value through other comprehensive income”
[130d.] “Net impairment losses on: other financial transactions”	[200a.] “Net provisions for risks and charges: commitments and guarantees granted”

¹ The update is applicable for financial statements ending as at 31st December 2018 or still open on that date.

² Prepared in compliance with the provisions of the 4th update of Bank of Italy Circular No. 262/2005 of 15th December 2015.

³ The reclassified financial statements also incorporate the recommendations contained in the Bank of Italy addendum letter of 30th October 2018 on the basis of which the 2018 quarterly statements already published have also been restated. Reference is made to the information contained in Part A.1 – Section 2 “Basis of preparation” of the Notes to the Consolidated Financial Statements for further details while we report here that two specific line items been introduced to the reclassified consolidated income statement under “Net impairment losses for credit risk” (“financial assets measured at amortised cost: loans and advances to customers subject to disposal” and “financial assets measured at fair value through other comprehensive income subject to disposal”) in order to highlight the reclassified amount more clearly, in accordance with the provisions of the addendum letter, for each quarter of 2018.

With regard to 2018 income statement balances, it is underlined that net interest income includes:

1. with regard to non-performing positions:
 - the recognition, in accordance with IFRS 9, of interest on a net basis (i.e. on the basis of the amount of the exposure net of accumulated impairment losses);
 - the release of the time value connected with the measurement of the exposures;
2. with specific reference to “POCI” positions, the interest recognised in application of the effective interest rate, adjusted for credit risk, calculated as at the date of initial recognition.

For the purposes of better comparability with the figures for the fourth quarter of 2017, the line item “IFRS 9 credit components” separates, as part of net interest income, the components described above.

The [Reclassified financial statements](#) have been prepared by applying the following rules:

- net interest income includes the result for item 140 [profits (losses) from contractual modifications without derecognition] in the mandatory income statement in order to ensure consistency with future financial reports, considering that the release of discounts will be recognised in net interest income. The result for that item is shown on a separate line as part of that interest income;
- the item profits (losses) of equity-accounted investees includes the profits (losses) of equity-accounted investees included within item 250 in the mandatory financial statements;
- net income from insurance operations comprises the following income of BancAssurance Popolari Spa and BancAssurance Popolari Danni Spa: net interest, dividends, net fees and commissions, the result for finance activities, net premiums (item 160), the balance on income and expenses of insurance operations (items 170 and 230). The remaining items have been consolidated line-by-line in the income statement;
- the tax recoveries recognised within item 230 of the mandatory income statement (other net operating income/expenses) have been reclassified as a reduction in indirect taxes included within other administrative expenses;
- the item other net operating income/expense includes item 230, net of the reclassifications mentioned under other points;
- the item net impairment losses on property, plant and equipment and intangible assets includes items 210 and 220 in the mandatory income statement and the instalments relating to the depreciation of leasehold improvements classified within item 230;
- the item profits (losses) from the disposal of equity investments includes the item 250, net of profits (losses) of equity-accounted investees, and also item 280 in the mandatory financial statements;
- expenses incurred in relation to the 2017-2020 Business Plan have been separated and stated on single lines (net of taxes and minority interests) at the foot of the statements as follows:
 - redundancy expenses partially include item 190. a) in the mandatory financial statements;
 - “Business Plan Project expenses” comprise part of item 190. b) in the mandatory financial statements.

The reconciliation of the items in the reclassified financial statements with the figures in the mandatory income statement is facilitated, on one hand, by the insertion on the margin of each item, of the corresponding number in the mandatory income statement and, on the other hand, with the preparation of special [reconciliation schedules](#).

The comments on the performance of the main balance sheet and income statement items are made on the basis of the reclassified financial statements and the tables providing details included in the subsequent sections of the financial report have also been prepared on that same basis. In order to facilitate analysis of the Group’s operating performance and in compliance with Consob Communication No. DEM/6064293 of 28th July 2006⁴, two special schedules have been included. One is a brief summary (which provides a comparison of the normalised results for the period) and one is 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:

1 st Quarter 2018:	- expenses incurred in relation to the 2017-2020 Business Plan;
2 nd Quarter 2018:	- extraordinary contribution to the Resolution Fund and expenses incurred in relation to the 2017-2020 Business Plan;
3 rd Quarter 2018:	- expenses incurred in relation to the 2017-2020 Business Plan;
4 th Quarter 2018:	- expenses incurred in relation to the 2017-2020 Business Plan, impairment losses on property, plant and equipment, the government budget impact on taxes, the contribution to the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) to assist Banca Carige and profits/losses from the disposal of investments.

⁴ 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 approved by the Management Board on 18th October 2016 limit 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, intangible and financial assets, with the effects of regulatory and methodological changes and also with extraordinary events including those of a systemic nature).

The consolidated income statement

The income statement figures commented on are based on the reclassified consolidated financial statements (the income statement and the income statement net of the more significant non-recurring items – in brief and detailed versions) contained in the relative section of this report. *The detailed tables provide the figures for both the full year of 2018 and the four quarters of the year, all in accordance with the fifth update of Circular No. 262.*

For a description of the changes made in preparing the reclassified statements, see both the explanatory notes following the statements themselves and the related reconciliations. The comments examine results in 2018 and we also look at the quarterly figures for the fourth and third quarter (shown on a lightly coloured background).

The UBI Banca Group ended 2018 with **net profit** of €425.6 million. If non-recurring items, which made an overall positive contribution and mainly included the recognition of the tax effect of deferred tax assets recognised as a result of changes in the tax treatment of First-Time Adoption of IFRS 9 in the amount of €186.4 million are excluded, the net profit for the year would be €302.4 million.

It should be noted that performance for the financial year reflects was affected by the recognition of the net negative effects of the securitisation¹ of bad loans in the third quarter as well as charges for the redundancies agreed upon with the trade unions on 6th September 2018.²

Ordinary operations generated **operating income** of €3.5 billion, 95.7% of which represents core revenues (i.e. net interest income and net fee and commission income).

In detail, *net interest income* amounted to €1,790.2 million.

Interest and similar income: composition

Figures in thousands of euro	Debt securities	Financing	Other transactions	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
1. Financial assets measured at fair value through profit or loss	761	7,048	-	7,809	1,663	1,819	1,967	2,360
1.1 Financial assets held for trading	119	-	-	119	51	19	17	32
1.2 Financial assets designated at fair value	-	-	-	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	642	7,048	-	7,690	1,612	1,800	1,950	2,328
2. Financial assets measured at fair value through other comprehensive income	130,141	-	X	130,141	33,669	33,019	33,391	30,062
3. Financial assets measured at amortised cost	69,253	1,922,067	-	1,991,320	487,341	498,192	507,129	498,658
3.1 Loans and advances to banks	13	6,098	X	6,111	1,452	1,465	1,701	1,493
3.2 Loans and advances to customers	69,240	1,915,969	X	1,985,209	485,889	496,727	505,428	497,165
4. Hedging derivatives	X	X	(51,734)	(51,734)	(12,942)	(11,831)	(13,363)	(13,598)
5. Other assets	X	X	170	170	32	50	55	33
6. Financial liabilities	X	X	X	59,029	14,388	14,733	14,979	14,929
Total	200,155	1,929,115	(51,564)	2,136,735	524,151	535,982	544,158	532,444
of which: interest income on impaired financial assets	-	278,841	-	278,841	63,423	65,842	81,787	67,789

Interest and similar expense: composition

Figures in thousands of euro	Borrowings	Securities	Other transactions	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
1. Financial liabilities measured at amortised cost	(93,995)	(412,985)	-	(506,980)	(122,039)	(126,253)	(128,216)	(130,472)
1.1 Due to central banks	-	X	X	-	-	-	-	-
1.2 Due to banks	(36,455)	X	X	(36,455)	(11,779)	(9,335)	(8,184)	(7,157)
1.3 Due to customers	(57,540)	X	X	(57,540)	(12,894)	(14,390)	(15,151)	(15,105)
1.4 Debt securities issued	X	(412,985)	X	(412,985)	(97,366)	(102,528)	(104,881)	(108,210)
2. Financial liabilities held for trading	-	(2)	-	(2)	(2)	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
4. Other liabilities and provisions	X	X	(36)	(36)	(10)	(13)	(8)	(5)
5. Hedging derivatives	X	X	197,509	197,509	49,091	51,758	52,270	44,390
6. Financial assets	X	X	X	(36,995)	(10,125)	(8,725)	(9,599)	(8,546)
Total	(93,995)	(412,987)	197,473	(346,504)	(83,085)	(83,233)	(85,553)	(94,633)
Net interest income				1,790,231	441,066	452,749	458,605	437,811

The quarterly figures for interest income at line item 3.2 differ from previously published figures due to the reclassification of the time-reversal component of the positions disposed of in application of the Bank of Italy addendum letter of 30th October 2018.

¹ The securitisation forms part of the Group's plan to reduce NPLs. See the section "Significant events in 2018" for more information.

² The agreement regarded the acceptance of a further 369 applications for admission to the "Solidarity Fund" for the sector, submitted on the basis of the Framework Agreement of 26th October 2017. See in this respect the section "Significant events in 2018".

In compliance with IFRS 9, the item includes approximately €122 million net in relation to the reversal of time value related to non-performing exposures, to interest recognised on a net basis on non-performing loans, as well as the release of the time value of the PPA on loans resulting from the acquisition of the New Banks. It also includes a negative impact of €37.4 million related to profits/losses on contractual modifications without derecognition (item 140 of the mandatory income statement) and the positive contribution of €50.8 million related to the TLTRO II benefit recognised during the period. Excluding these components, net interest income would be €1,654.8 million.

A quarterly analysis shows a decrease in net interest income in the fourth quarter (-2.6% compared with the three previous months). The table below provides a breakdown of this item by sector of activity³:

Contribution to net interest income

Figures in thousands of euro	2018				
	2018	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Banking business with customers	1,628,166	403,408	410,658	417,184	396,916
Financial activities	169,588	43,798	43,931	42,682	39,177
Interbank business	(7,657)	(6,162)	(1,877)	(1,308)	1,690
Other items	134	22	37	47	28
Net interest income	1,790,231	441,066	452,749	458,605	437,811

- *general banking business with customers* fell to €403.4 million (-€7.2 million). As shown in the management analysis, the spread on business with customers remained stable as a result of a further reduction in the mark-up on lending (-3 b.p.), which was fully offset by a similar reduction in the mark-down on total funding. The average volumes of lending decreased by 1.1% (-3.5% were short-term lending), while funding posted a recovery (+0.6%) driven by the medium to long-term component (+2.1%);
- the *securities portfolio* generated net interest of €43.8 million, remaining stable as the slight increase in volumes was offset by an equally modest decrease in yields (-5 b.p.);
- *interbank activities* recorded a net loss of €6.2 million, compared to €1.9 million in the third quarter. Business with the ECB generated less net interest income of €4.7 million (€6 million for the three previous quarters). Given the substantial stability of the TLTRO benefit amounting to €12.8 million, this was the result of an increase in interest expenses paid on the withdrawable compulsory reserve (for the part exceeding the compulsory requirement), following growth in the average deposits for this. Intermediation with other banks, on the other hand, generated negative net interest expense which rose to €10.9 million (€7.9 million for the third quarter), mainly related to repo business with institutional counterparties in the Finance area.

During the year, *dividends* of €22.9 million were received, €4.5 million related to Bank of Italy shares, while the remaining part came essentially from equity investments measured at fair value (asset item 20, which included Nexi – €14.4 million, SACBO – €1.2 million, and €1.1 million from various funds) and €0.7 million from equity investments classified within asset item 30.

*Profits of equity-accounted investees*⁴ amounted to €24.6 million of which: €17.2 million related to the insurance companies Aviva Vita and Lombarda Vita (€16.7 million in 2017) and €7 million (€6.7 million in 2017) to Zhong Ou Asset Management.

*Net fee and commission income*⁵ totalled €1,579 million: €865.8 million related to management, trading and advisory services⁶ (which includes performance fees in the amount of €13.9

³ The calculation of net balances was performed by allocating interest income and expense on hedging derivatives and interest expense on financial liabilities held for trading (if present) within the different areas of business (with customers, financial, with banks).

⁴ The item consists of the net profits of the companies recognised on the basis of the percentage interest held by the Group.

⁵ The changes were calculated by subtracting commission expense from the respective commission income.

⁶ The amount consists of management, trading and advisory services net of the corresponding expense items and is calculated excluding currency trading.

million and fees for the placement of the Group's Sicav's and other funds in the amount of €133.8 million) and €713.2 million related to banking services. The table details a typical seasonal decline in the third quarter and a partial recovery in the fourth despite a worsening of the financial landscape.

Fee and commission income: composition

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
a) guarantees granted	49,341	11,891	11,889	11,502	14,059
c) management, trading and advisory services	957,538	229,924	221,488	251,385	254,741
1. trading in financial instruments	9,194	2,584	1,777	2,272	2,561
2. foreign exchange trading	8,297	2,134	1,992	2,155	2,016
3. portfolio management	391,662	93,686	100,326	102,469	95,181
3.1. individual	70,181	16,574	17,436	17,709	18,462
3.2. collective	321,481	77,112	82,890	84,760	76,719
4. custody and administration of securities	9,070	2,434	2,748	1,900	1,988
6. placement of securities	245,814	44,736	52,355	71,217	77,506
7. receipt and transmission of orders	33,536	7,748	6,465	10,218	9,105
8. advisory activities	10,860	3,764	2,611	2,287	2,198
8.1 on investments	10,860	3,764	2,611	2,287	2,198
9. distribution of third party services	249,105	72,838	53,214	58,867	64,186
9.1. portfolio management	582	121	141	157	163
9.1.1. individual	582	121	141	157	163
9.2. insurance products	214,256	59,953	45,013	51,880	57,410
9.3. other products	34,267	12,764	8,060	6,830	6,613
d) collection and payment services	183,812	55,215	42,673	44,066	41,858
f) services for factoring transactions	12,428	3,318	3,192	2,978	2,940
i) current account administration	225,757	46,569	65,397	57,846	55,945
j) other services	348,191	89,735	86,738	82,648	89,070
Total	1,777,067	436,652	431,377	450,425	458,613

Fee and commission expense: composition

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
a) guarantees received	(18,242)	(5,602)	(4,231)	(4,143)	(4,266)
c) management and trading services:	(83,431)	(18,659)	(21,106)	(21,410)	(22,256)
1. trading in financial instruments	(9,615)	(2,316)	(2,308)	(2,304)	(2,687)
2. foreign exchange trading	(3)	-	(1)	(2)	-
3. portfolio management	(8,751)	(1,326)	(3,434)	(1,906)	(2,085)
3.2. delegated to third parties	(8,751)	(1,326)	(3,434)	(1,906)	(2,085)
4. custody and administration of securities	(6,497)	(1,553)	(1,537)	(1,642)	(1,765)
5. placement of financial instruments	(5,828)	(1,366)	(1,449)	(1,380)	(1,633)
6. financial instruments, products and services distributed through indirect networks	(52,737)	(12,098)	(12,377)	(14,176)	(14,086)
d) collection and payment services	(56,504)	(13,124)	(15,750)	(14,483)	(13,147)
e) other services	(39,830)	(8,689)	(9,776)	(9,759)	(11,606)
Total	(198,007)	(46,074)	(50,863)	(49,795)	(51,275)
Net fee and commission income	1,579,060	390,578	380,514	400,630	407,338

An analysis by quarter shows an increase of €10 million in the fourth quarter due entirely to greater fees and commissions on management and trading services, in particular for the distribution of insurance products. More specifically:

- **management, trading and advisory services** contributed €209.1 million⁷ to the total in the fourth quarter compared with €198.4 million in the previous three months. This progress benefited from revenues in the insurance segment, which contributed approximately €60 million, increased by €14.9 million compared with the previous quarter. This offset the net decrease in revenues on the placement of securities, which fell €7.5 million (which essentially reflects the decrease in up-front fees on Group funds and SICAVs), and on portfolio management, which decreased by €4.5 million. While the gains in the insurance segment included the greater up-front fees on life insurance policies (+€4.5 million), the decrease in the contribution of securities placement and portfolio management as described above is, first and foremost, related to the trends on the financial markets (which affected the value of the assets managed or under custody and, therefore, on the fees and commissions for portfolio management) as well as to the decision to reopen the direct funding channel, which directed a portion of customer liquidity to it;
- **ordinary banking business**, on the other hand, generated a decrease in fee and commission income of €0.7 million to €181.4 million (€182.1 million in the third quarter). In terms of individual items, the following should be noted: an increase of €15.2 million in the contribution of fees and commissions related to payments and collections, which is to be seen within the context of an €18.8 million decrease in current account administration as a result of a modification in the recognition of fees on bundled accounts pursuant to IFRS 15. The item related to other services includes commitment fees in the amount of €36.5 million, (essentially in line with the €37.4 million of the previous quarter) and a contribution from financial activities, particularly in the areas of Corporate & Investment Banking. Other services increased as a whole by €4.1 million, whereas net fees and commissions on guarantees issued/received decreased by €1.4 million which leaves a residual of €0.2 million related to factoring and operations in foreign currencies.

For the year, *financial activities* generated a loss of €5.4 million.

⁷ Within the "distribution of third-party services", the item "other transactions" includes incentives related to credit card management in the amount of €3.2 million.

The table shows a net profit on trading activity of €55.6 million driven by profits from forex trading generated mainly by corporate clients⁸ (€23.3 million) and also a positive contribution from derivatives on debt securities and interest rates (€21.5 million). *The latter, which also incorporate business carried out on behalf of customers, reflect trading in derivatives (including unwinding) and also fair value movements in the derivatives themselves (for investment and balancing on the market) as well as the realisation of the relative differentials.* In the same way, net profit on equity instruments and related derivatives amounted to €10.1 million, having benefited, particularly in the second half of the year, from a €9.4 million change in the fair value of options held.

Net trading income (Item 80)

	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net income 2018 [(A+B)-(C+D)]	Net income 4Q 2018 [(A+B)-(C+D)]	Net income 3Q 2018 [(A+B)-(C+D)]	Net income 2Q 2018 [(A+B)-(C+D)]	Net income 1Q 2018 [(A+B)-(C+D)]
Figures in thousands of euro									
1. Financial assets held for trading	149	28,905	(716)	(2,121)	26,217	(3,351)	10,528	13,918	5,122
1.1 Debt securities	22	1,104	(144)	(601)	381	996	3	(57)	(561)
1.2 Equity securities	127	192	(572)	(187)	(440)	(422)	172	(249)	59
1.3 Shares in UCITS	-	4	-	-	4	-	-	-	4
1.4 Financing	-	-	-	-	-	-	-	-	-
1.5 Other	-	27,605	-	(1,333)	26,272	(3,925)	10,353	14,224	5,620
2. Financial liabilities held for trading	-	-	-	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-	-	-	-
2.2 Payables	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-
Financial assets and liabilities : Exchange rate differences	X	X	X	X	8,094	3,589	(609)	5,077	37
3. Derivative instruments	185,237	134,231	(127,718)	(159,435)	21,261	(1,601)	11,656	3,548	7,658
3.1 Financial derivatives	185,237	134,231	(127,718)	(159,435)	21,261	(1,601)	11,656	3,548	7,658
- on debt securities and interest rates	171,981	119,092	(122,737)	(146,865)	21,471	4,196	4,400	9,698	3,177
- on equity securities and share indices	9,436	5,957	(1,289)	(3,529)	10,575	2,009	6,534	301	1,731
- on currencies and gold	X	X	X	X	(11,054)	(7,867)	586	(6,460)	2,687
- Other	3,820	9,182	(3,692)	(9,041)	269	61	136	9	63
3.2 Credit derivatives	-	-	-	-	-	-	-	-	-
of which: natural hedges related to the fair value option	X	X	X	X	-	-	-	-	-
Total	185,386	163,136	(128,434)	(161,556)	55,572	(1,363)	21,575	22,543	12,817

Net hedging income (loss) (item 90)

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Net hedging income (loss)	(10,325)	(2,936)	(3,162)	(2,698)	(1,529)

Profit (loss) from disposal/repurchase (Item 100)

	Profits	Losses	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Figures in thousands of euro							
Financial assets							
1. Financial assets measured at amortised cost	45,657	(122,314)	(76,657)	13,134	(78,118)	(11,361)	(312)
1.1 Loans and advances to banks	6	-	6	4	2	-	-
1.2 Loans and advances to customers	45,651	(122,314)	(76,663)	13,130	(78,120)	(11,361)	(312)
2. Financial assets measured at fair value through other comprehensive income	78,625	(15,492)	63,133	398	9,508	28,035	25,192
2.1 Debt securities	78,625	(15,492)	63,133	398	9,508	28,035	25,192
2.2 Financing	-	-	-	-	-	-	-
Total assets (A)	124,282	(137,806)	(13,524)	13,532	(68,610)	16,674	24,880
Financial liabilities measured at amortised cost							
1. Due to banks	-	-	-	-	-	-	-
2. Due to customers	356	-	356	181	63	72	40
3. Debt securities issued	1,935	(7,863)	(5,928)	(726)	(964)	(1,887)	(2,351)
Total liabilities (B)	2,931	(7,863)	(5,928)	(545)	(901)	(1,815)	(2,311)
Total (A + B)	126,573	(145,669)	(19,096)	12,987	(69,511)	14,859	22,569

Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss (Item 110)

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Net income (loss) from financial assets and liabilities measured at fair value through profit or loss	(31,555)	(15,458)	(3,641)	(12,581)	125

Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss

	(5,404)	(6,770)	(54,739)	22,123	33,982

The quarterly figures shown under item 100, line items 1.2 and 2.1, differ from previously published interim figures as a result of the reclassification of items 130. a) and 130. b) in accordance with the indications contained in the Bank of Italy addendum letter of 30th October 2018.

⁸ 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, "Currency translation differences" and 3.1 "Currency and gold derivatives") 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 net loss on hedging activities⁹, which represents the net change in the fair value of the derivatives and related items hedged for specific risks, amounted to €10.3 million, which reflects losses on both assets and liabilities.

The disposal/repurchase of financial assets and liabilities resulted in a loss of €13.5 million under item 100 (A) (including a total of -€74 million for the year related to the securitisation of bad loans completed in September and backed by GACS, +€6.7 million on the large-scale disposal of loans completed in December, and -€9.4 million mainly on the sale of individual loans, which was partially offset by gains on the sale of securities measured at fair value through other comprehensive income) and a loss of €5.6 million under item 100 (B) resulting from the repurchase of the Group's bonds.

The net loss on financial assets/liabilities at fair value through profit or loss (item 110) amounted to €31.6 million, affected by the measurement of the securities and loans included in this portfolio, and in particular: a loss of €12.5 million on the measurement of equity instruments (including Nexi¹⁰) and a loss of €16.8 million on the measurement of loans. This item was partially offset by the gain (+€3.8 million) on the measurement of debt securities, which benefited in the fourth quarter from the increased value of a convertible bond in response to the change in the counterparty's credit risk, despite the €22 million write-down of the portion subscribed under the Voluntary Scheme of the Interbank Deposit Protection Fund in early December in relation to the action taken in favour of Banca Carige (subject to normalisation).

By quarter, we see the following trends:

- **trading** made a negative contribution of €1.4 million (positive at €21.6 million in the third quarter). More specifically, the positive contribution of equity instruments and derivatives on equity instruments and stock indexes (+€1.6 million) decreased by €5.1 million, attributable to derivatives and, in particular, to the decreased positive contribution of the valuation of options on the Group's equity investment portfolio. Foreign exchange and gold business (-€8.2 million) decreased by over €18 million (however, the loss for the quarter was partially offset within item 110 and in operating income). Derivatives on debt instruments and interest rates (gains/losses, profits/losses from trading and accruals totalling +€4.2 million), which also include business carried out on behalf of customers, decreased by €0.2 million during the quarter, and a gain of €1 million deriving from the securities business;
- **hedging** resulted in a loss of €2.9 million, as compared with a loss of €3.2 million for the third quarter, due essentially to the measurement of hedges on assets (a negative €2.8 million, as opposed to the nil effect for the previous quarter), while hedges on liabilities essentially broke even (with a balance of -€3.3 million for the comparative period);
- the **disposal of assets and the repurchase of financial liabilities** resulted in profit of approximately €13 million, compared with a loss of €69.5 million for the previous three months:
 - financial assets generated a net gain of €13.5 million, including the aforementioned €6.7 million on the mass disposal of loans completed in December, €0.7 million related to Prestitalia, and €5.7 million resulting from single-name disposals mainly of unlikely-to-pay exposures. The third quarter also included the loss recognised on the GACS-backed securitisation;
 - repurchases of financial liabilities from customers generated a loss of €0.5 million, down by nearly half (€0.9 million) compared with the previous period;
- the **net loss on other assets and liabilities measured at fair value through profit or loss** of €15.5 million (a loss of €3.6 million for the previous quarter) includes the positive effects of the measurement of loans comprised within this portfolio (up €2.5 million from the previous -€4.9 million) and of debt instruments (+€6.1 million, which concerns the revaluation of the aforementioned convertible bond and was partially offset by the €22 million write-down of the contribution to the Voluntary Scheme of the Interbank Deposit Protection Fund for the support of Banca Carige) against negative values for UCITS shares (-€4.4 million from +€3.2 million, which reflected the positive impact of the period-end adjustment of the fair value of the Atlante Fund) and for equity instruments (-€19.7 million related in part to the partial write-down of Nexi in the amount of -€9.3 million and of other equity investments for lesser amounts).

⁹ As already reported, the UBI Banca Group has chosen to take the "opt-out" option and therefore to continue to apply IAS 39 rules.

¹⁰ It should be noted that the Company distributed extraordinary dividends in the fourth quarter in the amount of €14.4 million as described in the comments concerning dividends.

Net income on insurance operations by the insurance subsidiaries (i.e. BancAssurance Popolari and BancAssurance Popolari Danni) amounted to €17 million, €2 million of which related to the fourth quarter.

Other operating income/expense

amounted to a net income balance of €90.9 million of which income of €153.3 million, €93.1 million of which from “prior-year and other income” (which includes €30.6 million for fast credit processing fees), and expenses of €62.4 million, which is mainly related to prior-year expenses.

By quarter, **other operating income/expense** saw an

increase in operating income (+€5.7 million) related essentially to the recovery of current account expenses (+€2.5 million) and prior-year income (+€2.7 million), which was more than offset by an increase in expenses (+€16.4 million), and particularly in prior-year expenses, which, for the fourth quarter, include the effect of the settlement of defence actions largely related to counterparties operating with the Parent Company¹¹ and to similar items recognised related to actions regarding the acquired New Banks.

It must 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	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Other operating income	153,254	39,802	34,133	40,306	39,013
Recovery of expenses and other income on current accounts	20,451	6,800	4,343	4,816	4,492
Recovery of insurance premiums	17,998	4,690	4,196	4,716	4,396
Recoveries of taxes	227,245	47,546	60,439	59,101	60,159
Rents and other income for property management	6,661	1,708	1,701	1,660	1,592
Recovery of expenses on finance lease contracts	15,026	3,760	3,721	3,762	3,783
Other income and prior year income	93,118	22,844	20,172	25,352	24,750
Reclassification of “tax recoveries”	(227,245)	(47,546)	(60,439)	(59,101)	(60,159)
Other operating expenses	(62,365)	(25,603)	(9,204)	(16,912)	(10,646)
Depreciation of leasehold improvements	(5,422)	(2,251)	(1,108)	(1,019)	(1,044)
Costs relating to finance lease contracts	(10,846)	(2,920)	(2,756)	(2,603)	(2,567)
Expenses for public authority treasury contracts	(2,099)	(580)	(526)	(492)	(501)
Other expenses and prior year expense	(49,420)	(22,103)	(5,922)	(13,817)	(7,578)
Reclassification of depreciation of leasehold improvements	5,422	2,251	1,108	1,019	1,044
Total	90,889	14,199	24,929	23,394	28,367

Operating expenses totalled €2,448.2 million, of which €1,490.6 million related to staff costs, approximately €790 million to other administrative expenses (which included €83.8 million in relation to ordinary and extraordinary contributions to the Resolution Fund and to the Deposit Guarantee Scheme), and €167.6 million to depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets. The trend of cost containment continued to show its effects during the year.

The following is an analysis of the three components of this aggregate by quarter:

- staff costs** increased to €372.9 million from the €367.9 million of the previous quarter (+€5 million) and mainly included the effects of the national collective bargaining agreement, staff promotions and other awards, in-house training and communication, and provisions related to company agreements, which were only partially offset by lower expenses linked to changes in workforce due to voluntary redundancy incentives, which the Group has pursued with the help of trade union agreements signed over time (-837 employees in 2018, 344 of whom in the fourth quarter);

Staff costs: composition

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
1) Employees	(1,480,519)	(370,446)	(365,293)	(371,775)	(373,005)
a) Wages and salaries	(1,048,541)	(263,904)	(260,228)	(258,731)	(265,678)
b) Social security charges	(276,007)	(69,088)	(69,320)	(69,804)	(67,795)
c) Post-employment benefits	(60,439)	(15,994)	(14,904)	(14,658)	(14,883)
d) Pension expense	(73)	(25)	(14)	(19)	(15)
e) Provision for post-employment benefits	27	780	(261)	(168)	(324)
f) Pensions and similar obligations:	66	1,486	(442)	(418)	(560)
- defined contribution	1,027	1,711	(197)	(205)	(282)
- defined benefit	(961)	(225)	(245)	(213)	(278)
g) Payments to external supplementary pension plans:	(44,006)	(10,814)	(10,724)	(10,100)	(12,368)
- defined contribution	(44,003)	(10,964)	(10,673)	(10,048)	(12,318)
- defined benefit	(3)	150	(51)	(52)	(50)
i) Other employee benefits	(51,546)	(12,887)	(9,400)	(17,877)	(11,382)
2) Other staff in service	(993)	(298)	(190)	(298)	(207)
- Other expenses	(993)	(298)	(190)	(298)	(207)
3) Directors and statutory auditors	(9,114)	(2,152)	(2,388)	(2,252)	(2,322)
Total	(1,490,626)	(372,896)	(367,871)	(374,325)	(375,534)

¹¹ This includes the closure of arbitration filed by a company in the naval sector related to which a recovery of the provisions allocated in the third quarter was recognised in provisions for risks and charges related to legal disputes.

- *other administrative expenses*, conversely, posted overall stability quarter on quarter to settle at approximately €199 million. Net of allocations to the DGS for the two quarters (of €38.9 million in the third quarter and €2.8 million in the fourth), the aggregate increased by approximately €36 million.

The table shows the generally limited increases in certain items related largely to the seasonal effects characterising the fourth quarter. The following items went against this overall trend: “professional and advisory services” (+€15.7 million) for project costs expensed during the period related mainly to branch closures, to regulatory issues (electronic invoicing, Group VAT), to the capital adequacy and to corporate consulting for fiscal and administrative matters; credit recovery expenses (+€6 million), which were affected by greater costs for disputes; and property maintenance (+€4.6 million) due to an increase in interventions conducted in the fourth quarter.

With regard to indirect taxes, there was a decline in stamp duties and related recoveries. Unlike the estimated amounts

recognised in previous quarters, the fourth quarter included the final figure of this tax applied to customer current accounts and securities portfolios, with the latter suffering in value due to the performance of financial markets:

- *net impairment losses on property, plant and equipment and intangible assets* amounted to €44.6 million for the fourth quarter, compared with €41 million for the previous quarter, including an increase in depreciation and amortisation in the areas of real estate and IT and the recognition of write-offs related to the mass branch closures.

Other administrative expenses: composition

Figures in thousands of euro	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
A. Other administrative expenses	(750,698)	(188,597)	(190,091)	(176,449)	(195,561)
Rent payable	(70,561)	(15,835)	(17,407)	(18,188)	(19,131)
Professional and advisory services	(121,239)	(41,245)	(25,571)	(31,123)	(23,300)
Rentals hardware, software and other assets	(38,001)	(9,449)	(9,390)	(9,577)	(9,585)
Maintenance of hardware, software and other assets	(53,461)	(15,223)	(11,972)	(13,439)	(12,827)
Tenancy of premises	(48,320)	(12,513)	(11,348)	(11,578)	(12,881)
Property maintenance	(30,903)	(12,017)	(7,461)	(7,067)	(4,358)
Counting, transport and management of valuables	(12,989)	(3,364)	(3,153)	(3,179)	(3,293)
Membership fees	(97,139)	(6,712)	(41,690)	(11,425)	(37,312)
Information services and land registry searches	(11,162)	(2,613)	(2,475)	(3,311)	(2,763)
Books and periodicals	(1,064)	(274)	(173)	(283)	(334)
Postal	(12,363)	(2,422)	(2,305)	(3,551)	(4,085)
Insurance premiums	(31,421)	(8,705)	(7,174)	(7,511)	(8,031)
Advertising	(19,893)	(4,385)	(4,436)	(5,412)	(5,660)
Entertainment expenses	(1,111)	(440)	(137)	(291)	(243)
Telephone and data transmission expenses	(50,710)	(12,450)	(12,588)	(12,631)	(13,041)
Outsourced services	(57,810)	(14,144)	(13,349)	(14,050)	(16,267)
Travel expenses	(18,429)	(4,701)	(3,680)	(4,909)	(5,139)
Credit recovery expenses	(44,873)	(13,997)	(7,999)	(11,928)	(10,949)
Forms, stationery and consumables	(6,019)	(1,213)	(1,512)	(1,497)	(1,797)
Transport and removals	(8,443)	(1,707)	(2,889)	(2,132)	(1,715)
Security	(9,098)	(3,695)	(1,906)	(1,977)	(1,520)
Other expenses	(5,689)	(1,493)	(1,476)	(1,390)	(1,330)
B. Indirect taxes	(39,296)	(10,141)	(8,608)	(10,194)	(10,353)
Indirect taxes and duties	(11,414)	(2,524)	(2,821)	(3,118)	(2,951)
Stamp duty	(206,684)	(43,721)	(54,283)	(54,397)	(54,283)
Municipal property tax	(22,999)	(5,618)	(5,745)	(5,878)	(5,758)
Other taxes	(25,444)	(5,824)	(6,198)	(5,902)	(7,520)
Reclassification of "tax recoveries"	227,245	47,546	60,439	59,101	60,159
Total	(789,994)	(198,738)	(198,699)	(186,643)	(205,914)

With the merger of the New Banks, the Group has been able to achieve major cost synergies, as shown in the table. A comparison between the last three quarters of 2018 and the corresponding periods of 2017, net of (recurring and non-recurring) payments to the SRF and DGS, points to €91.1 million in cost savings.

Quarterly operating expenses

Figures in thousands of euro	2018				2017			Change
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	Apr-Dec 2018/ Apr-
Staff costs (a)	(372,896)	(367,871)	(374,325)	(375,534)	(384,268)	(379,782)	(396,313)	(45,271)
Other administrative expenses (b)	(198,738)	(198,699)	(186,643)	(205,914)	(209,757)	(211,834)	(199,694)	(37,205)
of which: non-recurring items (SRF)			(12,885)	-				12,885
of which: ordinary payments to the SRF and the DGS	(2,799)	(38,881)	5,016	(34,244)	(8,099)	(33,543)	3,305	(1,673)
Other administrative expenses net of SRF and DGS payments (c)	(195,939)	(159,818)	(178,774)	(171,670)	(201,658)	(178,291)	(202,999)	(48,417)
Net impairment losses on property, plant and equipment and intangible assets (d)	(44,612)	(40,962)	(40,384)	(41,617)	(43,521)	(39,640)	(40,207)	2,590
Operating expenses (a+b+d)	(616,246)	(607,532)	(601,352)	(623,065)	(637,546)	(631,256)	(636,214)	(79,886)
Operating expenses net of non-recurring items and payments to the SRF and DGS (a+c+d)	(613,447)	(568,651)	(593,483)	(588,821)	(629,447)	(597,713)	(639,519)	(91,098)

As a result of the performance described above, **net operating income** amounted to €1,071.1 million.

During the period, a total of €639 million was recognised within item 130.a) *net impairment losses for credit risk relating to financial assets measured at amortised cost*, €642.8 million of which related to loans and advances to customers, which as a percentage of total loans and advances to customers recognised within item 40. 2), gave a loan loss rate of 0.72%, which is close to the levels of 2017 (0.79%) although the figures are not fully comparable.

The table details the following in particular:

- €2.9 million of net reversals of impairment losses on loans and advances to banks attributable to the Parent and related to methodological updates which took place in the fourth quarter and which are reported in the Notes to the Consolidated Financial Statements, Part E (section 2.3 “Methods for the measurement of expected credit losses”);
- €642.8 million of net impairment losses on loans and advances to customers. This item includes €661.7 million in net specific impairment losses on exposures classified in stage three and €17.9 million in impairment losses on disposed positions, which, in application of the Bank of Italy addendum letter of 30th October 2018, have been reclassified to item 100, against €36.8 million in net impairment losses on exposures classified in stages one and two;
- €916 thousand of net impairment losses on debt securities (line items A. and B. in the table).

Net impairment losses for credit risk relating to financial assets measured at amortised cost

Transactions/components of income	Impairment / Reversals		2018
	Stages one and two	Stage three	
Figures in thousands of euro			
A. Loans and advances to banks	2,869	-	2,869
- Financing	2,867	-	2,867
- Debt securities	2	-	2
of which: purchased or originated credit-impaired loans	-	-	-
B. Loans and advances to customers	37,723	(679,595)	(641,872)
- Financing	36,809	(679,595)	(642,786)
- Debt securities	914	-	914
of which: purchased or originated credit-impaired loans	-	-	-
Total	40,592	(679,595)	(639,003)

A quarterly analysis shows total net impairment losses increasing to €247.7 million from €128.1 million recorded in the third quarter.

Impairment losses on loans and advances to customers, which are the primary component of the aggregate, rose to €253.5 million from the previous €127.7 million. This change reflects on the one hand the recognition of net impairment losses in stages one and two in the amount of €26.5 million (against reversals of €7.1 million in the third quarter) related to the recurring update to risk parameters in conjunction with a lengthening of the historical data series and on the other an increase (from €134.8 to €227 million) in net impairment losses related to positions classified as stage three. In the fourth quarter, these included the effects of application of sale scenarios to the measurement of positions of Group companies, whereas, in the third quarter, although in the presence of impairment losses attributable to an update of the UBI Leasing policy on the measurement of non-performing exposures, they benefited from reversals due to the updated parameters (perimeter of positions that can be sold, likelihood of disposal, and sales price) used to determine the value of a portfolio of bad loans, for which, upon First-Time Adoption of IFRS 9, sales on the market that had been determined as at 30th September were hypothesised.

Finally, it should be noted that the fourth quarter is historically the period most affected by loan losses.

Net impairment losses for credit risk relating to financial assets measured at amortised cost - quarterly changes

Transactions/components of income	Impairment / Reversals		4Q 2018	Impairment / Reversals		3Q 2018	Impairment / Reversals		2Q 2018	Impairment / Reversals		1Q 2018
	Stages one and two	Stage three		Stages one and two	Stage three		Stages one and two	Stage three		Stages one and two	Stage three	
Figures in thousands of euro												
A. Loans and advances to banks	4,110	-	4,110	217	-	217	266	-	266	(1,724)	-	(1,724)
- Financing	4,110	-	4,110	217	-	217	265	-	265	(1,725)	-	(1,725)
- Debt securities	-	-	-	-	-	-	1	-	1	1	-	1
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to customers	(24,871)	(226,988)	(251,859)	6,540	(134,823)	(128,283)	7,233	(150,903)	(143,670)	48,821	(166,881)	(118,060)
- Financing	(26,493)	(226,988)	(253,481)	7,142	(134,823)	(127,681)	7,219	(150,903)	(143,684)	48,941	(166,881)	(117,940)
- Debt securities	1,622	-	1,622	(602)	-	(602)	14	-	14	(120)	-	(120)
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-	(4,782)	(4,782)	-	4,782	4,782
Total	(20,761)	(226,988)	(247,749)	6,757	(134,823)	(128,066)	7,499	(150,903)	(143,404)	47,097	(166,881)	(119,784)

This item includes the reclassifications from item 100 in accordance with the indications contained in the Bank of Italy addendum letter of 30th October 2018.

Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income (item 130.b) include the net adjustments of expected credit losses related to debt securities recognised under item 30 of the balance sheet. Impairment losses on performing securities purchased during the year, which in accordance with IFRS 9 require immediate recognition of the expected loss, also contributed to that balance. For the year, the item posted a net reversal of €0.7 million related almost entirely to UBI Banca, having benefited from the significant reversal recognised by the Parent in the fourth quarter (€8,559 thousand).

Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income

Transactions/components of income	Impairment / Reversals		2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
	Stages one and two	Stage three					
Figures in thousands of euro							
A. Debt securities	726	-	726	8,611	(600)	(2,724)	(4,561)
B. Financing	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-
Total	726	-	726	8,611	(600)	(2,724)	(4,561)

This item includes the reclassifications from item 100 in accordance with the indications contained in the Bank of Italy addendum letter of 30th October 2018.

The income statement also recognised the following for the period ended 31st December:

- +€19.4 million *in net reversals of provisions for risks and charges*.

In terms of credit risk, there was a net reversal of €23.9 million during the financial year, while net allocations to other provisions for risks and charges amounted to €4.5 million. Year-end balances were affected by transactions recorded in the fourth quarter.

An analysis by quarter shows that the annual balance of the item can be attributed to the fourth quarter,

which closed with a net reversal of €27.1 million. The table shows, first and foremost, a net reversal of €12.3 million for credit risk related to guarantees/commit

Net provisions for risks and charges

	2018	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Figures in thousands of euro					
Net provisions for credit risk relating to loan commitments and guarantees granted	23,923	12,322	(2,939)	3,477	11,063
Net provisions for other risks and charges	(4,491)	14,767	(2,145)	(15,700)	(1,413)
for revocation (clawback) risks	(9,459)	(8,654)	(286)	(356)	(163)
for bonds in default	(158)	16	55	(266)	37
for litigation	(12,146)	2,084	(870)	(13,169)	(191)
Other	17,272	21,321	(1,044)	(1,909)	(1,096)
Total	19,432	27,089	(5,084)	(12,223)	9,650

ments, €4 million of which related to adjustments to performing positions and €8.3 million to non-performing exposures. With regard to provisions for risks and charges, there was a reversal of €14.8 million due essentially to "other" items (€21.3 million), and in particular to contracts related to real estate operations coming from the New Banks, for which the conditions for closure were met at the end of 2018. Legal disputes, too, posted a recovery of €2.1 million due to the closure of an arbitration procedure initiated by a company operating in the naval sector, which more than offset the allocations for the period;

- +€5.3 million (subject entirely to normalisation) of *net profit on the disposal of equity interests and other investments* attributable to the sale of real estate by the Parent company and,

marginally, by BPB Immobiliare, whereas in the fourth quarter the item included a €4.2 million price adjustment related to the sale of UBI Banca International, which took place in 2017.

As a result of the performance described above, **profit before tax from continuing operations stood** at €457.6 million (€41.7 million in the fourth quarter, €71.8 million in the third quarter, €155.7 million in the second, and €188.4 million in the first).

Finally, *income taxes for the year from continuing operations* were positive by €38.8 million, mainly due to the recognition of a non-recurring item amounting to €186.4 million due to a change introduced by Law No. 145 of 30th December 2018 (the 2019 Budget Law) to the deductibility for the IFRS 9 First-Time Adoption (FTA) reserve, related to expected losses recognised on loans and advances to customers.

As a result of that change, these negative components of income which, according to the original rules (Italian Ministerial Decree of 10th January 2018), were fully deductible for IRES (corporate income tax) and IRAP (regional production tax) purposes in the tax period in which first-time adoption of the new financial reporting standard took place (i.e. 2018), are now 10% deductible in 2018, and the remaining 90% is deductible at constant rates over the following nine tax periods.

Therefore, based on the original rules, on FTA the UBI Banca Group had envisaged the recognition of current tax assets totalling approximately €80 million on the deductible impacts of the “FTA write-downs”, limited by the amount of consolidated taxable income estimated for the year ended 31st December 2018 and taking into account the results of the “probability test” laid down in Group accounting policies.

Following the change in the legislation, on the contrary deferred tax assets of approximately €240 million have been recognised in the balance sheet as at 31st December 2018, corresponding to the future benefit relating to the deductibility of the reserve, net of the effects recognised on FTA for that part not deductible, with a total positive impact of approximately €186.4 million.

Net of all non-recurring items, taxes for the year amounted to €158.7 million, for a tax rate of 32.6%, which is essentially in line with the theoretical IRES (corporate income tax) and IRAP (regional tax on production) tax rate of 33.07%.

As a result of the performance of Group companies, *profit for the period attributable to minority interests* (inclusive of the effects of consolidation entries) was €26 million (€5.1 million in the fourth quarter, €7.1 million in the third quarter, €7.8 million in the second, and €6 million in the first).

Finally, the following items (subject to normalisation) have been stated separately net of tax and minority interests:

- *Business Plan project expenses* (recognised within other administrative expenses) of €4.9 million (net of taxes of €2.4 million and minority interests of €70 thousand) almost all recognised in the first half;
- *redundancy scheme expenses* of almost €37 million (net of taxation of €18.3 million and minority interests of €18 thousand), recognised mainly in the third quarter.
- *impairment losses on property, plant and equipment* of €2.9 million (net of taxes of €1.4 million), recognised in the fourth quarter following the annual impairment tests on the carrying amounts.

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 31st December 2018, which include the effect of adoption of the accounting standard IFRS 9, are compared with those as at 1st January 2018. The section entitled "Transition to the new financial reporting standards IFRS 9 and IFRS 15" in this document may be consulted for details of the reconciliation of figures as at 31st December 2017 and those resulting from First-Time Adoption of the new standards as at 1st January 2018.

Total banking funding

With regard to the Italian banking industry, annual direct funding by Italian banks fell slightly, confirming the contrast between the upward trend in deposits and the downward trend in bond funding, which continues to reflect greater redemptions than new issues.

This trend has been particularly affected by the increased cost of access to funding on international markets, as well as by market volatility, which has promoted liquidity decisions by customers faced with the negative effects on the yields of indirect funding.

Within this context, the UBI Banca Group has seen a year-on-year decrease, especially in the fourth quarter, in total banking funding, posting, for the direct component, (i) an increase in short-term, current account funding against a decline in term deposits, attributable almost entirely to the New Banks, that are no longer subject to renewal upon maturity, and (ii) a reduction in securities issued, affected by maturing securities.

Issues in the first part of the year mainly concerned international institutional markets, where public placements of covered bonds and of the new senior, non-preferred instrument (issued within the scope of the EMTN Programme) were particularly successful and on which UBI Banca was able to obtain competitive pricing, given that the Bank is seen by investors as being a high quality borrower.

At the end of the first half of the year, in reaction, in part, to demand-related factors, the placement of retail bonds, i.e. bonds intended for non-institutional investors, began again and continued throughout the second half of the year. At the same time, institutional activities have become increasingly diversified (including into new types of transactions).

After a positive trend through the first nine months of the year, driven particularly by the assets under management component, indirect funding turned downward towards the end of the year in response to market prices.

Total banking funding from customers

Figures in thousands of euro	31.12.2018 A	%	30.9.2018 B	%	30.6.2018 C	%	31.3.2018 D	%	1.1.2018 (*) E	%	Changes A-E amount	%
Direct banking funding	92,211,085	49.3%	93,955,113	48.8%	95,010,055	49.1%	94,212,149	49.1%	94,449,770	49.5%	-2,238,685	-2.4%
Indirect funding	94,742,917	50.7%	98,753,436	51.2%	98,528,550	50.9%	97,663,650	50.9%	96,465,661	50.5%	-1,722,744	-1.8%
of which: assets under management	66,291,471	35.5%	69,248,041	35.9%	68,682,945	35.5%	66,870,798	34.9%	65,443,496	34.3%	847,975	1.3%
Total banking funding	186,954,002	100.0%	192,708,549	100.0%	193,538,605	100.0%	191,875,799	100.0%	190,915,431	100.0%	-3,961,429	-2.1%
Total banking funding net of institutional funding	170,525,530		175,475,735		177,416,754		176,247,203		176,880,521		-6,354,991	-3.6%
of which: ordinary captive customers	170,342,448		175,173,337		177,115,218		175,945,983		176,412,836		-6,070,388	-3.4%

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

Total Group banking funding, consisting of total assets administered on behalf of customers, totalled approximately €187 billion as at 31st December 2018, down by €4 billion on 1st January 2018 and down by €5.8 billion on a quarterly basis.

The overall trend in this aggregate, which increased through the first two quarters before decreasing through the latter part of the year, was mainly affected by the trend in indirect funding, and particularly in assets under management, in line with market circumstances.

As can be seen in the table, excluding the institutional and non-captive components (i.e. bonds of the former Centrobanca) from the total, funding from ordinary captive customers settled at €170.3 billion, posting a more marked contraction in year-on-year terms (down by €6.1 billion) than on a quarterly basis (down by €4.8 million), due to the significant drop in bond funding during the year, which was only partially offset by a recovery in issues starting in June. In particular, this slowed the process of transforming the maturing direct component into forms of assets under management in line with the Business Plan.

Direct banking funding

Direct banking funding from customers

Figures in thousands of euro	31.12.2018		1.1.2018		Changes	
		%		%	amount	%
Current accounts and sight deposits	65,887,975	71.4%	64,258,153	68.0%	1,629,822	2.5%
Term deposits	977,078	1.1%	2,364,594	2.5%	-1,387,516	-58.7%
Financing	513,092	0.6%	513,627	0.6%	-535	-0.1%
- repurchase agreements	239,639	0.3%	167,157	0.2%	72,482	43.4%
of which: repos with the CCG	215,325	0.2%	-	-	215,325	-
- other	273,453	0.3%	346,470	0.4%	-73,017	-21.1%
Other payables	1,043,242	1.1%	1,298,453	1.4%	-255,211	-19.7%
Total amounts due to customers [Liabilities item 10. b) Reclassified Consolidated Balance Sheet]	68,421,387	74.2%	68,434,827	72.5%	-13,440	0.0%
Bonds	23,422,397	25.4%	24,865,262	26.3%	-1,442,865	-5.8%
Certificates of deposit	367,301	0.4%	1,144,777	1.2%	-777,476	-67.9%
Other certificates	-	-	4,904	0.0%	-4,904	-100.0%
Total debt securities issued (*) [Liabilities item 10. b) Reclassified Consolidated Balance Sheet]	23,789,698	25.8%	26,014,943	27.5%	-2,225,245	-8.6%
of which:						
securities subscribed by institutional customers:	16,213,147	17.6%	14,034,910	14.9%	2,178,237	15.5%
The EMTN programme (**)	3,746,679	4.1%	4,552,668	4.8%	-805,989	-17.7%
The Covered Bond Programme	10,961,828	11.9%	9,482,242	10.1%	1,479,586	15.6%
Covered Bond Repos	1,504,640	1.6%	-	-	1,504,640	-
securities subscribed by ordinary customers:	7,576,551	8.2%	11,975,129	12.7%	-4,398,578	-36.7%
of the Group:						
- Certificates of deposit	367,301	0.4%	1,144,777	1.2%	-777,476	-67.9%
- Bonds	7,026,168	7.6%	10,362,667	11.0%	-3,336,499	-32.2%
external distribution networks:						
- Bonds issued by the former Centrobanca	183,082	0.2%	467,685	0.5%	-284,603	-60.9%
Total direct funding	92,211,085	100.0%	94,449,770	100.0%	-2,238,685	-2.4%
Due to customers net of institutional funding	68,206,062		68,434,827		-228,765	-0.3%
Total direct funding net of institutional funding	75,782,613		80,414,860		-4,632,247	-5.8%

(*) Within the item, subordinated securities, consisting of Lower Tier 2 issues, amounted to €2,420 million as at 31st December 2018 (of which €1,279 million consisting of two EMTNs) and to €2,994 million as at 1st January 2018 (of which €1,272 million consisting of two EMTNs).

(**) The corresponding nominal amounts amounted to €3,676 million as at 31st December 2018 (of which €1,250 million nominal subordinated) and to €4,492 million as at 1st January 2018 (of which €1,250 million nominal subordinated).

The UBI Banca Group's direct funding as at 31st December 2018 amounted to €92.2 billion, down by €2.2 billion in comparison with €94.4 billion of January.

The downward trend is attributable to securities issued, and to bonds in particular, affected by maturing bonds exceeding overall the levels of new issues (even though within the item the institutional component posted an amply positive trend).

Amounts due to customers, which remained stable at €68.4 billion, consist mainly of:

- *current accounts and sight deposits* in the amount of €65.9 billion, which is stable for the quarter but an increase of €1.6 billion from the €64.3 billion of the start of 2018 and reflects both a change in the composition of funding in term deposits and growing customer preferences for liquidity in response to market volatility;
- *term deposits* of approximately €1 billion (€2.4 billion as at 1st January 2018), originated almost entirely by the New Banks, having reduced progressively as no longer subject to renewal on maturity;
- *repurchase agreements with Cassa di Compensazione e Garanzia* (a central counterparty clearing house) of €215 million (€1.1 billion in September and not present at the beginning of the year), used to cover temporary liquidity requirements and, when necessary, to finance the Italian government bond portfolio. *Repurchase agreements with customers* amounted to €24 million at the end of the year (€285 million in September and €167 million at the start of the year and essentially attributable to business with institutional counterparties of the Parent and having non-Italian government bonds as their underlying);
- *“financing – other”*, amounting to €273 million (€268 million at the end of the third quarter and €346 million as at 1st January 2018) inclusive of funds, net of amortisation/extinguishment for the period, of approximately €235 million (€223 million in September and €277 million in January) made available to UBI Banca by *Cassa Depositi e Prestiti* (CDP – a state controlled fund and deposit institution) as part of intervention to support SMEs;
- *other payables* amounted to €1 billion, decreasing compared to both the €1.6 billion of the end of September, which included an overnight deposit of €900 million with the Italian Ministry of the Economy and Finance (MEF), and to the €1.3 billion of the beginning of the year.

Outstanding securities decreased to €23.8 billion, remaining essentially stable for the quarter (down by €0.1 million) but dropping by €2.2 billion from the €26 billion of the start of the year. The item was composed as follows:

- *bonds* in the amount of €23.4 billion (€23.2 billion for September and €24.9 billion at the start of 2018), decreasing progressively due to the net effect of maturities related to bonds subscribed both by institutional investors and, in particular, by retail customers, where new issues remain less than maturities;
- *certificates of deposit* amounting to €367 million, consisting almost entirely of instruments held by customers of the New Banks, down from the €513 million of the third quarter and the €1.1 billion of January as a result of the non renewal of the maturity date.

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

- **Euro Medium Term Notes (EMTNs)** amounting to €3.7 billion (-€0.7 billion in the quarter, - €0.8 billion for the year), listed in Dublin and issued by UBI Banca as part of a programme for a maximum issuance of €15 billion. During the fourth quarter, puttable notes were issued for €100 million nominal, and notes matured for €876 million nominal. No new placements were made in the third quarter, as in the first quarter, against maturities of €203 million nominal and €231 million nominal respectively. In the second quarter, on the other hand, a first senior non-preferred bond issuance was made with settlement date 12th April for a total of €500 million nominal, with five-year maturity and a fixed interest rate of 1.75%¹, against maturities amounting to €106 million nominal.

¹ On 16th March 2018 UBI Banca filed a Supplement to the Base Prospectus with the Stock Exchange of Ireland relating to the existing €15 billion EMTN programme and published that prospectus. That supplement was produced, amongst other things, to update the section entitled “Terms and conditions of the Notes” in order to provide for a new class of senior bonds, the senior non-preferred class. These are tier 2 unsecured debt instruments pursuant to Art. 12 *bis* of the Consolidated Banking Law, introduced to Italian law by Art. 1103, letter b) of Law No. 205 of 27th December 2017. Orders were received for a total of approximately €1 billion. The final allotment saw 50% subscribed by Italian investors and the remaining 50% subscribed by foreign investors.

It should be noted that the figures shown in the table also incorporate the effects of accounting adjustments on the securities;

- **covered bonds** amounting to approximately €11 billion (+€266 million on September and +€1.5 billion for the year). UBI Banca made a 6.5-year and 12-year “dual tranche” public issuance of covered bonds, both fixed-rate (0.5% and 1.25%, respectively), with value date of 15th January 2018, for a total of €1 billion, as part of its First Programme. In February, two private placements were made, again under the same programme, for a total of €250 million nominal. No issuances were made in the April-June period, against the amortisation of €11.4 million nominal of the amortising issuance placed with the EIB. In October, an issuance of 6.5-year covered bonds was reopened for a total €250 million nominal in January 2018. Finally, the amortisation of €11.4 million of the amortising bond placed with the EIB was recorded in the fourth quarter.

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 13 covered bonds in issue under the first “multioriginator” programme backed by residential mortgages with a €15 billion ceiling for a nominal amount of €10,580 million net of amortisation totalling €170 million nominal². The bonds are traded in Dublin.

As at 31st December 2018 the residential mortgage asset pool formed at UBI Finance to back the issuances amounted to €15.7 billion, of which 99.02% originated by UBI Banca and 0.98% by IW Bank. The portfolio continued to show a high degree of fragmentation, including over €203 thousand mortgages with average remaining debt of more than €77 thousand, distributed with 63.01% in North Italy and in Lombardy especially (44.23% of the total).

UBI Banca completed the transfer to the Programme of residential mortgage loans with a residual debt of approximately €2.2 billion with effect from 1st May 2018, while on 28th May bad loans were repurchased, amounting to approximately €117 million by UBI Banca and to over €1 million by IW Bank. Finally, on 1st December, the Parent transferred residential mortgages to the programme for approximately €1.3 billion in remaining balance.

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 issuances³.

At the end of December the commercial and residential asset pool formed at UBI Finance CB 2 to back these issuances stood at €2.6 billion, of which 99.35% originated by UBI Banca and 0.65% by IW Bank. The portfolio includes over €24 thousand mortgages with average residual debt of €106 thousand, distributed, as for the first programme, with a high concentration in North Italy (67.90%) and in Lombardy especially (46.37% of the total).

UBI Banca consummated the repurchase of performing mortgage loans with a residual balance of €93.8 million (a total of 1,520 positions, originated by UBI Banca) on 28th March. On the following 21st May, UBI Banca then repurchased bad loans with a total value of over €53 million. Finally, on 1st June, the Parent transferred mortgage loans with a residual balance of over €323 million to the programme, of which over €54 million returned to the originator, UBI Banca, on the following 10th September.

* * *

- **covered bond repos** in the amount of €1.5 billion, executed in the fourth quarter using part of the self-retained issuances from the first and second covered bond programmes⁴ as the underlying.

² Four self-retained issuances were made under the same programme for €2,500 million nominal, one for €500 million carried out in December 2015 and one concluded in October 2018 for €700 million and two carried out in December for €500 million and €800 million respectively.

It should also be noted that the €750 million issuance from June 2016 reached maturity in December 2018.

Because these were repurchased by UBI Banca itself, the liabilities are not recognised in the accounts, in accordance with IAS/IFRS.

³ Totalling €2,050 million nominal: one issuance for €400 million in 2012 (net of €100 million in amortisation); a second issuance of €200 million in March 2014; a third for €650 million completed in July 2015; a fourth for €300 million concluded in June 2016; a fifth for €300 million performed in December 2017; and a sixth for €200 million in December 2018. Because these were repurchased by UBI Banca itself, the liabilities are not recognised in the accounts, in accordance with IAS/IFRS.

⁴ Total repurchase agreements for the self-retained issues of the first and second programmes amounted to €1,707.5 million nominal as at 31st December 2018 of which €1,150 million related to the first programme (€475 million related to the December 2015 issuance, €525 million related to the €700 million issuance in October 2018 and €150 million related to the €500 million issuance in December 2018) and €557.5 million related to the second programme (€60 million related to the issuances in 2012 and 2017, €197.5 million to that of 2015 and €240 million to that of 2017).

At the end of December, **FUNDING IN SECURITIES FROM ORDINARY CUSTOMERS** decreased by €7.6 billion (-€0.9 billion for the quarter and -€4.4 billion year on year), 95.2% of which comprised of bonds. The item included:

- **bonds** issued by UBI Banca amounted to €7 billion⁵ (down by €0.7 billion for the quarter and down by €3.3 billion since 1st January 2018). In the first quarter, the Bank did not issue any bonds, while bonds amounting to approximately €1,051.5 million nominal matured and bonds amounting to €193.2 million nominal were repurchased. In the second quarter, bond issuance amounted to approximately €500 million nominal, maturities to approximately €1,334.6 million nominal, and repurchases to €181 million nominal. In the third quarter, bond issuance amounted to €988.4 million nominal, which also included €20 million of social bonds, against maturities of €1,295.4 million nominal, and repurchases of approximately €60 million. Finally, in the fourth quarter, securities were placed for €745 million nominal, €45.5 million of which in social bonds, while €1,280.6 million nominal reached maturity and approximately €119 million nominal were repurchased;
- the **remaining funding from non-captive customers**, consisting of securities issued by the former Centrobanca and placed through indirect banking networks, amounted to €183 million, down by €285 million for the year, following maturities of nominal €280 million (€66 million attributable to the first quarter and €114 million to the fourth quarter).

It should be noted that the figures shown in the table also incorporate the effects of accounting adjustments on the securities.

The table below summarises maturities for bonds in issue at the end of December 2018.

Maturities of bonds outstanding as at 31st December 2018 *

Nominal amounts in millions of euro	2019	2020	2021	2022	2023	Subsequent years	Total
UBI BANCA							
Bonds ordinary customers	3,841	798	2,232	5	8	13	6,897
Bonds institutional customers	2,074	1,648	1,023	761	1,750	7,000	14,256
of which: EMTNs	1,051	125	-	750	500	1,250	3,676
Covered bonds	1,023	1,523	1,023	11	1,250	5,750	10,580
Total	5,915	2,446	3,255	766	1,758	7,013	21,153

* The table does not include maturities of bonds (approximately €228 million nominal) issued as part of the securitisations of the New Banks acquired.

⁵ This amount also includes approximately €228 million nominal still existing, issued in relation to securitisations of the New Banks acquired.

Listed securities (at the date of this report)

Bonds listed on the MOT (electronic bond market)		Nominal amount of issue	Book value as at	
ISIN number			31.12.2018	31.12.2017
IT0001197083	Centrobanca zero coupon 1998-2018	L. 800 billion	-	€ 166,395,581
IT0001267381	Centrobanca 1998/2018 reverse floater capped	L. 320 billion	-	€ 117,279,852
IT0001300992	Centrobanca 1999/2019 step down indicizzato al tasso swap euro 10 anni	€ 170,000,000	€ 109,333,501	€ 110,046,907
IT0001312708	Centrobanca 1999/2019 step down euro stability bond	€ 60,000,000	€ 70,272,304	€ 69,208,519
IT0004457070	UBI subordinato low er tier 2 fix to float con rimborso anticipato 13.3.2009-2019	€ 370,000,000	€ 371,771,120	€ 371,775,757
IT0004497050	UBI subordinato low er tier 2 fix to float con rimborso anticipato 30.6.2009-2019	€ 365,000,000	€ 365,025,603	€ 365,028,583
IT0004718489	UBI subordinato low er tier 2 tasso fisso 5,50% con ammortamento 16.6.2011-2018 Welcome Edition	€ 400,000,000	-	€ 80,927,393
IT0004723489	UBI subordinato low er tier 2 tasso fisso 5,40% con ammortamento 30.6.2011-2018	€ 400,000,000	-	€ 80,822,384
IT0004767742	UBI subordinato low er tier 2 tasso misto 18.11.2011-2018 Welcome Edition	€ 222,339,000	-	€ 222,520,100
IT0004841778	UBI subordinato low er tier 2 tasso misto 8.10.2012-8.10.2019 Welcome Edition	€ 200,000,000	€ 202,152,591	€ 202,144,081
IT0004842370	UBI subordinato low er tier 2 tasso fisso 6% con ammortamento 8.10.2012-8.10.2019	€ 970,457,000	€ 197,013,150	€ 394,350,200

Covered bonds listed on the Dublin stock exchange		Nominal amount of issue	Book value as at	
ISIN number			31.12.2018	31.12.2017
IT0004558794	UBI Covered Bonds due 16 December 2019 4% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,032,585,668	€ 1,062,925,270
IT0004599491	UBI Covered Bonds due 30 April 2022 floating rate amortising guaranteed by UBI Finance Srl	€ 250,000,000	€ 79,419,245	€ 102,054,096
IT0004682305	UBI Covered Bonds due 28 January 2021 5,25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,114,979,119	€ 1,143,124,745
IT0004966195	UBI Covered Bonds due 14 October 2020 3,125% guaranteed by UBI Finance Srl	€ 1,500,000,000	€ 1,557,564,295	€ 1,577,298,362
IT0004992878	UBI Covered Bonds due 5 February 2024 3,125% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,129,118,083	€ 1,121,336,354
IT0005067076	UBI Covered Bonds due 7 February 2025 1,25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,024,809,713	€ 1,012,961,934
IT0005140030	UBI Covered Bonds due 27 January 2023 1,00% guaranteed by UBI Finance Srl	€ 1,250,000,000	€ 1,286,799,347	€ 1,277,719,717
IT0005215147	UBI Covered Bonds due 14 September 2026 0,375% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 964,377,205	€ 945,829,872
IT0005283491	UBI Covered Bonds due 4 October 2027 1,125% guaranteed by UBI Finance Srl	€ 1,250,000,000	€ 1,256,536,008	€ 1,238,991,994
IT0005320665	UBI Covered Bonds due 15 January 2030 1,25% guaranteed by UBI Finance Srl	€ 500,000,000	€ 505,334,177	-
IT0005320673	UBI Covered Bonds due 15 July 2024 0,50% guaranteed by UBI Finance Srl	€ 750,000,000	€ 746,928,359	-
IT0005325151	UBI Covered Bonds due 23 February 2033 1,78% guaranteed by UBI Finance Srl	€ 90,000,000	€ 95,060,851	-
IT0005325334	UBI Covered Bonds due 25 February 2033 1,75% guaranteed by UBI Finance Srl	€ 160,000,000	€ 168,315,967	-

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 Banca 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 funding from customers by the counterparty's region of residence (excluding repurchase agreements and bonds) (*)

percentage of total	31.12.2018
Lombardy	50.10%
Marches	10.65%
Lazio	7.79%
Piedmont	6.80%
Apulia	3.69%
Calabria	3.41%
Campania	3.13%
Tuscany	2.99%
Abruzzo	2.37%
Emilia Romagna	2.35%
Veneto	1.85%
Liguria	1.66%
Umbria	0.96%
Basilicata	0.75%
Friuli Venezia Giulia	0.31%
Trentino Alto Adige	0.21%
Molise	0.20%
Sicily	0.12%
Sardinia	0.07%
Valle d'Aosta	0.03%
Abroad	0.56%
Total	100.00%
North	63.3%
- North West	58.6%
- North East	4.7%
Central	22.4%
South	13.7%
Abroad	0.6%

(*) The aggregates relate to banks only.

Finally, the table “Geographical distribution of direct funding from customers by region of residence of the counterparty” gives the **geographical distribution** of traditional funding (consisting of current accounts, savings deposits and certificates of deposit) in Italy.

The inclusion in scope of the consolidation of the New Banks, which carry on their business in central Italy, brought the Group's share of funding for that geographical area up to 22.4% The predominant concentration in Northern Italy (63.3% of the total) and in regions of the North-West (58.6%). in particular nevertheless continued.

Indirect banking funding and assets under management

The volatility of the financial markets since the start of the year—backed by growing tensions in global trade and political instability in the EU, including the difficult situation in Italy – compromised the performance of indirect funding for the year.

In the second half of 2018, alongside this heightened instability, there was an increase in the flow of investment away from open-ended mutual funds – related in part to a worsening in market conditions for government securities since May – which mainly affected the bond segment. Since October, the further deterioration of the international landscape and consequent generalised decline in stock market indexes had led to more prudent investment decisions – and a consequent decline in the equity and flexible⁶ segments – orienting, at least in part, households to invest more in other forms of medium and long-term asset management (e.g. insurance and retirement products), further promoted by a recovery in the placement of traditional products including by way of further growth in the multi-sector segment.

Indirect banking funding from ordinary customers

Figures in thousands of euro	31.12.2018	%	1.1.2018 ^(*)	%	Changes	
					amount	%
Assets under custody	28,451,446	30.0%	31,022,165	32.2%	-2,570,719	-8.3%
Assets under management	66,291,471	70.0%	65,443,496	67.8%	847,975	1.3%
Customer portfolio management	5,823,484	6.1%	6,787,847	7.0%	-964,363	-14.2%
of which: fund based instruments	1,661,780	1.8%	1,844,685	1.9%	-182,905	-9.9%
Mutual investment funds and Sicav's	35,775,933	37.8%	37,051,878	38.4%	-1,275,945	-3.4%
Insurance policies and pension funds	24,692,054	26.1%	21,603,771	22.4%	3,088,283	14.3%
of which: Insurance policies	24,689,276	26.1%	21,601,050	22.4%	3,088,226	14.3%
Total	94,742,917	100.0%	96,465,661	100.0%	-1,722,744	-1.8%

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

By year end, **direct funding** by the UBI Banca Group settled at €94.7 billion, down by €1.7 billion for the year (-1.8%) as a result of the downturn of the fourth quarter (-€4.01 billion, or -4.1%).

Despite the significant decline through the autumn months (-€2.96 billion, or -4.3%), **assets under management** posted an increase of €0.8 billion from the start of January (+1.3%), closing the year at €66.3 billion and accounting for 70% of the total aggregate.

The table shows how the change for the year may be attributed entirely to insurance policies, which reached €24.7 billion – and were essentially stable compared to the end of September – an increase of €3.1 billion (+14.3%). This dynamic – although slowing in the second half of the year for “Business sector I” policies (insurance policies on the duration of human life, with benefits linked to death, life of the insured or both) – is in line with the trend for the sector, favoured in part by the placement, starting in January, of two innovative “Multiramo” (multi-sector) life policies, which integrate investment solutions and actual insurance, and by the placement since the beginning of September of a new life policy by BancAssurance Popolari SpA⁷.

⁶ The growth trend in net mutual-fund funding for the banking industry as a whole, which began in April, became less stable from May to August before a sudden change in direction in the last four months of the year, which effectively erased the increase of the previous months. Based on Assogestioni figures, net funding by the banking industry in 2018 amounted to just €71 million, the net effect of an increase in foreign funds (€3.5 billion) and a negative contribution of Italian funds (-€3.4 billion). In terms of types of fund, the performance was driven by balanced funds (+€9.9 billion) and by flexible funds (+€8.6 billion), while the contribution from equity funds was lower (+€4.1 billion) and monetary funds (+€2.2 billion), compared with marked decreases both bond funds (-€25 billion) and substantial stability for hedge funds (+€0.1 billion). Net inflows in the twelve months also included +€0.1 billion into “non-classified funds”.

⁷ On 8th January 2018 UBI Banca Group commenced the distribution of a policy entitled Multiramo Twin Selection (targeted at the Mass-Market and Affluent customer segments) and a policy entitled Multiramo Twin Top Selection (targeted at the Top Private Banking customer segment). These policies aim to combine the traditional “life and pension” component with a “personal and family protection” component associating a proposal for complete protection with the multi-business sector policy, which gives customers exclusive access to additional types of insurance cover, such as “Temporanea Caso Morte”, “Long Term Care” and “Dread Disease”, for protection against events which can suddenly transform everyday needs. The placement began with effect from 3rd September 2018 of a new policy, unit-linked to external funds, in “Business sector III” entitled BAP Vita Soluzione Unit 2018. Finally, placement of the new BluReddito insurance package, which includes a life-insurance policy – as an option and only in conjunction with a non-life policy – began on 15th October 2018 and is being conducted by the insurance companies Aviva Vita SpA and BancAssurance Popolari SpA within the scope of their respective areas of operations.

Having been significantly compromised by the high degree of volatility on all financial markets throughout the autumn months, particularly within Italy, SICAVs and mutual funds decreased to €35.8 billion, slipping €1.3 billion year on year (-€2.4 billion since the end of September), despite success in the distribution of certain new products/segments of SICAVs and funds and the level of customer interest shown towards the products within the long-term Individual Savings Schemes (ISS, or PIR in Italian)⁸.

Customer portfolio management, too, fell to €5.8 billion (-€1 billion year-on-year, half of which in the fourth quarter), incorporating the effects of market prices.

Assets under custody, which declined to €28.5 billion (-€2.6 billion for the year, of which €1.05 billion in the fourth quarter alone), were affected mainly by market prices.

* * *

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

UBI Banca Group	31.12.2018	%	1.1.2018 ^(*)	%	Changes	
Figures in millions of euro					amount	%
Equities	2,800	9.2%	3,122	9.8%	-322	-10.3%
Balanced	11,121	36.6%	10,515	33.1%	606	5.8%
Bond	14,378	47.3%	15,616	49.2%	-1,238	-7.9%
Monetary funds	395	1.3%	532	1.7%	-137	-25.8%
Flexible	1,696	5.6%	1,951	6.2%	-255	-13.1%
TOTAL (a)	30,390	100.0%	31,736	100.0%	-1,346	-4.2%
Sector	31.12.2018	%	1.1.2018 ^(*)	%	Changes	
Figures in millions of euro					amount	%
Equities	209,837	22.1%	221,848	21.9%	-12,011	-5.4%
Balanced	97,830	10.3%	98,844	9.8%	-1,014	-1.0%
Bond	369,706	38.9%	413,162	40.9%	-43,456	-10.5%
Monetary funds	34,332	3.6%	32,307	3.2%	2,025	6.3%
Flexible	234,963	24.7%	240,769	23.8%	-5,806	-2.4%
Hedge funds	3,718	0.4%	4,253	0.4%	-535	-12.6%
TOTAL (b)	950,386	100.0%	1,011,183	100.0%	-60,797	-6.0%
Market share of the UBI Banca Group (a)/(b)	3.20%		3.14%			
Market share of the UBI Banca Group limited to bank-related management companies only ^(**)	6.29%		6.09%			

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

(**) Market share calculated on the basis of a necessarily discretionary criterion in view of the difficulty in precisely identifying the perimeter of operators of a strictly banking nature.

Source: Assogestioni (national association of asset management companies).

Any marginal differences compared with the data published previously were due to the periodic revision of data carried out by Assogestioni.

It should be noted that, 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 (€5.2 billion of mutual funds and SICAVs at 31st December 2018, of which €1.8 billion in equities and €3.4 billion in bonds). This presentation provides a more consistent account of the actual assets under management of the UBI Banca Group.

At the end of December, Assogestioni⁹ data relating to the UBI Banca Group asset management company for mutual funds and Sicav's was as follows for **ASSETS UNDER MANAGEMENT ORIGINATED**:

- net inflows of €586.9 million for the year, amounting to 1.8% of assets under management as at 1st January 2018 (net inflows for the industry nationally, on the other hand, were €71 million, amounting to 0.01% of assets managed at the beginning of 2018);
- a decrease in assets in the fourth quarter (-€1.9 billion, or -5.9%), in line with the downward trend of the sample population (-€50.7 billion, -5.1%). For the full year, the comparison shown in the table indicates a more limited decrease in assets under

⁸ In order to allow UBI Banca Group customers to benefit from the opportunities offered by the ISS legislation, on 18th April 2017 UBI Pramerica SGR, in agreement with UBI Banca, created a new range of "UBI Pramerica MITO Funds" which consist of three funds: Fondo UBI Pramerica MITO 25, Fondo UBI Pramerica MITO 50 and Fondo UBI Pramerica MITO 95. The latter has been distributed since 17th May 2018.

⁹ "Monthly map of assets under management", December 2018. For companies not included in the "Quarterly map of assets under management", September 2018.

management by the Group, in percentage terms, than for the sample population (-4.2% vs. -6%) as a result of the more favourable trend in funding for the year;

- assets managed of €30.4 billion, which positions the Group in eighth place (up from ninth a year ago) with a market share of 3.20%, an improvement compared with 3.14% at the beginning of 2018.

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 31st December 2018 was 6.29% – compared with 6.09% at the beginning of the year – placing UBI Banca stably in fourth position among Italian industry players.

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 twelve months (from 50.9% to 48.6%) as also occurred for the Assogestioni sample (down from 44.1% to 42.5%);
- at the same time, a greater percentage of balanced funds, up year-on-year from 33.1% to 36.6% compared with an average figure for the industry nationally up from 9.8% to 10.3%;
- a percentage of equity funds down slightly and constantly lower than the benchmark sample (9.2% compared with 22.1%);
- a decrease in the percentage of flexible funds (5.6%) moving against the trend compared with an increase in the figure for the sector (24.7%);
- no investment in hedge funds (0.4% of the Assogestioni sample).

* * *

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 December, the UBI Banca Group was positioned in sixth place¹⁰ in the sector (in fourth place among Italian banking groups) with total assets for both ordinary and institutional customers amounting to €54.7 billion and a market share of 3.02%, up in the comparison with the start of the year (2.94%).

If the analysis is limited to banks only, the Group's market share in December 2018 was 6.44%, an improvement compared to the 6.70% at the beginning of 2018 in that it places UBI Banca stably in fourth position among industry players.

¹⁰ Until 31st October 2018, the Group was in seventh place. The improvement is the result of the merger into Anima SGR – effective as of 1st November 2018 – of over €70 billion related to management of the assets underlying the insurance products taken over from BancoPosta Fondi SGR, which previously possessed assets and market share that were greater than those of the UBI Banca Group.

Insurance deposits and technical reserves

Insurance deposits and technical reserves

	31.12.2018	%	1.1.2018	%	Changes	
Figures in thousands of euro					amount	%
Financial liabilities designated at fair value related to insurance business						
<i>[Liabilities item 30. Reclassified Balance Sheet]</i>	105,836	5.3%	43,021	2.4%	62,815	146.0%
of which: Pension funds	11,954	0.6%	13,436	0.8%	-1,482	-11.0%
Unit-linked products	93,882	4.7%	29,585	1.6%	64,297	217.3%
Technical reserves						
<i>[Liabilities item 110. Reclassified Consolidated Balance Sheet]</i>	1,877,449	94.7%	1,780,701	97.6%	96,748	5.4%
Life business sector	1,877,449	94.7%	1,778,702	97.5%	98,747	5.6%
of which: mathematical reserves	1,863,880	94.0%	1,766,645	96.9%	97,235	5.5%
reserves for sums to be paid	12,865	0.7%	11,499	0.6%	1,366	11.9%
other reserves	704	0.0%	558	0.0%	146	26.2%
Non-life business sector	-	-	1,999	0.1%	-1,999	-100.0%
Insurance deposits and technical reserves	1,983,285	100.0%	1,823,722	100.0%	159,563	8.7%

Insurance funding and technical reserves totalled approximately €2 billion at 31st December 2018, up €160 million from 1st January 2018.

Financial liabilities relating to insurance business designated at fair value, representing the value of positions relating to “Business sector III” (unit-linked products) and “Business sector VI” (pension funds) insurance policies, were up by 146% in the quarter to €105.8 million (+€10.4 million, 10.9%, in the fourth quarter). This trend was mainly due to the contribution of net positive funding – premiums issued net of benefits paid – related to the unit-linked products, in the amount of €68 million, although in the latter part of the year write-downs on securities included in the financial portfolios linked with these products had a negative impact.

Technical reserves express the value, as at 31st December 2018, of insurance positions related to “Business sector I” and “Business sector V” policies that can be revalued and to term life insurance policies. Compared to the beginning of January, the aggregate no longer includes Non-Life Business given that, on 1st November, the non-life insurance company disposed of its insurance portfolio¹¹.

The trend in technical reserves – increased from €96.7 million to €1.9 billion (+€20.9 million for the period October-December) – benefited from both positive funding related to policies that can be revalued, in the amount of €136 million, and the revaluation of insurance positions. Although this had a negative impact on the present-value loss on the securities included in the separate management portfolios linked to these policies, there has been a reduction in the positive difference between the fair value and the carrying amount of these securities and a consequent reduction in the reserve (i.e. “shadow accounting”) set aside, while latent gains are inherent in the securities.

¹¹ Consistent with the Group's business and strategic framework, a transaction was concluded for the partial sale of the non-life policy portfolio of the subsidiary Bancassurance Popolari Danni Spa to a third party. The transaction involved the transfer to the buyer of almost the entire non-life policy portfolio and the relative technical asset and liability items (reserves and payables to policyholders).

General banking business with customers: lending

Considering that the Group conducts mainly conventional banking business and holds a portfolio of loans originated in order to finance individuals and companies in their business activities as well as households, 'Hold to Collect'¹ is the business model adopted for the management of almost the entirety of the loan portfolio. The contractual characteristics of the UBI Banca Group's loans to customers are normally such that they pass the SPPI test. They are therefore classified predominantly within financial assets measured at amortised cost [asset item 40 in the consolidated balance sheet] with recognition of net impairment losses determined in compliance with IFRS 9 rules on impairment recognised through profit or loss.

However, loans which do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, where the SPPI test has not been passed, are recognised at fair value with changes in fair value recognised through profit or loss [asset item 20 in the consolidated balance sheet].

The figures as at 31st December 2018, which include the effect of the adoption of the accounting standard IFRS 9, are compared with those as at 1st January 2018 in order to allow a uniform comparison of the items. The section entitled "Transition to the New Financial Reporting Standards IFRS 9 and IFRS 15" in this document may be consulted for details of the reconciliation of figures as at 31st December 2017 and those resulting from first-time adoption of the new standards as at 1st January 2018.

Total loans and advances to customers

	31.12.2018	%	1.1.2018	%	Changes	
Figures in thousands of euro					amount	%
Loans to customers measured at fair value through profit or loss [Asset item 20. 2) in the Reclassified Consolidated Balance Sheet]	274,262	0.3%	362,425	0.4%	-88,163	-24.3%
Financial assets measured at Fair value through other comprehensive income ^(*) [Asset item 30. 2) in the Reclassified Consolidated Balance Sheet]	15	0.0%	-	-	15	-
Loans and advances to customers measured at amortised cost [Asset item 40. 2) in the Reclassified Consolidated Balance Sheet]	88,987,596	99.7%	90,980,959	99.6%	-1,993,363	-2.2%
Total	89,261,873	100.0%	91,343,384	100.0%	-2,081,511	-2.3%

(*) The item includes a policy in liquidation of the former Banca Popolare di Ancona recognised until 30th June 2018 within Item 30. 3) of financial assets measured at fair value through other comprehensive income in the Reclassified Consolidated Balance Sheet.

Total outstanding loans of the UBI Banca Group as at 31st December 2018 stood overall at €89.3 billion (-€2.1 billion at the annual level, of which -€0.6 billion in the fourth quarter) which, as stated in the introduction, are primarily classified within "Financial assets measured at amortised cost" and to a residual extent within "Financial assets measured at fair value through profit or loss".

Loans and advances to customers measured at fair value through profit or loss

Asset item 20. 2) in the Reclassified Consolidated Balance Sheet

As shown in the table entitled "Total loans and advances to customers", at the end of the year those loans that had not passed the SPPI test, and which were therefore classified within "Financial assets measured at fair value through profit and loss", totalled €274.3 million, down by €88.2 million on January, of which only €9.2 million attributable to the fourth quarter. Those exposures, which related exclusively to the Parent, were completely negligible compared with the total size of the Group's lending assets, and were related also to business in gold with customers and to loans relating to the Corporate & Investment Banking (CIB) Division.

¹ Financial instruments associated with the "Hold to Collect" business model are held within the framework of the management model the objective of which is to collect cash flows the contractual terms of which give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and advances to customers measured at amortised cost

Asset item 40. 2) in the Reclassified Consolidated Balance Sheet

"Financial assets measured at amortised cost" are classified, in accordance with IFRS 9, within three different credit risk stages depending on the state of creditworthiness of the financial instrument as at the measurement date compared with the grant date. In detail:

- performing exposures are divided into Stage 1 (loans for which credit risk has not increased significantly since initial recognition) and Stage 2 (loans for which credit risk has increased significantly since initial recognition);
- non-performing loans (past-due exposures, unlikely-to-pay loans and bad loans) are allocated within Stage 3 (loans which present objective evidence of impairment loss).

Performance of the loan portfolio

Composition of loans and advances to customers measured at amortised cost

Figures in thousands of euro	31.12.2018					1.1.2018					Changes	
	Stages one and two	Stage three	of which purchased or originated credit-impaired	Total	%	Stages one and two	Stage three	of which purchased or originated credit-impaired (*)	Total	%	(A+B)-(C+D)	
	A	B		A+B		C	D		C+D		amount	%
Current account overdrafts	6,951,328	613,160	134,164	7,564,488	8.5%	7,678,083	863,989	131,185	8,542,072	9.4%	-977,584	-11.4%
Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loans and other medium to long-term financing	55,500,752	3,771,400	343,941	59,272,152	66.6%	56,583,871	4,617,215	316,364	61,201,086	67.3%	-1,928,934	-3.2%
Credit cards, personal loans and salary-backed loans	3,403,660	81,995	3,095	3,485,655	3.9%	3,035,985	115,238	840	3,151,223	3.4%	334,432	10.6%
Finance leases	5,203,961	819,427	58,922	6,023,388	6.8%	5,508,712	998,588	53,788	6,507,300	7.1%	-483,912	-7.4%
Factoring	2,309,088	215,404	-	2,524,492	2.8%	2,182,772	250,702	-	2,433,474	2.7%	91,018	3.7%
Other transactions	9,642,843	474,578	56,999	10,117,421	11.4%	8,543,742	602,062	19,144	9,145,804	10.1%	971,617	10.6%
Total Asset item 40. 2) in the Reclassified Consolidated Balance Sheet	83,011,632	5,975,964	597,121	88,987,596	100.0%	83,533,165	7,447,794	521,321	90,980,959	100.0%	-1,993,363	-2.2%
of which: Stage one				71,420,474	80.3%				70,549,558	77.5%	870,916	1.2%
Stage two				11,591,158	13.0%				12,983,607	14.3%	-1,392,449	-10.7%
Stage three				5,975,964	6.7%				7,447,794	8.2%	-1,471,830	-19.8%
of which: Short-term	18,903,259			20,206,401	22.7%	18,404,597			20,121,350	22.1%	85,051	0.4%
Medium to Long-term	64,108,373			68,781,195	77.3%	65,128,568			70,859,609	77.9%	-2,078,414	-2.9%

(*) Non-performing exposures resulting from the acquisition of the New Banks [Purchased or Originated Credit Impaired ("POCI")]

As at 31st December 2018 loans and advances to customers measured at amortised cost totalled €89 billion (accounting for 99.7% of the Group's total loan portfolio) and were down by €2 billion (-2.2%) during the year.

The decline in the item over the twelve months was approximately three-quarters attributable to the decrease in stage-three exposures, as a result of acceleration of the Group's efforts to reduce non-performing loan volumes in 2018.

The reduction in total non-performing loans (-€1.5 billion; -19.8%) was driven by the deconsolidation of loans as a result of the securitisation of a package of GACS-backed bad loan positions at the end of September and due to the sale of a second portfolio of bad loans consisting almost entirely of unsecured loans in December², together with the effects of internal recovery and sale of individual positions.

The performing component – which in the first quarter was supported by new loan applications with TLTRO funds – was then affected by the policy of safeguarding spreads, which became more stringent in the second half of the year, driving outstanding loans back down to the levels of the beginning of the year in the absence of new, adequately remunerated replacement loans.

As may be seen from the table, *net performing loans* classified within risk stages one and two amounted to €83 billion, down slightly on the beginning of January (-0.6%; -€521.5 million)

² See the section "Significant events in 2018" in this report for further details of these two transactions.

[-€460.6 million net of Cassa di Compensazione e Garanzia ("CCG" - a central counterparty clearing house)]³.

Regarding maturities, changes during the twelve months affected the medium to long-term component, which was down by €1 billion, amounting to €64.1 billion accounting for 77.2% of the total, and the short-term component, which was up +498.7 million (+€559.6 million net of the CCG), totalling €18.9 billion accounting for 22.8% of the total.

In lending business with longer-term maturities, the decline in "Mortgage loans and other medium to long-term loans" (-€1.1 billion) was accompanied by a decrease in leases (-€304.7 million) – where selective policies based on prudent risk allocation prevailed – that was more than offset by the uptrend in consumer credit (+€367.7 million), due in part to Prestitalia salary- and pension-backed lending.

Among forms of short-term lending, attention should be drawn to the significant increase in "Other transactions" (+€1.1 billion) – concentrated in the first quarter, in particular in international business – and a more modest increase in factoring (+€126.3 million), which more than made up for the decline in current accounts (-€726.8 million, despite a recovery in the final three months of the year).

If, on the other hand, we look at performance [IN THE FOURTH QUARTER](#), total outstanding loans measured at amortised cost (performing+non-performing) declined by €566.9 million (-0.6%), nevertheless in large part attributable to the decline in non-performing loans (-€393.2 million; -6.2%).

Net performing loans remained stable (-€173.7 million; -0.2%), due in part to a decrease in business with the CCG (-€154.3 million)⁴, by nature subject to a certain degree of variability over the year.

From the viewpoint of type of lending, medium to long-term loans declined by €907.1 million – due in part to the performance of investments by companies and the general economic situation – relating in particular to "Mortgage loans and other medium to long-term loans" (-€904.9 million), which incorporated repayments of loans supported by TLTRO funding of €0.5 billion. Furthermore, because the financial reporting figures relate to the end-of-period positions, they do not reflect the real performance of business with customers. On the basis of management accounting figures, the average balances of interest-bearing gross loans (i.e., excluding bad loans) were essentially stable for medium to long-term positions (-€0.3 billion for the quarter; -0.5%).

The €55.5 billion of mortgages and other performing medium to long-term financing outstanding at the end of December were composed, on the basis of management accounting figures, of residential mortgages totalling €24.8 billion, of which €23.5 billion granted to consumer households and approximately €1.3 billion to businesses, down slightly compared with the September figures (€25.1 billion, of which €23.8 billion granted to consumer households and €1.3 billion to businesses). If stage-three positions are also included, mortgages totalled €26.3 billion, of which €24.6 billion granted to consumer households and €1.7 billion to businesses (€26.6 billion in September, of which €24.8 billion to consumer households and €1.8 billion to businesses).

On the other hand, shorter term loans increased by €733.4 million in the last quarter – although this growth has yet to be reflected in the management accounting figures at the level of average volumes – primarily as a result of factoring business (+€506.8 million) and current accounts (+€120.5 million).

In consideration of the trend for the relative two aggregates, the [loan to deposit ratio](#) stood at 96.5%, compared with 96.3% at the beginning of the year (95.3% at the end of September 2018).

As may be seen from the table, which in management accounting figures gives the [distribution of loans by economic sector and ATECO code](#) (economic sector – Bank of Italy classification) of consolidated loans at amortised cost, considered gross of impairment losses, as at 31st December 2018 91.5% of outstanding loans continued to be to manufacturing and service companies and households, which confirms the traditional attention paid by the Group to local communities.

³ Exposure to the CCG as at 31st December 2018 totalled €79.3 million, relating totally to margin deposits required to guarantee repurchase agreements on Italian government securities, in relation to changes in the average volumes of business (€140.2 million at the beginning of January 2018).

⁴ As at 30th September 2018 exposures to the CCG amounted to €233.6 million, of which €172.7 million related to margin deposits and €60.9 million to repurchase agreements.

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

	Total	31.12.2018	
		of which non-performing	of which bad loans
Manufacturing and service companies (non-financial companies and producer households)	54.5%	7.8%	4.1%
<i>of which: manufacturing activities:</i>	14.7%	1.1%	0.6%
- Metallurgy, fabrication of metal products and processing of non-metallic minerals	4.1%	0.4%	0.2%
- Foodstuff, beverage and tobacco industries	1.9%	0.1%	0.1%
- Fabrication of machinery	1.7%	0.1%	0.1%
- Fabrication of oil refinery, chemical and pharmaceutical products	1.4%	0.0%	0.0%
- Textile industries, tailoring of articles in leather and fur, fabrication of articles in leather and similar	1.2%	0.2%	0.1%
- Fabrication of articles in rubber and plastic	1.0%	0.0%	0.0%
- Fabrication of electronic products, electrical and non-electrical equipment	0.9%	0.1%	0.0%
- Timber industry and fabrication of furniture	0.8%	0.1%	0.1%
- Fabrication of motor vehicles, trailers, semitrailers and other means of transport	0.7%	0.1%	0.0%
- Fabrication of paper and paper products, printing and reproduction of recorded media	0.5%	0.0%	0.0%
- Other manufacturing industries	0.5%	0.0%	0.0%
<i>Real estate activities</i>	9.1%	2.1%	0.9%
<i>Wholesale and retail commerce, repair of motor vehicles and motorcycles</i>	8.3%	0.8%	0.6%
<i>Constructions</i>	6.2%	2.3%	1.2%
<i>Professional, scientific and technical activities</i>	3.3%	0.2%	0.1%
<i>Supply of electricity, gas, steam and air conditioning</i>	2.4%	0.1%	0.0%
<i>Transport and warehousing</i>	2.2%	0.2%	0.1%
<i>Accommodation and catering services</i>	1.9%	0.4%	0.2%
<i>Agriculture, forestry and fishing</i>	1.9%	0.3%	0.2%
<i>Hire, travel agency, business support services</i>	1.3%	0.1%	0.1%
<i>Information and communication services</i>	1.0%	0.1%	0.0%
<i>Water supply; sewerage, waste management and cleanup activities</i>	0.7%	0.0%	0.0%
<i>Financial and insurance activities</i>	0.3%	0.0%	0.0%
<i>Extraction of minerals from quarries and mines</i>	0.1%	0.0%	0.0%
<i>Residual activities</i>	1.1%	0.1%	0.1%
Consumer households	37.1%	2.9%	1.7%
Financial companies	3.7%	0.2%	0.1%
Public administrations	1.2%	0.0%	0.0%
Other (not-for-profit institutions and the rest of the world)	3.5%	0.2%	0.2%
Total	100.0%		

Source: management accounting database (ICAAP).

Total gross lending with ATECO codes (€93.22 billion as at 31st December 2018). The amount does not include the book restatement in accordance with IFRS 3 of the gross non-performing loans of the New Banks.

Turning, finally, to **financial guarantees issued**, which are subject to the impairment rules set out in IFRS 9, at year-end they amounted to €5.90 billion, 80% of which had been granted to non-financial companies. Of these, €5.75 billion were classified to stages one and two.

Loan concentration⁵

In terms of **concentration**, the end of the year figure shows a slight increase compared with the comparative periods, since it incorporates, on the one hand, the increase in draw-downs by certain counterparties near year-end and, on the other, the effect of the parallel contraction in total gross loans. However, the levels are still low, which confirms the constant attention paid by the Group to this important qualitative aspect of the portfolio.

Concentration of risk

(largest customers or groups as a percentage of total gross loans, unsecured guarantees and securities - management accounting figures)

Customers or Groups	31.12.2018	30.9.2018	30.6.2018	31.3.2018	31.12.2017 IAS 39
Largest 10	4.4%	4.1%	4.1%	3.9%	3.7%
Largest 20	7.2%	6.6%	6.7%	6.3%	6.1%
Largest 30	9.1%	8.3%	8.4%	7.9%	7.8%
Largest 40	10.5%	9.7%	9.8%	9.2%	9.1%
Largest 50	11.7%	10.7%	10.8%	10.2%	10.0%

⁵ Concentration, large exposures and the breakdown of loans and advances to customers by geographical area are defined as relating to the total loan portfolio of the Group consisting of the sum of loans to customers classified within "Financial assets measured at amortised cost" and those classified within "Financial assets measured at fair value", even if the unit and overall size of the latter are not sufficient to affect the results of the measurements.

With regard to “*large exposures*”, the December 2018 ⁶, supervisory reports showed five positions equal to or greater than 10% of the qualifying capital for a total of €26.84 billion. In detail:

Large exposures

Figures in thousands of euro	31.12.2018	30.9.2018	30.6.2018	31.3.2018	31.12.2017
Number of positions	5	6	4	5	4
Exposure	26,838,238	28,396,152	24,680,875	24,638,040	24,630,887
Risk positions	580,838	548,492	519,450	437,035	474,455

- €14.92 billion relates to the Ministry of the Economy and Finance mainly for investments in government securities by the Parent and the remaining amount relates to current and deferred tax assets (€14.7 billion in September; €14.3 billion in June; €14.77 billion in March; and €15.99 billion in December 2017);
- €8.3 billion of liquidity deposited with the Bank of Italy (€8.7 billion; €7.8 billion; €6.09 billion; and €6 billion);
- €1.56 billion relates to investments in securities issued by the United States Treasury (€1.5 billion; €1.5 billion; €1.37 billion; and €1.42 billion);
- €1.11 billion to business with a major banking counterparty for repurchase agreements; the figure was €1.1 billion in September and June, €1.03 billion in March and €1.22 billion at the end of 2017;
- €0.95 billion relates to investments in Spanish government securities (approximately €1 billion in September; €1.37 billion in March);

In addition to those indicated above, in September an exposure of €1.4 billion relating to business with the CCG was reported.

In consideration, amongst other things, of the predominant application of a zero weighting factor for transactions with the government, the actual risk position of the Group after weightings are only three actual risk positions for the Group existed, after weightings, for an amount of €0.58 billion, mainly attributable to the banking counterparty mentioned. The percentage of the qualifying capital is largely below the limit of 25% set for banking groups for each of the exposures reported.

A summary of the *geographical distribution* of loans in Italy is given in the table “geographical distribution of loans to customers by residency of the counterparty”.

Overall, at the end of the year the bulk of the Group's loan portfolio continued to be attributable to borrowers based in the northern regions of Italy (67.4% of the total), and in the North West in particular (59.5%), although the acquisition of the New Banks contributed to an increase in the weight of loans to the central regions of Italy to 20.4%⁷.

Geographical distribution of loans to customers by the counterparty's region of residence ^(*)

Percentage of total	31.12.2018
Lombardy	50.63%
Latium	9.79%
Marches	7.16%
Piedmont	6.53%
Emilia Romagna	4.17%
Campania	3.38%
Veneto	2.61%
Apulia	2.37%
Liguria	2.24%
Tuscany	2.15%
Abruzzo	1.94%
Calabria	1.57%
Umbria	1.29%
Friuli Venezia Giulia	0.57%
Trentino Alto Adige	0.52%
Sardinia	0.50%
Sicily	0.50%
Basilicata	0.40%
Molise	0.21%
Valle d'Aosta	0.10%
Abroad	1.37%
Total	100.00%
North	67.4%
- North West	59.5%
- North East	7.9%
Central	20.4%
South	10.8%
Abroad	1.4%

(*) Performing loans, excluding bad loans, relating to the banking perimeter only.

⁶ Prepared, as in the previous cases, in accordance with the Basel 3 rules in effect from 1st January 2014: Bank of Italy Circulars No. 285 and No. 286 of 17th December 2013 and subsequent updates.

⁷ 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 for⁸. 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 billion⁹ 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 2021¹⁰.

As at 31st December 2018, loans to customers drawing on such funds presented a residual outstanding balance of €9.4 billion (€9.9 billion in September; €9.5 billion at the beginning of 2018).

Credit Risk

The entry into force of international reporting standard IFRS 9 determined a revision of the procedures used for calculating impairment losses on loans, with a changeover from the concept of incurred credit loss to one of expected credit loss (ECL). The standard requires a different way of calculating impairment (ECL) based on deterioration of credit quality as follows: 1-year ECL for positions classified within the stage 1 and lifetime ECL of an instrument for those included within stages 2 and 3. Estimates of ECL involve the inclusion of forward-looking scenarios and, in relation to portfolios to be sold, it reflects not only recovery through the ordinary management of loans, but also the presence of a “sales scenario” consistent with the Group's goals for the reduction of its outstanding non-performing loans.

During the year the Group achieved a significant reduction of its outstanding non-performing loans, which at the end of December fell in gross terms well below the threshold of €10 billion, to near the target level set for the end of 2019 in the NPL Plan presented in 2018.

The Group's total *gross non-performing loans* declined to €9.7 billion, a reduction of €2.7 billion over the twelve months (-21.7%) due to the sales concluded but also to the favourable results of the internal recovery efforts undertaken by the Group. As a percentage of total loans they thus fell from 12.85% to 10.42%.

The annual change in the item related above all to bad loan positions (-€1.9 billion), primarily as a result of the deconsolidation at the end of September of securitised bad loans and then at the end of December of a second portfolio of bad loans, consisting almost exclusively of unsecured positions.

During the year, in addition to the above large-scale disposals of bad loan portfolios, additional bad loan positions, primarily of an unsecured nature, were also sold, with a gross value, in management accounting terms, of €149 million (including over €50 million attributable to Prestitalia).

Similarly, although to a more contained extent, unlikely-to-pay loans also declined (-€687.5 million) as a consequence not only of good results from internal management of credit recovery, but also following the disposals carried out during the year for a gross amount of €238 million in management accounting terms.

To complete the information we report that past due exposures were down by €92.3 million.

The trends and driving factors described above were also confirmed in the fourth quarter: the decline was €774.9 million, of which -€381.7 million was due to bad loan positions (which benefited from large-scale disposals in December, in addition to disposals of individual positions for a gross amount of €24.4 million in management accounting terms), -€363.2 million to unlikely-to-pay loans (€103 million of gross sales during the period in management accounting terms) and -€30 million to past due exposures.

⁸ As communicated by the Bank of Italy. In terms of management accounting figures, in the second quarter of 2018 the amount of TLTRO II funds declined to €12.4 billion. The decrease in debt should be viewed within the framework of Decision (EU) 2016/810 of the European Central Bank, which establishes the final interest rates to be applied to the amounts awarded to counterparties in each TLTRO II auction. The Bank of Italy began to communicate the above rates to participating counterparties on 5th June 2018. In the case of the UBI Banca Group, the communication in question indicates the application of a negative rate of -0.40%, which resulted in a reduction in the debt contracted through the auction.

⁹ 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.

¹⁰ The total funds acquired in the four operations by intermediaries in the euro area amounted 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 awarded a total of €241 billion (€128 billion net).

Loans and advances to customers measured at amortised cost as at 31st December 2018 ^(*)

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures (Stage three)	(10.42%)	9,716,770	3,740,806	(6.72%)	5,975,964	38.50%
- Bad loans	(5.81%)	5,423,214	2,655,439	(3.11%)	2,767,775	48.96%
- Unlikely-to-pay loans	(4.53%)	4,222,577	1,078,162	(3.53%)	3,144,415	25.53%
- Past-due loans	(0.08%)	70,979	7,205	(0.08%)	63,774	10.15%
Performing loans (stages one and two)	(89.58%)	83,562,023	550,391	(93.28%)	83,011,632	0.66%
Total		93,278,793	4,291,197		88,987,596	4.60%

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

Loans and advances to customers measured at amortised cost as at 1st January 2018

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures (Stage three)	(12.85%)	12,413,612	4,965,818	(8.19%)	7,447,794	40.00%
- Bad loans	(7.60%)	7,340,234	3,821,113	(3.87%)	3,519,121	52.06%
- Unlikely-to-pay loans	(5.08%)	4,910,074	1,129,026	(4.16%)	3,781,048	22.99%
- Past-due loans	(0.17%)	163,304	15,679	(0.16%)	147,625	9.60%
Performing loans (stages one and two)	(87.15%)	84,175,509	642,344	(91.81%)	83,533,165	0.76%
Total		96,589,121	5,608,162		90,980,959	5.81%

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

(*) The final PPA to the New Banks' non-performing loans gave rise in 2018 to a positive reversal of €74.8 million (€19.3 million in the fourth quarter, €18.6 million in the third quarter; €18.9 million in the second quarter; and €18 million in the first quarter).

(**) The coverage ratio 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. Loan write-offs relating to creditor legal actions still in progress (corresponding to the cumulative amount of write-offs on financial assets still recognised in the accounts) amounted to €1.35 billion as at 31st December 2018 (of which €0.94 billion relating to partial write-offs), down compared with the beginning of 2018, as a result primarily of the securitisation of bad loans that took place in the third quarter and the further sale in December 2018, but up on September.
When adjusted to take account of loan write-offs relating to creditor legal actions still in progress, the coverage ratio for total non-performing loans was 46.01% (45.55% at the end of September; 49.54% at the beginning of 2018), while the ratio for bad loans was 59.14% (59.43%; 63.67%).

Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures in 2018

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2018	7,340,234	4,910,074	163,304	12,413,612
Increases	1,325,252	1,194,383	59,599	2,579,234
inflows from performing exposures	268,997	913,438	57,469	1,239,904
transfers from other classes of non-performing exposures	805,887	67,663	1,129	874,679
other increases	250,368	213,282	1,001	464,651
Decreases	-3,242,272	-1,881,880	-151,924	-5,276,076
outflows to performing loans	-5,142	-359,400	-34,634	-399,176
write-offs (*)	-704,740	-75,003	-44	-779,787
payments received	-433,469	-426,627	-23,752	-883,848
disposals	-710,976	-130,384	-	-841,360
losses from disposals	-24,746	-29,883	-	-54,629
transfers to other classes of non-performing exposures	-8,723	-772,520	-93,437	-874,680
other decreases	-1,354,476	-88,063	-57	-1,442,596
Final gross exposure as at 31st December 2018	5,423,214	4,222,577	70,979	9,716,770

The table was prepared in accordance with the provisions of the "Communication of 30th October 2018" (addendum letter) published by the Bank of Italy. In keeping with the disclosure in the Notes to the Consolidated Financial Statements, only transfers between risk stages/non-performing categories that occurred between the beginning of the financial year and the reporting date are presented, without any indication of any interim transfers.

(*) 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.

The table "Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures in 2018" – prepared in accordance with the provisions of the "Communication of 30th October 2018" (addendum letter) published by the Bank of Italy – shows new inflows from performing status of €1.2 billion, around three quarters of which attributable to unlikely-to-pay loans. The bad loans are primarily driven by transfers from other categories of non-performing exposures, essentially unlikely-to-pay loans, against more modest inflows from performing status of €269 million.

It should also be considered that of these, only €76.8 million refer to direct reclassifications from performing to bad loans, since the remainder (€192.2 million) consists of inflows from performing to unlikely-to-pay and/or to exposures past due, only subsequently classified as bad loans in the course of the year.

It is underlined that reductions include outflows to non-performing exposures which reached almost €400 million and receipts amounting to €884 million, while write-offs and profits on sales amounted to €780 million and €841 million respectively, incorporating the effects of disposals of non-performing loans carried out during the year.

Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures at the quarterly level in 2018

Figures in thousands of euro	1st Quarter 2018	2nd Quarter 2018	3rd Quarter 2018	4th Quarter 2018	Total	Addendum letter reclassifications	Total 31st December
Initial gross exposure at beginning of period	12,413,612	12,378,749	12,008,425	10,491,621	12,413,612	-	12,413,612
Increases	902,505	792,302	773,991	744,608	3,213,406	-634,172	2,579,234
inflows from performing exposures	390,350	313,332	312,938	289,209	1,305,829	-65,925	1,239,904
transfers from other classes of non-performing exposures	239,856	242,930	297,443	315,642	1,095,871	-221,192	874,679
other increases	272,299	236,040	163,610	139,757	811,706	-347,055	464,651
Decreases	-937,368	-1,162,626	-2,290,795	-1,519,459	-5,910,248	634,172	-5,276,076
outflows to performing loans	-95,170	-118,799	-82,733	-165,492	-462,194	63,018	-399,176
write-offs (*)	-183,359	-325,929	-934,886	-611,575	-2,055,749	1,275,962	-779,787
payments received	-391,543	-385,201	-294,125	-315,528	-1,386,397	502,549	-883,848
disposals	-15,748	-65,642	-660,363	-96,435	-838,188	-3,172	-841,360
losses from disposals	-1,051	-20,253	-17,928	-12,183	-51,415	-3,214	-54,629
transfers to other classes of non-performing exposures	-239,856	-242,930	-297,443	-315,642	-1,095,871	221,191	-874,680
other decreases	-10,641	-3,872	-3,317	-2,604	-20,434	-1,422,162	-1,442,596
Total gross exposure at end of period	12,378,749	12,008,425	10,491,621	9,716,770	9,716,770	-	9,716,770

This table has been prepared solely for the purposes of reconciliation between the disclosure published in the course of the year and that relating to the fourth quarter reconstructed in consistent, comparable terms, and the situation shown in the table "Loans to customers measured at amortised cost: changes in gross non-performing exposures in 2018", inasmuch as the latter was prepared in accordance with the rules provided by the Bank of Italy in its Communication of 30th October 2018 (addendum letter). The above rules resulted in a change in the reporting structure for transfers between risk stages/non-performing categories and the recognition of write-offs and gains/losses on disposal. Accordingly, this table cannot and must not be considered an alternative performance measure as defined in the Guidelines (ESMA/2015/1415) of 5th October 2015.

(*) 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.

The table "Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures at the quarterly level in 2018" confirms the progressive decline in net *inflows* directly from performing status, which fell to €289 million in the fourth quarter (€390 million in the first quarter and €313 million in the second and third quarters), with an annualised *default rate*¹¹ that fell to 1.38% (1.85% in the first quarter and 1.48% in the two subsequent quarters). Calculated in reference to the entire year, the default rate amounted to 1.55%, near the 2020 target of approximately 1.4% stated in the Business Plan.

Among the declines, receipts – while amounting to lower levels than in the first two quarters – improved from October to December compared to the previous period. Consequently the *recovery rate*¹² on total gross non-performing loans amounted to an annualised 11.2% (a recovery rate of 6.5% on bad loans), an improvement of two percentage points on the annualised 9.2% in the third quarter (5.8% for bad loans). The average recovery rate for 2018 was 8.9% (5.2% for bad loans).

Outflows to performing status doubled compared to the third quarter, whereas in the third and fourth quarters write-offs and profits on disposals incorporated the effects of the two sales of bad loans concluded in September and December.

The decline in gross amounts allowed *net non-performing loans* to fall just below €6 billion, marking an annual decline of €1.5 billion (-19.8%).

The result was almost entirely due to bad loans (-€751.3 million) and unlikely-to-pay loans (-€636.6 million) – due in part to the aforementioned sales concluded during the year – and only to a residual extent to exposures past due and/or in arrears (-€83.9 million).

The change in the item over the three months (-€393.2 million) was primarily driven by unlikely-to-pay positions (-€289.6 million) and, to a lesser extent, to bad loans (-€76.7 million, of which €27.6 million attributable to the portfolio disposal in December), together with exposures past due and/or in arrears (-€26.9 million).

¹¹ The indicator is calculated according to the following ratio: annualised gross movements from performing to non-performing exposures/initial balances of gross performing loans.

¹² The indicator is calculated according to the following ratio: receipts/(balance of gross non-performing loans at the beginning of the period + increases).

The percentage of net non-performing loans fell as a result to 6.72% from 8.19% as at 1st January 2018.

In terms of types of loan, the table “Composition of loans to customers measured at amortised cost”, shows that net non-performing loans (stage three) are mainly concentrated in the item “mortgage loans and other medium to long-term loans”, backed moreover by collateral and with prudential loan to value (LTV) ratios, which results automatically in a lower level of coverage.

As a result of the reduction in total non-performing loans, the Texas Ratio¹³, which measures the ratio of net non-performing loans to tangible equity, fell to 84.7%¹⁴ at the end of December (90.6% in September, 100.4% in June), below the target for the end of 2020 set in the Business Plan.

The reduction in non-performing loans – attributable above all to the disposals undertaken in the twelve months, mostly characterised by impairment levels above the average for the category – was accompanied by a limited decline in the coverage ratio due in part to significant write-offs on the positions sold, which together with the impairment losses recognised, contributed to determining the effective level of impairment of non-performing loans.

Coverage for non-performing exposures amounted to 38.50%, compared with 40% at the beginning of 2018 and 39.29% in September (coverage of 46.01% at year-end recalculated to reflect the loan write-offs relating to creditor legal actions still in progress, compared with 49.54% at the beginning of 2018 and 45.55% in September).

It should also be noted that the coverage ratio must always be interpreted in close relation to the high percentage of positions backed by collateral which characterises loans granted by the Group.

As concerns *bad loans* in particular, the level of coverage for these fell from 52.06% to 48.96%¹⁵ (51% at the end of September) .

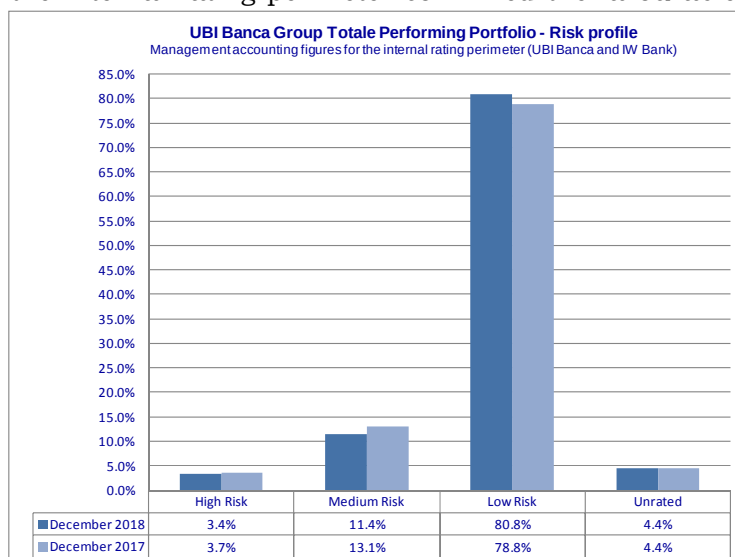
The coverage ratio for unlikely-to-pay loans increased from 22.99% to 25.53% (25.12% at the end of September). This trend reflects primarily growth in write-downs connected with the rigorous policy pursued by the Group to manage credit risk, even while making disposals during the year of positions written down greater than the average.

With regard to *performing loans*, the distribution between stages one and two shows 86% in stage one, slightly up compared with 84.5% as at 1st January 2018.

Moreover, management data relating the internal rating perimeter confirmed the favourable risk profile of the Group’s performing portfolio, with the highest risk classes accounting for 3.4% of the total and the lower classes for over 80%.

Total coverage amounted to 0.66%, down from 0.76% at the beginning of the year (which had benefited from the losses recognised upon FTA in application of the former IFRS 9 impairment model), primarily due to the release, in the first quarter, of collective impairment losses deriving from the adoption of the model change.

On the other hand, coverage improved slightly on September (0.64%), the combined result of the trend for the total loans, against increased impairment losses following the lengthening of the historical data series.



¹³ This indicator is calculated according to the following ratio: total net non-performing loans/[shareholders’ equity attributable to shareholders of the Parent (exclusive of profit/inclusive of loss for the period) + minority interests – total intangible assets].

¹⁴ 85.3% if calculated excluding non-controlling interests.

¹⁵ If loan write-offs were considered (related to creditor legal actions still ongoing), coverage for bad loans as at 31st December would have been 59.14% (63.67% in January, 59.43% in September).

As may be seen from the specific tables below, *forborne exposures* declined to €5.6 billion in gross terms (-€420.1 million since January; -€113.8 million since September) and €4.5 billion in net terms (-€449.5 million; -€122.4 million).

The performance for the item over twelve months was driven almost equally both by performing and non-performing exposures, due in part also, in the case of the latter, to the significant positions disposed of in the second and fourth quarters.

As already reported, the performance of the item and its composition are also affected by the forbearance regulations¹⁶ 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 ("probation period") before a position can be released from its forborne status and therefore be eliminated from the category in supervisory reports.

Forborne exposures measured at amortised cost as at 31st December 2018 (Forbearance)

Forborne exposures are composed of one of the categories of non-performing loans (stage 3) and of performing loans (stages 1 and 2) reported in the table "Composition of loans and advances to customers measured at amortised cost".

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	(61.22%)	3,416,221	961,805	(54.38%)	2,454,416	28.15%
- Bad loans	(18.07%)	1,008,364	401,239	(13.45%)	607,125	39.79%
- Unlikely-to-pay loans	(42.99%)	2,399,013	559,735	(40.75%)	1,839,278	23.33%
- Past-due loans	(0.16%)	8,844	831	(0.18%)	8,013	9.40%
Performing loans	(38.78%)	2,163,839	104,945	(45.62%)	2,058,894	4.85%
Total		5,580,060	1,066,750		4,513,310	19.12%

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

Forborne exposures measured at amortised cost as at 1st January 2018 (Forbearance)

Forborne exposures are composed of one of the categories of non-performing loans (stage 3) and of performing loans (stages 1 and 2) reported in the table "Composition of loans and advances to customers measured at amortised cost".

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	(60.33%)	3,619,673	934,244	(54.11%)	2,685,429	25.81%
- Bad loans	(15.29%)	917,293	370,365	(11.02%)	546,928	40.38%
- Unlikely-to-pay loans	(44.69%)	2,681,597	561,367	(42.72%)	2,120,230	20.93%
- Past-due loans	(0.35%)	20,783	2,512	(0.37%)	18,271	12.09%
Performing loans	(39.67%)	2,380,488	103,074	(45.89%)	2,277,414	4.33%
Total		6,000,161	1,037,318		4,962,843	17.29%

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

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

¹⁶ 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 contractual terms and conditions in order to allow the debtor to honour the debt or to refinance it, either fully or partially.

The interbank market and the liquidity position

The figures as at 31st December 2018, which include the effect of adoption of the accounting standard IFRS 9, are compared with those as at 1st January 2018. The section entitled "Transition to the new financial reporting standards IFRS 9 and IFRS 15" in this document may be consulted for details of the reconciliation of figures as at 31st December 2017 and those resulting from first-time adoption of the new standards as at 1st January 2018.

As at 31st December 2018 the UBI Banca Group's **net interbank position** amounted to net borrowings of €7.2 billion, compared with net borrowings of €6.4 billion in September and of €8.9 billion as at 1st January. Excluding business with the ECB – which remains the most significant counterparty – the balance (net borrowings of €3 billion) was up slightly on both comparative periods (net borrowings of €2.6 billion in September and €2.3 billion as at 1st January), reflecting the increased volumes of repurchase agreements that characterised the fourth quarter.

Net interbank position

Figures in thousands of euro	31.12.2018	30.9.2018	30.6.2018	31.3.2018	1.1.2018
Loans and advances to banks measured at fair value through profit or loss [Asset item 20. 1) in the Reclassified Consolidated Balance Sheet]	14,054	13,444	14,796	14,900	14,755
Loans and advances to banks measured at amortised cost [Asset item 40. 1) in the Reclassified Consolidated Balance Sheet]	10,065,772	10,248,127	9,513,708	8,142,802	7,814,815
Loans and advances to banks	10,079,826	10,261,571	9,528,504	8,157,702	7,829,570
of which: Loans and advances to central banks	8,204,801	8,614,687	7,660,634	5,992,469	5,799,045
Due to banks measured at amortised cost [Asset item 10. a) in the Reclassified Consolidated Balance Sheet]	17,234,579	16,678,273	16,607,300	17,308,468	16,733,006
of which: Due to central banks	12,380,250	12,461,504	12,474,154	12,486,468	12,428,723
Net interbank position	-7,154,753	-6,416,702	-7,078,796	-9,150,766	-8,903,436
Loans and advances excluding central banks	1,875,025	1,646,884	1,867,870	2,165,233	2,030,525
Due to banks excluding central banks	4,854,329	4,216,769	4,133,146	4,822,000	4,304,283
Net interbank position net of central banks	-2,979,304	-2,569,885	-2,265,276	-2,656,767	-2,273,758

The Group continues to maintain a more than positive position in terms of liquidity buffers, also proven, by levels well above 100% for both the specific short-term (**Liquidity Coverage Ratio**) and structural (**Net Stable Funding Ratio**) as envisaged by Basel 3 indicators.

This latter indicator would still be greater than one even in the presence of an ordinary funding structure not based on TLTRO II support.

Loans and advances to banks, which relate solely to stages one and two, rose to €10.1 billion from €7.8 billion at the beginning of the year. The table presenting quarterly changes in the net interbank position shows the presence of marginal exposures recognised at fair value through profit or loss (these relate exclusively to business in gold with banking counterparties, which remained essentially stable over the year), while the majority of this item continues to consist of exposures measured at amortised cost.

The table giving details of loans to banks measured at amortised cost shows the following:

- "loans and advances to central banks" increased by €2.4 billion from €8.2 billion, of which €0.7 billion relate to the compulsory reserve requirement and €7.5 billion to reserves freely available, having risen during the year partly as result of liquidity generated by sales of securities from the Parent's portfolio;
- "current accounts and sight deposits", amounting to €744 million, fell to a measured extent compared with January (-€76 million approx.). The item includes deposits relating to ordinary interbank business as well those connected with margin deposits on derivatives held with international

- counterparties;
- “term deposits” amounting to €10.9 million which continued to represent a marginal and progressively declining share of the item (-€9 million over twelve months);
- “financing - other” amounting to €1.1 billion (-€70 million) which is used partly to recognise credit exposure to banks linked to industrial and/or financial groups that operate in the consumer credit sector and partly for international business with foreign counterparties used to support commercial transactions with customers;

Composition of loans and advances to banks measured at amortised cost

Figures in thousands of euro	31.12.2018			1.1.2018			Changes	
	Stages one and two	Total	%	Stages one and two	Total	%	amount	%
A. Loans and advances to central banks	8,204,801	8,204,801	81.5%	5,799,045	5,799,045	74.2%	2,405,756	41.5%
2. Compulsory reserve requirement	8,204,801	8,204,801	81.5%	5,799,045	5,799,045	74.2%	2,405,756	41.5%
B. Loans and advances to banks	1,860,971	1,860,971	18.5%	2,015,770	2,015,770	25.8%	-154,799	-7.7%
1. Financing	1,860,971	1,860,971	18.5%	2,015,770	2,015,770	25.8%	-154,799	-7.7%
1.1 Current accounts and sight deposits	744,727	744,727	7.4%	820,537	820,537	10.5%	-75,810	-9.2%
1.2 Term deposits	10,869	10,869	0.1%	19,827	19,827	0.3%	-8,958	-45.2%
1.3 Other financing:	1,105,375	1,105,375	11.0%	1,175,406	1,175,406	15.0%	-70,031	-6.0%
- Reverse repurchase agreements	12	12	0.0%	10,323	10,323	0.1%	-10,311	-99.9%
- Other	1,105,363	1,105,363	11.0%	1,165,083	1,165,083	14.9%	-59,720	-5.1%
Total Asset item 40. 1) in the Reclassified Consolidated Balance Sheet	10,065,772	10,065,772	100.0%	7,814,815	7,814,815	100.0%	2,250,957	28.8%

No positions classified in stage three existed as at 31st December 2018 or 1st January 2018, nor were there any purchased or originated credit impaired positions relating to stages one, two and three.

Interbank funding amounted to €17.2 billion, up by €501.6 million, essentially reflecting the performance in the latter part of the year.

Composition of amounts due to banks measured at amortised cost

Figures in thousands of euro	31.12.2018		1.1.2018		Changes	
		%		%	amount	%
1. Due to central banks	12,380,250	71.8%	12,428,723	74.3%	-48,473	-0.4%
2. Due to banks	4,854,329	28.2%	4,304,283	25.7%	550,046	12.8%
2.1 Current accounts and sight deposits	715,782	4.2%	1,023,954	6.1%	-308,172	-30.1%
2.2 Term deposits	84,618	0.5%	62,532	0.4%	22,086	35.3%
2.3 Financing:	3,998,518	23.2%	3,156,438	18.9%	842,080	26.7%
2.3.1 Repurchase agreements	2,460,728	14.3%	1,665,484	10.0%	795,244	47.7%
2.3.2 Other	1,537,790	8.9%	1,490,954	8.9%	46,836	3.1%
2.5 Other payables	55,411	0.3%	61,359	0.3%	-5,948	-9.7%
Total Asset item 10. a) in the Reclassified Consolidated Balance Sheet	17,234,579	100.0%	16,733,006	100.0%	501,573	3.0%

The main form of funding, amounting to €12.5 billion nominal¹ consisted of **unconventional refinancing operations with the ECB**, TLTRO-II (targeted refinancing operations designed to expand lending to businesses and households). UBI Banca was allotted €10 billion nominal of funds with value date 29th June 2016 (maturity June 2020) and a further €2.5 billion nominal with value date 29th March 2017 (maturity March 2021).

Net of that source of funding, **amounts due to banks** amounted to €4.85 billion, of which:

- €800 million (€1.1 billion as at 1st January), represented by current accounts and deposits, showing the natural volatility inherent in ordinary business;
- €2.5 billion of repurchase agreements, up €795 million compared to the beginning of the year. These consist of financing transactions with institutional market counterparties for investments above all in US Treasuries, but also, albeit to a lesser extent, in other foreign government bonds.

¹ The balance recognised in the accounts shown in the table is inclusive of interest expense accruing.

The increase, concentrated in the fourth quarter, was correlated essentially with the new transactions with the self-retained issuances within the Covered Bond Programme as their underlying;

- €1.5 billion of “financing – other”, consisting almost entirely of loans with the EIB, i.e. medium to long-term funding transactions with the European Investment Bank for investments designed to support SMEs. These loans, €1.3 billion of which was attributable to the Parent and the remainder to UBI Leasing, were up by approximately €47 million during the year, driven in part by new lending, which in the case of UBI Banca alone totalled €340 million (€130 million in the fourth quarter) and more than offset the amortisation during the period;
- €55 million of other payables (€61 million in January), consisting of funds amounting to €48 million relating to credit card settlement arrangements with Nexi (formerly Istituto Centrale Banche Popolari). This item was down slightly compared with the beginning of the year, when the balance relating to Nexi stood at €50 million.

* * *

Available liquidity reserve

Management accounting figures in millions of euro - net of haircuts	31.12.2018	%	1.1.2018 ^(*)	%	Changes amount	%
ECB pool (a)	18,659	61.3%	19,692	63.1%	-1,033	-5.2%
of which government securities	5,025	16.5%	5,225	16.7%	-200	-3.8%
of which Italian government securities	4,183	13.7%	4,856	15.6%	-673	-13.9%
Liquid securities not included in the ECB pool (b)	2,483	8.2%	4,937	15.8%	-2,454	-49.7%
of which government securities	2,483	8.2%	4,937	15.8%	-2,454	-49.7%
of which Italian government securities	2,303	7.6%	3,910	12.5%	-1,607	-41.1%
Government securities refinanced (c)	1,769	5.8%	1,379	4.4%	390	28.3%
of which Italian government securities	193	0.6%	-	-	193	-
Assets eligible for refinancing ^(**) (a)+(b)+(c)	22,911	75.3%	26,008	83.3%	-3,097	-11.9%
Liquid part of compulsory reserve	7,522	24.7%	5,200	16.7%	2,322	44.7%
Total liquidity reserve	30,433	100.0%	31,208	100.0%	-775	-2.5%
ECB auctions (portion pledged) ^(***)	-12,381	-40.7%	-12,500	-40.1%	-119	-1.0%
Government securities refinanced	-1,769	-5.8%	-1,379	-4.4%	390	28.3%
Available liquidity reserve	16,283	53.5%	17,329	55.5%	-1,046	-6.0%

^(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

^(**) The composition of assets eligible for refinancing by type is given in the table “Assets eligible: composition by type of underlying assets”.

^(***) The application of a negative rate of -0.40% resulted in a decrease in the debt contracted at auction for the purposes of calculating the liquidity reserve. The decline in debt should be viewed within the framework of Decision (EU) 2016/810 of the European Central Bank, which established that final interest rates applied to the amounts allotted to counterparties in each auction of the second series of longer-term refinancing operations (TLTRO II) are determined according to specific calculation procedures and notified to the participating counterparties from 5th June 2018.

As at 31st December the Group's [liquidity reserve](#)², net of haircuts, amounted to €30.43 billion, marking a decrease of €775 million in the course of the year (€324 million in the fourth quarter). The composition was as follows:

- €18.6 billion of assets pledged to the ECB pool as collateral to secure access to the TLTRO II programme: despite the progressive increase in ABACO loans, the decline over twelve months (-€1.03 billion) was essentially attributable to the self-retained covered bond segment, following the derecognition in the first quarter of an issuance of €1 billion nominal (€0.86 billion net of haircuts), issued under the first residential mortgage loan programme, in addition to the effects of the movements that occurred in the fourth quarter (in this respect, see the comment on the following table regarding the composition of eligible assets);
- €2.5 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, which were almost halved during the year as a result of the disposals undertaken within the framework of financial portfolio management. The trend was reversed in the fourth quarter (+€751 million) due to the increased weight of Italian government bonds, originating mainly from the pool;
- approximately €1.8 billion of government securities refinanced by means of repurchase agreements, with US Treasuries as the underlying for 85% of them and Italian government and corporate

² 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.

securities for the remainder. On the whole, the year saw an increase of €390 million. During the October-December period, there was a decline (-€656 million), almost entirely attributable to positions in Italian government bonds, to be viewed in connection with the new repurchase agreements entered into, with self-retained covered bonds as their underlying, the amounts of which were directly deducted from the underlying issuances included in the ECB pool;

- the available compulsory reserve of €7.5 billion (the portion in excess of the reserve requirement), the balance of which increased gradually in the first nine months of the year, due in part to securities sales (+€2.3 billion on the beginning of 2018).

The Group is pursuing 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 is equivalent to 46.2% of direct sight funding as at 31st December 2018. Liquidity is also amply sufficient for the Group's bond maturities until the end of 2021 (€11.6 billion).

In terms of composition by type of financial instrument, assets eligible for refinancing amounting to €22.9 billion, calculated net of haircuts, recorded the following main movements in the period:

- a decrease in eligible or readily marketable instruments in the securities portfolio of €2.31 billion as at 1st January, in keeping with the reduction in Italian government bonds;
- a decline in retained covered bonds of €1.33 billion, attributable to the already mentioned derecognition of a bond of €1 billion nominal in January 2018. In the fourth quarter in particular, the decline shown in the table (-€360 million nominal and -€270 million net of haircuts) reflects the fact that the net issuance for the period (four issuances of €2.2 billion nominal, compared with one maturity of €750 million nominal and amortisation of €100 million nominal) was more than offset by the netting of the value of the issuances used in repos (€1,150 million nominal in relation to the First Programme and €558 million nominal in relation to the Second Programme);
- an increase of €0.72 billion (of which +€0.32 billion relating to the fourth quarter) in loans eligible for refinancing as a result of participation in ABACO;
- basic stability for self-retained securitisations even net of the relative amortisation (-€0.17 billion approx. over the year).

As a consequence of the dynamics described above, as at year-end the [margin of available liquidity](#) amounted to €16.3 billion, down by €1 billion on the beginning of January.

The margin of available liquidity amounts to approximately 24.7% of on demand direct funding as at 31st December 2018.

Assets eligible: composition by type of underlying assets

Figures in billions of euro	31.12.2018		30.9.2018		30.6.2018		31.3.2018		1.1.2018 (*)	
	Nominal amount	amount net of haircuts	Nominal amount	amount net of haircuts	Nominal amount	amount net of haircuts	Nominal amount	amount net of haircuts	Nominal amount	amount net of haircuts
Own securities (1)	10.76	9.63	10.45	9.54	11.15	10.35	11.74	11.64	11.98	11.94
Covered bonds ("self-retained" issues)	2.84	2.49	3.20	2.76	3.20	2.77	3.38	2.96	4.38	3.82
Securitisation of residential mortgages of the former B@nca 24-7	0.55	0.48	0.59	0.52	0.62	0.55	0.65	0.58	0.68	0.60
Marche M6 Srl securitisation	0.43	0.38	0.43	0.38	0.43	0.39	0.43	0.39	0.43	0.39
UBI Leasing assets securitisation	2.10	1.89	2.10	1.89	2.10	1.90	2.09	1.90	2.10	1.90
Securitisation of performing residential mortgages	2.09	1.77	2.09	1.79	2.09	1.80	2.09	1.82	2.09	1.80
Loans eligible due to participation in ABACO (2)	10.52	6.27	9.99	5.95	9.80	5.82	9.42	5.76	8.90	5.55
Assets eligible for refinancing	29.29	22.91	28.85	22.83	29.39	23.58	29.80	25.05	30.56	26.00

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. as at 1st January 2018.

(1) Owned securities, stated both at nominal value and net of haircuts, include the amount for refinanced 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.

* * *

On 6th February 2019 ECB Banking Supervision began a test of banks' liquidity designated "LiST" aimed at verifying their ability to handle exogenous liquidity shocks. The result of the stress test, which will be conducted in 2019, will be included in the SREP process but will not have a mechanical impact on regulatory capital and liquidity requirements.

Financial activities

The figures as at 31st December 2018, which include the effect of the adoption of the accounting standard IFRS 9, are compared with those as at 1st January 2018 in order to allow a uniform comparison of the items. The section entitled "Transition to the new financial reporting standards IFRS 9 and IFRS 15" in this document may be consulted for details of the reconciliation of figures as at 31st December 2017 and those resulting from First-Time Adoption of the new standards as at 1st January 2018.

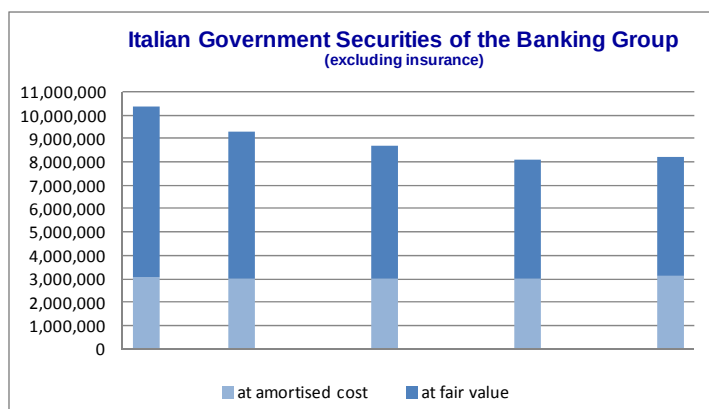
At 31st December 2018, the Group's **financial assets** totalled €15.65 billion, a decrease of €1.43 billion from the €17.08 billion of 1st January 2018. Considering financial liabilities held for trading, which consist solely of financial derivatives, net financial assets amounted to €15.23 billion (€16.66 billion at the start of the year).

Strategic action, which started at the end of 2015, continued over the twelve months to progressively reduce the size of the Italian government securities portfolio, while maintaining an optimum amount of liquidity for management purposes, as part of a broader change in the composition and diversification of investments. In a context of high market volatility – particularly in the second half of the year, when the spread exceeded 300 basis points – this strategy has enabled the Bank to mitigate the negative impact on the value of public securities.

As shown in the table, the most significant portfolios continued to be represented by the categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets measured at amortised cost", which accounted for 68.6% and 23.9%, respectively, of the total. In terms of types of financial instrument, 60.1% of the portfolio consists of Italian government securities, down compared with 66.8% at the beginning of 2018 due to actions undertaken. On the other hand, an increase can be seen in the percentage of other debt securities accounting for 33.1% (26.8% in January), due to the already mentioned diversification of investments into corporate and government securities, not only of European countries, but also of emerging countries. Both equity securities and UCITS shares are now of a marginal amount, accounting for a total of 4.3% (3.9%).

Financial assets/liabilities

	31.12.2018		30.9.2018		30.6.2018		31.3.2018		1.1.2018		Changes A/E	
Figures in thousands of euro	Carrying amount	%	Carrying amount	%	Carrying amount	%	Carrying amount	%	Carrying amount	%	amount	%
	A		B		C		D		E			
Financial assets designated at fair value through profit or loss <i>[Asset item 20. 3) in the Reclassified Consolidated Balance Sheet]</i>	1,175,213	7.5%	1,172,568	7.6%	1,160,068	7.4%	1,185,728	7.1%	1,602,622	9.4%	-427,409	-26.7%
Financial assets held for trading	405,716	2.6%	432,887	2.8%	453,209	2.9%	445,130	2.7%	887,153	5.2%	-481,437	-54.3%
of which: financial derivatives contracts	400,316	2.5%	422,818	2.7%	443,099	2.8%	409,308	2.4%	421,113	2.5%	-20,797	-4.9%
Financial assets designated at fair value	11,028	0.1%	11,515	0.1%	10,085	0.1%	10,974	0.1%	11,271	0.1%	-243	-2.2%
Financial assets mandatorily measured at fair value	758,469	4.8%	728,166	4.7%	696,774	4.4%	729,624	4.3%	704,198	4.1%	54,271	7.7%
Financial assets measured at fair value through other comprehensive income <i>[Asset item 30. 3) in the Reclassified Consolidated Balance Sheet]</i>	10,726,164	68.6%	10,640,286	68.9%	11,527,974	73.3%	12,645,089	75.0%	12,435,307	72.8%	-1,709,143	-13.7%
Financial assets measured at amortised cost <i>[Asset item 40. 3) in the Reclassified Consolidated Balance Sheet]</i>	3,745,219	23.9%	3,628,958	23.5%	3,029,947	19.3%	3,022,360	17.9%	3,037,415	17.8%	707,804	23.3%
Financial assets (a)	15,646,596	100.0%	15,441,812	100.0%	15,717,989	100.0%	16,853,177	100.0%	17,075,344	100.0%	-1,428,748	-8.4%
of which:												
- Debt securities	14,580,129	93.2%	14,389,126	93.2%	14,663,726	93.3%	15,764,518	93.5%	16,001,074	93.6%	-1,420,945	-8.9%
- of which: Italian government securities	9,398,857	60.1%	9,313,419	60.3%	9,913,928	63.1%	10,385,074	61.6%	11,412,474	66.8%	-2,013,617	-17.6%
- of which: Italian government securities excluding insurance	8,192,417		8,122,579		8,681,231		9,294,215		10,360,248		-2,167,831	-20.9%
- equity securities	278,948	1.8%	302,851	2.0%	302,779	1.9%	333,710	2.0%	319,067	1.9%	-40,119	-12.6%
- shares of UCITS	387,203	2.5%	327,017	2.1%	308,385	2.0%	345,641	2.1%	334,090	2.0%	53,113	15.9%
Financial liabilities held for trading (b)	410,977	100.0%	347,184	100.0%	386,959	100.0%	367,105	100.0%	411,653	100.0%	-676	-0.2%
of which: financial derivatives contracts	410,977	100.0%	347,184	100.0%	386,959	100.0%	367,105	100.0%	411,653	100.0%	-676	-0.2%
NET FINANCIAL ASSETS (a-b)	15,235,619		15,094,628		15,331,030		16,486,072		16,663,691		-1,428,072	-8.6%



The chart presents the 2018 trend in the Banking Group's (excluding insurance) portfolio of Italian government securities and clearly shows how the continuation of diversification efforts has led to a further significant decrease in volume, which has solely concerned the fair value component, particularly the segment at fair value through comprehensive income.

Management accounting figures¹ as at 31st December 2018, show the following:

- in terms of *type of financial instrument*, the Group's securities portfolio was composed as follows: 88.86% of government securities; 7.06% of corporate securities, equally divided between the financial sector and other corporate issuers (93.74% of these investments have an investment-grade rating, 49.84% of which concentrated in the BBB segment and 34.91% in the A segment); and the 4.08% remaining consisting of hedge funds, funds and equities (which included the stakes held in the Atlante Fund and the Bank of Italy);
- from a *financial viewpoint*, floating rate securities accounted for 0.50% of the portfolio and fixed-rate securities for 94.20%, while the remainder was composed of convertible, subordinated and securitisation securities;
- as regards the *currency of denomination*, 85.17% of the securities were denominated in Euros and 14.83% in dollars with natural exchange rate hedges, while in terms of *geographical distribution*, 84.33% of the investments (excluding hedge funds and equity investments) were issued from countries in the euro area;
- a *rating* analysis (for the bond portfolio only) shows that 99.49% of the portfolio consisted of "investment-grade" securities.

Financial assets measured at fair value through profit or loss

"Financial assets measured at fair value through profit or loss", Asset Item 20 in the Consolidated Balance Sheet, were composed of the following categories:

- Financial assets held for trading [Item 20 a)], i.e.:
 - financial instruments managed with the objective of realising cash flows through the sale of the same as: (i) they were acquired or incurred principally for the purpose of selling or repurchasing them in the short-term; (ii) they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
 - derivatives held for trading;
- "Financial assets designated at fair value" [Item 20 b)]: financial instruments classified in this category in application of the fair value option (FVO);
- "Other financial assets mandatorily measured at fair value" [Item 20 c)]: financial instruments (i) for which the management strategy is determined on the basis of their fair value or (ii) they are instruments for which the objective contractual characteristics do not give rise on specified dates to cash flows that are solely payments of principal and interest or where the solely payment of principal and interest test ("SPPI" test) has not been passed.

These financial instruments are measured at fair value with changes in fair value recognised through profit or loss.

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

Financial assets held for trading

Financial assets held for trading [Asset item 20. a) in the Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2018				1.1.2018				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
On-balance sheet assets										
Debt securities	340	208	100	648	447,813	343	100	448,256	-447,608	-99.9%
of which: Italian government securities	10	-	-	10	17,283	-	-	17,283	-17,273	-99.9%
Equity securities	4,725	-	26	4,751	17,730	-	54	17,784	-13,033	-73.3%
Shares of UCITS	1	-	-	1	-	-	-	-	1	-
Total (a)	5,066	208	126	5,400	465,543	343	154	466,040	-460,640	-98.8%
Derivative instruments										
Financial derivatives	1,070	318,532	80,714	400,316	1,873	343,868	75,372	421,113	-20,797	-4.9%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	1,070	318,532	80,714	400,316	1,873	343,868	75,372	421,113	-20,797	-4.9%
Total (a+b)	6,136	318,740	80,840	405,716	467,416	344,211	75,526	887,153	-481,437	-54.3%

At the end of December, financial assets held for trading totalled €405.7 million (€887.1 million at the beginning of January), consisting of on-balance sheet assets of €5.4 million (€466 million) and of derivatives amounting to €400.3 million (€421.1 million).

As shown in the table, *debt securities*, amounting to €648 thousand, were down by €447.6 million for the year, especially *other debt securities* which declined to €638 million from the €431 million of January due to the sale at the beginning of the year of €175 million nominal of *French OATs* and €250 million nominal of *German bund*.

The modest investment in *Italian government securities* held at the beginning of the year (€17.3 million) was virtually eliminated following redemptions of BOTs and CTZs – of €2.5 million and €14.7 million nominal, respectively – in the first half of the year.

It should be noted that the changes shown in the table takes account of end-of-year accounting adjustments.

Equity securities, amounting to €4.75 million (€17.8 million in January), represent the main item within on-balance sheet assets and were composed of many small investments made by the Parent totalling €4.33 million (down by €2.7 million compared with €7 million at the beginning of the year) and of those of Group companies operating in the insurance sector for the remaining €0.42 million (down by €10.3 million).

Finally, with regard to derivative instruments, these consisted solely of *financial derivatives*, for which the changes must be interpreted in strict relation to the corresponding item recognised within financial liabilities held for trading. At 31st December 2018, they totalled €400,3 million, down by €20.8 million from 1st January. These are contracts without complex structures, consisting mainly of interest rate swaps, attributable entirely to UBI Banca's activities.

Financial assets designated at fair value

Financial assets designated at fair value [Asset item 20. b) in the Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2018				1.1.2018				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
Debt securities	11,028	-	-	11,028	11,271	-	-	11,271	-243	-2.2%
of which: Italian government securities	7,049	-	-	7,049	7,102	-	-	7,102	-53	-0.7%
Total	11,028	-	-	11,028	11,271	-	-	11,271	-243	-2.2%

Financial assets designated at fair value, amounting to €11 million, were practically unchanged for the year, and they relate entirely to the Group's insurance business.

Debt securities, the sole component of this item, include *Italian government securities* in the amount of €7 million (€7.1 million at 1st January 2018), related to which the following portfolio changes have been recorded:

- net sales in the first quarter of BOTs, BTPs, CCTs and CTZs for €339 thousand nominal (€1,108 thousand of sales and €769 thousand of purchases) and redemptions of BOTs, BTPs and CTZs for €477 thousand nominal;
- net purchases in the second quarter of BTPs, CCTs and CTZs for €284 thousand nominal (€1,491 thousand of sales and €1,207 thousand of purchases) and redemptions of BTPs and CCTs for €506 thousand nominal;
- net purchases in the third quarter of BTPs, CCTs and CTZs for €716 thousand nominal (€4,427 thousand of purchases and €3,711 thousand of sales);
- net purchases in the fourth quarter of BTPs and CTZs for €695 thousand nominal (€1,645 thousand of purchases and €950 thousand of sales) and redemptions of BTPs for €171 thousand.

The changes reported in the tables take account of end-of-period accounting adjustments.

Other debt securities, in the amount of approximately €4 million, are composed of *government securities of other countries* (i.e. Germany, Spain, France, the Netherlands, and the United States) and, to a marginal extent, *corporate securities*. During the year, the portfolio saw net divestments for €142 thousand nominal, essentially in the corporate segment.

Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value [Asset item 20. c) in the Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2018				1.1.2018				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
Debt securities	63,261	34,572	48,087	145,920	67,830	41,740	18,009	127,579	18,341	14.4%
of which: Italian government securities	4,581	-	-	4,581	45,329	-	-	45,329	-40,748	-89.9%
Equity securities	22,241	2,377	200,729	225,347	22,203	2,477	217,849	242,529	-17,182	-7.1%
Shares of UCITS	154,454	192,184	40,564	387,202	167,962	133,547	32,581	334,090	53,112	15.9%
Total	239,956	229,133	289,380	758,469	257,995	177,764	268,439	704,198	54,271	7.7%

Other financial assets mandatorily measured at fair value amounted to €758.4 million as at 31st December 2018 (€704.2 million as at 1st January).

The table shows **debt securities** of €145.9 million, €4.6 million of which in *Italian government securities* related entirely to the insurance segment.

The Parent's portfolio, totalling €32.9 million at the beginning of the year, was completely disposed of. The changes made were as follows:

- down by €0.3 million nominal net in the first three months, due to the sale in January of €17.1 million of BTPs and the purchase at the same time of €16.8 million of CCTs;
- down by €0.6 million in the second quarter, again due to the sale, in May, of BTPs;
- in the third quarter, the portfolio remained unchanged;
- in the fourth quarter, reduced by approximately €32 million for the sale of BTPs and CCTs in October.

The remaining decrease of €7.8 million was attributable to insurance business securities together with the effects of end-of-period accounting adjustments.

Other debt securities, amounting to €141.3 million in December (€82.3 million in January) related almost entirely to the insurance business. The €49.5 million of the banking segment also includes:

(i) a convertible bond in the amount of €42.7 million, increased in value by €27.3 million in the fourth quarter; (ii) a share of €2.4 million held in relation to the Voluntary Scheme formed at the Interbank Deposit Protection Fund, which, in relation to the actions to support Banca Carige, directly subscribed subordinated bonds of the Bank;² (iii) 5% of the junior and mezzanine tranches related to the securitisation of a portfolio of bad loans backed by GACS (following completion of the sale of 95% of the tranches themselves on 28th September 2018) and not subject to sale to third parties, for a total carrying value of €1.1 million.³

Equity instruments, classified for the most part at level three, amounted to €225.3 million (down by €17.2 million for the year). Shareholdings recognised in fair value level three and totalling €170.1 million, were held in Bank of Italy, SACBO, Nexi and DEPOBank (the former Istituto Centrale delle Banche Popolari)⁴. It should be noted that an equity instrument was totally written off in the fourth quarter of 2018 in the amount of €7.2 million, while another equity instrument (Nexi) was partially written down in the amount of €9.3 million.⁵

Shares in UCITS totalled €387.2 million at the end of the year (up €53.1 million compared with January). Mainly, the funds recognised within fair value level one were as follows: Pramerica Global Multi Asset Allocation (€41.5 million), Polis (€5.7 million), and Tages for which a residual amount of €2.1 million, after the disposals made at the end of 2017. Fair value level two was composed largely of real estate funds (€57.3 million relating to UBI Banca and €26.7 million to UBI Leasing), while shares of the Atlante Fund were recognised within fair value level three.⁶ The total also includes €120 million of shares subscribed in relation to insurance business, of which 86.2% classified within level one and the remaining part in fair value level two.

* * *

There are no developments to report with regard to the Madoff affair, dating back to 2008. UBI Banca is monitoring the class actions in the USA and the liquidation proceedings in progress in the British Virgin Islands in order to protect its creditor rights in relation to the three funds involved in the affair, which are Fairfield Sigma Ltd, Kingate Euro Ltd, and Kingate Global Ltd. An official claim has been filed for compensation to the Madoff Victim Fund with regard to all the UBI Banca positions in Madoff funds. This fund was created by the U.S. Attorney's Office for the Southern District of New York and the Department of Justice. Its purpose is to compensate the victims of the investments in funds involved in the Madoff affair by distributing the sums so far recovered through various criminal, civil and confiscation actions initiated against the various parties involved in the fraud.

With regard to the Dynamic Decisions Growth Premium 2X fund, which is being liquidated, recovery efforts are still under way.

² For more information, see Part A – Accounting Policies of the notes to the consolidated financial statements.

³ See the section “Significant events in 2018” in this report for further details on this transaction.

⁴ The relative details are reported in the Notes to the Financial Statements under Part B, Balance Sheet Assets.

⁵ It should be noted that the Company distributed extraordinary dividends in the fourth quarter in the amount of €14.4 million.

⁶ The amount not only reflects the year-end carrying value, but also includes €3.2 million in adjustments to the fair value of the shares in the third quarter of 2018, €13.2 million relating to contributions paid in the second quarter of 2017, €8.8 million in the fourth quarter of 2017 and €15.2 million in the second quarter of 2018. In fact, in April UBI Banca made a further payment as consideration for the investment in the Italian Recovery Fund (the former Atlante Fund II), thereby more or less fully satisfying the commitment recognised for the year ended 31st December 2017.

Financial liabilities held for trading

Financial liabilities held for trading: composition [Liabilities item 20. in the Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2018				1.1.2018				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
On-balance sheet liabilities										
Due to banks	-	-	-	-	-	-	-	-	-	-
Due to customers	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-
Total (a)	-	-	-	-	-	-	-	-	-	-
Derivative instruments										
Financial derivatives	123	410,823	31	410,977	81	411,524	48	411,653	-676	-0.2%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	123	410,823	31	410,977	81	411,524	48	411,653	-676	-0.2%
Total (a+b)	123	410,823	31	410,977	81	411,524	48	411,653	-676	-0.2%

Financial liabilities held for trading, amounting to €411 million in December (€411.6 million as at 1st January 2018), continued to consist solely of financial derivatives. The amounts and performance of these derivative instruments must be interpreted in relation to those for the corresponding item recognised within financial assets held for trading.

Financial assets measured at fair value through other comprehensive income

“Financial assets measured at fair value through other comprehensive income”, Asset item 30 in the Consolidated Balance Sheet are composed of the following: (i) financial instruments associated with the “Hold to Collect and Sell” business model, which is to say they are held within the framework of a business model, the objective of which is achieved both by the collection of cash flows and by the sale of the instruments themselves and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI test is passed); (ii) equity securities for which an “OCI election” has been opted for to present changes in fair value in other comprehensive income⁷.

The financial instruments referred to in item (i) are measured at fair value with changes recognised within “valuation reserves”. Impairment losses and reversals of those losses determined in compliance with IFRS 9 impairment rules are recognised through profit or loss against “valuation reserves” in the statement of comprehensive income, while the equity securities referred to in item (ii) are measured at fair value with changes recognised within “valuation reserves” within the statement of comprehensive income⁸.

Financial assets measured at fair value through other comprehensive income

[Asset item 30. 3] in the Reclassified Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2018				1.1.2018				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
Debt securities	10,589,504	87,810	-	10,677,314	12,311,776	64,713	64	12,376,553	-1,699,239	-13.7%
of which: Italian government securities	6,275,680	-	-	6,275,680	8,310,949	-	-	8,310,949	-2,035,269	-24.5%
Equity securities	-	-	48,850	48,850	-	-	58,754	58,754	-9,904	-16.9%
Total	10,589,504	87,810	48,850	10,726,164	12,311,776	64,713	58,818	12,435,307	-1,709,143	-13.7%

At 31st December 2018, financial assets measured at fair value through other comprehensive income amounted to €10.7 billion, down by €1.7 billion for the year (from €12.4 billion at the beginning of the year).

⁷ In fact with reference to the provisions of IFRS 9, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

⁸ With specific reference to equity securities, the amount recognised within “valuation reserves” is never transferred to the income statement (known as FVOCI with no recycling), not even when the investments are sold.

As shown in the table, **debt securities**, amounting to €10.7 billion, included €6.3 billion of **Italian government securities**, of which approximately €1.2 billion related to insurance business. Investments in Italian government securities decreased from the beginning of the year due mainly to divestments in the banking segment, and in particular:

- to the net sale, in view of reducing the portfolio, of €932 million nominal in the first quarter (sales of €2.4 billion of BTPs and redemptions of €12 million of BTPs and CTZs, against purchases of €1.48 billion of BTPs);
- to the net sale of €50 million nominal in the second quarter (€1.77 billion of sales of BTPs against purchases of €1.32 billion of BTPs and of €400 million of BOTs) and to redemptions of CTTs amounting to €30.4 million.
- Furthermore, a switch transaction was carried out in the period involving BOTs for an amount of €100 million nominal;
- to the net sale in the third quarter of €400 million nominal of BOTs (sales of €730 million and purchases of €330 million).
- in the fourth quarter, the sale of BTPs for €150 million nominal.

The balance of **other debt securities** increased by €0.3 billion to €4.4 billion (€4.1 billion at the beginning of January). This performance reflects, again in the context of diversification of the portfolio, the purchase of: *Spanish Bonos* amounting to €410 million nominal net (purchases of €785 million in the first quarter, sales of €475 million in the second quarter and purchases of €100 million in the third quarter); *Portuguese government securities* amounting to €75 million nominal (€50 million purchased in the first quarter and €25 million in the second); €25 million nominal of *Belgian government securities* in April against the sale in July of €500 million of *French OATs*. As already reported, *German Bund* were also purchased in the first three months of the year for €250 million nominal and subsequently sold in May. Finally, \$100 million nominal net of *US Treasuries* were purchased in April and May (purchases for \$700 million and sales for \$600 million), which was followed in the third quarter by aggregate purchases and sales, with a nil net effect, amounting to €200 million nominal.

Government securities of emerging countries recorded no significant changes.

Corporate bonds, on the other hand, increased by €102.9 million nominal net (purchases of €226.3 million and sales of €123.4 million) and by \$42 million nominal.

Debt securities also include BancAssurance Popolari investments of €1.8 billion in Italian government securities already mentioned and €0.6 billion of government securities from other countries and corporate bonds.

The changes debt securities reported in the tables also take account of end-of-period accounting adjustments.

Equity securities, for which the Group has made an OCI election and which were marginal in amount, decreased by €9.9 million for the year to €48.9 million. These securities have been classified entirely as fair value level three.

Financial assets measured at amortised cost

Asset item 40 in the Consolidated Balance Sheet, "Financial assets measured at amortised cost", includes financial instruments associated with the "Hold to Collect" business model, which is to say they are held within the framework of a business model, the objective of which is to hold the assets in order to collect the cash flows and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI test is passed). These assets are measured at amortised cost with impairment losses and reversals of those losses determined in compliance with IFRS 9 impairment rules recognised through profit or loss.

Financial assets measured at amortised cost (Asset item 40. 3) in the Reclassified Consolidated Balance Sheet

	31.12.2018							1.1.2018							Changes	
	Carrying amount			Fair Value				Carrying amount			Fair value				amount	%
	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L 1	L 2	L 3	Total	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L 1	L 2	L 3	Total		
Debt securities	3,745,219	-	-	2,795,836	106	633,342	3,429,284	3,037,415	-	-	2,871,547	208	4,695	2,876,450	707,804	23.3%
of which: Italian government securities	3,111,537	-	-	2,795,836	-	-	2,795,836	3,031,811	-	-	2,871,547	-	-	2,871,547	79,726	2.6%
Total	3,745,219	-	-	2,795,836	106	633,342	3,429,284	3,037,415	-	-	2,871,547	208	4,695	2,876,450	707,804	23.3%

Financial assets measured at amortised cost amounted to €3.7 billion as at 31st December 2018 and were composed entirely of securities classified in stage one according to the rules of the new IFRS 9 accounting standard, most of which consist of *Italian government securities* classified within fair value level one. The portfolio increased by €79.7 million for the year following the purchase of €90 million nominal of BTPs in December.

The changes reported in the tables take account of end-of-period accounting adjustments.

Other debt securities, amounting to €633.7 million (up €628.1 million over the twelve months) were composed almost totally of the senior tranche, resulting from the bad loan securitisation operation, not subject to sale to third parties and backed entirely by GACS (a government bad loan securitisation guarantee) for a total amount of €628.5 million.

Riskiness

FVOCI debt securities, for which 98.8% of their gross value has been classified as stage one, 1.1% as stage two, and the remainder as stage three, had coverage levels of 0.04%, 1.51% and 100%, respectively. *Debt securities measured at amortised cost*, on the other hand, were allocated entirely to stage one with a coverage level of 0.04%.

For both categories, the coverage level, which remained essentially unchanged for the first nine months, decreased in the fourth quarter due to a refinement of the model for calculating collective write-downs.

Exposure to sovereign debt risk

The specific table “UBI Banca Group: exposures to sovereign debt risk” (presented with separate figures for the insurance business given the different nature of the underlying risk) shows that the carrying value of the sovereign debt risk exposures of the Group as at 31st December 2018 amounted to €13.6 billion, of which €12.1 billion consist of securities held in portfolio by Group banks and €1.5 billion attributable to the insurance companies.

At country level the risk is concentrated mainly in Italy accounting for 76% of the total (€10.4 billion), in the United States accounting for 11% (€1.6 billion) and in Spain accounting for 9% (€1.2 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 securities issued by central and local governments and by government entities and also as loans granted to them.*

The table “Maturities of Italian government securities”, on the other hand, shows the distribution by maturity of Italian government securities held in portfolio.

UBI Banca Group: exposures to sovereign debt risk

Country/portfolio of classification	31.12.2018					
	Consolidated without insurance			Insurance		
	Nominal amount	Carrying amount	Fair value	Nominal amount	Carrying amount	Fair value
Figures in thousands of euro						
- Italy	8,311,514	9,213,569	8,908,048	1,205,584	1,210,082	1,210,082
financial assets and liabilities held for trading (net exposure)	9	10	10	-	-	-
financial assets designated at fair value	-	-	-	7,051	7,049	7,049
financial assets mandatorily measured at fair value	-	-	-	4,700	4,581	4,581
financial assets measured at fair value through other comprehensive income *	4,831,915	5,083,289	5,083,289	1,193,833	1,198,452	1,198,452
financial assets measured at amortised cost (government securities)	2,465,000	3,111,537	2,795,836	-	-	-
financial assets measured at amortised cost (financing and other securities)	1,014,590	1,018,733	1,028,913	-	-	-
- Spain	885,000	948,058	948,058	214,651	248,548	248,548
financial assets measured at fair value through other comprehensive income	885,000	948,058	948,058	212,150	245,968	245,968
financial assets designated at fair value	-	-	-	2,501	2,580	2,580
- United States	1,572,053	1,556,270	1,556,270	538	535	535
financial assets and liabilities held for trading (net exposure)	1	1	1	-	-	-
financial assets designated at fair value	-	-	-	538	535	535
financial assets measured at fair value through other comprehensive income	1,572,052	1,556,269	1,556,269	-	-	-
- Belgium	25,000	25,172	25,172	-	-	-
financial assets measured at fair value through other comprehensive income	25,000	25,172	25,172	-	-	-
- France	-	-	-	3,099	3,518	3,518
financial assets designated at fair value	-	-	-	99	146	146
financial assets measured at fair value through other comprehensive income	-	-	-	3,000	3,372	3,372
- Germany	-	-	-	285	429	429
financial assets designated at fair value	-	-	-	285	429	429
- Latvia	-	-	-	2,000	2,161	2,161
financial assets measured at fair value through other comprehensive income	-	-	-	2,000	2,161	2,161
- Holland	10	10	10	35	37	37
financial assets designated at fair value	-	-	-	35	37	37
financial assets measured at amortised cost (financing and other securities)	10	10	10	-	-	-
- Portugal	75,000	84,002	84,002	32,000	34,386	34,386
financial assets measured at fair value through other comprehensive income	75,000	84,002	84,002	32,000	34,386	34,386
- Bulgaria	-	-	-	2,000	2,294	2,294
financial assets measured at fair value through other comprehensive income	-	-	-	2,000	2,294	2,294
- Rumania	27,249	28,676	28,676	5,000	5,254	5,254
financial assets measured at fair value through other comprehensive income	27,249	28,676	28,676	5,000	5,254	5,254
- Abu Dhabi	11,354	11,057	11,057	-	-	-
financial assets measured at fair value through other comprehensive income	11,354	11,057	11,057	-	-	-
- Qatar	21,881	22,190	22,190	-	-	-
financial assets measured at fair value through other comprehensive income	5,415	5,667	5,667	-	-	-
financial assets measured at amortised cost (financing and other securities)	16,466	16,523	16,523	-	-	-
- Saudi Arabia	10,393	10,014	10,014	-	-	-
financial assets measured at fair value through other comprehensive income	10,393	10,014	10,014	-	-	-
- Chile	3,930	3,833	3,833	1,500	1,573	1,573
financial assets measured at fair value through other comprehensive income	3,930	3,833	3,833	1,500	1,573	1,573
- Colombia	14,061	14,303	14,303	-	-	-
financial assets measured at fair value through other comprehensive income	14,061	14,303	14,303	-	-	-
- Philippines	13,100	16,090	16,090	-	-	-
financial assets measured at fair value through other comprehensive income	13,100	16,090	16,090	-	-	-
- Indonesia	35,524	37,058	37,058	-	-	-
financial assets measured at fair value through other comprehensive income	35,524	37,058	37,058	-	-	-
- Israel	11,878	11,675	11,675	-	-	-
financial assets measured at fair value through other comprehensive income	11,878	11,675	11,675	-	-	-
- Kazakhstan	2,620	2,733	2,733	-	-	-
financial assets measured at fair value through other comprehensive income	2,620	2,733	2,733	-	-	-
- Lithuania	10,917	11,965	11,965	-	-	-
financial assets measured at fair value through other comprehensive income	10,917	11,965	11,965	-	-	-
- Morocco	11,790	11,872	11,872	-	-	-
financial assets measured at fair value through other comprehensive income	11,790	11,872	11,872	-	-	-
- Algeria	3,786	3,053	3,053	-	-	-
financial assets measured at amortised cost (financing and other securities)	3,786	3,053	3,053	-	-	-
- Mexico	31,812	31,582	31,582	-	-	-
financial assets measured at fair value through other comprehensive income	31,812	31,582	31,582	-	-	-
- Oman	3,712	3,533	3,533	-	-	-
financial assets measured at fair value through other comprehensive income	3,712	3,533	3,533	-	-	-
- People's Republic of China	1,223	1,185	1,185	-	-	-
financial assets measured at fair value through other comprehensive income	1,223	1,185	1,185	-	-	-
- Panama	28,472	28,883	28,883	-	-	-
financial assets measured at fair value through other comprehensive income	28,472	28,883	28,883	-	-	-
- Peru	10,044	12,565	12,565	-	-	-
financial assets measured at fair value through other comprehensive income	10,044	12,565	12,565	-	-	-
- Poland	14,847	15,231	15,231	-	-	-
financial assets measured at fair value through other comprehensive income	14,847	15,231	15,231	-	-	-
- Slovak Republic	3,493	3,629	3,629	-	-	-
financial assets measured at fair value through other comprehensive income	3,493	3,629	3,629	-	-	-
- Slovenia	576	630	630	-	-	-
financial assets measured at fair value through other comprehensive income	576	630	630	-	-	-
- Croatia	-	-	-	2,500	2,561	2,561
financial assets measured at fair value through other comprehensive income	-	-	-	2,500	2,561	2,561
- Uruguay	8,297	8,629	8,629	-	-	-
financial assets measured at fair value through other comprehensive income	8,297	8,629	8,629	-	-	-
- Argentina	623	356	356	-	-	-
financial assets and liabilities held for trading (net exposure)	623	356	356	-	-	-
Total on-balance sheet exposure	11,150,159	12,117,823	11,812,302	1,469,192	1,511,378	1,511,378

* The carrying amount is different from that reported in the line "Italian government securities" in the table relating to "Financial assets measured at fair value through comprehensive income" due to the presence in this table of bonds issued by *Cassa Deposito e Prestiti* (a state controlled fund and deposit institution – a government issuer) amounting to €6.1 million, of which around €3.7 million relating to insurance business.

Maturities of Italian government securities

	31.12.2018						Carrying amount	%
	Financial assets held for trading <i>[Asset item 20. a) in the Consolidated Balance Sheet]</i>	Financial assets designated at fair value <i>[Asset item 20. b) in the Consolidated Balance Sheet]</i>	Other financial assets mandatorily measured at fair value <i>[Asset item 20. c) in the Consolidated Balance Sheet]</i>	Financial assets measured at fair value through other comprehensive income <i>[Asset item 30. 3) in the Reclassified Consolidated Balance Sheet]</i>	Financial assets measured at amortised cost <i>[Asset item 40. 3) in the Reclassified Consolidated Balance Sheet]</i>			
	Figures in thousands of euro							
Up to 6 months	1	3,092	1,771	11,945	-	16,809	0.2%	
Six months to one year	1	367	-	5,597	-	5,965	0.1%	
One year to three years	4	1,973	-	93,240	-	95,217	1.0%	
Three years to five years	1	158	-	2,272,239	-	2,272,398	24.2%	
Five years to ten years	1	1,355	-	3,463,294	1,273,133	4,737,783	50.4%	
Over ten years	2	104	2,810	429,365	1,838,404	2,270,685	24.1%	
Total	10	7,049	4,581	6,275,680	3,111,537	9,398,857	100.0%	

The table “Maturities of Italian Government Securities” shows an almost total concentration of investments in the time ranges “five years to ten years” (50.4%), “three to five years” (24.2%), and “over ten years” (24.1%), which reflects the results of sales and purchases of securities classified within financial assets measured at fair value through other comprehensive income made during the year.

Excluding securities relating to insurance business, amounting to approximately €1.2 billion at the end of December, the average life of the portfolio of financial assets held for trading was 6.36 years, that of the Financial assets measured at fair value through other comprehensive income portfolio was 6.16 years, while that of government securities classified within financial assets measured at amortised cost was 13.32 years.

* * *

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 summarising **total debt instruments other than sovereign debt** recognised among the assets of the UBI Banca Group balance sheet as at 31st December 2018. The book value of those investments was approximately €2 billion, of which €1.44 billion relating to corporate issuers and €0.55 billion to banking issuers.

Debt securities other than government securities recognised within consolidated assets

Figures in thousands of euro	31.12.2018			
	Nationality	Carrying amount	Fair value	Nominal amount
Corporate	Italy	773,149	773,721	799,739
Corporate	United Kingdom	120,111	120,111	119,438
Corporate	Holland	98,885	98,885	98,564
Corporate	United States	152,421	152,421	150,165
Corporate	France	61,058	61,058	59,558
Corporate	Spain	42,957	42,957	42,800
Corporate	Luxembourg	47,451	47,451	49,866
Corporate	Germany	33,024	33,025	32,400
Corporate	Switzerland	14,522	14,522	14,546
Corporate	Ireland	12,977	12,977	14,501
Corporate	Mexico	10,073	10,073	10,000
Corporate	Norway	9,375	9,375	9,000
Corporate	Japan	13,442	13,442	13,677
Corporate	Panama	8,851	8,851	8,500
Corporate	Sweden	4,390	4,390	4,500
Corporate	Belgium	5,470	5,470	5,515
Corporate	Denmark	5,906	5,906	5,500
Corporate	Finland	5,299	5,300	5,000
Corporate	Cayman Islands	5,100	5,100	5,000
Corporate	Hong Kong	1,993	1,993	2,000
Corporate	Rumania	3,375	3,375	3,500
Corporate	Marshall Islands	2,960	2,960	3,000
Corporate	Guernsey	2,542	2,542	2,500
Corporate	Czech Republic	1,058	1,058	1,000
Corporate	Cyprus	-	-	9,500
Corporate	Brazil	-	-	62
Total Corporate		1,436,389	1,436,963	1,469,831
Banking	Italy	162,165	162,165	164,615
Banking	United Kingdom	69,353	69,353	69,462
Banking	France	87,087	87,087	87,785
Banking	Spain	47,978	47,978	48,300
Banking	Germany	72,610	72,610	74,576
Banking	Ireland	18,817	18,817	18,600
Banking	Austria	17,806	17,806	18,970
Banking	United States	10,814	10,814	10,447
Banking	Sweden	5,090	5,090	5,000
Banking	Switzerland	11,177	11,177	11,906
Banking	Belgium	5,868	5,868	6,000
Banking	Norway	5,444	5,444	5,000
Banking	Finland	3,175	3,175	3,000
Banking	Australia	1,744	1,744	1,747
Banking	Canada	4,064	4,064	4,000
Banking	Japan	1,356	1,356	1,310
Banking	Denmark	3,478	3,478	3,500
Banking	Holland	20,971	20,971	20,750
Total Banking		548,997	548,997	554,968
E.I.B.	Luxembourg	2,943	2,870	2,943
Total Supranational		2,943	2,870	2,943
Total Debt Instruments		1,988,329	1,988,830	2,027,742

Finally, to complete the disclosures required by the ESMA, the Group held no credit default products as at 31st December 2018, nor did the Group carry out any transactions in those instruments during the year, either to increase its exposure or to acquire protection.

Derivative financial instruments

Management of interest rate risk in the banking book (IRRBB) is also done with the help of financial derivative instruments.

All of the financial derivative instruments used to manage IRRBB are plain-vanilla interest rate swaps allocated to a central counterparty.

TRADING ACTIVITIES

As shown in table A.1, “Financial derivatives held for trading: end-of-period notional amounts”, in the Notes to the Consolidated Financial Statements, Part E, the notional value of the derivatives recognised in the trading portfolio at the end of 2018 was €39.2 billion (€38 billion at the end of 2017).

At 31st December 2018, the gross positive fair value of this portfolio, prior to offsetting in accordance with the provisions of IAS 32, amounted to €542.6 million, while the gross negative fair value amounted to €615 million.

HEDGING ACTIVITIES

In 2018, hedging efforts concerned mitigation of the effects of a steepening of the yield curve.

On the liability side, a portion of the core component of sight deposits from customers and issues of fixed-rate bonds was hedged, while, on the asset side, a portion of medium and long-term fixed-rate loans (typically mortgage loans to customers) was hedged.

In both cases, the hedge had the effect of indexing the cost of balance sheet item to a variable parameter.

As detailed in table A.1, Financial derivatives held for hedging: notional end-of-period amounts”, contained in the Notes to the Consolidated Financial Statements, Part E, the notional value of hedging derivatives held in December 2018 was €41.9 billion (€30.9 billion at the end of 2017).

These mainly consisted of instruments to hedge interest rate risk relating to debt securities and, in particular, to fixed-rate bonds and securities classified as available-for-sale through comprehensive income.

At 31st December 2018 the gross positive fair value of this portfolio, prior to offsetting in accordance with the provisions of IAS 32, amounted to €392 million, while the gross negative fair value amounted to €396.9 million.

For a proper understanding of overall trading in these instruments, their measurement at fair value must be considered in combination with the fair value of the corresponding hedged assets/liabilities.

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 in special purpose entities (SPEs⁹) concerns the following types:

1. conventional securitisation transactions¹⁰ performed by Group companies in accordance with Law No. 130 of 30th April 1999;
2. synthetic securitisation transactions¹¹;
3. the issuance of covered bonds, in accordance with Art. 7 *bis* of Law No.130/1999.

1. The list of SPEs used for the traditional 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 Banca 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).

Transfers of assets were made in 2018 regarding UBI SPV Lease 2016 Srl in relation to the “revolving period” (which was extended following a revision of the transaction). More specifically the first transfer was completed in January and it involved a portfolio totalling €187 million (in terms of the remaining principal debt), the second was completed in April for a total of €179 million (in terms of the remaining principal debt) and the third was completed in October for a total of €267 million (in terms of the remaining principal debt). Furthermore, a transfer of assets was made in March 2018 to the special purpose entity UBI SPV Group 2016 Srl amounting to €380 million and to complete the information, in January 2019 assets were repurchased from the entity UBI SPV Group 2016 Srl amounting to €638.6 million.

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. Synthetic securitisations have been added to conventional securitisations since 2017 with the objective of improving the regulatory capital by reducing the degree of credit risk on the underlying portfolios¹².

⁹ Special Purpose Entities (SPEs) are special companies formed to achieve a determined objective.

¹⁰ 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.

¹¹ With a synthetic securitisation, 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 (credit default swaps - CDSs) and CLNs (credit-linked notes) or by means of personal guarantees.

¹² Reference is made for further information to the information given in the special section of the Notes to the Financial Statements, Part E, C.1 “Securitisations”, in the 2018 Consolidated Annual Report.

3. 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 Parent¹³.

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 2018 to the entity UBI Finance Srl involving assets held by UBI Banca amounting to €2,241 million (with effect for accounting purposes from May 2018) and to €1,293 million (with effect for accounting purposes from June 2018) and a transfer was made to the entity UBI Finance CB 2 Srl which involves assets held by UBI Banca amounting to €323 million (with effect for accounting purposes from June 2018).

Furthermore, again in 2018 assets were repurchased from the entity UBI Finance Srl amounting to €117 million, with effect for accounting purposes from May 2018 relating to non-performing loans, and from the entity UBI Finance CB 2 Srl amounting to €201 million (€94 million with effect for accounting purposes from March 2018, relating to performing loans; €53 million with effect for accounting purposes from May 2018, relating to non-performing loans; €54 million with effect for accounting purposes from September 2018, relating to performing loans).

At the date of this report, UBI Banca has issued covered bonds totalling €13.08 billion nominal (of which €2.5 billion relating to retained issuances) under the first programme (residential mortgages) for a maximum issuance of €15 billion and for a total of €2.05 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 31st December 2018 these loans amounted to €16.08 billion for UBI Finance Srl (€14.2 billion in December 2017) and to €2.7 billion for UBI Finance CB 2 (€3 billion in December 2017).

Ordinary lines of liquidity existed at the end of the year granted by the Parent to the entity 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 2017).

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 €24.35 billion (€23.33 billion at the end of 2017). The table below¹⁴ reports details by asset class.

SPE underlying assets

Figures in millions of euro		Classification of underlying assets of the securitisation		31.12.2018		31.12.2017	
Entity	Total assets	Class of underlying asset	Measurement criterion adopted	Gross of impairment losses	Net of impairment losses	Gross of impairment losses	Net of impairment losses
24-7 Finance	881.1	Mortgages	AC	767.2	761.7	892.1	889.8
UBI SPV Lease 2016	2,901.7	Leasing	AC	2,868.4	2,840.7	2,810.7	2,793.1
UBI Finance	15,550.4	Mortgages	AC	15,155.3	15,079.9	13,619.8	13,598.7
UBI Finance CB 2	2,520.2	Mortgages	AC	2,291.2	2,269.4	2,608.0	2,597.6
UBI SPV GROUP 2016	2,498.2	Mortgages	AC	2,475.6	2,461.7	2,406.7	2,402.2
		Total impaired assets, mortgages and loans		1,234.9	877.2	1,336.4	1,015.8
		Total impaired assets, leasing		73.8	61.0	36.9	33.9
TOTAL	24,351.6			24,866.4	24,351.6	23,710.6	23,331.1

* * *

As concerns the New Banks acquired, a summary is given below of the securitisations originated by them existing at the end of the year and held by UBI Banca, following their merger into it in the last quarter of 2017:

¹³ 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.

¹⁴ We report that most of the assets transferred and not derecognised reported in this table have been recognised within asset item 40 "Financial assets measured at amortised cost – Loans and advances to customers" in the balance sheet and to a residual extent, amounting to €1.4 million, within item 20 "Other financial assets mandatorily measured at fair value".

- **Mecenate 2007**¹⁵, a securitisation of performing residential mortgages held by SPV Mecenate Srl ("Mecenate"), 95% controlled by UBI Banca. The total assets as at 31st December 2018 amounted to €64 million;
- **Marche Mutui 2 Società per la Cartolarizzazione a r.l.**¹⁶, a securitisation of the residential mortgages backed securities (RMBS) type, with residential and commercial mortgages as the underlying. The total assets as at 31st December 2018 amounted to €58 million;
- **Marche M6 Srl**¹⁷, a securitisation of the residential mortgages backed securities (RMBS) type, with residential and commercial mortgages as the underlying. Total assets as at 31st December 2018 amounted to €1.06 billion.

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

As at 31st December 2018 the Group held a direct investment in ABS instruments with a value of zero, while no indirect exposures existed to structured CDO and CMBS products.

Other subprime, Alt-A and monoline insurer exposures

As at 31st December 2018 no indirect exposures to subprime and Alt-A mortgages and to monoline insurers existed.

Leveraged Finance

As part of project work to implement ECB guidance¹⁸, the UBI Banca Group amended its definition of leveraged finance to bring it into line with the recommendations of those guidelines. Committed financing to borrowers with a post-financing debt to EBITDA ratio that exceeds 4.0 times and/or to borrowers owned by one or more of the financial sponsors fall within this category. Loans with natural persons, institutions, credit institutions, investment firms, financial sector entities, public sector entities, specialised lending loans and exposures to borrowers with an internal or external investment-grade rating are excluded from the leveraged finance perimeter. Furthermore, exposures to small and medium-sized enterprises are not included except where they are owned by one or more financial sponsors. Finally, the transactions where the Group's exposure to the borrowers is below €5 million are also not included.

The project work to take account of ECB guidelines on the definition of leveraged finance is still in progress and therefore account of this will be progressively taken in reporting the findings.

UBI Banca leveraged finance business

Figures in millions of euro	On-balance sheet loans gross exposure to customers		Off-balance sheet commitments gross exposure to customers	
	used	Impairment	used	Impairment
31st December 2018	3,956.9	21.5	585.2	3.5

The table summarises on- and off-balance sheet exposure for leveraged finance by the UBI Banca Group at the end of December 2018. The on-balance sheet loans (inclusive of the relative margins) as a percentage of total on-balance sheet loans

¹⁵ A securitisation originated on 29th March 2007 by the former Banca dell'Etruria e del Lazio 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.

¹⁶ An RMBS market securitisation, structured in October 2006 by the former Banca delle Marche, 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.

¹⁷ An RMBS securitisation, structured in July 2013 by the former Banca delle Marche, 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.

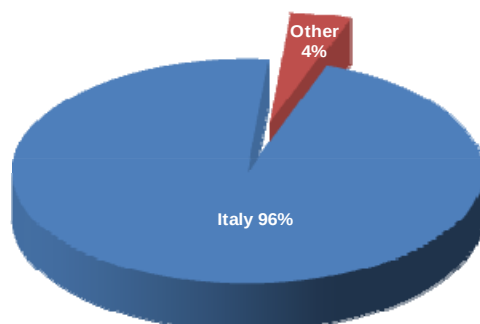
¹⁸ Guidance on Leveraged Transactions (May 2017).

amounted to approximately 4.4%.

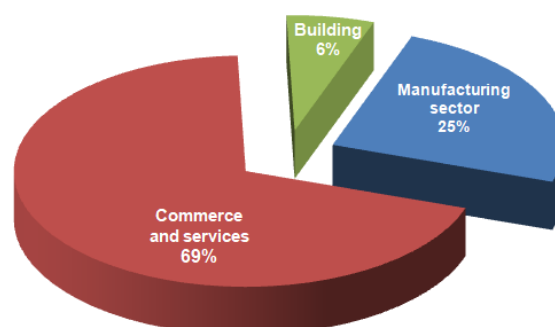
The charts below show the distribution of leveraged exposures by geographical area and sector.

Distribution of UBI Banca leveraged exposures as at 31st December 2018

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, defining a conservative profile of the Group's operations in OTC derivatives with customers.

A quantitative update as at 31st December 2018 showed the following:

- the notional amount for existing contracts, totalling €7.9 billion, was attributable to interest rate derivatives amounting to €7.3 billion and currency derivatives amounting to €518 million, while the notional amount for commodities contracts (€38 million) was completely marginal;
- transactions in hedging derivatives accounted for all the notional amount traded in the case of interest rate derivatives and commodities and 99% 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 approximately -€252 million. Those contracts with a negative mark-to-market for customers were valued at approximately -€263 million;
- the total negative mark-to-market for customers stood at 3.3% of the notional amount of the contracts.

The rules governing trading in OTC derivatives with customers are contained in the "Policy for the trading, sale and subscription of financial products", the "Policy for the management of counterparty risk" and the relative documents to implement them, updated in 2018, 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 derivatives: first five counterparties by bank (amounts in euro)

Data as at 31st December 2018

Bank	Classification	MtM	of which negative MtM
UBI Banca	2: Non private individual retail	-54,276,800	-54,276,800
	2: Non private individual retail	-8,258,825	-8,258,825
	3: Professional	-7,385,803	-7,385,803
	3: Professional	-6,093,676	-6,093,676
	3: Professional	-5,065,892	-5,065,892

OTC interest rate derivatives: details of instrument types and classes of customer (amounts in euro)

Data as at 31st December 2018

Data as at 31st December 2018						
Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Purchase of caps	Qualified	11	93,764,933	196,376	-
		3: Professional	49	144,156,433	171,812	-
		2: Non-private individual reta	658	271,591,939	1,217,155	-
		1: Private individual retail	445	45,723,908	82,367	-
	Purchase of caps Total		1,163	555,237,213	1,667,710	
	Purchase of floors	3: Professional	3	68,507,957	281,915	-
		Purchase of floors Total		3	68,507,957	281,915
	Capped swaps	Qualified	2	18,093,487	-366,292	-366,292
		3: Professional	42	182,478,542	-3,155,631	-3,155,631
		2: Non-private individual reta	658	374,278,966	-7,022,307	-7,022,307
		1: Private individual retail	987	104,646,326	-1,633,904	-1,633,904
		Capped swaps Total		1,689	679,497,321	-12,178,134
	Plain Vanilla IRS	Qualified	15	148,999,094	-2,648,494	-2,648,494
		3: Professional	454	2,839,380,166	-70,060,383	-70,161,415
		2: Non-private individual reta	1698	1,990,102,528	-89,599,101	-89,771,099
		1: Private individual retail	449	87,054,251	-2,832,623	-2,866,347
Plain Vanilla IRS Total		2,616	5,065,536,039	-165,140,601	-165,447,355	
IRS Step Up	3: Professional	5	17,627,033	-1,379,134	-1,379,134	
	2: Non-private individual reta	38	244,562,716	-60,916,310	-60,916,310	
IRS Step up Total		43	262,189,749	-62,295,444	-62,295,444	
Floored Swaps	3: Professional	76	406,297,473	-4,646,532	-4,646,532	
	2: Non-private individual reta	217	240,013,167	-2,609,331	-2,625,660	
	1: Private individual retail	24	6,019,935	-110,734	-110,734	
	Floored Swaps		317	652,330,575	-7,366,597	-7,382,926
Purchase of collars	2: Non-private individual reta	2	5,666,750	-138,634	-138,634	
Purchase of collars Total		2	5,666,750	-138,634	-138,634	
Total Class 1: hedging derivatives			5,833	7,288,965,604	-245,169,785	-247,442,493
Class 1: % of Group total			99.9%	99.5%	96.6%	96.7%
2						
Purchase of caps with K/IKO	3: Professional	1	6,914,894	-49,108	-49,108	
	2: Non-private individual reta	1	328,133	-1,319	-1,319	
Purchase of caps with K/IKO Total		2	7,243,027	-50,427	-50,427	
Purchase of collars with K/IKO	2: Non-private individual reta	2	25,074,535	-8,371,886	-8,371,886	
Purchase of collars with K/IKO Total		2	25,074,535	-8,371,886	-8,371,886	
IRS Convertible	3: Professional	1	1,166,667	-11,275	-11,275	
	2: Non-private individual reta	2	1,038,022	-111,304	-111,304	
IRS Convertible Total		3	2,204,689	-122,579	-122,579	
Total Class 2: hedging derivatives with possible exposure to contained financial risks			7	34,522,251	-8,544,892	-8,544,892
Class 2: % of Group total			0.1%	0.5%	3.4%	3.3%
Total UBI Banca Group			5,840	7,323,487,855	-253,714,677	-255,987,385

OTC currency derivatives: details of instrument types and classes of customer (amounts in euro)

Date as at 31st December 2018

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Forward synthetic	3: Professional	94	170,525,311	888,112	-1,092,387
		2: Non-private individual retail	27	14,566,556	-22,158	-117,920
	Forward synthetic Total		121	185,091,867	865,954	-1,210,307
	Plafond	3: Professional	150	155,998,692	-800,701	-2,864,969
		2: Non-private individual retail	242	89,478,397	-272,358	-1,348,515
	Plafond Total		392	245,477,089	-1,073,059	-4,213,484
	Currency collars	3: Professional	2	2,248,908	-39,172	-45,624
	Currency collars Total		2	2,248,908	-39,172	-45,624
	Vanilla currency options purchased	3: Professional	2	9,606,987	1,786	-
		2: Non-private individual retail	1	262,009	844	-
	Vanilla currency options purchased		3	9,868,996	2,630	-
Total Class 1: hedging derivatives			518	442,686,860	-243,647	-5,469,415
Class 1: % of Group total			92.1%	85.4%	-	91.6%
2						
	Knock in collars	3: Professional	7	23,654,269	-31,804	-53,392
		2: Non-private individual retail	2	2,900,176	71,815	-6,454
	Knock in collars Total		9	26,554,445	40,011	-59,846
	Knock in forwards	3: Professional	29	42,721,577	122,020	-411,629
	Knock in forwards Total		29	42,721,577	122,020	-411,629
	Plafond with accelerated condition	2: Non-private individual retail	1	335,372	-7,700	-7,700
	Plafond with accelerated condition Total		1	335,372	-7,700	-7,700
Total Class 2: hedging derivatives with possible exposure to contained financial risks			39	69,611,394	154,331	-479,175
Class 2: % of Group total			6.9%	13.4%	-	8.0%
3b						
	Knock out knock in forwards	3: Professional	3	4,150,578	-15,157	-19,482
	Knock out knock in forwards Total		3	4,150,578	-15,157	-19,482
	Knock out forwards	3: Professional	1	749,510	24,108	-
	Knock out forwards		1	749,510	24,108	-
	Knock out knock in collars	3: Professional	1	1,134,837	-1,832	-1,832
	Knock out knock in collars Total		1	1,134,837	-1,832	-1,832
Total Class 3: derivatives not for hedging			5	6,034,925	7,119	-21,314
Class 3: % of Group total			1.0%	1.2%	-	0.4%
Total UBI Banca Group			562	518,333,179	-82,197	-5,969,904

OTC commodities derivatives: details of instrument types and classes of customer (amounts in euro)

Date as at 31st December 2018

Product class	Type of instrument	Customer classification	Number of transactio	Notional	MtM	of which negative MtM
2						
	Commodity swaps	3: Professional	184	34,476,090	1,474,839	-954,418
		2: Non-private individual retail	25	3,742,485	125,348	-59,784
	Commodity swaps Total		209	38,218,575	1,600,187	-1,014,202
Total Class 2: hedging derivatives with possible exposure to contained financial risks			209	38,218,575	1,600,187	-1,014,202
Class 2: % of Group total			100.0%	100.0%	-	100.0%
Total UBI Banca Group			209	38,218,575	1,600,187	-1,014,202
TOTAL UBI BANCA GROUP			6,611	7,880,039,609	-252,196,687	-262,971,491

Equity and Capital adequacy

Changes in consolidated shareholders' equity

In order to make the changes that occurred to consolidated equity more comprehensible, a twelve-month analysis has been conducted on the basis of figures for the end of December 2017 restated as at 1st January 2018 to take account of the first-time adoption of the financial reporting standard IFRS 9 and the 5th update of Bank of Italy Circular No. 262/2005. The section entitled "Transition to the New Financial Reporting Standards IFRS 9 and IFRS 15" in this financial report may be consulted for details of the reconciliation of figures as at 31st December 2017 and those resulting from First-Time Adoption of the new standards as at 1st January 2018.

Reconciliation between equity and profit for the year of the Parent with equity and profit for the year attributable to the shareholders of the Parent for the year ended 31st December 2018

Figures in thousands of euro	Equity	of which: Profit for the year
Equity and profit for the year in the accounts of the Parent	8,858,117	467,506
Effect of the consolidation of subsidiaries including joint ventures	369,054	25,602
Effect of measuring other significant equity investments using the equity method	29,293	24,602
Dividends received during the year	-	-103,716
Other consolidation adjustments (including the effects of the PPA)	-93,176	11,614
Equity and profit for the year attributable to the shareholders of the Parent in the consolidated accounts	9,163,288	425,608

Changes in consolidated equity attributable to the shareholders of the Parent in 2018

Figures in thousands of euro	Balances as at 31.12.2017	Restatement of opening balances	Balances as at 1.1.2018	Allocation of prior year profit Reserves Dividends and other uses	Changes in 2018				31.12.2018 Equity attributable to the shareholders of the Parent
					Changes in reserves	Equity transactions New share issues	Stock options	Consolidated comprehensive income	
Share capital:	2,843,177	-	2,843,177	-	-	-	-	-	2,843,177
a) ordinary shares	2,843,177	-	2,843,177	-	-	-	-	-	2,843,177
b) other shares	-	-	-	-	-	-	-	-	-
Share premiums	3,306,627	-	3,306,627	-12,023	-	-	-	-	3,294,604
Reserves	3,209,460	-866,855	2,342,605	702,580	-125,415	3,819	-	-	2,923,589
Valuation reserves	-114,820	80,076	-34,744	-	-	-3	-	-263,869	-298,616
Treasury shares	-9,818	-	-9,818	-	-15,764	508	-	-	-25,074
Profit for the year	690,557	-	690,557	-690,557	-	-	-	425,608	425,608
Equity attributable to the shareholders of the Parent	9,925,183	-786,779	9,138,404	-	-125,415	-11,948	508	161,739	9,163,288

The equity attributable to the shareholders of the Parent, UBI Banca, as at 31st December 2018, inclusive of profit for the year, was €9,163.29 million, up compared with €9,138.40 million as at 1st January 2018, which included the impacts of first-time adoption of IFRS 9.

As shown in the table "Changes in the consolidated equity attributable to the shareholders of the Parent in 2018", the increase of approximately €24.89 million is the result of the following:

- a decrease of €263.87 million in the balance on valuation reserves, generated mainly by the impact of other comprehensive income as follows: -€262.61 million for financial assets (other than equity instruments) measured at fair value through other comprehensive income; -€2.03 million for equity instruments measured at fair value through other comprehensive income; +€1.54 million for actuarial gains/losses relating to

Valuation reserves attributable to the shareholders of the Parent: composition

Figures in thousands of euro	31.12.2018	1.1.2018
Equity securities designated at fair value through other comprehensive income	-16,583	-14,550
Financial assets (other than equity securities) measured at fair value through other comprehensive income	-230,924	31,687
Cash flow hedges	-22	13
Currency translation differences	-243	-243
Actuarial gains (losses) for defined benefit pension plans	-110,908	-112,452
Special revaluation laws	60,064	60,801
Total	-298,616	-34,744

defined benefit pension plans; and -€0.03 million for cash flow hedges. Furthermore, reserves relating to special revaluation laws were impacted by -€0.74 million;

- an overall decrease of €15.25 million in treasury shares, which reflects an increase of €0.51 million for treasury shares granted to the Group's Identified Staff at the end of the retention periods established by the 2013 and 2015 incentive systems and a decrease of €15.76 million for the purchase of ordinary UBI Banca shares to service the following plans:
 - the long-term incentive plan approved by shareholders on 7th April 2017 [1,162,580 shares in April (at an weighted-average price of €3.7331 per share) in the amount of €4.34 million; 1,162,580 shares in June (at a weighted-average price of €3.2433 per share) in the amount of €3.77 million; 1,162,580 shares in October (at a weighted-average price of €3.2224 per share) for more than €3.74 million];
 - the 2017 short-term incentive plan approved by shareholders on 7th April 2017 [89,191 shares in October (at a weighted-average price of €3.2224 per share) in the amount of €0.29 million];
 - the 2018 short-term incentive plan and the 2017-2019/20 long-term plan approved by shareholders on 6th April 2018 [1,440,410 shares in December (at a weighted-average price of €2.5129 per share) in the amount of €3.62 million];
- the allocation of €125.42 million of 2017 consolidated net profit to dividends and other uses;
- a positive increase on aggregate for other reserves of €3.82 million;
- posting of profit for the year of €425.61 million.

Fair value reserves of financial assets measured at fair value through other comprehensive income attributable to the shareholders of the Parent: composition

Figures in thousands of euro	31.12.2018			Total
	Positive reserve	Negative reserve	Total	
1. Debt securities	6,821	-237,745	-230,924	31,687
2. Equity securities	1,680	-18,263	-16,583	-14,550
3. Financing	-	-	-	-
Total	8,501	-256,008	-247,507	17,137

Fair value reserves of financial assets measured at fair value through other comprehensive income attributable to the shareholders of the Parent: changes in the year

Figures in thousands of euro	Debt securities	Equity securities	Financing	Total
1. Opening balances as at 1st January 2018	31,687	-14,550	-	17,137
2. Positive changes	88,886	10,273	-	99,159
2.1 Increases in fair value	74,109	8,088	-	82,197
2.2 Impairment losses for credit risk	1,881	X	-	1,881
2.3 Transfer to the income statement of negative reserves from disposal	12,770	X	-	12,770
2.4 Transfers to other equity items (equity securities)	-	491	-	491
2.5 Other changes	126	1,694	-	1,820
3. Negative changes	-351,497	-12,306	-	-363,803
3.1 Reductions in fair value	-323,558	-9,564	-	-333,122
3.2 Reversals for credit risk	-3,486	-	-	-3,486
3.3 Transfer to income statement of positive reserves from disposal	-20,568	X	-	-20,568
3.5 Other changes	-3,885	-2,742	-	-6,627
4. Closing balances as at 31st December 2018	-230,924	-16,583	-	-247,507

As shown in the table, the decrease mentioned above of €264.64 million in the “fair value reserve for financial assets measured at fair value through other comprehensive income” is attributable to debt securities held in portfolio (for which the balance, affected by volatility on markets, decreased by €262.61 million to -€230.92 million net of tax and minority interests) and to [Italian government securities](#) in particular. The relative reserve, which was negative by €185.2 million, recorded a decrease of €65.6 million (inclusive of the impact of First-Time Adoption of IFRS 9), compared with -€119.7 million in December 2017 attributable primarily to the Parent's portfolio.

Strategic action undertaken to progressively reduce the size of the Italian government securities portfolio, while maintaining an optimum amount of liquidity for management purposes, and to diversify risk across foreign government securities allowed the impacts on

the reserve to be mitigated, in a context of high market volatility and growing levels of the spread.

Over the twelve months, the reserve for **debt securities** recorded increases in fair value of €74.1 million, of which €2.5 million relating to the Parent and €71.6 million to Lombarda Vita (primarily on its Italian government securities portfolio). The table also shows “Impairment losses for credit risk” amounting to €1.9 million, attributable entirely to UBI Banca, and “Transfers to the income statement of negative reserves from disposal” amounting to €12.8 million, relating fully to government securities held by the Parent.

Decreases include the following:

- reductions in fair value amounting to €323.6 million, of which, -€253.1 million relating to UBI Banca (mainly on Italian government securities), -€69.4 million to Lombarda Vita and -€1.1 million to BancAssurance Popolari;
- “Transfers to the income statement from positive reserves from disposals” amounting to €20.6 million and relating almost entirely to the Parent for the disposal of Italian government securities;
- a write-back for credit risk in the amount of €3.5 million related almost entirely to UBI Banca.

As concerns **equity securities**, increases of €8.1 million were recorded in fair value and decreases in fair value of €9.6 million, both relating primarily to Lombarda Vita.

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”.

As already reported, the introduction of Basel 3 rules is subject to a transitional (phased-in) regime during which, in most cases, the new rules will be applied to an increasing degree, generally over a five-year period of time (2014-2018), 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. We therefore report in particular that the rules relating to the inclusion of capital items in own funds subject to the transitional treatment until 31st December 2017 will apply fully from 1st January 2018 (amongst others these include the shortfall on IRB positions, which is to say negative amounts resulting from the calculation of expected losses, DTAs on future profits, minority interests and valuation reserves).

Furthermore, the financial reporting standard IFRS 9 “Financial Instruments” replaces the provisions of IAS 39 “Financial Instruments: Recognition and Measurement” as from 1st January 2018. IFRS 9 was published by the IASB on 24th July 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union of Regulation (EU) No. 2016/2067 of 22nd November 2016¹. As concerns the impacts on regulatory own funds, the Group has opted for the adherence to the transitional regime provided for by Regulation EU 2017/2395, which amends Regulation 575/2013 (“CRR”). These measures allow the negative impacts of the adoption of the standard in question to be applied gradually, with the benefit allowed on the basis of decreasing quotas over a five-year period (95% in the 2018, 85% in the 2019, 70% in the 2020, 50% in the 2021, 25% in 2022).

Consolidated capital requirements for the UBI Banca Group for 2018, reported in the correspondence received on 28th December 2017 from the ECB are as follows:

¹ See the section “Transition to the new financial reporting standards IFRS 9 and IFRS 15” of this report.

- a minimum phased-in CET1 ratio requirement of 8.625%², compared with 7.5% set for 2017;
- a minimum SREP Total Capital ratio requirement of 10.25%³. If the capital conservation buffer of 1,875% is added, this then gives a minimum requirement in terms of the “overall total capital requirement” of 12,125% (11% in 2017).

The supervisory report as at 31st December 2018 incorporates the new models resulting from the implementation in March of the “Model Change” which updated the Bank’s internal models for credit risk to comply with the new regulatory framework by introducing, amongst other things, a capital requirement for default positions.

At the end of the year, **Common Equity Tier 1 (CET1)** for the UBI Banca Group, which is calculated by taking account of the amount destined to charity and the dividend assumption, in the amount of €7,139 million, down by €616 million compared with the figure for December 2017, prior to adoption of IFRS 9 and so not fully comparable with the end of 2018.

The changes in the CET1 capital during the year are mainly attributable to the following factors:

- -€770 million resulting from changes recognised in reserves, the economic result that qualifies for regulatory purposes and other items of accumulated other comprehensive income (or the OCI reserve). The following contributed in particular to these changes: the overall impact of the first-time adoption (FTA) of IFRS 9 by approximately -€787 million; the result for the year, which took account of a dividend assumption; the changes recorded in the OCI reserve due to the ending of the transitional treatment⁴; and also to the contraction recorded during the period in the securities portfolio following the widening of spreads in relation to sovereign debt risk;
- +€247 million relating to the capital component which incorporates a positive contribution, resulting from the transitional regime provided for by Regulation No. 2017/2395, of provisions (approximately -€260 million) recognised on credit positions subject to the standardised approach carried out with the First-Time Adoption (only 5% of these provisions were therefore included in the CET1);
- approximately -€81 million resulting from the absence of the effects of transitional provisions relating to DTAs on future profits⁵ (-€66 million) and the change in the period recorded by these (-€14 million);
- +€33 million relating to intangible assets (a deduction from capital) due to the positive impact of tax effects (+€34 million), which was partially offset by performance for the period (-€1 million);
- -€25 million resulting from the deduction of the excess DTAs and of significant interests in financial-service companies compared to the established regulatory allowance;
- -€19 million as a result of the change in the shortfall. Particular contributions to this change were an increase of approximately €4 million due to the ending of the transitional treatment for this capital component⁶ and a decrease of €23 million due to the combined effects of changes during the year. The following were of particular note: the change in impairment losses on loans subject to IRB models due, in part, to application of IFRS 9; calculation of the expected credit losses following application of the model change and of the update to the historical data series for calculation of the risk parameters (PD and LGD); and completion of the disposals of bad loans (GACS-backed securitisation and the disposal of unsecured bad loans⁷).
- -€9 million approximately resulting from the end of the transitional treatment for the inclusion of minority interests⁸;

² The result of the sum of the minimum Pillar 1 capital requirement (4.5%), the Pillar 2 requirement (2.25%) and the capital conservation buffer (CCB – 1.875%), calculated according to the transitional phased-in rules laid down by the Bank of Italy (in 2017 1.25% was included in the CCB, while when fully loaded in 2019 this will be 2.5%).

³ The result of the sum of the minimum Pillar 1 regulatory capital ratio (8%) and the Pillar 2 requirement (2.25%).

⁴ Inclusion of 100% of profits/losses in 2018 compared with 80% of profits/losses for 2017 in the transition period.

⁵ In December 2017, a deduction of 80% of total DTAs, which are based on future profits, was envisaged. Therefore, CET1 benefited from 20% of the amount as a temporary adjustment.

⁶ On the basis of the transitional provisions applicable in 2017, 80%, 10% and 10% of the shortfall of provisions was deducted from CET1, Tier 1 and Tier 2 capital, respectively. In the absence of Additional Tier 1 capital in December 2017, 90% of the shortfall, amounting to -€38.5 million, was deducted from CET1, benefiting from a transitional adjustment of 10%, amounting to approximately +€3.8 million.

⁷ See the section “Significant events in 2018” of this report for further details of this transaction.

⁸ With regard to the gradual exclusion of minority interests not eligible when fully loaded, the exclusion for 2017 was set at 80% (phase-out). As a result, at the end of application of the transitional provisions, it was no longer possible to include the remaining 20%.

- +€8 million approximately resulting from the combined changes reported for prudential filters, defined pension fund assets and other residual changes.

Over the twelve months, **Tier 2 capital** decreased by approximately €440 million to settle at €1,281 million. That decrease was caused by less inclusion, compared with December 2017, of the greater impairment losses with respect to the expected credit losses on credit exposures subject to the IRB approach up to a maximum of 0.6% of IRB risk-weighted assets (-€143 million) and a reduction in the eligibility of instruments as a result of regulatory amortisation instalments for the period (-€294 million). The changes recorded in other Tier 2 capital items (-€3 million) were mainly the result of the application of fully loaded rules and specifically to items connected, in particular, with the transitional treatment for the shortfall and for the OCI reserve.

As a consequence, **total own funds** stood at €8,420 million, down from €9,475 million at the end of 2017.

Capital ratios (Basel 3)

	31.12.2018	31.12.2017
Figures in thousands of euro		
Common Equity Tier 1 capital net of prudential filters	7,218,380	7,789,237
Deductions from Common Equity Tier 1 capital	-79,455	-34,735
of which: deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses **	-54,065	-34,735
Common Equity Tier 1 capital	7,138,925	7,754,502
Additional Tier 1 capital before deductions	-	-
Deductions from Additional Tier 1 capital	-	-
of which: negative items due to shortfall of provisions to expected losses *	-	-
Additional Tier 1 capital	-	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	7,138,925	7,754,502
Tier 2 capital before transitional provisions	1,330,472	1,775,601
Effects of grandfathering provisions on Tier 2 instruments	-	-
Tier 2 capital after transitional provisions	1,330,472	1,775,601
Deductions from Tier 2 capital	-49,022	-54,630
of which: negative items due to shortfall of provisions to expected losses *	-	-3,859
Tier 2 capital after specific deductions	1,281,450	1,720,971
Total own funds	8,420,375	9,475,473
Credit risk	4,461,475	4,946,639
Credit valuation adjustment risk	3,805	4,943
Market risk	67,585	75,680
Operational risk	349,957	337,033
Total prudential requirements	4,882,822	5,364,295
Risk weighted assets	61,035,275	67,053,683
Common Equity Tier 1 ratio		
(Common Equity Tier 1 capital after filters and deductions / Risk weighted assets)	11.70%	11.56%
Fully Loaded Common Equity Tier 1 ratio	11.34%	11.43%
Tier 1 ratio		
(Tier 1 capital after filters and deductions / Risk weighted assets)	11.70%	11.56%
Fully Loaded Tier 1 ratio	11.34%	11.43%
Total capital ratio		
(Total own funds / Risk weighted assets)	13.80%	14.13%
Fully Loaded Total Capital ratio	13.44%	13.99%

* As at 31st December 2017 the items included the effects of the applicable transitional provisions. More specifically, with regard to the shortfall of provisions to expected losses deducted from the Additional Tier 1 Capital, since there was no capital of that type, the relative amount was deducted entirely from the CET1 capital.

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. It should be noted that the capital absorptions relating to portfolios originating from the New Banks acquired are still calculated with the use of standardised models. The internal models are expected to be extended in the first half of 2019.

Risk-weighted assets (RWAs) totalled €61 billion, down by €6 billion from the €67 billion of the end of 2017. This trend may essentially be attributed to credit risk due to the effects of application of the new internal models to performing loans (i.e. the model change), to the reduction in volumes for the Product Companies, to restoration of the eligibility of guarantees, to the disposal of bad loans subject to GACS-backed securitisation, and to synthetic securitisations. These effects were only partially offset by increases in RWAs following the lengthening of the historical data series used in calculating risk parameters and in the increase in DTAs.

At the end of the period, the UBI Banca Group's capital ratios consisted of a Common Equity Tier 1 ratio and a Tier 1 ratio of 11.70% (11.56% a year ago), well above the target thresholds set on conclusion of the 2018 SREP (8.625%), and a Total Capital ratio of 13.80% (14.13%), also well above the required level.

The pro forma CET1 ratio calculated on the basis of the rules that will be in force at the end of the transitional period, currently relating exclusively to IFRS 9 (known as the fully loaded CET1 ratio), is estimated at 11.34% (11.43% at the end of 2017), while the Total Capital Ratio stands at 13.44% (13.99%).

As also already reported, banks have been obliged to hold a countercyclical capital buffer since 1st January 2016. If it is considered that, as reported in the press release dated 21st September 2018, the Bank of Italy set the countercyclical capital buffer for the fourth quarter of 2018 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.

With a communication dated 21st December 2018, the Bank of Italy also confirmed a coefficient of 0% for the anti-cyclical buffer for the first quarter of 2019.

At year end, the leverage ratio⁹ according to Basel 3 stood at 5.45% (5.85% at the end of 2017), while the fully loaded ratio was 5.27%.

With regard to the insurance business, we report that management accounting measurements of the solvency ratio comply with Solvency II regulations.

⁹ According to Basel 3, the leverage ratio is calculated as the ratio between the Tier 1 capital and the measure of the institution's total exposure. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015.

R&D and Innovation

Given the Group's nature as a banking institution, activities in the area Research, Development and Innovation mainly centre around studying the potential application of new technologies in customer relations in order to improve and/or expand the offering of products and services, as well as in internal business processes with the goal of simplifying them and making them more efficient. All of these activities are centrally managed within UBI Sistemi e Servizi.

Within this service company, the Group has an organisational unit dedicated specifically to innovation with the goal of managing issues most related to innovation and of gathering information on the main trends in technology, inspired by the principles and approaches typical of the Open Innovation movement.

During the year, the partnership with the ecosystem of fintech companies was consolidated. The Group confirmed its sponsorship of two initiatives of fintech accelerators in Milan and London extended the international network of contacts with accelerators, incubators, and brokers.

The focus of these innovation efforts has been: artificial intelligence, open banking, the blockchain¹, branch innovation, and evolving the digital customer experience.

Ongoing experimentation with [artificial intelligence](#) has led to the selection of partners with which to develop solutions and use cases. Testing has continued with the goal of assessing the scalability of the text and voice chat interfaces. Chatbot technology in particular has been applied as part of an in-house pilot project for direct assistance and support ticketing for anomalies and queries. Development efforts continue to focus on two main areas: support of the Bank's customers and internal operational support of the Group's employees.

Compliance with PSD2 regulations is only the starting point for a broader strategy of the Group establishing governance and other systems aimed at taking advantage of the opportunities that [banks opening up their data to third parties](#) can bring. During the year, work focused on implementing the platform for managing and monetising data-exchange services, i.e. the Application Programming Interfaces (APIs), and on scouting for open banking partners.

With regard to [blockchain](#), we are continuing with activities that began in 2017 in order to develop use cases with transactions and relationships with other banks. The Group has confirmed our involvement in consortia with leading Italian banks aimed at creating the first system blockchain between Italian banks, implementation of which began in 2018.

In terms of [branch innovation](#), work continued with research into new technologies to be used within the branches in order to provide an increasingly personalised customer experience, including technologies to manage the cross-channel branch journey.

For the [digital channel](#), scouting for new fintech technologies and solutions continues in order to provide a distinctive customer experience. Various prototypes have been developed during the year that will lead to the release of new functions in 2019.

¹ An emerging technology (on which Bitcoin is based) that makes it possible to exchange information, payments, goods and services in a protected, distributed manner. A blockchain is a secure database of transactions that is shared among all participants within a defined network of users. It records and stores all transactions that take place within the network and eliminates the need for centralised, "trusted" third party.

The internal control system

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

Transactions with related parties and with connected persons

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, UBI Banca has adopted a special “Regulation to govern the Related Party Transactions of UBI Banca”, containing rules relating to the identification, approval and execution of related party transactions entered into by UBI Banca, either directly or through its subsidiaries, in order to ensure their transparency and substantive and procedural fairness (the “RPT Regulation”).

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.

It is underlined that, effective from 2nd November 2018, the RPT Regulation (as amended and added to from time-to-time) has been replaced by the “Group Regulation on Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No. 263, ‘Identified Staff’ of the UBI Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties” (the “Single Regulation”¹). This provides unified regulation of procedural and decision-making rules which Group companies are required to implement with reference to the management of transactions with, amongst others, the related parties of UBI Banca and the connected persons of the UBI Banca Group.

Transactions of greater importance

In accordance with Art. 5, paragraph 8 of Consob Resolution No. 17221/12 of March 2010, “Public disclosures on related-party transactions”, the following related-party transactions of greater importance concluded in 2018 were excluded from the scope of application of the “Single Regulation”, 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 22nd November for €639.8 million;

¹ The Single Regulation is available on the corporate website of the Bank at www.ubibanca.it, Corporate Governance Section/Corporate Documents, together with the “Single Policy on related-party transactions in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulation No. 263, ‘Identified Staff’ of the UBI Banca Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties” (the “Single Policy”).

- approval of nine credit lines of the type “other industrial unsecured” for UBI Leasing on 2nd February for a total of €700 million, on 24th May for a total of €1,850 million and on 23rd November for a total of €1,175 million;
- approval of 23 credit lines of the type “subordinated unsecured for securitisation”, of which 16 on 24th May granted to UBI Finance Srl for a total of €15.6 billion and three on 19th December for a total €2,050 million granted to UBI Finance Srl and four on 20th June for a total of €3 billion granted to UBI Finance CB 2 Srl;
- the approval of two transfers of assets by UBI Banca to the special purpose entity UBI Finance Srl, to back the first covered bond programme, on 30th April for a total €2,233.7 million and on 1st December for a total €1,290.9 million;
- 13 repurchase agreement transactions by UBI Banca, with UBI Leasing as the counterparty, relating to the senior tranche of securitisations, amounting to €2.1 billion nominal each on 2nd January, 1st February, 28th February, 29th March, 30th April, 31st May, 2nd July, 1st August, 30th August, 1st October, 2nd November, 29th November, 28th December;
- approval of credit lines of the “very short-term lending” type for UBI Leasing numbering four on 22nd November for a total of €728.4 million and 21 for UBI Factor on 28th November for a total €1,945 million;
- approval of three credit lines of the “very short term lending - 48 hours advance notice” type for UBI Factor on 28th September for a total of €560.9 million.

We also report that:

- with regard to the Group reorganisation process which started in November 2016 with the integration of UBI Banca’s seven network banks, concluded in February 2017, and continued with the integration of the three New Banks acquired in May 2017, information was given in a press release dated 26th February 2018 of the signing of the deed that concluded the merger of Banca Teatina into UBI Banca;
- on conclusion of its examination and in view of the considerations of the Related Parties and Connected Persons Committee, which it shared, on 19th April 2018 the Supervisory Board approved the text, submitted by the Management Board, of the Group’s Single Policy for the management of conflicts of interest, considering it appropriate to (i) safeguard the integrity, transparency and proper nature of decision-making processes regarding the transactions of the Bank and other UBI Banca Group companies with parties defined as “Related Parties”, “Connected Persons”, “Identified Staff”, “Significant Parties in accordance with Art. 136 of the Consolidated Banking Law” and “Other Significant Parties” and (ii) also to guard against the risk that the closeness of persons to decision-making centres of Group companies might compromise the objectivity and impartiality of the decisions of their respective bodies. The policy was submitted to the European Central Bank on 24th April 2018. On 14th June 2018 the Supervisory Board also approved the version of the Group’s Single Regulation on the management of conflicts of interest issued by the Management Board on 13th June 2018, which came into force on 2nd November 2018.

We report that no other transactions with related parties were performed in the reporting period, as defined within the meaning of Art. 2427, paragraph 22 *bis*) of the Italian Civil Code, which influenced the capital position or the results of the companies.

Finally we report that in 2018 UBI Banca’s Related and Connected Persons Committee maintained a high and continuous level of monitoring over the question of “Related Parties and Connected Persons”. In particular it made a favourable assessment of activities to increase the awareness of the organisational units involved of the importance of proper and timely periodic reporting and recommended that specific occasions for informing and training units in the bank on these matters should be scheduled. The committee carried out its activities in accordance with the principle of the circulation of information and on the basis of involving the Group Corporate Affairs, Compliance and Organisation units.

In compliance with IAS 24, Part H of the Notes to the Consolidated Financial Statements and Part H of the Notes to the Separate Financial Statements provide information on balance sheet and income state transactions between related parties of UBI Banca and Group member companies and also on balance sheet and income statement transactions between UBI Banca and its own related parties, as well as those items as a percentage of the total for each item in the consolidated financial statements and in the separate financial statements.

Connected Persons

In implementation of article 53, paragraphs 4 *et seq* of the Consolidated Banking Law 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 persons connected to banks or banking Groups, where connected persons are defined as a related party and all the persons 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 persons. 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 (as subsequently added to and/or amended), UBI Banca has adopted specific “Regulation concerning measures regarding risk assets and conflicts of interest with regard to connected parties” (the Connected Persons Regulation), which contains decision-making processes designed to conserve the integrity of decision-making-processes regarding transactions with connected persons 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.

With effect from 2nd November 2018, the Connected Parties Regulation – together, as already anticipated, with the RPT Regulation – has been replaced by the Single Regulation.

In line with the provisions of the previous Connected Parties Regulation, the Single Regulation also requires 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, a report must be issued on at least a quarterly basis to bodies with the strategic supervision function of the companies in the UBI Banca Group on all transactions concluded in the previous quarter, inclusive of those not subject to a prior opinion from the committee in accordance with the Single Regulation. It shall specify the connected person, the type of transaction and its value and, if the transaction has not been subject 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 Single Regulation 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 Law. 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 persons concluded in the previous quarter.

The UBI Banca Group has always been within the time limits laid down by supervisory regulations in all the consolidated quarterly reports to the Supervisory Authority in 2018 (in March, June, September and December) (Bank of Italy Circular No. 263 of 27th December 2006 “New Regulations for the Prudential Supervision of banks” and subsequent amendments).

* * *

Further information is given on the Related Parties and Connected Persons 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.

Consolidated companies: the principal figures

Net profit for the year

Figures in thousands of euro	2018	4th Quarter 2018 A	3rd Quarter 2018 B	Change A-B	% change A-B	2nd Quarter 2018 C	1st Quarter 2018 D
Unione di Banche Italiane Spa	467,506	213,636	49,594	164,042	n.s.	66,027	138,249
Centrobanca Sviluppo Impresa Spa	(637)	(520)	(36)	484	n.s.	(27)	(54)
IW Bank Spa	4,458	2,371	64	2,307	n.s.	142	1,881
Pramerica SGR Spa	72,291	15,249	19,450	(4,201)	(21.6%)	21,509	16,083
Zhong Ou Asset Management Co. Ltd (25%)	6,978	1,902	1,113	789	70.9%	2,109	1,854
UBI Leasing Spa	(39,048)	(3,937)	(45,335)	(41,398)	(91.3%)	4,435	5,789
UBI Factor Spa	(9,159)	(13,741)	3,527	(17,268)	n.s.	977	78
Prestitalia Spa	18,439	3,653	4,107	(454)	(11.1%)	6,113	4,566
BPB Immobiliare Srl	(339)	(240)	171	(411)	n.s.	(83)	(187)
UBI Sistemi e Servizi SCpA	-	(12,618)	4,400	(17,018)	n.s.	1,536	6,682
BancAssurance Popolari Spa	7,239	1,155	1,697	(542)	(31.9%)	2,190	2,197
BancAssurance Popolari Danni Spa	2	(125)	86	(211)	n.s.	(48)	89
Aviva Vita Spa (20%)	5,220	6,620	280	6,340	n.s.	(4,380)	2,700
Lombarda Vita Spa (40%)	12,108	1,863	3,717	(1,854)	(49.9%)	3,952	2,576
Pramerica Management Co. Sa (*)	893	177	273	(96)	(35.2%)	245	198
UBI Trustee Sa (*)	(4)	(65)	(54)	11	20.4%	(103)	218
CONSOLIDATED	425,608	215,137	1,604	213,533	n.s.	91,207	117,660

(*) The result shown is from the financial statements prepared for the consolidation according to the accounting policies followed by the Parent.

Net loans and advances to customers

Figures in thousands of euro	31.12.2018	1.1.2018	Change	% change
Unione di Banche Italiane Spa (*)	88,542,551	90,454,118	-1,911,567	-2.1%
Prestitalia Spa	1,488,837	1,317,526	171,311	13.0%
IW Bank Spa	528,744	595,643	-66,899	-11.2%
UBI Factor Spa	2,624,510	2,458,468	166,042	6.8%
UBI Leasing Spa	6,289,170	6,845,813	-556,643	-8.1%
CONSOLIDATED	89,261,873	91,343,384	-2,081,511	-2.3%

Loans and advances to customers include items 20. 2), 30. 2) and 40. 2) in the asset section of the Reclassified Balance Sheet.

Risk indicators

Percentages	Net bad loans/net loans to customers at amortised cost		Total net non-performing loans/Net loans to customers at amortised cost	
	31.12.2018	1.1.2018	31.12.2018	1.1.2018
Unione di Banche Italiane Spa (*)	2.34%	2.93%	5.47%	6.70%
Prestitalia Spa	0.09%	0.59%	2.52%	4.36%
IW Bank Spa	1.31%	1.66%	2.99%	3.52%
UBI Factor Spa	7.25%	8.43%	8.41%	10.47%
UBI Leasing Spa	8.06%	9.59%	13.93%	15.65%
CONSOLIDATED	3.11%	3.87%	6.72%	8.19%

(*)The data as at 1st January 2018 includes that relating to Banca Teatina, merged with effect from 26th February 2018.

Direct banking funding from customers

Figures in thousands of euro	31.12.2018	1.1.2018	Change	% change
Unione di Banche Italiane Spa	90,003,034	92,320,294	-2,317,260	-2.5%
IW Bank Spa	2,797,643	2,812,196	-14,553	-0.5%
CONSOLIDATED	92,211,085	94,449,770	-2,238,685	-2.4%

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.

Indirect banking funding from ordinary customers (market prices)

Figures in thousands of euro	31.12.2018	1.1.2018 (*)	Change	% change
Unione di Banche Italiane Spa	84,555,406	85,544,199	-988,793	-1.2%
Pramerica SGR Spa	33,253,840	34,758,665	-1,504,825	-4.3%
IW Bank Spa	8,257,949	9,666,216	-1,408,267	-14.6%
BancAssurance Popolari + BancAssurance Popolari Danni Spa (1)	1,986,931	1,741,277	245,654	14.1%
Lombarda Vita Spa (2)	7,951,546	7,205,714	745,832	10.4%
Aviva Vita Spa (2)	14,152,369	12,271,377	1,880,992	15.3%
CONSOLIDATED	94,742,917	96,465,661	-1,722,744	-1.8%

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

Assets under management (at market prices)

Figures in thousands of euro	31.12.2018	1.1.2018 (*)	Change	% change
Unione di Banche Italiane Spa	58,400,536	57,604,071	796,465	1.4%
Pramerica SGR Spa	33,253,840	34,758,665	-1,504,825	-4.3%
IW Bank Spa	5,949,722	6,564,264	-614,542	-9.4%
BancAssurance Popolari + BancAssurance Popolari Danni Spa (1)	1,986,931	1,741,277	245,654	14.1%
Lombarda Vita Spa (2)	7,951,546	7,205,714	745,832	10.4%
Aviva Vita Spa (2)	14,152,369	12,271,377	1,880,992	15.3%
CONSOLIDATED	66,291,471	65,443,496	847,975	1.3%

(*) In accordance with standard accounting practice, the 31st December 2017 is shown as 00.01 a.m. on 1st January 2018.

- (1) Figure stated is for the total managed by the two companies. As they are fully consolidated, the total is included in consolidated funding in full; the portion subscribed by customers of UBI Banca is included in the aggregate relating to the Parent.
- (2) The figure stated is for the total managed by the companies. Since these companies are consolidated with the equity method, it is underlined that only the part subscribed by Group customers is considered in the calculation for consolidated funding.

Information on the main Product Companies

Summary financial statements containing the main income statement and balance sheet figures for IW Bank and the other main Product Companies are given in order to provide a disaggregated view of the performance of general banking business analysed at consolidated level.

IW BANK SPA

Figures in thousands of euro	31.12.2018	1.1.2018	Change	% change
Balance sheet				
Debt securities measured at fair through profit or loss	2,209	1,748	461	26.4%
Debt securities measured at fair value through other comprehensive income	62	87	-25	-28.7%
Debt securities measured at amortised cost	2,406,764	2,064,091	342,673	16.6%
Loans and advances to customers measured at amortised cost	528,744	595,643	-66,899	-11.2%
Net interbank debt measured at amortised cost	-76,009	218,221	-294,230	-134.8%
Equity (excluding profit/including loss for the year)	137,317	137,300	17	0.0%
Total assets	3,256,979	3,210,387	46,592	1.5%
Indirect funding from customers (inclusive of insurance investment and UBI Banca bonds)	8,257,949	9,666,216	-1,408,267	-14.6%
of which: assets under management	5,949,722	6,564,264	-614,542	-9.4%
Income statement				
Net interest income	20,396			
Dividends and similar income	15			
Net fee and commission income	57,626			
Net income (loss) from trading, hedging and disposal/repurchase activities	(697)			
Other net operating income/(expense)	993			
Operating income	78,333			
Staff costs	(21,577)			
Other administrative expenses	(47,778)			
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(489)			
Operating expenses	(69,844)			
Net operating income	8,489			
Net impairment losses on loans	(1,220)			
Net provisions for risks and charges	(2,817)			
Pre-tax profit from continuing operations	4,452			
Taxes on income for the year from continuing operations	6			
Profit (loss) for the year	4,458			
Other information				
Number of branches	20	21	-1	
Total work force (actual employees+staff on leasing contracts)	305	298	7	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	89.16%			
Net bad loans/net loans to customers at amortised cost	1.31%	1.66%		
Total non-performing exposures/Net loans to customers at amortised cost	2.99%	3.52%		
Capital ratios (comparative data relates to supervisory reports for the period ended 31/12/2017)				
Common Equity Tier 1 ratio	16.87%	18.09%		
Tier 1 ratio	16.87%	18.09%		
Total capital ratio	18.67%	20.08%		

The share capital of IW Bank as at 31st December 2018 was wholly owned by UBI Banca.

PRAMERICA SGR SPA

	31.12.2018	1.1.2018	Change	% change
Figures in thousands of euro				
OWN "RETAIL CUSTOMERS"	5,823,484	6,787,847	-964,363	-14.2%
Of which: customer portfolio management	4,161,704	4,943,162	-781,458	-15.8%
fund based instruments	1,661,780	1,844,685	-182,905	-9.9%
FUNDS	14,097,168	16,663,929	-2,566,761	-15.4%
of which: Pramerica funds included in fund based instruments	401,131	619,623	-218,492	-35.3%
Other duplications	77,379	92,814	-15,435	-16.6%
SICAVs and other (net of duplications)	13,811,698	12,019,326	1,792,372	14.9%
TOTAL ASSETS UNDER MANAGEMENT	33,253,840	34,758,665	-1,504,825	-4.3%
Income statement				
Net interest income	8			
Dividends and similar income	86			
Net fee and commission income	127,970			
Performance fees	13,523			
Net income (loss) from trading, hedging and disposal/repurchase activities	140			
Other net operating income/(expense)	894			
Operating income	142,621			
Staff costs	(17,751)			
Other administrative expenses	(21,973)			
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(34)			
Operating expenses	(39,758)			
Net operating income	102,863			
Net provisions for risks and charges	-			
Pre-tax profit from continuing operations	102,863			
Taxes on income for the year from continuing operations	(30,572)			
Profit (loss) for the year	72,291			
Other information				
Total work force (actual employees+staff on leasing contracts)	159	160	-1	

As at 31st December 2018, UBI Banca held 65% of the share capital of Pramerica SGR and the remaining 35% was held by Prudential International Investments Corporation.

UBI LEASING SPA

	31.12.2018	1.1.2018	Change	% change
Figures in thousands of euro				
Balance sheet				
Debt securities measured at fair through profit or loss	29,554	25,335	4,219	16.7%
Loans and advances to customers measured at amortised cost	6,289,170	6,845,813	-556,643	-8.1%
Net interbank debt measured at amortised cost	-6,185,358	-6,638,913	-453,555	-6.8%
Equity (excluding profit/including loss for the year)	361,852	400,898	-39,046	-9.7%
Total assets	6,806,151	7,387,560	-581,409	-7.9%
Income statement				
Net interest income	154,261			
Net fee and commission income	942			
Net income (loss) from trading, hedging and disposal/repurchase activities	(1,721)			
Other net operating income/(expense)	8,996			
Operating income	162,478			
Staff costs	(16,440)			
Other administrative expenses	(19,645)			
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (*)	(3,557)			
Operating expenses	(39,642)			
Net operating income	122,836			
Net impairment losses on loans (**)	(185,934)			
Net provisions for risks and charges (***)	(8,524)			
Profit (loss) on the disposal of equity investments	(97)			
Loss on continuing operations before tax	(71,719)			
Taxes on income for the year from continuing operations	32,671			
Loss for the year	(39,048)			
Other information				
Total work force (actual employees+personnel on leasing contracts)	218	226	-8	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	24.40%			
Net bad loans/net loans to customers at amortised cost	8.06%	9.59%		
Net non-performing exposures /Net loans to customers at amortised cost	13.93%	15.65%		
Capital ratios (comparative data relates to supervisory reports for the period ended 31/12/2017)				
Common Equity Tier 1 ratio	6.41%	6.73%		
Tier 1 ratio	6.41%	6.73%		
Total capital ratio	6.65%	7.12%		

(*) The item also includes €1.1 million of impairment resulting from the appraisal of a real estate property held for sale and a further €0.6 million of impairment recognised following the acceptance of an offer to purchase that same property.

(**) The company has set a new policy for the measurement of non-performing receivables which led to the introduction of a haircut on the appraisal value of leased real estate properties.

(***) The amount includes €7.7 million attributable to litigation in relation to subsidies received on photovoltaic business, €0.5 million for expenses to be incurred in relation to a leased real estate property and €0.7 million in relation to seven civil cases.

The share capital of UBI Leasing as at 31st December 2018 was wholly owned by UBI Banca.

PERFORMANCE BY BUSINESS SECTOR

Figures in thousands of euro	2018		2017		% change	
	number	amount	number	amount	number	amount
Auto	2,081	103,529	2,245	113,336	-7.3%	-8.7%
of which: - motor vehicles	902	34,772	956	36,992	-5.6%	-6.0%
- commercial vehicles	707	17,813	707	17,198	0.0%	3.6%
- industrial vehicles	472	50,943	582	59,146	-18.9%	-13.9%
Machinery and equipment	2,107	295,420	2,305	357,834	-8.6%	-17.4%
Aeronautical	17	8,171	16	15,327	6.3%	-46.7%
Property	307	237,130	355	273,072	-13.5%	-13.2%
Energy	4	2,733	2	5,973	100.0%	-54.2%
Total	4,516	646,983	4,923	765,542	-8.3%	-15.5%

UBI FACTOR SPA

	31.12.2018	1.1.2018	Change	% change
Figures in thousands of euro				
Balance sheet				
Loans and advances to customers measured at amortised cost	2,624,510	2,458,468	166,042	6.8%
Net interbank debt measured at amortised cost	-2,472,973	-2,319,771	-153,202	6.6%
Equity (excluding profit/including loss for the year)	119,756	126,732	-6,976	-5.5%
Total assets	2,838,152	2,693,289	144,863	5.4%
Income statement				
Net interest income (*)	30,083			
Net fee and commission income	(818)			
Other net operating income/(expense)	996			
Operating income	30,261			
Staff costs	(12,346)			
Other administrative expenses (**)	(11,373)			
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(21)			
Operating expenses	(23,740)			
Net operating income	6,521			
Net impairment losses on loans	(12,400)			
Net provisions for risks and charges (***)	(7,727)			
Loss on continuing operations before tax	(13,606)			
Taxes on income for the year from continuing operations	4,447			
Loss for the year	(9,159)			
Other information				
Total work force (actual employees+staff on leasing contracts)	138	144	-6	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	78.45%			
Net bad loans/net loans to customers at amortised cost	7.25%	8.43%		
Net non-performing exposures /Net loans to customers at amortised cost	8.41%	10.47%		
Capital ratios (comparative data relates to supervisory reports for the period ended 31/12/2017)				
Common Equity Tier 1 ratio	7.40%	8.30%		
Tier 1 ratio	7.40%	8.30%		
Total capital ratio	7.40%	8.30%		

(*) Interest income includes €5.8 million of arrears of interest.

(**) The item also includes €0.8 million of professional credit recovery services in view of a disposal and €0.2 million for consulting services.

(***) The provision relates to revocation (clawback) litigation.

The share capital of UBI Factor as at 31st December 2018 was wholly owned by UBI Banca.

PRESTITALIA SPA

	31.12.2018	1.1.2018	Change	% change
Figures in thousands of euro				
Balance sheet				
Loans and advances to customers measured at amortised cost	1,488,837	1,317,526	171,311	13.0%
Net interbank debt measured at amortised cost	-1,240,258	-1,078,221	-162,037	15.0%
Equity (excluding profit/including loss for the year)	214,495	213,911	584	0.3%
Total assets	1,656,418	1,452,795	203,623	14.0%
Income statement				
Net interest income	54,921			
Net fee and commission income	(1,474)			
Net Profit/(loss) from trading and hedging activity	1,741			
Other net operating income/(expense)	915			
Operating income	56,103			
Staff costs	(10,379)			
Other administrative expenses	(19,363)			
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(33)			
Operating expenses	(29,775)			
Net operating income	26,328			
Net impairment losses on loans (*)	4,093			
Net provisions for risks and charges (**)	(3,486)			
Pre-tax profit from continuing operations	26,935			
Taxes on income for the year from continuing operations	(8,496)			
Profit (loss) for the year	18,439			
Other information				
Total work force (actual employees+staff on leasing contracts)	173	173	-	
Financial ratios				
ROE [profit for the year/equity (excluding profit for the year)]	8.60%			
Cost/income ratio (operating expenses/operating income)	53.07%			
Net bad loans/Net loans to customers at amortised cost	0.09%	0.59%		
Net non-performing exposures /Net loans to customers at amortised cost	2.52%	4.36%		
Capital ratios (comparative data relates to supervisory reports for the period ended 31/12/2017)				
Common Equity Tier 1 ratio	15.01%	16.28%		
Tier 1 ratio	15.01%	16.28%		
Total capital ratio	15.01%	16.28%		

(*) The company benefited, in the second quarter of 2018 in particular, from the unforeseen receipt of repayments on UTP exposures.

(**) The item includes €2.6 million of provisions for complaints and reimbursements.

The share capital of Prestitalia as at 31st December 2018 was wholly owned by UBI Banca.

Other information

Treasury shares

The companies included in the consolidation did not hold any of their own shares in portfolio, nor those of the Parent during the course of 2018.

As at 31st December 2018 UBI Banca held 7,861,190 treasury shares with no nominal value, accounting for 0.69% of the share capital (further details are given in the UBI Banca Management Report, which may be consulted).

Litigation

Full information is reported on tax and other Group litigation as well as on anti-money laundering affairs in the Notes to the Consolidated Financial Statements, Part B – Section 12 of Liabilities.

Inspections and legal proceedings

European Central Bank and Bank of Italy Inspections

On 26th February 2016 the European Central Bank commenced inspections into the Parent, UBI Banca, on the subject of [BUSINESS MODEL & PROFITABILITY](#). The inspections were concluded on 20th May 2016. On 10th March 2017 the Bank sent the Authority its reply to the evidence cited in the final report received on 10th January of the same year, along with an action plan, followed by regular updates on the actions taken. At the date of this report a single activity remained that is currently underway. It is due to be completed by June 2019 and relates to a new view of management reporting in terms of size.

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 was on data aggregation processes, with particular regard to credit risk. The inspections were concluded on 28th July 2016.

On 12th December 2016, the final report was received, in which the ECB officially noted the corrective actions requested in the areas identified for improvement, notably with regard to financial reporting (FINREP), common reporting (COREP), reporting large exposures, and the operational report on credit risk that is submitted to the governing bodies of the UBI Banca Group in relation to the aforementioned areas. On 11th January 2017, the Parent provided a response in which it formalised the corrective actions undertaken. Following this detailed updates were sent to the Authorities on a regular basis and on 24th May 2018 they were notified of the completion of the aforementioned actions.

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 2016.

On 27th January 2017, the ECB notified the Bank of the results of the inspections performed, and on 7th March 2017 the Parent replied to the authority by submitting a plan of action. Periodic updates on the progress of these remedial actions have subsequently been submitted, the last of

which was sent to the ECB on 14th December 2018, relating to the period ending 30th September 2018.

With a formal notification of dispute issued on 23rd July 2018, the Bank of Italy announced the commencement of a sanctioning procedure against the Bank for violations subject to administrative fines. These proceedings originated from aforementioned inspections into governance, remuneration and internal controls, conducted by the European Central Bank in the period from 27th June 2016 to 5th August 2016, intended to assess the Group's ability to prevent and manage [CONFLICTS OF INTEREST](#). More specifically, the formal notification of dispute declared by the Bank of Italy regarded shortcomings found by the European Central Bank in processes and procedures designed to manage conflicts of interest (mapping, criteria for the identification of ordinary and extraordinary financial conditions, monitoring carried out by the internal control functions). UBI Banca submitted its defence documents on 21st September 2018.

In a letter of 17th November 2016, the ECB announced the commencement of an inspection relating to [CAPITAL POSITION CALCULATION ACCURACY](#). These inspections concluded on 3rd March 2017.

On 3rd July 2017 the ECB sent its final report, highlighting some room for improvement in internal control processes and areas for further investigation regarding credit risk mitigation techniques on financial instruments issued by the Bank. The letter containing the supervisory authority's recommendations was received on 20th July. The Bank replied to the ECB on this matter on the following 14th August, followed by progress updates on the scheduled actions. On 8th August 2018, the authority was notified of the completion of the requested mitigation actions, declaring the final remedial action complete.

With a letter dated 11th January 2017, the European Central Bank gave notification of an inspection into [INTERNAL MODEL](#) as a consequence of an application made to implement a "model change" in order to modify the Bank's internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions. The on-site investigations were commenced on 6th February and concluded on 7th April 2017.

The Assessment Report from the ECB arrived on 23rd October. Authorisation for the application of the new models was issued on 21st March 2018¹. On 20th April the Bank submitted an action plan to bring the new models into full compliance with the observations made by the ECB at the time when the Model Change was authorised. A quarterly status report on this activity is to be sent to the authority, the last of which was sent on 21st December, referring to the situation as at 31st December 2018.

With a letter dated 26th June 2017 the European Central Bank announced the start of an inspection on the subject of [CREDIT AND COUNTERPARTY RISK MANAGEMENT AND RISK CONTROL SYSTEM](#). The inspection, which regarded the Group's (UBI Banca, UBI Leasing and UBI Factor) portfolio of performing and non-performing loans to corporates (specialised lending, large corporate, corporate and small business, with the exclusion of retail businesses), commenced on 18th September 2017 and was concluded on 23rd February 2018. On 25th June the final report arrived from the Authority, and on 4th September the Bank received a draft follow-up letter containing a draft version of the mitigation actions requested in light of the findings resulting from the inspection. The contents of the Bank's reply to the ECB dated 20th September were then discussed with the supervisory authority during a closing meeting on 18th October. After receiving the final follow-up letter on 30th November, the Bank sent its initial reply on 10th December and an action plan on 21st December 2018.

The requests formulated by the ECB have essentially been incorporated into the present consolidated accounts.

On the 9th October 2017 a Bank of Italy inspection commenced, following on from a communication sent by that authority on 22nd September entitled [THE INTRODUCTION ONTO THE MARKET AND THE REVISION OF RETAIL BANKING PRODUCTS](#). The inspection is into the stages of the production and distribution process and governance and control mechanisms. It was concluded on 10th November 2017. On 31st May 2018 the Bank of Italy communicated the

¹ See in this respect the information given in the section "Significant events in 2018" of this report.

results of the inspections in question which showed the overall adequacy and reliability of the provisions adopted by the Group to regulate product governance processes, in relation to which some areas for improvement had been identified with reference to: increased oversight of organisation and control and greater structuring of corporate processes and procedures; overall strengthening of Product Governance, including the increased involvement of the governing bodies; an increased focus on monitoring systems (complaints and customer satisfaction), the analysis of the suitability of individual products to meet customer needs and the consequent enhancement of the current reporting system. The associated remedial actions were sent to the Bank of Italy on 29th June, within the required time limit.

On 6th November 2017 the Bank of Italy commenced inspections designed to assess: (i) the state of implementation of corrective action requested following the latest inspections on **ANTI-MONEY LAUNDERING**, reported in detail in the 2016 annual report; (ii) the suitability of the organisational structure for producing accurate reports of overall average effective interest rates and preventing violations of **USURY** regulations. The inspection was concluded on 14th February 2018. On 17th April Bank of Italy communicated the results of the inspections in question, giving a partially negative assessment, which included some allegations (with the commencement at the same time of administrative sanctioning procedures against the Bank, in accordance with Law No. 241 of 7th August 1990). UBI Banca sent its objections to the penalty on 15th June 2018. On the following 13th July the Bank sent its full reply and plans for organisational, procedural and operational corrective actions, including an indication of the time needed to complete them.

On 2nd February 2019, the Bank of Italy notified the Bank of its conclusive proposal from the preliminary inspection phase, formulated by the Supervisory Institutional Relations Service (RIV), which would impose an administrative fine on the Bank of 1.2 million euros (against the legal maximum limit of "ten per cent of total annual turnover"²). The Bank may, within 30 days of this notification, submit any comments to the Bank of Italy's Directors, who may: (i) accept or modify the RIV's proposal, (ii) ask for additional investigations, or (iii) dismiss the sanctioning procedure. Comments are currently being prepared.

It should also be noted that quarterly progress updates are sent to the supervisory authority regarding ongoing mitigation actions, the last of which was sent on 24th January 2018, relating to the situation as at 31st December 2018. On 25th January, a communication was received from the Bank of Italy in which the Supervisory Authority asks for more stringent times, that must not go beyond the end 2019, to complete the intervention concerning the process of identifying, assessing and reporting potentially suspicious transactions; for these purposes the Bank has planned to evolve the dedicated IT platform (Anti-Money Laundering Portal).

The Bank was asked to (i) send the supervisory authority a new schedule of the work foreseen under the plan, taking the aforementioned suggestions into account, by the end of February 2019, and to (ii) provide an update on the status of reorganisation initiatives, accompanied by the management and supervisory bodies' assessments, by 30th June 2019.

The competent units promptly began working to fulfil the authority's requests, drafting a new schedule of works, which became the subject of a memo sent to the Bank of Italy on 8th February 2019.

UBI Banca must provide a progress update on reorganisation initiatives, accompanied by the management and supervisory bodies' assessments, by 30th June 2019; on this matter, the supervisory authority reserves the right to carry out the necessary checks, by the means deemed most appropriate.

² In accordance with a Bank of Italy provision dated 18th December 2012 containing measures on penalties and administrative penalty procedures, as last amended by a provision dated 3rd May 2016, revenue is defined as "the aggregate defined in Art. 316, Table 1 of Regulation (EU) No. 575/2013 (the 'CRR')".

Table 1 of the provision cited contains the following items:

- 1 - Interest receivable and similar,
- 2 - Interest payable and similar charges
- 3 - Income from shares and other variable/fixed-yield securities
- 4 - Commissions/fees receivable
- 5 - Commissions/fees payable
- 6 - Net profit or net loss on financial operations
- 7 - Other operating income

On the basis of the approach followed for the calculation of the relevant indicator with regard to operational risk, in accordance with the provisions of Art. 316 of the CRR, the revenue of the UBI Banca Group (Regulatory Perimeter) for the year ended 31st December 2017 (IAS 39) amounted to €3,491,640 thousand.

On 19th February 2018, the European Central Bank started an internal model investigation in the context of a [TARGETED REVIEW OF INTERNAL MODELS](#) for the retail mortgages model perimeter, which concluded on 4th May. The outcomes were presented during the exit meeting of 6th September and the Bank sent its considerations to the authority on 20th September. On the following 31st October the bank received the “final assessment report”. At the date of this report, the Bank is awaiting the ECB's decision.

As already anticipated by the European Central Bank in a communication dated 28th March, on 7th May 2018 it commenced an inspection into [INTERNAL GOVERNANCE AND RISK MANAGEMENT](#) with a focus on IT strategy and governance, management of the IT projects portfolio and on recent initiatives taken regarding the digital distribution channel and payment services in the light of regulatory developments. This on-site inspection was concluded on 27th July 2018 and the outcomes were presented in an “exit meeting” on 14th November. Following up on the Bank's considerations, sent on 29th November, the ECB sent its final report on 21st December. The Bank awaits the follow-up letter with the official remedial actions requested based on the findings.

On 14th May 2018, as previously announced by the European Central Bank with a letter dated 6th April, an investigation into the [INTERNAL MODEL](#) commenced, for the approval of the extension of the perimeter of internal models relating to credit risk, consistent with the Group's roll-out plan. The inspections were concluded on 3rd August 2018. The outcomes were presented during an “exit meeting” of 11th October and the Bank sent its considerations to the ECB on the following 22nd October. On 26th October the Bank received the final assessment report. At the date of this report, the Bank is awaiting the ECB's decision.

In a letter dated 26th June 2018, the European Central Bank announced the start of an on-site inspection regarding a [CREDIT QUALITY REVIEW](#) for the Residential Real Estate (RRE) portfolio. The inspection started on 1st October 2018 and the investigations are still ongoing.

As far as is known, the ECB has adopted an across the board assessment methodology for this review activity in the context of a “campaign at European level”. The methodology involves the selection of a limited sample identified on the basis of statistical criteria to which prudential assessment criteria are applied defined on the basis of standard guidelines, and which therefore do not take full account of the specific assets that back the various banks subject to inspection. For this reason the inspection team stated that the results of the on-site analyses, which will be assessed and consolidated at central level and then disclosed to the Bank indicatively in May, will be considered by the ECB as part of its ordinary SREP process and could possibly lead to discussions with the Bank on the subject of credit measurement policies. No requests in this respect have been received so far.

On 10th September 2018, the European Central Bank initiated an internal model investigation in the context of a [TARGETED REVIEW OF INTERNAL MODELS](#) on the perimeter of the Corporate-Other and Corporate-SME models. The inspections concluded on 23rd November. On 30th January 2019, the related draft report arrived, which was discussed in an “exit meeting” on 4th February, in relation to which the Bank will send its comments by 18th February.

The branch inspection into [TRANSPARENCY](#), initiated by the Bank of Italy on 17th September 2018, took place at 20 of the Bank's branches and concluded on 16th November. The Bank now awaits the results.

* * *

The aforementioned inspections, which take place in the form of on-site inspections by ECB or Bank of Italy inspectors at UBI Banca, are accompanied (as part of the “Supervisory Examination Programme” 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” and “Quality Assessment”.

The thematic reviews currently in progress in the UBI Banca Group regard the following areas:

- [IFRS 9](#) (for the purpose of learning the latest developments in the process of adopting this new accounting standard): the review was concluded on 31st March 2017. The preliminary results of the analysis were discussed with the ECB on 13th July and on 22nd August the

supervisory authority delivered its relative draft letter, on which UBI Banca submitted its comments on the following 18th September.

On 12th October 2017 the ECB sent its final letter containing the results of its review. The authority's findings were that management involvement in the project to implement the new standards was adequate, but that the formalisation of the methodological and implementation choices could be improved. On 15th November, UBI Banca provided the ECB with the requested response concerning measures identified to implement the recommendations formulated by the same authority, followed by updates on 21st December 2017 and 12th January 2018 containing details of the corrective actions undertaken. The final remedial action is still ongoing, and is expected to be completed by the end of the first quarter of 2019.

- *Profitability drivers – Business Model and Profitability* (examination of the business model as part of the SREP): the analysis started on 9th March 2017; on 22nd March a request was received to fill in a template designed, amongst other things, to provide assessments relating to the Thematic Review; this was submitted on 3rd April. On 24th October 2017 the ECB formulated requests which the Bank answered on 26th October. On 19th January 2018 a meeting was held with the authority in which preliminary observations on the activity conducted were discussed. The outcomes of this activity are incorporated into the overall annual SREP assessments.

Consob inspections

In a notification on 14th November 2018, Consob informed that it would begin an inspection at the Parent concerning the following topics: (i) procedures adopted for the purpose of customer profiling; (ii) operations to control concentration risk in customer portfolios, specifically regarding UBI Banca issuer risk.

At the date of this report, the inspection team's work is still ongoing.

Legal proceedings

Information is given below 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 a 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 on Corporate

Governance Reports from 2009 to 2013, because the market had already been informed of the rules contained in the Regulations mentioned).

On 14th November 2017 UBI Banca received notification of an appeal by the Consob against ruling No. 879/2017 before the Supreme Court of Cassation and it immediately filed its defence. The Consob immediately filed a counter appeal against the Bank's incidental appeal.

- 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 notice, 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, who then received notification of the date set for the preliminary hearing which was 10th November 2017.

In the preliminary hearing, the judge admitted only Consob as civil claimant, against the individuals charged with crimes under article 2638 of the Civil Code. UBI Banca was not summoned for civil liability.

The preliminary hearing judge ruled on 27th April 2018 to commit the defendants to trial, scheduled to begin at the Court of Bergamo on 25th July. The Chairman of the Board of the first section of the Court of Bergamo ordered, due to functional jurisdiction, for the proceedings in question to take place in the second section of the same court, adjourning the proceedings until a hearing on 17th September 2018. During that hearing, citizens Jannone, Bava, Vedovato, Cividini, Agliardi, Franceschetto, Bertolotto, Peroni and Cardillo all filed entries to appear as civil claimants. Consob had already been admitted as civil claimant, while the Bank of Italy retained only the role of injured party, not a civil claimant.

At the subsequent hearing on 28th September, the defence argued that the civil claimant entries were inadmissible; the Bank's defence team, in particular, objected to the (only) entries to appear as civil claimants against UBI Banca, which were those of citizens Bava and Cardillo.

At the 26th October 2018 hearing, citizen Cardillo withdrew his entry to appear as civil claimant. Subsequently, the Court issued a writ stating that Mr Bava's entry to appear as civil claimant was inadmissible, whilst the Court admitted citizens Agliardi, Cividini, Vedovato, Bertolotto, Franceschetto and Jannone as civil claimants, although limited to paragraph (f) of the decree issuing the ruling and only with respect to the individual defendants.

None of the admitted civil claimants requested to summon UBI Banca for civil liability.

Having dealt with some preliminary matters, the proceedings have now been adjourned until 12th February 2019, when questions related to the documents produced as evidence will be addressed. Hearings have also been scheduled up to July 2019 for the start of the actual trial.

On the 2nd October 2017 the Public Prosecutor's Office of Bergamo made an official request for the case regarding the charges of fraud and failure to comply with provisions regarding

the duties of senior officers of banks and infringements of tax laws, originally brought against (amongst others) some senior officers of UBI Leasing and which are now no longer included in the application for committal to trial, to be closed with no further action taken. The judge presiding over the preliminary hearing responded to that application by ruling that the case should be closed on 4th January 2018.

The Bank stresses its proper conduct and is confident that its compliance with the law and with organisational regulations will be confirmed in the courts at all levels, as already clearly demonstrated by the judgment of 19th June 2017 issued by the Court Appeal of Brescia which recognised UBI Banca's proper conduct and that of its senior officers in relations with the supervisory authorities and with the market.

In consideration of the nature of the matter, it is felt that it can have no repercussions on Group assets.

- Lastly, with reference to IW Bank, as already reported in the last financial report, on 3rd December 2015 some past and current board members of IW Bank were notified of a "search and seizure order" which also contained a "notice of investigation" in their capacity as persons subject to investigations pursuant to articles 369 and 369 *bis* of the code of criminal procedure, issued against them by the **Public Prosecutor's Office of Milan**. The alleged offences are: criminal conspiracy (Criminal Code Art. 416), money-laundering and conspiracy to launder money (Criminal Code, Art. 110 and Art. 648-*bis*), self-money laundering and conspiracy to commit self-money laundering (Criminal Code, Art. 110 and Art. 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 of the Italian Civil Code) 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 predicate offence of hindrance of the public supervisory authorities in the exercise of their duties, the Public Prosecutor's Office charged IW Bank with corporate liability in accordance with Legislative Decree No. 231 of 2001 (pursuant to Art. 25 *ter* of the aforementioned decree).

With sole reference to the alleged offence of hindrance of the public supervisory authorities in the exercise of their duties (pursuant to Art. 2638 of the Italian Civil Code), on 26th October 2017 the Office of the Judge for the preliminary hearing at the Court of Milan notified IW Bank, in its capacity as the entity responsible pursuant to legislative Decree No. 231 of 2001, of an order setting the date for the preliminary hearing for 12th April 2018, following a request for committal to trial filed by the Public Prosecutor on 17th October 2017.

It is underlined that the more serious offences cited in the search warrant executed in December 2015 do not appear in both the notice of the closure of the preliminary investigations and in the subsequent application for committal to trial.

In the preliminary hearing, all of the defendants, including IW Bank in its position as liable institution pursuant to former Legislative Decree No. 231/2001, requested to proceed with an abbreviated trial. The judge accepted the request and adjourned proceedings until judgement discussions at a hearing scheduled for 26th November 2018. Following a further postponement, the trial hearings are now scheduled to begin on 25th March 2019, to then continue on 26th and 28th March.

Developments in the regulatory context

Again in 2018, the general national and European regulatory framework in which Italian banks operate was in a state of change, placing the burden of a wide variety of monitoring and

compliance activities on those banks. The most notable measures adopted were in the areas described below³.

THE ANTITRUST AUTHORITY

On 25th September 2018, the Autorità Garante della Concorrenza e del Mercato (Italian Antitrust Authority) issued Antitrust Compliance Guidelines, aiming to establish the essential components of an antitrust compliance plan in line with international best practices, including acknowledging the value of competition as an integral part of corporate culture, identifying and assessing company-specific antitrust risk, setting up appropriate management processes to reduce this risk, providing a system of incentives, as well as carrying out training and auditing activities. Companies involved in antitrust investigations that intend to benefit from the mitigating circumstance of an internal compliance plan⁴ must submit a request for this purpose to the Authority's offices, accompanied by a report illustrating why this plan should be considered adequate and describing the concrete initiatives put in place to ensure effective and efficient application and implementation of the plan.

The UBI Banca Group is currently considering the option of commencing a project to concretely apply this "antitrust compliance plan" for all Group companies. Such a plan, in order to be adequate and thus fit for the purpose of being considered a potential mitigating circumstance, would not only presuppose adopting and spreading specific internal regulations, but must also concretely perform the function of preventing antitrust breaches.

OUTSOURCING

On 22nd June 2018, the European Banking Authority (EBA) put a document out for consultation entitled "Draft Guidelines on Outsourcing arrangements" containing new guidelines on the outsourcing of the processes, services and activities (or stages of these) of banks, investment firms, payment institutions and electronic money institutions. The most important changes introduced include the following: (i) the creation of a register of all existing outsourcers to be made available to the supervisory authorities at the time of "Supervisory Review and Evaluation Processes" (SREPs), which is every three years and, in any event on request from the supervisory authority itself; (ii) the creation of a company function or the appointment of a senior manager as an outsourcing officer which reports directly to the management bodies; (iii) the strengthening of controls on risks resulting from outsourcing arrangements; (iv) the identification, management, monitoring and reporting of all risks (present and potential) resulting from agreements with third parties, regardless of whether or not these agreements constitute an outsourcing arrangement. The consultation ended on 24th September 2018, but the final document has not yet been published.

GOVERNANCE

In May, the European Central Bank (ECB) updated its guide to fit and proper assessments of senior officers (issued in May 2017) with the goal of explaining in greater detail the policies, practices and processes employed to assess the suitability of members of the governing bodies of major credit institutions. In Italy, the legislative framework concerning the suitability requirements for senior company officials cannot yet be implemented because we are still awaiting the related decree by the Ministry of the Economy and Finance (MEF).

On 26th October 2018, the Bank of Italy published the 25th update to Circular No. 285 of 17th December 2013, amending supervisory provisions on "remuneration and incentive policies and practices"⁵.

The UBI Banca Group has begun progressively updating internal regulations on the "remuneration and incentive policies" of both the Parent and its subsidiaries; these activities are expected to be completed by the end of the first half of 2019.

BANKING PRODUCTS AND SERVICES

Transparency in banking and financial transactions and services

With the main objective of implementing Directive 2015/2366/EU (PSD2) on payment services in Italian law, on 11th July 2018 the Bank of Italy put out a document for consultation containing amendments to "Provisions on transparency in banking and financial transactions and services: proper conduct in relationships between the intermediaries and customers". The proposed changes aim mainly to align the

³ For changes to banking industry financial reporting, see the General Part (A.1) of the Notes to the Consolidated Financial Statements.

⁴ The compliance plan must be adapted to the nature, size and market position of the business. In general, in fact, the type of business conducted determines the antitrust risks to which the company is exposed.

⁵ The main changes to note are: (i) amendments to the definitions of remuneration; (ii) reinforced measures to combat potential evasion of remuneration regulations; (iii) changes to the process of identifying and excluding "identified staff"; (iv) changes to the procedure for notifying the relevant authorities of decisions to increase the cap (the ratio between variable and fixed remuneration); (v) deferment of variable remuneration to 'identified staff' and the length of the retention period for financial instruments; (vi) amendments to the rules on retention bonuses and multi-year employee incentive plans; (vii) changes to the rules on discretionary pension benefits, which constitute a portion of the variable remuneration component to be used in calculating the variable/fixed remuneration ratio limit; (viii) changes to the rules on "golden parachutes".

Italian regulations with the European framework⁶. The consultation ended on 10th September 2018, but the final document has not yet been published.

On 5th December 2018, the Bank of Italy, following up on another consultation period that ended in April, issued an update to the provisions cited above regarding governance and control mechanisms for retail banking products. The regulations subject to amendment reinforce the overall provisions governing proper conduct in relations between intermediaries and customers designed to ensure that the provision of banking and financial products is aimed at the type of customer, identified when the products themselves are designed, for whom they are actually suited. The new provisions apply to products created and offered on the market from 1st January 2019 and in any case to all products subject to substantial modification after that date.

The Group has proceeded to reformulate its policy and rules on product development and management. Measures were also envisaged to incorporate new processes and apply developments within the context of the broader Product Governance project, which began in March 2018 and is still ongoing.

At the end of November, the European Money Market Institute (EMMI) announced that it will stop calculating the Euribor rate on Act/365 and 30/360 count conventions as from 1st April 2019. This decision, which affects banking and other financial products linked to these indexes, bears significance to the UBI Banca Group mainly with regard to loan contracts.

This issue is being monitored by a specific internal working group responsible for determining what adjustments should be made on a system-wide level, including potentially recalculating the interest rates that will be discontinued using the Act/360 method (which will remain in force), accompanied by informative notifications sent to customers.

On 27th December 2018, the Bank of Italy opened consultations on amendments to Transparency regulations in the context of implementing the Payment Account Directive (PAD). The regulations currently in force will be modified in the following areas:

- pre-contractual and periodic information (for services and payment accounts): to facilitate comparisons between retail offers, the PAD introduces two new documents, in addition to existing ones, which must follow a standard format, to provide consumers certain information both before signing a contract (the Fee Information Document, abbreviated FID) and while the contract is in place (Summary of Fees, or SOF);
- terminology used in the information sheet template for current accounts offered to customers: introduction of standard terms across the EU.

During the third quarter of 2018, the UBI Banca Group started a PAD Project, aiming to ensure implementation of the directive regarding the new "Basic Account" and terminology standardisation. Once these activities were completed, the internal working group then focused, in the fourth quarter, on pinpointing the specific actions needed to ensure the introduction of standardised EU terminology by 31st January 2019 related to the most common services linked to payment accounts, on a national level, in pre-contractual information documents, periodic statements, contracts (both new and pre-existing contracts) and in all other information sheets and communication materials given to consumers.

Salary backed loans (SBL) and pension backed loans (PBL)

On 30th March 2018, the Bank of Italy issued a document containing supervisory guidelines on SBLs or PBLs which provides intermediaries and the market with practical advice on the principles contained in the regulations in order to fight improper conduct and to promote the adoption of proper conduct in dealings with customers.

The authority also highlighted that it is necessary and urgent on the salary backed loan market to reduce disputes between intermediaries and customers arriving before the Financial Banking Arbitrator (ABF), partly in order to ensure greater protection of customers and to mitigate operational, reputational and legal risks for intermediaries.

Over the course of 2018, the UBI Banca Group adopted specific controls designed to strengthen the process of handling disputes with customers, in order to limit the number of appeals to the ABF.

Also, at the beginning of December, as part of a broader 'banking package', the ECOFIN ministers reached an agreement on amendments to Directive 2013/36/EU (the Credit Requirements Directive – CRD IV) and to Regulation (EU) 575/2013 (Capital Requirements Regulation – CRR) with regard to salary and pension backed loans, stipulating a reduction in capital absorption from the current 75% to 35% of risk-weighted assets.

INVESTMENT PRODUCTS AND SERVICES AND THE STABILITY OF FINANCIAL MARKETS

The Consob (Italian securities market authority) approved new regulations with Resolution No. 20307 of 15th February 2018.

This provision forms part of the implementation in Italian law of Directive 2014/65/EU (Markets in Financial Instruments Directive - MiFID II) and Regulation (EU) No. 600/2014 (MiFIR) and it contains following:

- provisions for the protection of investors, including knowledge and expertise requirements for the staff of intermediaries who provide information or advice to customers of the intermediaries;
- product governance rules extended without distinction to all those authorised to provide investment services;

⁶ We underline in particular intervention on: transparency in payment services; pre-contractual information and communications to customers; complaints management; pre-contractual information on benchmark indices used in lending (real estate and other) to consumers; remuneration policies and practices for staff offering banking products and for outside staff employed in the sales network.

- new rules governing the activities of financial advisors and also new supervisory and sanctioning powers for the “Supervisory and administrative body of the single association of financial advisors”, in accordance with the 2016 *Legge di stabilità* (“stability law” – annual finance law);
- authorisation procedures for *società di intermediazione mobiliare* (Sim – stock brokerage companies) and the introduction to Italy of EU and non-EU investment firms and MiFID II derived rules applicable to operators.

In order for the Group's banks to achieve full implementation of the Regulation, some activities are still pending, which are expected to be finalised by the end of 2019.

On 28th May 2018, the European Securities and Markets Authority (ESMA) published the final version of its guidance on certain aspects of the MiFID II adequacy requirements. This document is especially significant as regards assessing the adequacy of products, financial instruments and advisory services provided to customers, including good practice rules for investment businesses, with the aim of including environmental and/or social variables in adequacy assessments, in keeping with sustainable finance objectives. This guidance, with which the Consob has decided to align itself, must be followed by Italian intermediaries as from 8th March 2019. There are three other ESMA documents closely related to this guidance that were opened for consultation in December 2018 regarding sustainability issues (environmental, social and governance factors) in the areas of securities trading, investment funds and credit rating agencies, respectively. In particular, these documents cover topics related to organisational requirements, operating conditions, risk management, conflicts of interest, product governance and informational requirements.

This entire topic is receiving close attention from the UBI Banca Group through the planning of specific MiFID II projects over the course of 2019. Special importance is associated with the need to include environmental and/or social variables in MiFID II adequacy verification.

On 23rd August 2018, the Bank of Italy put amendments to the provisions for the implementation of the MiFID II/MiFIR package out for consultation. The objective was to complete the process to render the Italian regulatory framework compliant with regard to those matters for which the supervisory authority itself has been assigned exclusive responsibility, notably including: (i) corporate governance and general organisational requirements, including internal systems for reporting violations; (ii) remuneration and incentive systems, (iii) business continuity, (iv) administrative and accounting organisation, including the establishment of internal control functions, (v) the outsourcing of essential or important operational functions. The consultation ended on 23rd October 2018 and we are awaiting publication of the outcome.

The Group expects to begin carrying out this specific project over the course of 2019.

In December 2018, draft implementation regulations were presented for Regulation (EU) 2015/2365 on transparency of securities financing transactions. This implementation legislation, to be issued by the European Commission, will cover specific communication obligations regarding securities financing transactions. Specifically, the format, frequency and details of information contained in reports on securities financing transactions (SFTRs), along with codes to be used to denote derivative contracts, will be regulated.

The introduction of a requirement to report to a trade repository (including any reuse of the securities involved) has a major impact in terms of processing. Compared to similar reporting obligations under other regulations such as EMIR and MiFID II, SFTR reporting covers a broader range of transactions and will require more detailed information (on the transaction, positions, collateral, margins and reuse of collateral).

Actions to be taken are currently being assessed within the SFTR regulation project initiated by the Group in May 2018.

SUPERVISORY REGULATIONS

Concerning the regulatory framework, a series of developments took place in 2018, most notably in the following areas: non-performing loans, the revision of internal models, and debt instruments subject to bail-in and held by retail customers.

Non-performing exposures

- On 15th March 2018, the ECB published an “Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for provisioning of new NPLs”. The addendum contains the authority's expectations relating to provisions considered prudent for new NPLs, which is to say for exposures classified as non-performing from 1st April 2018. More specifically, the regulatory framework currently in force requires banking supervisors to assess and decide whether the provisions of banks considered to be of significant importance are adequate and timely from a prudential viewpoint, taking into account both the level of protection on the loan and the age range of the exposures, which is an aspect of primary importance. The addendum puts forward a distinction between exposures that are fully guaranteed, fully unguaranteed, and partially guaranteed. In the latter case, the guaranteed portion is assessed in accordance with the supervisory expectations for guaranteed exposures (100% coverage within an age of 7 years), while the unguaranteed portion is assessed in accordance with the supervisory expectations for unguaranteed exposures (100% coverage within an age of 2 years). While the document is not of a binding nature for banks, it will act as a basis for supervisory dialogue. In the course of that dialogue, the central bank will discuss possible divergences from prudential provisioning expectations recommended in the addendum with individual banks and will decide if measures are appropriate and which ones, with account taken of

the specific situation of each bank. The results of this dialogue will be integrated for the first time in the 2021 supervisory review and evaluation process (SREP).

- On 14th March 2018, the European Commission proposed an ambitious and full package of measures for a speedier reduction in non-performing loans in the banking sector.

These proposals, which are not to take effect until after their approval by the European Parliament and Council, lay down a global approach involving combined complementary action on four key aspects:

- 1 Ensuring that banks have sufficient funds to cover future losses on non-performing exposures
Common levels of minimum coverage are introduced for loans granted from 14th March 2018 that become non-performing by means of an amendment to the Capital Requirement Regulation (CRR). If a bank does not comply with the applicable minimum level, then deductions are made to its own funds.
- 2 Allowing fast track out-of-court enforcement for loans backed by collateral
These proposals allow banks and debtors to agree fast track procedures beforehand for the recovery of loans backed by collateral. If a debtor defaults, the bank or another guaranteed creditor can rapidly recover the loan collateral without undertaking legal action. Out-of-court enforcement of the guarantee is limited exclusively to loans to businesses and is protected by safeguards, while consumer loans are excluded.
- 3 Further development of secondary markets for non-performing loans
This proposal encourages the development of secondary markets for non-performing loans, by harmonising the requirements and establishing a single market for the management of credit and the sale of bank loans to third parties in the EU. The directive proposed determines the activities of parties that operate in the management of loans (servicers), sets common regulations for authorisation and supervision and establishes rules of conduct throughout the EU. Those purchasing a bank loan must notify the authorities at the time of purchase. Third-country operators that purchase consumer loans are required to make use of authorised EU servicers. Consumers are protected by legal guarantees and transparency regulations so that the sale of loans does not harm the rights and legitimate interests of debtors.
- 4 Technical blueprint for how national asset management companies can be set up
This technical blueprint, which is not compulsory, offers member states a guide, if they consider it useful, on how to set up national asset management companies in full compliance with EU regulations in force in the banking sector and those on state aid. While an asset management company which comprises an element of state aid represents an exceptional solution, the blueprint clarifies what type of organisation is allowed for a company that benefits from government support. The blueprint also allows alternative measures for non-performing assets.

With regard to the first point, on 17th December the EU Commission, Council and Parliament reached an agreement on a regulation that introduces new capital provisioning rules for banks where NPLs are involved. Unlike the ECB addendum, the new EU regulation will apply to all banks in the EU for only new loans issued after the regulation takes effect (which is expected to be in spring 2019), even if they are acquired on a secondary market. If a loan not accompanied by any guarantees, then the provisions must equal 100% after three years from the time that loan becomes classified as non-performing. If, on the other hand, the loan is guaranteed, then provisions are to be made gradually, beginning three years after its classification as non-performing to reach 100% after seven years if it is backed by financial collateral and nine years if backed by real estate collateral.

- On 26th November, the European Central Bank published Regulation (EU) 2018/1845, in which it set new significance thresholds for credit obligations in arrears, thresholds with which credit institutions must comply by 31st December 2020 at the latest. The threshold consists of two limits, both of which must be exceeded for 90 consecutive days:
 - 1 the sum of all amounts in arrears owed by the debtor must be over €100 for retail exposures, or over €500 for non-retail exposures;
 - 2 the ratio of the credit obligation amount in arrears to the total amount of exposures to the same debtor must be over 1%.

The UBI Banca Group commenced activities aiming to modify its automatic calculation mechanisms and software applications to detect breaches of the new thresholds. This activity is part of a broader project to implement new EU regulations and guidelines relating to correct identification of default positions and 'unlikely to pay' loans.

Internal models

On 23rd April 2018, the EBA issued Guidelines for estimating the probability of default (PD) and loss given default (LGD) and for the treatment of exposures in default as applicable to the internal ratings-based (IRB) method.

Two other documents, for which a consultation period was opened in April 2018, are part of a broader EBA project to revise the IRB approach in an effort to reduce unjustified variability in the results of internal models in the event of a recession.

- The first, published in November 2018, pertains to regulatory technical standards for the approach to be used to correctly identify a recessionary period, with a view to estimating the downturn correction factor in loss given default (LGD) calculations as well as the conversion factor (CF) used when weighting potential future losses in the event of default.
- The second provides guidelines for best estimates of LGD in a recessionary period for the purpose of determining the specific requirements for internal LGD estimates and credit conversion factors (factors applied to off-balance sheet credit exposures for exposure at default assessments).

On 7th September 2018 the ECB launched a public consultation on three chapters of the guide to internal models entitled “Public consultation on the ECB guide to internal models – risk-type-specific chapters”. The document regards the determination by means of internal models of own funds requirements for credit risk, market risk and credit counterparty risk. The main purpose of the consultation is to guarantee a common and consistent approach to the most important aspects of the applicable regulations on internal models for credit institutions that are directly supervised by the ECB and to clarify how the ECB expects those regulations to be applied by single institutions. The consultation period ended on 7th November 2018.

On the basis of the new guidelines subject to consultation it is probable that changes will need to be made to the methods employed for estimating risk parameters.

On 15th November 2018, the ECB published the first chapter (General Topics) of a guide on internal models; this document contains: (i) general principles for internal models; (ii) implementation of the IRB approach; (iii) governance of internal models, internal validation and internal auditing; (iv) use of the models; (v) managing changes to the models; (vi) recourse to third parties.

Furthermore, in early December, as part of a broader 'banking package', the ECOFIN ministers also reached an agreement on amendments to the CRD IV Directive and to the Capital Requirements Regulation with regard to sterilising the impact of NPL disposals for banks that use internal models. For all bulk NPL disposals amounting to 20% of total non-performing exposures that have taken place or take place between November 2016 and the end of 2023, there will be no negative effects on the valuations of performing loans.

Debt instruments subject to bail-in and held by retail customers

On 30th May 2018, the EBA and the ESMA issued a joint statement encouraging institutions, market and resolution authorities to give proper consideration to retail holders of debt financial instruments subject to the Bank Recovery and Resolution Directive (BRRD) when carrying out their respective tasks.

The statement points out that the BRRD does not provide for different treatment of eligible liabilities based on the nature of the holder. Therefore, where there is a material presence of retail debt investors, resolution authorities are encouraged to factor this element into the resolution planning and assessment of possible impediments to resolution, while carefully assessing, on a case-by-case basis, whether the bail-inable securities may, under exceptional and justified circumstances, be excluded from the bail-in.

In addition to the provisions of MiFID II regarding product governance and definition of the target market, aimed at properly placing the bail-inable securities, the EBA and the ESMA require further strengthening by intermediaries of the following aspects:

- adequate disclosures to customers concerning securities risk and periodic updates in light of the issuer's situation, while implementing specific disclosure procedures;
- management of conflicts of interest;
- qualification of bail-inable securities as “complex instruments”;
- the presentation of (worst-case) scenario analyses.

In this respect, it should be noted that from 1st January 2019, the Full Depositor Preference rule entered into force; this rule had been introduced along with the BRRD, but its application in Italy had been postponed in order to avoid the risk of bondholders ending up with riskier financial instruments in their portfolio than what they could initially have expected. In fact, Article 91, paragraph 1-bis of the Consolidated Banking Act stipulates that unsecured bank bonds shall be eligible for seizure before all business deposits and unsecured interbank deposits, as well as before other non-secured creditors and the unsecured deposits of individuals and SMEs.

The EBA-ESMA indications on the placement of securities to customers fit within a broader project begun by the UBI Banca Group on Product Governance, which envisages a series of activities with the aim of updating processes and procedures according to a specific roll-out plan.

EMPLOYMENT RELATIONSHIP

Decree Law No. 87 was issued on 12th July 2018 containing urgent measures for the dignity of workers and firms (the “Dignity Decree”). For the aspects that concern the Bank's operations, the objective of this law is to limit the use of temporary contracts and instead encourage permanent employment.⁷

INSURANCE SERVICES

To implement the Insurance Distribution Directive (IDD), which was adopted in Italian law under Legislative Decree No. 68/2018, the Italian insurance sector authority (IVASS) issued several regulations over the course of 2018, specifically including:

- Regulation No. 39/2018, in force since 1st October 2018, which redefines the procedure for imposing administrative penalties for which IVASS itself is responsible. Some of the main changes introduced include the principle of the “importance” of the violation and provision for direct imposition of

⁷ To this end, it is envisaged that, save for the option of freely stipulating initial fixed-term job contracts of no longer than 12 months with no special clauses, any renewals of such temporary contracts will be permitted only in the event of temporary, limited needs. If one of these conditions arises in the first year of the contract, the contract duration must still not exceed 24 months. In order to encourage employers to opt for stable job contracts, there will be a 0.5 percentage-point increase in the additional contribution (from the current 1.4% of gross income, as calculated for social security contribution purposes, to be paid by the employer for all employees on non-permanent contracts) if such temporary contracts are renewed, even in the event of personnel leasing contracts.

penalties also on natural persons (senior officers of companies and other persons that form part of the organisation of insurance companies and brokerage companies). Minimum statutory limits were imposed on fines characterised by greater severity, also linked to the sales turnover of the company, and penalties other than fines were introduced such as temporary disqualification from carrying out functions in companies, and alternative administrative penalties of the “cease and desist order” type. Finally, new criteria were introduced for the grading of penalties and new forms of publishing penalty provisions;

- Regulation No. 40/2018, in force since 1st October 2018, which revises and rationalises the regulation of insurance and reinsurance activities, provisions on the remote promotion and sale of insurance policies and rules governing the regulation of professional requirements for insurance and reinsurance intermediaries and, finally, it simplifies procedures and formalities in contractual relationships between insurance brokerage companies and their clients;
- Regulation No. 41/2018, in force since 1st January 2019, containing measures on information provided, advertising and the implementation of insurance products. This regulation pursues four main objectives: revision of pre-contractual information for all products through the provision of new simplified and standardised documents to replace the current information note and summary sheet, where required; improved digitalisation; stronger controls to protect policyholders; simplification of the text of the regulations and further changes needed for compliance with the current regulations.

Over the course of 2018, the UBI Banca Group performed specific initiatives aiming to apply these new regulations on the distribution of insurance products. These activities are part of a broader ongoing project to pursue full compliance with the IDD.

PERSONAL DATA PROTECTION

On 4th September 2018, Legislative Decree No. 101 of 10th August 2018 was published in the Official Journal containing measures to bring national regulations into line with Regulation (EU) 2016/679, better known as the General Data Protection Regulation (GDPR).

The main changes introduced by this legislation are:

- a sanctioning framework with new criminal offences defined, most notably including "Illicit communication or dissemination on a large-scale of personal data subject to processing" and "Fraudulent acquisition on a large-scale of personal data subject to processing";
- recognition of the importance of the purpose of the data processing in question: for 'common' personal data processed in order to "execute a task that is in the public interest or connected with the exercise of official authority", the distinction between the public or private nature of the data processor has been removed, leaving the intended purpose of the data treatment as the sole factor for determining if this condition is met;
- regarding the processing of certain categories of personal data deemed necessary for significant public interest reasons: the matters in which processing certain categories of data is considered to be in the public interest have been defined. These areas include: the establishment, management and termination of employment relationships, and related matters;
- measures to protect genetic, biometric and health-related data: processing any such data is subject to compliance with additional measures set by the Italian Data Protection Authority, with provisions to be adopted on at least a biennial basis;
- remote monitoring of workers: an exception is made to uphold Article 4 of the Workers' Statute regarding the use, in certain cases, of audiovisual devices or other remote monitoring devices to supervise the activity of workers.

In 2018, an internal working group, established when the GDPR was issued, has achieved its main organisational and ICT-related measures carried out to adapt the Group's processes and procedures to the regulation; it has also commenced a review of contracts and of the appointed data processors of suppliers and service providers. In 2019, there are plans for further updates to the internal regulations of the Bank and of other Group companies, for the completion of ICT activities with regard to secure deletion of data, as well as for the implementation of the procedure for managing the Register of personal data processing operations.

Tax aspects

Various fiscal developments occurred in 2018. Those considered important are reported below.

Law No. 145/2018, issued 30th December 2018 -- the "State budget forecast for financial year 2019 and the three-year budget for 2019-2021" (i.e., the 2019 Budget Law)

The main changes introduced by the 2019 Budget Law are:

- **VAT rates:** planned increases in the ordinary (22%) and reduced (10%) VAT rates were refashioned and placed on hold for the year 2019 only. According to the 2019 Budget Law, ordinary VAT will rise to 25.2% in 2020 and to 26.5% in 2021. The reduced rate will rise to 13% as from 2020;
- **deductibility of initial recognition based on IFRS 9:** deductibility of impairment losses on loans to customers recognised on the balance sheet due to first-time adoption of the IFRS 9 accounting standard must be spread out over ten years, instead of being fully included in the taxable income calculation for 2018;
- **deductibility of write-downs and losses on loans to customers:** On the deduction, originally foreseen for 2018, on the portion of write-downs and losses on loans to customers recognised prior to 2015, is deferred until 2026;
- **amortisation of goodwill and other intangible assets:** the deductibility of the portions of goodwill and other intangible assets that were not deducted as at 31st December 2017 and that have given rise to the recognition of qualified deferred tax assets has been revised based on specific percentages (previously, the deduction was a fractional 1/18 or 1/10 of the cost incurred, depending on the case);
- **repeal of the Aid to Economic Growth (ACE) package:** the rate concessions granted under this package have been abolished as from 2019;
- **local taxes:** the deductibility, for the purpose of calculating income tax, of municipal property tax (IMU) due on properties held for operational use, has been raised from 20% to 40%, whilst some changes have also been made to the rules concerning local taxes such as the municipal property tax (IMU), local services tax (TASI) and waste collection tax (TARI); **web tax:** new tax as been established on digital services, related to economic actors that provide certain digital services from which they attain total revenue equal to or greater than €750 million (at least €5.5 million of which in Italy from such digital services). The applicable tax is 3% of gross revenue and is to be paid quarterly. Implementation methods for the new tax will be stipulated in an implementation decree, which is to be issued by 30th April 2019. The new tax will be applicable as from the 60th day after this decree is published in the Official Journal; **'super-depreciation' and 'hyper-depreciation' measures:** the 2019 Budget Law contains no extension to the 'super-depreciation' incentive to invest in capital goods, whereas the 'hyper-depreciation' measures designed to encourage an "Industry 4.0" technological and digital transformation of production processes have been revised and extended;
- **Individual Savings Schemes (ISS):** changes have been made to the asset allocation criteria that long-term individual savings schemes (ISS) must meet in order to qualify for the related tax exemption. In detail, at least 3.5% of the amount must be invested in financial instruments issued by small or medium-sized enterprises that are admitted to trading on multilateral trading platforms, and at least 3.5% must be invested in shares or units of Italian venture capital funds;
- **energy efficiency and green bonus:** the current income tax deduction granted on expenses incurred for building energy efficiency projects, for building renovation and for the purchase of furniture has been kept in place for all of 2019. Also, the tax deduction for works in favour of 'green areas' has been extended;
- **corporate income tax rate hike in the third sector:** for some institutions that conduct social, cultural and community activities, the IRES (corporate income tax) rate will rise from 12% to 24% as from the 2019 financial year. However, the Government has announced that it intends to cancel this increase through legislation to take the reduced rate back to 12%.

Law No. 136/2018 of 17th December 2018 – "Conversion into law, with amendments, of Law Decree No. 119/2018 of 23rd October 2018, providing urgent fiscal and financial measures"

Law No. 136/2018 contains numerous tax-related provisions. The provisions that should be highlighted here are a series of options for settling ongoing disputes with the tax authorities, simplifications to the electronic invoicing procedure, as well as simplifications regarding invoicing, the registration of invoices issued and received, and VAT deductions.

Specifically with regard to tax dispute settlement, the following options are worth noting:

- settlement pertaining to notices of tax audit reports received on or before 24th October 2018 via payment of only the tax owed, without having to pay the related interest and fines, as long as at the date in question no further tax assessment notices or dispute letters had already been served;
- settlement on favourable terms of accounts assigned to collection agents between 1st January 2000 and 31st December 2017, with all debts of €1,000 or less assigned to collection agents between 2000 and 2010 written off entirely;

- settlement on favourable terms of pending tax litigation, in which Agenzie delle Entrate (the Italian Revenue Agency) is a party in the dispute, at any stage in the proceedings, may be settled via payment of a variable amount of between 5% and 100% of the total amount disputed, depending on the stage in the proceedings and outcome of proceedings to date. For Court of Cassation cases pending as at 19th December 2018, in which the ruling was in favour of the taxpayer in both the first and second instances of judgement, the settlement cost is 5% of the amount disputed.

Legislative Decree No. 142/2018, issued on 29th November 2018: “Implementation of Council Directive (EU) 2016/1164 of 12th July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, as amended by Council Directive (EU) 2017/952 of 29th May 2017 amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries”

Legislative Decree No. 142/2018, which implements the EU's anti-tax avoidance directives (ATAD 1 and 2), introduces several new fiscal measures. The most notable of these measures are:

- *deductibility of interest expense for taxpayers other than banks and financial intermediaries*: the rules in question are revised based on 30% of gross operating income, which must be calculated based on fiscal criteria rather than accounting criteria. Also, deductibility limits have been placed on interest expense capitalised as an increase in the cost of the asset, as well as on commercial interest expenses. However, interest expenses incurred on financing specifically intended to be used for long-term public works projects precisely identified in the law remain fully deductible;
- *exit/entry tax*: changes have been made to the taxation rules on cross-border transfers by businesses and on the provisions regulating the valuation for tax purposes of assets and rights entering or leaving the jurisdiction of the Italian tax system. The clearly significant change is that a 'market value' notion replaces the 'normal value' criterion to determine transfer prices in accordance with the guidelines issued;
- *Controlled Foreign Companies (CFCs)*: changes have been made to the current CFC regime, which in the interest of tackling international tax evasion and tax avoidance, stipulates that for the income earned by all foreign subsidiaries residing in countries considered tax havens, the parent company whose tax residence is in Italy is subject to a 'transparency' tax, regardless of whether the parent company effectively collects that income. According to the regulatory amendments, the previous approach, based on a blacklist and nominal tax rates, has been discarded, with the consequent introduction of new requirements and an extension of the provisions to stable organisations;
- *dividends and capital gains*: new criteria have been introduced to determine which countries are to be considered tax havens from this perspective;
- *hybrid mismatches*: a new set of regulations has been introduced to fight against aggressive tax planning schemes that exploit existing mismatches between various tax jurisdictions on an international scale in relation to how a particular phenomenon is characterised or defined (financial instruments, institutions or hybrid transfers);
- *definition of 'financial intermediaries'*: the terms 'financial intermediary', 'financial holding company' and 'non-financial holding company', which are referred to on numerous occasions in the tax laws in force, have now been defined unambiguously.

With the exception of special transitional arrangements, the provisions regarding interest expense, exit tax and entry tax, CFCs, dividends and capital gains, as well as financial intermediaries, will all be applied from the fiscal year subsequent to the one in progress on 31st December 2018, while for dividends and capital gains, they will also apply to earnings distributed in the same fiscal year. The provisions on hybrid mismatching, on the other hand, will be applicable as from fiscal year 2020 except in special cases.

Legislative Decree No. 60 of 18th May 2018 implementing Directive 2016/2258/EU

Legislative Decree No. 60 of 18th May 2018 (implementing Directive 2016/2258/EU) provides that during tax inspections the Revenue Agency (“*Agenzia delle Entrate*” - tax authority) and *Guardia di Finanza* (tax police) are to have access to documents, data and information collected by banks and other intermediaries while carrying out their proper customer due diligence obligations in order to prevent money laundering.

The new provisions are applied to visits in Italy that tax authorities from 1st January 2018.

Council Directive (EU) No. 2018/822 (“DAC 6”)

DAC 6 (the Directive on Administrative Co-operation) on the mandatory automatic exchange of information in the field of taxation was finally adopted by the Council of the European Union on 25th May 2018. The DAC 6 Directive introduces a new obligation for intermediaries (including banks) to report information to the tax authorities if they are involved in designing, marketing, organising or managing the implementation of aggressive cross-border tax-planning arrangements.

The schemes involved include those intended to circumvent reporting obligations under the CRS (Common Reporting Standard) regulations and the use of opaque offshore structures to shield the effective beneficiaries of specific income.

Intermediaries that fail to report will be liable to penalties to be laid down by individual Member States when they implement DAC 6.

DAC 6 must be implemented by all Member Countries by 31st December 2019 and applied from 1st July 2020. There is also a detail affecting, amongst others, banks: they will be subject to an obligation, by 31st August 2020, to report cross-border arrangements existing since 25th June 2018. The impacts of the introduction of this Directive for UBI Banca Group are currently being assessed.

Ministry of the Economy and Finance Decree of 10th January 2018 on IFRS 9

The Ministry of the Economy and Finance Decree of 10th January 2018 containing co-ordination provisions for International Financial Reporting Standard 9 and the rules for determining the tax base for corporate income tax (IRES) and regional production tax (IRAP) was published in the Official Journal of the Italian Republic on 24th January 2018. The measures contained in this decree were amended in part by the 2019 Budget Law.

The provisions of the Decree are of great interest for UBI Banca Group companies, which are required to show the effects of the introduction of the new accounting standard in their financial statements and provide important information relating to the tax implications of loans and financial instruments.

Ministry of the Economy and Finance Decree of 6th April 2018 containing implementation provisions on “Group VAT”

The Ministry of the Economy and Finance Decree of 6th April 2018 containing implementation provisions on “Group VAT” was published in the Official Journal of the Italian Republic on 18th April 2018 and it will become operational from 1st January 2019.

This decree regulates the following aspects of Group VAT:

- constitution;
- rights and obligations;
- invoicing and certification of consideration paid;
- registrations, returns and payments;
- periodic communications and the annual return;
- VAT rebates.

In accordance with the decree, Group VAT will be assigned its own VAT number, which must be cited on all returns, communications or other documents regarding the Group.

As a result of the Group VAT arrangement, intragroup transactions (whether pertaining to goods or services) between companies participating in a VAT Group are now irrelevant for VAT purposes, as they are effectively internal transactions within the same newly established taxpaying entity. (An exception to this principle arises in transactions between different divisions of the VAT Group, that is, between what are considered 'separate activities' of the Group, for which special rules apply). Conversely, transactions with third parties made by any participant in the Group are considered, for VAT purposes, to have been carried out by the VAT Group rather than by the individual participants; likewise, transactions made by third parties with any VAT Group participant will be considered, for VAT purposes, to have been carried out with the Group rather than with individual participants.

This decree is of great interest to the UBI Banca Group, given that as from 1st January 2019, these Group companies...

- Unione di Banche Italiane SPA
- UBI Sistemi e Servizi SCpa
- Prestitalia Spa
- IW Bank Spa
- Pramerica SGR Spa
- UBI Leasing Spa
- Unione di Banche Italiane per il Factoring - UBI Factor Spa
- BPB Immobiliare Srl
- Kedomus Srl
- UBI Academy SCRL
- BancAssurance Popolari Spa
- BancAssurance Popolari Danni Spa
- Mecenat Srl
- Centrobanca Sviluppo Impresa Spa
- UBI Finance Srl
- UBI Finance CB 2 Srl

comprise the UBI VAT Group, whose VAT registration number is 04334690163.

Ministry of the Economy and Finance Decree of 14th May 2018 containing guidelines for the application of the measures relating to transfer pricing and Provision of the Director of the Revenue Agency (“Agenzia delle Entrate” – tax authority) of 30th May 2018

The Ministerial Decree of 14th May 2018, published in the Official Journal of the Italian Republic on 23rd May 2018, contains guidelines for the application of the measures relating to the recognition in Italy of a downward adjustment of Italian taxable income as a direct consequence of an upward adjustment (final

and in line with the principle of free competition) performed by a State in application of the provisions relating to the assessment of transfer pricing. The implementation procedures have since been specified in the Provision of the Director of the Revenue Agency of 30th May 2018. The measures in question are applicable only to adjustments made by the tax authorities of states with which Italy has exchange of information agreements in place.

Law No. 96/2018 of 9th August 2018 – Conversion into law, with amendments, of Law Decree No. 87/2018 of 12th July 2018 providing urgent measures for the dignity of workers and businesses (the “Dignity Decree”)

Law No. 96/2018, dubbed the 'Dignity Decree', contains mainly measures regarding jobs. Among the tax changes introduced by the decree, attention should be drawn to the abolition of the split payment regime for invoices issued by, amongst others, professionals.

* * *

Mention is made of the following administrative practices documents issued in 2018:

- *Circular No. 1/E/2018*: the Revenue Agency (“*Agenzia delle entrate*” – tax authorities) commented on changes concerning VAT allowances following changes introduced by Decree Law No. 50 of 24th April 2017;
- *Circular No. 3/E/2018*: the Revenue Agency illustrated the main characteristics of the regime for “long-term individual savings schemes”;
- *Circular No. 5/E/2018*: this document analyses the main problems concerning the tax regime for result and welfare bonuses;
- *Circular No. 8/E/2018*: the Revenue Agency provided clarification on means of payment considered appropriate for the deductibility of fuel costs;
- *Circular No. 9/E/2018*: the Revenue Agency provided further details of the VAT regime for split payments to which UBI Banca is subject;
- *Resolution No. 26/E/2018*: the Revenue Agency examined the consequences for the VAT regime for services provided by depository banks resulting from the implementation in Italy of Directive 2014/91/EU;
- *Resolution No. 54/E/2018*: the Revenue Agency provided instructions on submission procedures for applications for the exclusion or inclusion of taxable persons in a VAT Group;
- *Circular No. 19/E/2018*: the Revenue Agency illustrated the Group VAT regime, to which the UBI Banca Group companies have subscribed as from 1st January 2019;
- *Answer to opinion request No. 954-914/2017*: the Revenue Agency examine some specific problems relating to the VAT regime for investment advisory services.

The “Italian Responsible Payments Code”

The UBI Banca Group has adhered to the “Italian Responsible Payments Code” organised by Assolombarda (Lombard employers’ association) since 15th October 2014.

As a consequence, the Group is committed to rigorously complying with the terms and conditions of payment agreed in each purchase contract.

At present, the UBI Banca Group’s suppliers have contracts according to which payment is to be made between immediately upon receipt of invoice and, at most, 90 days after the invoice date (only a marginal 0.07% of all contracts have this 90-day deadline) or 90 days after the end of the month in which the invoice is issued (again, only a marginal 0.52% of all contracts have these terms).

The average supplier settlement time in 2018 was approximately 31 days.

Social and environmental responsibility

For information about social and environmental responsibility, please refer to the “Consolidated declaration of a non-financial nature prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (Sustainability Report)”, published at the same time as the present Report.

The principal risks and uncertainties to which Banca Group is exposed

Risks

The UBI Banca Group attributes primary importance to the measurement, management and monitoring of risk, as activities necessary to ensure 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:

- definition of the risk appetite (Risk Appetite Statement - RAS);
- definition of the framework to verify future risk as an integral part of the strategic planning process;
- definition of the stress test framework;
- definition of risk management policies;
- the definition of RAF-related methodologies;
- definition of the non-viability risk management framework associated with the Group Recovery Plan;
- interpretation and management of the RAF in Group companies;
- definition of the framework and criteria for the identification of transactions of greater significance (TGS);
- definition of the risk monitoring and self-assessment framework from an SREP viewpoint.

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”¹ 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 conditions².

In compliance with the regulations in force, by the end of April 2019 the Group had submitted its 2017 ICAAP and ILAAP Reports to the supervisory authority. results of the capital liquidity adequacy assessments contained in That Reports confirmed the availability of significant legal margins sufficient to maintain the capital and liquidity position, both current and future and under stress conditions above the requirements requested.

¹ See “Guidelines – on common procedures and methodologies for the supervisory review and evaluation process (SREP)”, EBA/GL/2014/13 of 19th December 2014. These guidelines were finalised on 19th July 2018 and are applicable as from January 2019.

² See the Final Report “Guidelines on ICAAP and ILAAP information collected for SREP purposes”, EBA/GL/2016/10 of 3rd November 2016.

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.

Once the activity to identify significant risks is completed, the ICAAP process involves measuring the risks to which internal capital is attributed and calculating the “available financial resources” (AFR)³ required to meet them (capital adequacy), both at present and in the future. The Bank also makes use of specific stress tests (by assessing impacts on a single risk) and global stress tests (by assessing impacts on all risks at the same time) to perform a better assessment of exposure to risk and of systems for mitigating and monitoring them and calculating capital requirements. Use of these tests is also based on instructions provided by the European Central Bank as part of the official stress test exercise organised by the EBA and concluded in November 2018. In this respect, we underline that despite a very severe stress test (in terms of both the macroeconomic scenario and the calculation method) conducted with an extraordinary year for UBI Banca as a starting point, the results nevertheless show that the Group's capital ratios remain solidly resilient, as the hypothetical adverse scenario impact is better than the average of the panel of European banks analysed⁴.

In consideration of its mission, its operations and also the market context in which it operates, the risks to be subjected to measurement in the ICAAP and ILAAP self-assessment processes have been identified and divided into the categories: First Pillar and Other Pillar risks.

First Pillar risks – already managed under the requirements of supervisory regulations – are as follows:

- **credit risk**: the risk of incurring losses resulting from the default by a counterparty with whom a position of credit exposure exists. This also comprises **counterparty risk** in the definition, which constitutes a particular type of credit risk. It is the risk that a counterparty to a transaction defaults before final settlement of the cash flows on the transaction⁵;
- **market risk**: risk of changes in the market value of financial instruments held, due to unexpected changes in market conditions and in the credit rating of the issuer⁶;
- **operational risk**: the risk of incurring losses resulting from the inadequacy or malfunction of procedures, human resources and internal events or from exogenous events. This includes losses resulting from fraud, human error, business disruption, system failure, non-performance of contracts and natural disasters. Within this category, **IT risk**⁷, **legal risk**, **conduct risk**⁸, **compliance risk**, and **money laundering and terrorist financing risk** are also measured: for these aspects, potential loss calculations are included as operational risks.

³ Available financial resources (AFR) or alternatively total capital, is defined as the sum of the capital items that the Group considers can be used to meet “internal capital” and “total internal capital” requirements. “Internal capital” is defined as risk capital, the capital requirement for a determined risk that is considered necessary to cover losses above a given expected level. “Total internal capital” is defined as internal capital required for all significant risks assumed by the Group, including possible internal capital requirements due to considerations of a strategic character.

⁴ See the section “Significant events that occurred during the year” for further information.

⁵ In the context of credit risk, other factors in relation to which financial assets are monitored include exposure to **country risk** (risk of losses caused by events relating to a country other than Italy), **transfer risk** (the risk that a bank, exposed to an entity that is financed in a currency other than the one in which its main sources of income are denominated, incurs losses due to the debtor being unable to convert its own currency into the currency in which the exposure is denominated) and **banking book risk**.

⁶ This category includes **exchange rate risk**, **commodity risk**, **basis risk** (i.e. the risk of losses caused by changes that are out of line with positions of the opposite sign, that are similar but not identical) and **sovereign risk** (related to the ability, or willingness, of a sovereign debtor to honour its payment commitments).

⁷ The increasingly more determining role played by Information and Communication Technology (ICT) systems in achieving long-term business and strategic objectives has shown the clear need to have more stringent controls over and more effective management of the risks associated with them. These needs have led the regulator to define specific regulatory updates in order to strengthen oversight and governance tools for the ICT system. As concerns aspects relating to the measurement and management of IT risk, the new regulatory framework has defined specific criteria based on the measurement of potential risk and on the management of residual risk. In compliance with these regulatory requirements the UBI Banca Group has defined its **IT risk** framework as the risk of incurring economic loss and loss of reputation and market share in relation to the use of information and communication technology. This definition also includes cybercrime phenomena defined as the abuse of information technology (both hardware and software) in order to commit crimes. Within an integrated view of corporate risks this type of risk is considered according to specific aspects of operational, reputational and strategic risks.

⁸ **Legal risk** is defined as the risk of losses resulting from violations of laws or regulations, from contractual or non-contractual responsibilities or from other litigation, while **conduct risk** is defined as the risk of incurring the economic losses resulting from the violation of the laws and from intentional or negligent actions and/or omissions.

In addition to First Pillar risks, other risks were identified, consisting of the following:

- **measurable** risks, for which established quantitative methods have been identified, which lead to the determination of internal capital and which, combined with qualitative measurements, allow allocation and monitoring processes to be defined;
- risks subject to **quantitative limits**, for which operational limits can be defined consistent with risk appetite (of a quantitative nature and on which there is a broad consensus including in the literature, or subject to regulatory requirements) for their measurement and monitoring and mitigation;
- **non-measurable** risks (or risks **subject to assessment**), for which policies and measures for control, reduction or mitigation are considered more appropriate because no established approaches exist for the measurement of internal capital that are useful for allocation purposes.

The Other Risks subject to analysis are as follows⁹:

MEASURABLE RISKS

- **concentration risk**: risk resulting from (i) exposures to counterparties, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, in the same geographical region or who carry on the same activity or deal in the same goods, and (ii) the application of credit risk mitigation techniques including, in particular, risks resulting from indirect exposures such as for example with regard to single suppliers of guarantees;
- **interest rate risk arising from activities other than trading**: the current or future risk of a change in net interest income and in the economic value of the Group following unexpected changes in interest rates which have an impact on the banking book;
- **business risk associated with fee and commission margin volatility risk**: the risk of adverse and unexpected changes in net fee and commission income with respect to forecasts, connected with volatility in volumes of business due to competitive pressures and market conditions;
- **equity risk**: the risk of losses incurred in equity investments that are not fully consolidated on a line-by-line basis;
- **real estate risk**: the risk of changes in the value of the real estate assets of the Group;
- **insurance risk**: the risk associated with the uncertainty over the amount and timing of commitments of an insurance nature relating to the activities of the insurance companies;
- **risks resulting from securitisations**: the risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk.

RISKS SUBJECT TO QUANTITATIVE LIMITS

- **liquidity risk**: the risk of the failure to meet payment obligations which can be caused either by an inability to raise funds or by raising them at higher than market costs (funding liquidity risk), or by the presence of restrictions on the ability to sell assets (market liquidity risk) with losses incurred on capital account¹⁰;
- **excessive leverage risk**: the risk that too high a level of debt with respect to its own funds would make a bank vulnerable thereby making the adoption of corrective action to its business plan necessary, inclusive of the sale of assets with the realisation of losses, which could result in the recognition of impairment losses on the remaining assets;
- **asset encumbrance risk**: risk associated with encumbered assets, resulting from potential ownership claims to these assets by a third party non-owner, which could have an impact on the transferability and use of these assets.

NON-MEASURABLE RISKS (OR RISKS SUBJECT TO ASSESSMENT)

- **compliance risk**: the risk of incurring legal or administrative penalties, substantial financial losses or damage to reputation resulting from violations of laws and mandatory external regulations or internal regulations (by-laws, codes of conduct and voluntary codes);
- **reputational risk**: the present or future risk of incurring loss of profits or capital resulting from a negative perception of the image of a bank by customers, counterparties, shareholders of the bank, investors or supervisory authorities;
- **residual risk**: the risk that established methods of mitigating credit risk used by a bank are less effective than expected;
- **strategic risk**: the current or future risk of a fall in profits or in capital resulting from changes in the operating context and/or errors in corporate decision-making, inadequate implementation of decisions, failure to react to change in a competitive environment. Strategic risk in the narrow sense of positioning, relates to failures associated with structural changes, characterised that is by discontinuities. Strategic risk includes a more specific component attributable directly to business risk, and that is the risk of a potential fall in profits, resulting from inadequate implementation of

⁹ In addition to the risks described in this sub-section, we report that **covered bond issuance risk** and **connected party risk** are also governed by internal regulations.

¹⁰ Liquidity risk, as defined above, also comprises consideration of medium to long-term (structural) risk resulting from a mismatch between the sources of funding and lending.

business decisions and from changes in the operating environment with reference to the business model and the Group's business mix choices.

Details are given below of risks which have potential significant impacts for the UBI Banca Group and the action taken to mitigate them. It is considered that risks other than those reported below, which are of marginal importance within the Group, will not change during the course of the year.

Credit risk

Developments in the approach to credit management, monitoring and recovery have led to deep-rooted organisational revisions of the related processes and supporting tools used, enabling the UBI Banca Group to contend with the complex economic environment in the past few years.

The main strengths of these revisions include:

- the definition and introduction of strategies for the sale of loans customised by type of customer, based on the level of risk and sector outlook and carried out by the implementation of special purpose tools used to monitor the correct assignment of credit policies;
- support for digital innovation in lending in order to drive growth in loans with high standards of credit quality selection by means in particular of granting personal loans to individuals after first carrying out automated processes to pre-assess requirements relating to counterparty reliability;
- the refinement of a new organisational model for "Loan Settlement" (the former Arrears Management Model), with a view to improving effectiveness of the management and settlement of irregular positions by reorganising and improving the operational and organisational model in order to provide useful assistance to the distribution network in loan settlement.
- the effective local management of credit exposures by means of qualified and experienced specialised staff who work on positions that present irregularities, supporting distribution network units in the relative settlement;
- the refinement of early warning indicators designed to achieve substantial benefits in terms of focus on the detection of irregularities, by detecting more of these earlier and by interrupting flows to non-performing status, in compliance with the recommendations given in recent ECB regulations (Guidance to Banks on Non-performing Loans);
- expansion of the centralised management unit for non-performing counterparties, which involves specialised treatment of the positions based on the "clusters" to which they belong, with a view to "regularising" positions and supervising the credit quality of the portfolios assigned to them, with the introduction of dedicated specialist roles ("NPL Account Managers");
- the introduction of default detection triggers, in compliance with ECB guidance on non-performing loans and IFRS 9 international reporting standard rules, which constitute specific indicators of the deterioration of positions, which when triggered require the Bank to assess the classification of the counterparty as either unlikely-to-pay or bad, or alternatively to intervene directly in the presence of high degrees of risk;
- refinement, as support for the new credit governance model (which is divided into "Performing Processes" and "Non-Performing Processes"), of new and unequivocal reporting (a "Credit Control Framework") that is highly automated and 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;
- improvement of the credit recovery model by revising the structure of the organisational area and refining the rules for the assignment of customers classified as "bad loan" status in order to render the management of these positions by credit recovery units faster and more effective;
- finalisation of non-performing loan disposals, with a view to maximising the ultimate net de-risking benefits and overall capital position benefits for the Group.

In the first half of 2019 the UBI Banca Group intends to further develop its infrastructure to support credit management activities across the various stages of the credit life cycle by means of specific action designed to:

- carry out specific assessments and gap analyses aimed at integrating corporate processes and procedures in view of regulatory developments resulting from the new guidelines issued by the ECB and the EBA;
- finalise implementation of the new organisational model for loan settlement by reviewing credit rules and improving IT support tools in view of the recent introduction of the new model;
- further support the growth of loans with high standards of credit quality selection by monitoring loan grant strategies that are customised by type of customer, based on the level of risk and on recently introduced sector outlooks and additionally by commencing the grant of personal loans to businesses in the POE (small economic operators) segment with support from automated processes to pre-assess requirements relating to counterparty reliability;

- further strengthen credit processes with particular reference to the settlement of unlikely-to-pay positions, by, amongst other things, developing the management model by revising and broadening the perimeter of counterparties to be assigned to outside specialist firms;
- begin applying new rules the Group has set in accordance with the new definition of default, as per the EBA Guidelines on the application of the definition of default (DoD), and consequently adjust relevant applications and procedures accordingly;
- adapt internal regulations in keeping with the new “Guidelines on connected clients”, to enable the mapping of the various connections of each counterpart, as per EU regulations (the EBA Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No. 575/2013);
- with regard to bad loans, further optimise the credit recovery model by taking IT action designed to increase the efficiency of both administrative and management activities.

Business risk

There is intense competition in terms of pricing on loans disbursed by banks, especially given the access to forms of funding regulated by the European Central Bank, namely the 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

While exposure to government securities still remains substantial (and to Italian government securities in particular¹¹), a plan is in progress to diversify and gradually reduce the concentration of the banking book portfolio in accordance with strategic guidelines laid down in the Business Plan. The banking Group’s securities portfolio has therefore been reduced and diversified precisely by decreasing the concentration in Italian government securities over the course of the Business Plan.

Insurance risk

Following the acquisition of the New Banks, the perimeter of the Group also includes the insurance companies 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.

* * *

Detailed information on financial risk management objectives and policies and also on the exposure of the Group to price risk, credit risk, liquidity risk and the risk of changes in cash flows – pursuant to Art. 2428 of the Italian Civil Code and to Art. 41 of Legislative Decree No. 136/2015 – is given in Part E of the notes to the consolidated financial statements, which may be consulted.

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 in which growth expectations are confirmed as favourable, but which is nevertheless overshadowed by specific risk factors that are potentially negative for growth. These factors of uncertainty could manifest with impacts attributable

¹¹ 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.

primarily to credit, but without affecting the capital strength of the UBI Banca Group. Furthermore, if tension on financial markets were to worsen and persist, perhaps resulting in an effective closure of institutional markets, this could cause a slowdown in the funding operations that the Bank needs in order to carry out its typical lending activity in the mid/long-term, and could also increase the cost of funding.

The main uncertainties identified for 2019 pertain to the following areas:

- **macroeconomic developments**, and more specifically the following aspects:
 - the spread between Italian and German government bond yields could widen on the back of uncertainties over the Italian political environment following European Parliament elections, which could lead to an unstable situation in the executive branch;
 - the recovery, albeit slow, in the Euribor rate, which after years in negative territory could return to around zero by 2020. The rate could even begin to rise in 2019, though it is set to remain negative, while the Eurirs rate could increase more significantly, propelled by medium-term expectations;
 - finally, the risk of a slowdown in the global economy seems increasingly clear, in light of the macroeconomic figures evidenced both in the United States and in China, which could see its growth rate drop below 6% this year. It also appears that a slowdown in an economic cycle which is now nearing its conclusion could be exacerbated by trade tensions between the United States and China, along with the fact that many emerging economies are struggling to grow;
- **political developments**. Some specific risk factors that could dampen what remains a relatively favourable environment are: (i) unresolved geopolitical issues; (ii) uncertainties linked to EU and national elections in Italy in 2019, as well as to the nature of the agreement under which the United Kingdom leaves the European Union; (iii) changes in the trade balances between major international trading partners; (iv) the impact from some major central banks phasing out their extraordinary stimulus measures; and (v) high global debt;
- **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. More specifically:
 - proposed changes to internal credit risk measurement models, designed to make the resulting models more standardised, more robust and with RWA values that are more comparable on a European level (through the IRB approach) could entail changes in internal rating and LGD models and thus have an impact on loan write-downs. 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 involves modifications to methods for calculating risk-weighted assets, credit risk, operational risk and market risk. These new rules, which are part of the Basel 4 framework, aim for greater alignment across Europe in the application of certain aspects of the regulations, by setting specific technical implementation standards. These standards could imply that the Bank will be required to make adjustments to how it manages its models and processes with regard to credit risk and capital adequacy;

Another factor that continues to require attention includes the new directive on payment services (PSD2), which took effect on 3rd January 2018. PSD2 could heighten competition and pose a threat of disintermediation, fostering, amongst other things, new types of competitors permitted to operate in the financial sector.

* * *

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.

Risks relating to health and safety at the workplace (Legislative Decree No. 81 of 9th April 2008)

Information on the above is reported in the “Consolidated declaration of a non-financial nature prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (“Sustainability Report)”, published at the same time as this report.

Outlook for consolidated operations

For significant events occurring after the end of the year, please consult Part A-1, Section 4, of the Notes to the Consolidated Financial Statements.

With regard to the [outlook for consolidated operations](#), we report the forecasts given below on the basis of information currently available.

The macroeconomic scenario for the financial year 2019 is different from that forecast under the current Business Plan (negative market interest rates compared with a forecast of slightly positive interest rates in 2019, forecast growth in GDP of between 0.2% and 0.6% instead of 0.9% estimated under the Business Plan, wider credit spreads and uncertainties on domestic and international markets), with repercussions on operating income, which moreover has already been priced into the financial market in current consensus projections.

As on the other hand concerns operating expenses and credit quality, as already in 2018, both are expected to produce improved results and significantly ahead of schedule with respect to Business Plan targets. In fact overall operating expenses for 2019, inclusive also of costs for the completion of redundancy schemes already programmed, are forecast to contract further compared with 2018.

According to the 2019 budget, total non-performing exposures are estimated to reduce substantially further compared with 2018, due both to the high level of credit recoveries and following further selective disposals still currently under consideration. Level of impairment losses on loans is expected to fall compared with 2018.

Normalised profit, which forms the basis for calculating the proposed dividend, is estimated to grow in 2019 compared with 2018, and it does not include any use of DTAs. The recognition of these over time will be redefined in light of the new Business Plan, indicatively scheduled for completion by the end of 2019.

Bergamo, 7th February 2019

THE MANAGEMENT BOARD

**STATEMENT OF THE CHIEF
EXECUTIVE OFFICER AND OF THE
SENIOR OFFICER RESPONSIBLE FOR
PREPARING THE COMPANY
ACCOUNTING DOCUMENTS**

Certification of the consolidated financial statements pursuant to Art. 81-ter of the Consob Regulation 14th May 1999, No. 11971 and subsequent modifications and integrations

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:

- 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 consolidated financial statements during the course of 2018.

2. The model employed

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at and for the year ended 31st December 2018 was based on an internal model defined by UBI Banca Spa and 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. Furthermore, it is certified that:

3.1 the consolidated financial statements:

- were prepared in compliance with the applicable international financial reporting standards recognised by the European Community in accordance with the Regulation No. 1606/2002 (EC) issued by the European Parliament on 19th July 2002;
- correspond to the records contained in the accounting books;
- give a true and fair view of the capital, operating and financial position of the issuer and of the group of companies included in the consolidation.

3.2 the management report comprises a reliable analysis of the performance, operating results and position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bergamo, 7th February 2019

Victor Massiah
(signed on the original)

Chief Executive Officer

Elisabetta Stegher
(signed on the original)

*Senior Officer Responsible for
preparing the company accounting*

INDEPENDENT AUDITORS' REPORT

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of
Unione di Banche Italiane S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Unione di Banche Italiane Group (the Group), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Unione di Banche Italiane S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of high-risk performing loans and advances to customers measured at amortized cost

**Description of the
key audit matter**

The financial statements at December 31, 2018 show net loans and advances to customers, measured at amortized cost, for Euro 92.7 billion, including Euro 86.7 billion of performing loans. In particular, as indicated in the Consolidated Management Report, at December 31, 2018, 3.4% of performing loans to customers measured at amortized cost is represented by loans classified as high risk (management data on the scope of internal ratings).

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.

As part of its policies for managing loans to customers, the Bank has adopted processes and methods for monitoring the trend in relationships which, among other things, include a complex classification in homogeneous risk categories.

The Consolidated Management Report - in the paragraph entitled "Risk" - and the Notes to the consolidated financial statements - Part B – Notes to the consolidated balance sheet, Section 4 of Assets; Part C – Notes to the consolidated income statement, Section 8; Part E - Information on risks and the relative hedging policies - provide the informations on the aspects described above.

Given the complexity of the estimation process adopted by the Group, as well as the relevance of the discretionary component inherent in this process and the materiality of the amount of these loans, we considered that the classification of performing loans and advances to customers measured at amortized cost as high risk was a key audit matter for the Group's consolidated financial statements.

Audit procedures performed

The main procedures carried out as part of our audit work have included the following:

- analysis of the lending process with particular reference to the recognition and understanding of the organisational and procedural controls set up by the Group to ensure the monitoring of credit quality and correct classification and measurement in accordance with the applicable accounting standards and banking regulations;
- verification of correct data feed and management of the archives, also with the support of IT experts belonging to Deloitte network, and checks on the operational effectiveness of the controls implemented by the Group in this area;
- sample tests to ensure that high-risk loans were correctly classified in the financial statements according with the financial and regulatory policy framework;
- comparative analytical procedures with focus on changes in performing loans and advances to customers measured at amortized cost exposures and relative impairment losses;
- verification of the completeness and compliance of the disclosure provided by the Bank in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standards and legislation.

Classification and measurement of non-performing loans and advances to customers measured at amortized cost and classified as unlikely to pay and bad loans

Description of the key audit matter

The financial statements at December 31, 2018 show net non-performing exposures for Euro 6.0 billion, versus gross non-performing exposures for Euro 9.7 billion, with a coverage ratio of 38.5%. In addition, the above mentioned non-performing exposures, classified according to the International Financial Reporting Standard IFRS 9 "Financial instruments" in the so-called "Stage 3",

include net bad loans for Euro 2.8 billion, versus gross bad loans for Euro 5.4 billion, with a coverage ratio of 49.0% and net unlikely to pay loans for Euro 3.1 billion, versus gross unlikely to pay loans for Euro 4.2 billion, with a coverage ratio of 25.5%.

For the classification of credit exposures in homogeneous risk classes, the Group refers to banking regulations and internal rules on the classification and changes between the different credit quality categories.

In determining the recoverable amount of non-performing loans and advances to customers measured at amortized cost, within the context of its classification and measurement policies, the Group has used valuation processes and methods that involve a degree of subjectivity and estimation, of a number of variables, mainly referring to expected cash flows, expected recovery times and the estimated realisable value of any collateral, which, if modified, could change the final recoverable amount; this calculation was based on the information available at the valuation date.

Furthermore, the expectation of the recoverable amount, reflects, other than the recovery throughout the ordinary management of loans, the valuation as well, properly calibrated, of the possible presence of disposal scenarios, consistently with the Group's goals and strategies, and therefore with the deriving expected cash flows.

The Consolidated Management Report - in the paragraph entitled "Risk" - and the Notes to the consolidated financial statements Part B – Notes to the consolidated balance sheet, Section 4 of Assets; Part C - Notes to the consolidated income statement, Section 8; Part E - Information on risks and the relative hedging policies - provide the informations on the aspects described above.

Given the materiality of non-performing loans and advances to customers measured at amortized cost recorded in the consolidated financial statements, composed by unlikely to pay and bad loans, the complexity of the estimation process adopted by the Group, which provides a detailed classification of such loans in homogeneous credit quality categories, as well as the relevance of the discretionary component inherent in the estimated nature of recoverable amount, we considered that the classification and measurement of these non-performing loans and the related process of calculating adjustments to them were a key audit matter for the Group's consolidated financial statements.

Audit procedures performed

The main procedures carried out as part of our audit work have included the following:

- analysis of the lending process with particular reference to the recognition and understanding of the organisational and procedural controls set up by the Group to ensure the monitoring of credit quality and correct classification and measurement in accordance with the applicable accounting standards and banking regulations;
- verification of correct data feed and management of the archives, also with the support of IT experts belonging to Deloitte network, and checks on the operational effectiveness of the controls implemented by the Group in this area;

- obtaining an understanding of the methods and carrying out sample checks on the reasonableness of the valuation methods and assumptions adopted by the Group for determining the recoverable amount of non-performing loans;
- verification on a sample basis - also by obtaining and examining written confirmations by the lawyers appointed by the Group to support the recovery of credit exposures - of the classification and measurement of loans in the financial statements based on the categories of non-performing loans according with the financial and regulatory policy framework;
- comparative analytical procedures with focus on changes in non performing loans and relative impairment losses;
- verification of the completeness and compliance of the disclosure provided by the Bank in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standards and legislation.

Impairment test on goodwill

Description of the key audit matter

The Group has recorded Euro 1,465.3 million of goodwill under intangible assets in the consolidated financial statements at December 31, 2018, which has been allocated to the cash generating units (CGUs) identified with the banking sector, UBI Factor S.p.A., IW Bank S.p.A. and Pramerica SGR S.p.A..

According with IAS 36 "*Impairment of assets*", goodwill is not amortised but subjected to an impairment test at least once a year, by comparing the carrying amounts with the recoverable amounts of the CGUs to ensure that the book values are justifiable.

For impairment testing purposes, the Management Board of Unione di Banche Italiane S.p.A. has adopted the value in use as the recoverable amount of the CGUs to which goodwill has been allocated. As mentioned in the Notes to the consolidated financial statements, the valuation process adopted by the Bank is complex and is based on assumptions regarding, among others, the forecast of expected cash flows of the CGUs based on the 2019 budget and on projections for 2020-2023 period, approved in advance by the Management Board, which include the macroeconomic expectations of management, and the determination of an opportunity cost of capital, to be applied for the purpose of discounting expected future flows, as well as a long-term growth rate.

The impairment test carried out by the Bank, supported by an external advisor, confirmed the recoverability of the goodwill recorded in the consolidated financial statements.

The Notes to the consolidated financial statements - Part B – Notes to the consolidated balance sheet, Section 10 of the assets - provide the disclosures on the aspects mentioned above.

Considering the amount of the goodwill recorded in the financial statements, the subjectivity of the estimates relating to the determination of the cash flows of the CGUs and the key variables of the impairment model, we considered that the impairment test of goodwill, with particular reference to the banking sector CGUs and IW Bank S.p.A., was a key audit matter for the Group's consolidated financial statements.

Audit procedures performed

The main procedures carried out as part of our audit work, also with the support of experts belonging to Deloitte network, have included the following:

- obtaining an understanding of the methods and assumptions adopted by the Bank to carry out the impairment test;
- identification and understanding of key controls over the impairment testing process;
- analysis of the reasonableness of the principal assumptions adopted to estimate cash flows, also by obtaining information from the Bank and in-depth analysis with the external advisor of the Bank, and the key variables used in the valuation model;
- analysis of actual figures compared with the original plans to assess the nature of variances and the reliability of the process of preparing budgets and projections;
- verification of the calculation accuracy of the model used to determine the value in use of the CGUs;
- review of the sensitivity analysis prepared by the Bank;
- verification of the completeness and compliance of the disclosures provided by the Bank in the consolidated financial statements with respect to the requirements of the IAS 36 *"Impairment of assets"*.

Accounting derecognition of a portfolio of bad loans following transfer through a GACS-backed securitization

Description of the key audit matter

On August 1st, 2018, within the framework of the Strategic Non-Performing Loans Plan, the transfer of a portfolio of bad loans was undertaken through a backed securitisation programme guaranteed by the Italian Ministry of Finance (so called "GACS"), to the independent securitisation vehicle Maior SPV Srl, for a Gross Book Value as at the reference date (January 1st, 2018) of Euro 2.7 billion, recognised gross exposure of Euro 1.6 billion, contextually the securitization vehicle issued senior, mezzanine and junior notes, which were fully subscribed by the Bank.

Subsequently, on September 28, 2018 the Bank settled the sale of 95% of the nominal value of the mezzanine and junior notes tranches subscribed to third-party investors, keeping a net economic interest equal to the 5% of the nominal value of each mentioned tranche, in order to fulfil the obligation of

retention required by the regulatory framework. Following the completion of the sale of those securities, consequently, the conditions required by IFRS 9 for the derecognition were met.

The Consolidated Management Report - in the paragraph entitled "Significant Events in 2018" - and Part C - Notes to the consolidated income statement, Section 6; Part E - Information on risks and the relative hedging policies - provide the informations on the aspects described above and the economic effects recorded in the financial year 2018 with reference to the above mentioned operation.

Considering the complexity of the transaction and the significance of the related accounting effects, we considered that the accounting derecognition of the portfolio of bad loans transferred through a GACS-backed securitization programme was a key audit matter for the Group's consolidated financial statements.

Audit procedures performed

The main procedures carried out as part of our audit work, also with the support of experts belonging to Deloitte network, have included the following:

- analysis of the approval of the credit transfer operation by the competent administrative bodies of the Group;
- understanding of the structure and the production methods of the transfer operation (through securitization) by obtaining and analysing the contracts formalized and also through interviews with the management of the bank;
- obtaining and analysing the documentation prepared by the Group for the application for granting the GACS;
- test the design and implementation of the relevant controls performed by the Group with reference to the accounting derecognition of the transferred receivables;
- verification of the existence of the conditions required by the IFRS 9 for the application of the accounting derecognition from the balance sheet of the Group, with reference to the significant transfer of the risks and benefits of the bad loans portfolio transferred through a GACS-backed securitization programme;
- verification of the completeness and compliance of the disclosure provided by the Bank in the consolidated financial statements with respect to the applicable International Financial Reporting Standards and legislation.

First time adoption of IFRS 9

Description of the key audit matter

The first time adoption, at January 1st, 2018, of the International Financial Reporting Standard IFRS 9 "Financial instruments" (the Standard), has led to the classification and measurement of the Group's financial assets and liabilities according to the new accounting categories envisaged by the Standard and the definition of a new methodology for determining the

impairment of the financial assets in scope based on an expected losses model (expected credit losses).

The Group has exercised the option, allowed by IFRS 9, to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB will complete the project on accounting for macro-hedging.

In addition, the Group has decided to elect the option provided by the Standard not to restate comparative figures of the previous year.

In Part A – Accounting Policies of the notes to the consolidated financial statements and in the section “Transition to the new financial reporting standards IFRS 9 and IFRS 15” of the financial statements, the information required by International Financial Reporting Standards is reported, including the main methodological choices made by the Bank. In particular, the first application of the Standard determined, at January 1st, 2018, a negative effect on the Group’s net equity equal to 786.8 million Euro net of tax.

These effects were determined as a result of the implementation of the requirements of the Standard that has significantly affected the various aspects of the Group's internal control system.

In this context, the determination of impairment provisioning of the financial assets according to the expected losses model introduced by the Standard constitutes the result of a complex estimation process that includes numerous subjective variables regarding the criteria used to identify the significant increase in credit risk, that has been used for the purpose of allocating the financial assets in the different stages provided by IFRS 9, and the definition of the models used for measuring the expected credit losses, using different possible future scenarios ponderated for the relative probabilities of occurrence, assumptions and parameters which have to take into account current and future macroeconomic information ("forward-looking").

In relation to the significance of the above mentioned effects, of the pervasive operational complexities connected to the transition and of the inherent subjectivity of the estimation processes adopted by the Group in the valuation of financial assets according to the new impairment methodology, we considered that the first time adoption of the IFRS 9, was a key audit matter for the Group's consolidated financial statements.

Audit procedures performed

While performing our audit procedures we have preliminarily examined, also supported by IT and credit risks specialists of the Deloitte network, the Group’s transition and implementation project with particular reference to the application choices adopted, in order to verify their appropriateness and compliance with the requirements of the International Financial Reporting Standard IFRS 9, and the related impacts.

The main audit procedures performed were:

- obtaining and analysing the minutes of the Bank’s Governance and Control Bodies, the approved accounting policies and any other documentation developed and made available, with particular reference to the areas of interpretation, also through information gathering and interviews with the

relevant functions of the Bank and in-depth analysis with their external consultants;

- analysis of the technical-methodological documentation underlying the identification of the Group's business models with particular reference to the classification criteria for financial assets in such business models;
- identification and understanding of the design, of certain key controls, including IT controls, which are driving the classification and evaluation of the Group's financial assets, by verifying the correct implementation and the operational effectiveness;
- verification for a sample of loans and debt securities of the correctness of the results of test SPPI carried out by the Group during the first application of the Standard;
- analysis of the impairment models developed by the Group and verification of the reasonableness of the assumptions and parameters used for stage allocation and estimation of expected credit losses, also through the support of the Deloitte network specialists, and of the correctness of the related calculations;
- verification of the coherence between the information used for calculating expected credit losses and those used in the other main decision-making, budget and assessment processes of the Group with particular reference to qualitative and macroeconomic indicators and forward-looking information;

Finally, as far as the impact deriving from the first application of IFRS 9 is concerned, we have acquired the details of the relative quantification and verified its mathematical accuracy. We have also verified the completeness and compliance of the disclosure provided in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standards.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements

The Management Board is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/2015, and, within the terms established by law, for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or the termination of the business or have no realistic alternatives to such choices.

The Supervisory Board is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Unione di Banche Italiane S.p.A. has appointed us on April 30, 2011 as auditors of the Bank for the years from December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Management Board of Unione di Banche Italiane S.p.A. is responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Unione di Banche Italiane Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Unione di Banche Italiane Group as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Unione di Banche Italiane Group as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Management Board of Unione di Banche Italiane S.p.A. is responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Management Board of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco Miccoli
Partner

Milan, Italy
March 5th, 2019

This report has been translated into the English language solely for the convenience of international readers.

Consolidated Financial Statements



Consolidated Balance Sheet

ASSETS (figures in thousands of euro)	31.12.2018	31.12.2017 restated
10. Cash and cash equivalents	735,249	811,578
20. Financial assets measured at fair value through profit or loss	1,463,529	1,972,209
a) financial assets held for trading	405,716	887,153
b) financial assets designated at fair value	11,028	11,271
c) other financial assets mandatorily measured at fair value	1,046,785	1,073,785
30. Financial assets measured at fair value through other comprehensive income	10,726,179	12,369,616
40. Financial assets measured at amortised cost	102,798,587	102,648,875
a) loans and advances to banks	10,065,881	7,821,132
b) loans and advances to customers	92,732,706	94,827,743
50. Hedging derivatives	44,084	169,907
60. Fair value change in hedged financial assets (+/-)	97,429	(2,035)
70. Equity investments	254,128	243,165
80. Technical reserves of reinsurers	-	347
90. Property, plant and equipment	1,965,234	1,811,743
100. Intangible assets	1,729,727	1,728,328
of which:		
- goodwill	1,465,260	1,465,260
110. Tax assets:	4,210,362	4,170,387
a) current	1,376,567	1,497,551
b) deferred	2,833,795	2,672,836
- of which pursuant to Law No. 214/2011	1,804,988	1,817,819
120. Non-current assets and disposal groups held for sale	2,972	962
130. Other assets	1,278,717	1,451,059
Total assets	125,306,197	127,376,141

LIABILITIES AND EQUITY (figures in thousands of euro)	31.12.2018	31.12.2017 restated
10. Financial liabilities measured at amortised cost	109,445,664	111,182,776
a) due to banks	17,234,579	16,733,006
b) due to customers	68,421,387	68,434,827
c) debt securities issued	23,789,698	26,014,943
20. Financial liabilities held for trading	410,977	411,653
30. Financial liabilities designated at fair value	105,836	43,021
40. Hedging derivatives	110,801	100,590
50. Fair value change in hedged financial liabilities (+/-)	74,297	-
60. Tax liabilities:	162,272	223,397
a) current	30,287	68,565
b) deferred	131,985	154,832
80. Other liabilities	3,092,941	2,694,744
90. Provision for post-employment benefits	306,697	350,779
100. provisions for risks and charges:	505,191	583,609
a) commitments and guarantees granted	64,410	47,344
b) pension and similar obligations	91,932	137,213
c) other provisions for risks and charges	348,849	399,052
110. Technical reserves	1,877,449	1,780,701
120. Valuation reserves	(298,616)	(54,901)
150. Reserves	2,923,589	3,149,541
160. Share premiums	3,294,604	3,306,627
170. Share capital	2,843,177	2,843,177
180. Treasury shares (-)	(25,074)	(9,818)
190. Minority interests (+/-)	50,784	79,688
200. Profit (loss) for the year (+/-)	425,608	690,557
Total liabilities and equity	125,306,197	127,376,141

Consolidated Income Statement

<i>Items</i> <i>(figures in thousand euro)</i>	2018	2017 restated
10. Interest and similar income	2,220,104	2,261,451
- of which interest income calculated with the effective interest method	2,028,730	-
20. Interest expense and similar	(346,819)	(610,213)
30. Net interest income	1,873,285	1,651,238
40. Fee and commission income	1,779,150	1,744,216
50. Fee and commission expense	(198,233)	(197,425)
60. Net fee and commission income	1,580,917	1,546,791
70. Dividends and similar income	24,779	13,684
80. Net trading income (loss)	54,866	122,368
90. Net hedging income (loss)	(10,325)	(419)
100. Income (loss) from disposal or repurchase of:	(12,752)	130,432
a) financial assets measured at amortised cost	(76,657)	8,881
b) financial assets measured at fair value through other comprehensive income	69,477	134,996
c) financial liabilities	(5,572)	(13,445)
110. Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss	(27,974)	12,722
a) financial assets and liabilities designated as at fair value	893	12,722
b) other financial assets mandatorily measured at fair value	(28,867)	-
120. Gross income	3,482,796	3,476,816
130. Net impairment losses for credit risk relating to:	(638,277)	(893,967)
a) financial assets measured at amortised cost	(639,003)	(728,343)
b) financial assets measured at fair value through other comprehensive income	726	(165,624)
140. Profits (losses) from contractual modifications without derecognition	(37,383)	-
150. Net financial income (loss)	2,807,136	2,582,849
160. Net insurance premiums	373,776	155,128
170. Other income/expenses of insurance operations	(396,096)	(173,384)
180. Net income from banking and insurance operations	2,784,816	2,564,593
190. Administrative expenses:	(2,570,557)	(2,619,278)
a) staff costs	(1,545,909)	(1,542,463)
b) other administrative expenses	(1,024,648)	(1,076,815)
200. Net provisions for risks and charges	19,432	22,652
a) commitments and guarantees granted	23,923	31,584
b) other net provisions	(4,491)	(8,932)
210. Depreciation and net impairment losses on property, plant and equipment	(90,868)	(87,971)
220. Amortisation and net impairment losses on intangible assets	(75,579)	(68,713)
230. Other net operating income/expense	293,471	319,825
240. Operating expenses	(2,424,101)	(2,433,485)
250. Profits (losses) of equity investments	24,602	23,391
275. Negative consolidation difference	-	640,810
280. Profits (losses) from disposal of investments	5,344	859
290. Profit (loss) from continuing operations before tax	390,661	796,168
300. Taxes on income for the year for continuing operations	60,841	(79,176)
310. Profit (loss) from continuing operations after tax	451,502	716,992
330. Profit (loss) for the year	451,502	716,992
340. Profit (loss) attributable to minority interests	(25,894)	(26,435)
350. Profit (loss) for the year attributable to the shareholders of the Parent	425,608	690,557

Consolidated statement of comprehensive income

Figures in thousands of euro	31.12.2018	31.12.2017 restated
10. PROFIT (LOSS) FOR THE YEAR	451,502	716,992
Other comprehensive income net of taxes without transfer to the income statement		
20. Equity securities designated at fair value through other comprehensive income	(1,716)	-
50. Property, plant and equipment	(736)	-
70. Defined benefit plans	1,549	(4,637)
90. Share of valuation reserves of equity-accounted investees	(317)	-
Other comprehensive income net of taxes with transfer to the income statement		
120. Cash flow hedging	(35)	(272)
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	(259,930)	(41,960)
160. Share of valuation reserves of equity-accounted investees	(2,720)	5,919
170. Total other comprehensive income (loss) net of taxes	(263,905)	(40,950)
180. COMPREHENSIVE INCOME (LOSS) (Item 10 + 170)	187,597	676,042
190. CONSOLIDATED COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS	25,858	26,515
200. CONSOLIDATED COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT	161,739	649,527

Statement of changes in consolidated equity

- as at 31st December 2018

(figures in thousands of euro)	Balances as at 31/12/2017	Restatement of opening balances	Balances as at 01/01/2018	Allocation of prior year profit		Changes in reserves	Changes during the year							Equity attributable to the shareholders of the Parent as at 31/12/2018	Equity attributable to minority interests as at 31/12/2018	Total equity as at 31/12/2018	
				Reserves	Dividends and other uses		Equity transactions						Consolidated comprehensive income				
							New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options					Change in shareholdings
Share capital:	2,859,257	-	2,859,257	-	-	-	-	-	-	-	-	-	(6,686)	-	2,843,177	9,394	2,852,571
- ordinary shares	2,859,257	-	2,859,257	-	-	-	-	-	-	-	-	-	(6,686)	-	2,843,177	9,394	2,852,571
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,323,321	-	3,323,321	(12,023)	-	(10)	-	-	(16,584)	-	-	-	-	-	3,294,604	100	3,294,704
Reserves	3,229,985	(866,855)	2,363,130	729,015	(151,341)	3,830	-	-	(2,211)	-	-	-	(3,355)	-	2,923,589	15,479	2,939,068
- of profits	1,329,642	(866,855)	462,787	729,015	(151,341)	459	-	-	(2,211)	-	-	-	(3,355)	-	960,828	74,526	1,035,354
- other	1,900,343	-	1,900,343	-	-	3,371	-	-	-	-	-	-	-	-	1,962,761	(59,047)	1,903,714
Valuation reserves	(114,866)	80,076	(34,790)	-	-	(4)	-	-	-	-	-	-	-	(263,905)	(298,616)	(83)	(298,699)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(9,818)	-	(9,818)	-	-	-	508	(15,764)	-	-	-	-	-	-	(25,074)	-	(25,074)
Profit (loss) for the year	716,992	-	716,992	(716,992)	-	-	-	-	-	-	-	-	-	451,502	425,608	25,894	451,502
Equity:	10,004,871	(786,779)	9,218,092	-	(151,341)	3,816	508	(15,764)	(18,795)	-	-	-	(10,041)	187,597	9,163,288	50,784	9,214,072
- attributable to shareholders of the Parent	9,925,183	(786,779)	9,138,404	-	(125,415)	3,816	508	(15,764)	-	-	-	-	-	161,739	X	X	9,163,288
- attributable to minority interests	79,688	-	79,688	-	(25,926)	-	-	-	(18,795)	-	-	-	(10,041)	25,858	X	X	50,784

The figures presented in this statement of changes in equity correspond to those reported in Table B.1 (Consolidated equity by type of company) contained in Part F of the Notes to the Financial Statements

Details of valuation reserves:

	31-Dec-17 Shareholders of the Parent	31-Dec-17 Minority interests	31-Dec-18 Shareholders of the Parent	31-Dec-18 Minority interests
a) financial assets	(62,939)	39	(247,507)	-
b) cash flow hedges	13	-	(22)	-
c) foreign currency differences	(243)	-	(243)	-
d) actuarial gains/losses	(112,452)	(85)	(110,908)	(83)
e) special revaluation laws	60,801	-	60,064	-
	(114,820)	(46)	(298,616)	(83)

• as at 31st December 2017

(figures in thousands of euro)	Balances as at 31/12/2016	Restatement of opening balances	Balances as at 01/01/2017	Allocation of prior year profit		Changes during the year								Equity attributable to the shareholders of the Parent as at 31/12/2017	Equity attributable to minority as at 31/12/2017	Total equity as at 31/12/2017	
				Reserves	Dividends and other uses	Changes in reserves	Equity transactions						Consolidated comprehensive income				
							New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options					Change in shareholdings
Share capital:	2,451,729	-	2,451,729	-	-	-	402,426	-	-	-	-	-	5,102	-	2,843,177	16,080	2,859,257
- ordinary shares	2,451,729	-	2,451,729	-	-	-	402,426	-	-	-	-	-	5,102	-	2,843,177	16,080	2,859,257
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,817,846	-	3,817,846	(493,425)	-	-	1,623	-	-	-	-	-	(2,723)	-	3,306,627	16,694	3,323,321
Reserves	3,720,909	-	3,720,909	(351,668)	(129,387)	1,409	(7,865)	-	-	-	-	-	(3,413)	-	3,209,460	20,525	3,229,985
- of profits	1,810,697	-	1,810,697	(351,668)	(129,387)	-	-	-	-	-	-	-	-	-	1,250,070	79,572	1,329,642
- other	1,910,212	-	1,910,212	-	-	1,409	(7,865)	-	-	-	-	-	(3,413)	-	1,959,390	(59,047)	1,900,343
Valuation reserves	(73,917)	-	(73,917)	-	-	-	-	-	-	-	-	-	1	(40,950)	(114,820)	(46)	(114,866)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(9,869)	-	(9,869)	-	-	710	(659)	-	-	-	-	-	-	-	(9,818)	-	(9,818)
Profit (loss) for the year	(845,093)	-	(845,093)	845,093	-	-	-	-	-	-	-	-	-	716,992	690,557	26,435	716,992
Equity:	9,061,605	-	9,061,605	-	(129,387)	2,119	396,184	(659)	-	-	-	-	(1,033)	676,042	9,925,183	79,688	10,004,871
- attributable to shareholders of the Parent	8,989,578	-	8,989,578	-	(107,163)	2,119	396,184	(659)	-	-	-	-	(4,403)	649,527	X	X	9,925,183
- attributable to minority interests	72,027	-	72,027	-	(22,224)	-	-	-	-	-	-	-	3,370	26,515	X	X	79,688

The figures presented in this statement of changes in equity correspond to those reported in Table B.1 of the Consolidated Financial Statements as at 31.12.2017 (Consolidated equity by type of company) contained in Part F of the Notes to the Financial Statements.

Details of valuation reserves:	31-Dec-16 Shareholders of the Parent	31-Dec-16 Minority interests	31-Dec-17 Shareholders of the Parent	31-Dec-17 Minority interests
a) financial assets	(26,860)	1	(62,939)	39
b) cash flow hedges	285	-	13	-
c) foreign currency differences	(243)	-	(243)	-
d) actuarial gains/losses	(107,773)	(127)	(112,452)	(85)
e) special revaluation laws	60,641	159	60,801	-
	(73,950)	33	(114,820)	(46)

Consolidated Statement of Cash Flows (Indirect Method)

Figures in thousands of euro	31.12.2018	31.12.2017 restated
A. OPERATING ACTIVITIES		
1. Ordinary activities	1,124,896	938,768
- profit (loss) for the year (+/-)	451,502	716,992
- gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (+/-)	(17,132)	(135,090)
- gains/losses on hedging activities (-/+)	10,325	419
- net impairment losses for credit risk (+/-)	638,277	862,306
- depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (+/-)	166,447	156,684
- net provisions for risks and charges and other expense/income (+/-)	(19,432)	9,009
- net premiums not received (-)	(1,046)	(155,128)
- other insurance income/expenses not received (-/+)	16,729	173,384
- outstanding taxes, duties and tax credits (+/-)	(104,474)	(32,347)
- net impairment losses on discontinued operations net of tax (-/+)	-	-
- other adjustments (+/-)	(16,300)	(657,461)
2. Net cash flows from/used by financial assets	556,341	4,768,227
- financial assets held for trading	535,053	78,108
- financial assets designated at fair value	1,041	-
- financial assets measured at fair value through other comprehensive income	1,478,007	3,321,576
- other financial assets mandatorily measured at fair value	(2,689)	130,065
- financial assets measured at amortised cost	(1,641,784)	675,085
- other assets	186,713	563,393
3. Net cash flows from/used by financial liabilities	(1,263,479)	(7,051,326)
- financial liabilities measured at amortised cost	(1,737,112)	(6,005,078)
- financial liabilities held for trading	(676)	(449,983)
- financial liabilities designated at fair value	62,815	-
- other liabilities	411,494	(596,265)
Net cash flows from/used in operating activities	417,758	(1,344,331)
B. INVESTING ACTIVITIES		
1. Cash flows from	26,912	60,212
- disposals of equity investments	-	4,301
- dividends received on equity investments	24,779	13,684
- disposals of property, plant and equipment	2,001	899
- disposals of intangible assets	132	471
- disposals of subsidiaries and lines of business	-	40,857
2. Cash flows used in	(325,706)	1,304,022
- purchases of equity investments	-	-
- purchases of property, plant and equipment	(247,807)	(71,137)
- purchases of intangible assets	(77,899)	(60,165)
- purchases of subsidiaries and lines of business (*)	-	1,435,324
Net cash flows from/used in investing activities	(298,794)	1,364,234
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	(15,256)	401,705
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(170,136)	(129,387)
- sale/purchase of minority interests (**)	(9,901)	-
Net cash flows from/used in financing activities	(195,293)	272,318
NET CASH FLOWS FROM/USED DURING THE YEAR	(76,329)	292,221

(*) The item "Purchases of subsidiaries and lines of business" in 2017 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.

(**) The item "sale/purchase of minority interests" relates to the payment made for the purchase of the remaining shares attributable to minority interests of Bancassurance Popolari Spa.

Reconciliation

Balance sheet items (figures in thousand euro)	31.12.2018	31.12.2017
Cash and cash equivalents at beginning of year	811,578	519,357
Total net cash flows from/used during the year	(76,329)	292,221
Cash and cash equivalents at end of year	735,249	811,578

PART A – Accounting policies

- A.1 – General Part
- A.2 – The main items in the financial statements
- A.3 – Information on transfers between portfolios of financial assets
- A.4 – Information on fair value
- A.5 – Information on “Day One Profit/Loss”

PART B – Notes to the consolidated balance sheet

- Assets
- Liabilities
- Other information

PART C – Notes to the consolidated income statement

PART D – Consolidated statement of comprehensive income

PART E – Information on risks and the relative hedging policies

PART F – Information on consolidated equity

PART G – Business combination transactions concerning companies or lines of business

PART H – Transactions with related parties

PART I – Share-based payments

PART L – Segment Reporting

Notes to the Consolidated Financial Statements

Part A – Accounting policies

A.1 – GENERAL PART

Section 1 Statement of compliance with international financial reporting standards

This consolidated financial statement of Unione di Banche Italiane has been prepared in compliance with the international financial reporting standards (IAS/IFRS¹) 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 as at 31st December 2018, implemented in Italian law by Legislative Decree No. 38/2005, which exercised the option under EC Regulation 1606/2002 concerning international accounting standards.

No exceptions have been made in the application of IFRS international accounting standards.

The consolidated financial statements, consisting of the balance sheet, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and the notes to the financial statements, accompanied by the consolidated management report, include the Parent UBI Banca Spa and its subsidiaries included in the scope of consolidation². They have been prepared using the positions of the individual companies, corresponding to the relative separate company financial statements, examined and approved by their respective governing bodies and where necessary, appropriately modified and reclassified for compliance with the accounting policies adopted by the Group.

The consolidated management report on operations and the notes to the financial statements furnish information required by international reporting standards, by law, by the Bank of Italy and by the *Commissione Nazionale per le Società e la Borsa* (Consob – National Commission for Companies and the Stock Exchange) and ESMA, in addition to other information which is not compulsory, but is considered equally necessary for the purposes of a true and accurate presentation the Group's financial position, financial performance and operating results.

The proposed consolidated annual financial statements approved by the Management Board on 7th February 2019 and submitted to the Supervisory Board for approval on 7th March 2019 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 audit by the independent auditors Deloitte & Touche Spa.

Section 2 Basis of preparation

These financial statements have been prepared in accordance with measurement criteria, adopted on the basis of a going concern assumption and in compliance with accrual accounting principles, the relevance of the information and the predominance of substance over form.

The financial statements have been clearly stated and give a true and fair view of the capital and financial position, the result for the year, the changes in equity and the cash flows.

Unless otherwise indicated, the information contained in this financial statement is expressed in as the accounting currency and the financial information, the balance sheet and income

¹ Those standards and the relative interpretations 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. See the following section "List of IAS/IFRS standards endorsed by the European Commission" for full details.

² Details are given in the section "The scope of the consolidation", in which changes that occurred during the year are also given.

statement, the notes and comments and the explanatory tables are presented in thousands of euro. The relative rounding of the figures has been performed on the basis of Bank of Italy instructions.

The mandatory financial statements used in this financial statement comply with those defined in Bank of Italy Circular No. 262/2005³ and subsequent amendments and additions⁴. In addition to information on the accounts as at and for the period ended 31st December 2018, they also provide the same comparative information as at and for the year ended 31st December 2017 and do not include items for which there was no data for the current and the previous year.

In accordance with the Bank of Italy Communication of 30th October 2018, which includes clarification regarding the compilation of various tables in the notes⁵, the UBI Group:

- presented income and expenses relating to the measurement of financial assets subject to disposal in the course of the year, carried from the beginning of the year until the date of derecognition, in item “130. Net impairment losses for credit risk relating to financial assets measured at amortised cost”. Accordingly, in contrast to the periodic financial reports previously published in 2018, the UBI Group reclassified the aforementioned income and expenses relating to the measurement of financial assets subject to disposal in the course of the year from the sub-items “100a. Income (losses) from disposal or repurchase of: financial assets measured at amortised cost” and “100b. Income (losses) from disposal or repurchase of: financial assets measured at fair value through other comprehensive income”, to which they had previously been booked in accordance with the practice adopted by the banking system, to the sub-items “130a. Net impairment losses for credit risk relating to financial assets measured at amortised cost” and “130b. Net impairment losses for credit risk related to financial assets measured at fair value through comprehensive income”. Only income and expenses relating to the difference between the carrying amount on the date of derecognition and the consideration received for sale, if any, are entered to the sub-items “100a. Income (losses) from disposal or repurchase of: financial assets measured at amortised cost” and “100b. Income (losses) from disposal or repurchase of: financial assets measured at fair value through other comprehensive income”;
- presented transfers between risk stages/non-performing categories according to a “single-period” approach, i.e. by considering only transfers from the beginning of the financial year until the reporting date, and therefore without including any interim transfers (known as the “multi-period” approach). Accordingly, in contrast to the periodic financial reports previously published in 2018, in which the “multi-period” approach had been adopted, the transfers included in the table of the consolidated report presenting gross non-performing exposures in loans to customers have been determined on this new basis. On a related note, a table presenting the quarterly performance of the gross non-performing exposures in question prepared on a “multi-period” basis has also been included for the sole purpose of permitting reconciliation with the information published during the year;

As already occurred for the interim consolidated financial report as at and for the period ended 31st March 2018, the half year interim report as at and for the period ended 30th June 2018 and the interim consolidated financial report as at 30th September 2018, as a consequence of the adoption of IFRS 9 the statements in question are different from those used for the consolidated financial statements of the UBI Banca Group as at and for the period ended 31st December 2017, prepared in accordance with the provisions of the 4th update of Bank of Italy Circular No. 262/2005.

In accordance with the international reporting standard IAS 1 “Presentation of Financial Statements”, comparative balance sheet and income statement figures have therefore been reclassified into the new items of the financial statements in accordance with the methodology described later in this document.

It is also underlined that the balance sheet and income statement figures at and for the year ended 31st December 2018 are not fully comparable with those for the comparative periods

³ The balance sheet lists assets and liabilities in order of decreasing liquidity and the income statement recognises expenses according to their nature.

⁴ More specifically, the version referenced is the fifth update dated 22nd December 2017. In the interest of completeness of information, it bears remarking that the sixth update to the Circular was published on 30th November 2018. The provisions of this latest update are applicable to the financial statements at and for the year ending 31st December 2019.

⁵ The tables in question refer to the performance of gross credit exposures and total impairment losses.

because the latter had been calculated by applying international reporting standard IAS 39, which was in force during the relative reporting periods. Pursuant to par. 7.2.15 of IFRS 9, it is not mandatory to restate the figures presented for comparative purposes.

For further information regarding the reconciliation of the balance sheet figures pursuant to IAS 39 published in the Group's Consolidated Financial Statements as at 31st December 2017 with those calculated as at 1st January 2018 (in application of the provisions of IFRS 9, in terms of classification, measurement and impairment), see the section entitled "Transition to the new financial reporting standards IFRS 9 and IFRS 15" in these financial statements.

Balance sheet

The restatement of the asset items of the balance sheet published in the Consolidated Financial Statements as at 31st December 2017 in accordance with the new presentation introduced by the 5th update of Bank of Italy Circular No. 262/2005 was carried out on the same accounting figures pursuant to IAS 39, in compliance with the business models identified by the Group in applying IFRS 9.

The provisions of the new standard have therefore been observed in carrying out that restatement in terms of the classification of financial instruments, with consideration also taken of the results of the "SPPI test" which constitutes an integral part of the classification process. The restatements carried out are presented below.

IAS 39	IFRS 9
Financial statements pursuant to Bank of Italy Circular No. 262/2005, 4 th update	Financial statements pursuant to Bank of Italy Circular No. 262/2005, 5 th update
20. Financial assets held for trading	20a. Financial assets measured at fair value through profit or loss: financial assets held for trading
	20c. Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value
30. Financial assets designated at fair value	20b. Financial assets measured at fair value through profit or loss: financial assets designated at fair value
	20c. Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value
40. Available-for-sale financial assets	20c. Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value
	30. Financial assets measured at fair value through other comprehensive income
	40b. Financial assets measured at amortised cost: loans and advances to customers
50. Held-to-maturity investments	30. Financial assets measured at fair value through other comprehensive income
	40b. Financial assets measured at amortised cost: loans and advances to customers
60. Loans and advances to banks	20c. Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value
	40a. Financial assets measured at amortised cost: loans and advances to banks
70. Loans and advances to customers	20c. Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value
	40b. Financial assets measured at amortised cost: loans and advances to customers

The restatement of the liability and equity items of the balance sheet published in the Consolidated Balance Sheet as at 31st December 2017, in accordance with the new presentation introduced by the 5th update of Bank of Italy Circular No. 262/2005, was carried out in continuity with the amounts pursuant to IAS 39, according to the following procedures with regard to the main items of the financial statements affected:

IAS 39	IFRS 9
Financial statements pursuant to Bank of Italy Circular No. 262/2005, 4th update	Financial statements pursuant to Bank of Italy Circular No. 262/2005, 5th update
10. Due to banks	10a. Financial liabilities measured at amortised cost: due to banks
20. Due to customers	10b. Financial liabilities measured at amortised cost: due to customers
30. Debt securities issued	10c. Financial liabilities measured at amortised cost: debt securities issued
100. Other liabilities (relating to loan commitments and financial guarantees granted)	100a. Provisions for risks and charges: commitments and guarantees granted
140. Valuation reserves (relating to available-for-sale financial assets)	150. Reserves

Income statement

The restatement of the income statement items for the comparative periods according to the new presentation was carried out according to the procedures presented in the table that follows with regard to the items most affected by the new accounting standard IFRS 9:

IAS 39	IFRS 9
Financial statements pursuant to Bank of Italy Circular No. 262/2005, 4th update	Financial statements pursuant to Bank of Italy Circular No. 262/2005, 5th update
100a. Income (loss) from disposal or repurchase of: loans and receivables	100a. Income (loss) from disposal or repurchase of: financial assets measured at amortised cost
100b. Income (loss) from disposal or repurchase of: available-for-sale financial assets	100b. Income (loss) from disposal or repurchase of: financial assets measured at fair value through other comprehensive income
100c. Income (loss) from disposal or repurchase of: held-to-maturity investments	100a. Income (loss) from disposal or repurchase of: financial assets measured at amortised cost
100d. Income (loss) from disposal or repurchase of: financial liabilities	100c. Income (loss) from disposal or repurchase of: financial liabilities
110. Net profit (loss) from financial assets and liabilities at fair value	110a. Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value
130a. Net impairment losses on: loans and receivables	130a. Net impairment losses for credit risk relating to: financial assets measured at amortised cost
130b. Net impairment losses on: available-for-sale financial assets	130b. Net impairment losses for credit risk relating to: financial assets measured at fair value through other comprehensive income
130d. Net impairment losses on: other financial transactions	200a. Net provisions for risks and charges: commitments and guarantees granted

It is also reported that the income statement figures for the comparative period ended 31st December 2017 are not comparable with those for the period ended 31st December 2018, due to the adoption of IFRS 9 with effect from 1st January 2018 and to a change in the scope of consolidation, because the UBI Group did not include the contribution of the “New Banks”, consolidated as at 1st April 2017 in the first three months of the comparison period.

To complete the information, account was also taken in particular of the following documents in the preparation of this financial statement:

- Bank of Italy/Consob (securities market authority)/Isvap (insurance authority) joint document No. 4 of 3rd March 2010, with particular regard to the reporting of impairment of goodwill;
- the ESMA document⁶ of 5th October 2015 “Guidelines – Alternative Performance Measures” designed to encourage the usefulness and transparency of alternative performance measures⁷ included in prospectuses and regulated information;
- the ESMA document of 26th October 2018, “European common enforcement priorities for 2018 annual financial statements”, designed to promote uniform application of IFRS to ensure transparency and the proper functioning of financial markets by identifying certain issues considered particularly significant for the 2018 financial statements of listed European companies. The priorities identified for the financial year 2018 are as follows:
 - a. disclosure regarding the expected impacts of the application of the accounting standard IFRS 16;
 - b. specific issues relating to the application of the accounting standards IFRS 9 and IFRS 15;
 - c. disclosure regarding “alternative performance measures” (APMs);
 - d. non-financial disclosure, with a particular focus on climate change issues;
- Consob Communication of 31st October 2018, in which the supervisory authority primarily calls attention to the information to be reported to the public regarding in particular exposures to sovereign risk. Referring to the recent introduction of the accounting standard IFRS 9 “*Financial Instruments*”, the aforementioned Communication also underlined the importance in that respect of information relating to possible changes in the business model pursuant to IFRS 9 for the management of sovereign debt securities and also for the related accounting effects.

In this regard, we report that the UBI Group made no changes to its business model for the management of financial instruments in 2018.

Accounting policies

The accounting policies contained in Part A.2 concerning the classification, measurement and derecognition stages, were updated with effect from 1st January 2018, with respect to those applied until 31st December 2017⁸, above all in view of the entry into force of the accounting standards IFRS 9 “*Financial Instruments*” and IFRS 15 “*Revenue from Contracts with Customers*”.

Where it was impossible to measure some items in the financial statements with precision, the application of those policies 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. Reaffirming that the use of reasonable estimates is 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:

- determination of expected losses on loans and receivables, securities, guarantees issued and commitments;
- 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;

⁶ European Securities and Markets Authority.

⁷ The document in question defines an alternative performance measure as “a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework”.

⁸ For further information, see the section A.2 “The main items in the financial statements” of these notes below.

- 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.

An adjustment may be made to an estimate following a change 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 2018 to the criteria previously employed for estimates in the financial statements as at and for the year ended 31st December 2017, except for what described below.

On the determination of the expected losses on loans, securities, guarantees granted and commitments, see the more detailed information provided in the notes to the consolidated financial statements, Part A.2 “The main items in the financial statements” and Part E “Information on risks and on the relative hedging policies”. It should be noted that, following the entry into force of IFRS 9, such losses are also determined on the basis of forward-looking information, including in particular the evolution of the macroeconomic scenarios used in calculating the impairment losses⁹. The development of those scenarios, and also how they are weighted, is subject to periodic assessment with consequent updating if necessary.

The Group periodically updates the following aspects of the parameters adopted to measure credit positions that may also be recovered through sale to third parties to reflect any developments relating to possible sales:

- the set of positions that may potentially be sold;
- the probability of occurrence of the scenarios in question; and
- the price of sale in the sale scenario.

The valuation impact resulting from that update is recognised within the relevant item in the income statement.

Updates to IAS/IFRS international accounting standards

International accounting standards in force from 2018

Regarding the introduction of the accounting standards IFRS 9 “*Financial Instruments*” and IFRS 15 “*Revenue from Contracts with Customers*” with effect from 1st January 2018, the IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*” requires that the effects of the transition to a new Standard be recognised in specific equity reserves. As the initial application of IFRS 15 did not have an impact on the UBI Banca Group's shareholders equity, we present solely the effects of the initial application of IFRS 9 on shareholders equity. The above provision is essentially designed to reconstruct the effects that would have occurred in the balance sheet if the provisions of the new standards had been applied continuously.

The impact of the introduction of the new accounting standard IFRS 9 on shareholders equity (attributable to the shareholders of the Parent and minority interests) amounted to -€786.8 million as at 1st January 2018, net of the tax effect.

For further details, see the section entitled “Transition to the new financial reporting standards IFRS 9 and IFRS 15” of these financial statements.

In addition we report that the European Commission published the following Regulations on 9th November 2017:

- Regulation (EU) No. 2017/1987 which endorses amendments to IFRS 15 “*Revenue from contracts with customers – Clarifications of IFRS 15*”.

The amendments are designed to clarify certain requirements and to further facilitate the transition for companies that apply the standard¹⁰;

⁹ See the detailed information given in the section entitled “Transition to the new financial reporting standards IFRS 9 and IFRS 15” of these financial statements.

¹⁰ Compulsory application from 1st January 2018.

- Regulation (EU) No. 2017/1988 which endorses amendments to IFRS 4 “Joint application of IFRS 9 “*Financial Instruments*” and IFRS 4 “*Insurance Contracts*”¹¹.

The amendments to IFRS 4 are designed to solve the problems of the temporary accounting discrepancy between the date of entry into force of IFRS 9 and the date of entry into force of the new accounting standard on insurance contracts (IFRS 17) which will replace IFRS 4 from 1st January 2021¹².

More specifically financial groups which constitute “financial conglomerates”¹³ may opt for none of its entities, operating in the insurance sector, to apply IFRS 9 to their consolidated financial statements (termed a “deferral approach”) for financial years commencing prior to 1st January 2021, if the following conditions are met:

- a) no financial instruments are transferred after the 29th November 2017 between the insurance sector and other sectors of the financial conglomerate other than financial instruments measured at fair value for which the changes in fair value are recognised through profit or loss for the year by both sectors involved in the transfers;
- b) the financial conglomerate discloses those insurance entities in the Group that apply IAS 39 in its financial statements;
- c) the additional disclosures requested by IFRS 7 are provided separately for the insurance sector that applies IAS 39 and for the rest of the group which applies IFRS 9.

The option in question is also granted to companies whose activities are predominantly connected with insurance activities.

For companies that issue insurance contracts (required to apply IFRS 9), the Regulation allows resort to an “overlay approach”, when these companies adopt IFRS 9 for the first time.

That option allows the amount needed for the income statement result to be the same as it would have been had the company applied the provisions of IAS 39 instead of IFRS 9 to be reclassified from the income statement to the statement of OCI (i.e. in equity).

The financial assets that can be designated for the aforementioned approach are only those which:

- are measured at fair value and recognised through profit or loss, but would not have been measured in that manner in accordance with IAS 39;
- are not held in relation to activities with no connection (e.g. banking activities) with contracts that fall within the scope of application of IFRS 4.

Finally, the Regulation introduces a temporary exemption from some of the provisions of IAS 28. In other words, controlling entities that apply IFRS 9 are permitted for the financial years that commence prior to 1st January 2021 to maintain the accounting standards applied by associates (and joint ventures) for the purposes of accounting according to the equity method, if those companies do not apply IFRS 9 making use of the “deferral approach”.

Companies shall apply the amendments to IFRS 4 from the date of the start of the first financial year beginning 1st January 2018 or on a subsequent date. Nevertheless, while the conditions mentioned above still apply, financial conglomerates can choose to apply the amendments to IFRS 4 from the date of the start of the first financial year beginning 1st January 2018 or on a subsequent date.

Having stated the above, it is underlined that, as already reported in the section “Transition to the new financial reporting standards IFRS 9 and IFRS 15”, because the Group does not constitute a “financial conglomerate” in accordance with IFRS 4 Insurance contracts” rules, the insurance companies that are subsidiaries of the Parent,

¹¹ Compulsory application from 1st January 2018.

¹² It should be noted that in last November the IASB decided to propose a further deferral of the date of initial application of IFRS 17.

¹³ In accordance with Art. 2 of Directive 2002/87/EC, a group or sub-group of a group constitutes a financial conglomerate when it satisfies the following conditions:

- a) a regulated entity is at the head of the group or at least one of the subsidiaries in the group is a regulated entity;
- b) where there is a regulated entity at the head of the group, this is either a parent undertaking of another entity in the financial sector, an entity which holds a participation in another entity in the financial sector, or an entity linked with an entity in the financial sector by a relationship which involves management on a unified basis pursuant to a contract concluded with that undertaking or provisions in the articles of association or in which the administrative, management or supervisory bodies consist for the major part of the same persons;
- c) where there is no regulated entity at the head of the group, the group's activities mainly occur in the financial sector;
- d) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector;
- e) the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant.

UBI Banca, and which are therefore consolidated on a line-by-line basis, have not opted to apply an overlay approach in the preparation of their financial statements¹⁴.

On 8th February 2018, [Regulation \(EU\) No. 2018/182](#) was published with which the European Commission endorsed the “Annual improvements to IFRS Standards 2014-2016 Cycle” with some marginal amendments to the following reporting standards: IFRS 1 “First-time adoption of international financial reporting standards”, IFRS 12 “Disclosure of interests in other entities”¹⁵ and IAS 28 “Investments in associates and Joint ventures”.

On 27th February Regulation (EU) No. 2018/289 was published with which the European Commission endorsed an amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”, which makes marginal amendments to the reporting standard IFRS 2 “Share-based payments”.

On 15th March 2018 Regulation (EU) No. 2018/400 was published with which the European Commission endorsed an amendment to IAS 40 “Transfers of Investment Property”, which makes marginal amendments to the reporting standard IAS 40 “Investment Property”.

On 3rd April Regulation (EU) No. 2018/519 was published with which the European Commission endorsed IFRIC 22 “Foreign Currency Transactions and Advance Consideration”, an interpretation designed to clarify procedures for establishing the date of transactions in order to determine the exchange rate to be applied to transactions that involve the payment or receipt of an advance in foreign currency.

The introduction of amendments pursuant to EU Regulations No. 2018/182, No. 2018/289, No. 2018/400 and No. 2018/519 did not lead to any significant impacts for the UBI Banca Group.

International accounting standards with application subsequent to 2018

As already reported in the information contained in the notes to the financial statements in the 2017 Consolidated financial statement, on 9th November 2017 [Regulation \(EU\) No. 2017/1986](#) was published, with which the European Commission endorsed IFRS 16 “Leases”¹⁶, designed to improve the financial reporting of lease contracts. The reporting standard will replace IAS 17 “Leases” from 1st January 2019.¹⁷

For further details, see the subsequent section “IFRS 16 'Leases' and the UBI Banca Group's project”.

Furthermore:

- on 26th March 2018 [Regulation \(EU\) No 2018/498](#) was published with which the European Commission endorsed the “Amendment to IFRS 9: Prepayment Features with Negative Compensation” which makes some marginal amendments to IFRS 9 “Financial Instruments” designed to specify that the instruments which involve early repayment could pass the SPPI test even in cases where reasonable additional compensation, to be paid in cases of early repayment, constitutes “negative compensation” for the lending entity;
- on 24th October 2018 [Regulation \(EU\) No 2018/1595](#) was published with which the European Commission endorsed IFRIC 23 “Uncertainty over Income Tax Treatments” to clarify the factors to be considered when faced with uncertain elements in accounting for income taxes.

¹⁴ In the interest of completeness of information, it should be noted that, as concerns the associate insurance companies, the UBI Banca takes advantage of the temporary exemption under IAS 28 provisions which allows the use of uniform accounting standards when the equity method is used. On this basis the figures for the companies in question are still determined according to IAS 39 rules.

¹⁵ These amendments were already applicable for financial statements for the year ended 31st December 2017.

¹⁶ Published by the IASB on 13th January 2016.

¹⁷ Together with the interpretations IFRIC 4 “Determining whether an agreement contains a lease”, SIC 15 “Operating leases – Incentives” and SIC 27 “Evaluating the substance of transactions involving the legal form of a lease”.

IFRS 16 'Leasing' and the UBI Banca Group's project

This section, in accordance with the aforementioned ESMA document "*European common enforcement priorities for 2018 financial reports*", contains detailed information regarding the provisions of IFRS 16, in addition to an overview of the results of the UBI Banca Group's IFRS 16 project and the provisional estimate of the quantitative impacts in terms of shareholders equity and basis points of the CET1 ratio as at 31st December 2018.

Full qualitative and quantitative disclosure of the total impacts identified upon first-time adoption ("FTA") of the new Standard will be provided in the interim financial report as at and for the period ending 31st March 2019, the first consolidated accounting document prepared in accordance with IFRS 16.

Scope of application, main changes and FTA options

IFRS 16 applies to all lease contracts, with the exception of the following cases:

- a) leases for the exploration or extraction of minerals, petroleum, natural gas and similar non-renewable resources (IFRS 6 "*Exploration for and Evaluation of Mineral Resources*");
- b) leases of biological assets held by a lessee (IAS 41 "*Agriculture*");
- c) service concession arrangements (IFRS 12 "*Service Concession Arrangements*");
- d) intellectual property licences granted by a lessor (IFRS 15 "*Revenue*");
- e) rights held by a lessee under licensing agreements for items such as films, video recordings, theatrical works, literary works, patents and copyrights (IAS 38 "*Intangible Assets*")¹⁸.

The new standard introduces new accounting rules for leasing contracts with regard to the lessees (i.e. the users of the goods under contract in the lease). These rules are based on the definition of 'lease' as a contract in which the right to control the use of an identified asset is granted to the lessee for a specified period of time, in exchange for payment.

The new rules create a single accounting model for lease contracts for lessees, requiring, as a general rule, that a right-of-use-asset be recognised alongside the lease liability representing the obligation to make the future lease payments. It is no longer permitted – with some limited exceptions – to adopt the accounting treatment currently applicable to operating leases (consisting of the recognition of lease payments in the income statement on an accrual basis). By contrast, the changes to the financial statements of lessors as a result of the new Standard are not particularly significant.

Upon FTA, lessees have two options with regard to the application of the Standard.

The lessee may apply the new Standard to lease contracts:

- a) retroactively by applying IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*" and restating the comparative figures; or
- b) retroactively by accounting for the cumulative effect of the application of the Standard as an adjustment to the opening balance of retained earnings (or, where appropriate, another component of equity) at the date of initial application (without restating the comparative figures), as illustrated below.

Where the option set out in point b) above is exercised, the lessee accounts for leases previously treated as operating leases as follows:

- by recognising a lease liability at the date of initial application, equal to the present value of the residual payments under the lease contract, using the lessee's marginal financing rate at the date of initial application as the discounting rate;
- by recognising an asset consisting of the right to use the asset underlying the lease contract either:
 - i. at its carrying amount, determined as if the Standard had been applied since the inception of the lease, but discounted according to the lessee's marginal interest rate at the date of initial application;

¹⁸ A lessee has an option, but not an obligation, to apply IFRS 16 to lease contracts governing intangible assets other than those indicated in letter e) above.

- ii. at an amount equal to the amount of the lease liability;
- by measuring the right-of-use asset on the basis of IAS 36.

Scope of application, main changes and FTA options

In 2018 the UBI Banca Group carried out a specific project dedicated to analysing IFRS 16 in order to determine the impacts of its introduction.

The Group has conducted a preliminary analysis of the key new elements introduced by the Standard, followed by a more detailed analysis on contracts stipulated in which the Group acts as lessor or lessee, i.e. on contracts that could be considered leases according to IFRS 16. After completing this phase, the Group then proceeded to a design and implementation phase, primarily focused on the following topics:

- a. *analysis of impacts on processes*: the UBI Group carried out an internal assessment in order to identify the impacts of introduction of the Standard on the portfolio of lease contracts upon FTA, drawing up a full map of the changes to company processes resulting from the transition from IAS 17 to IFRS 16;
- b. *definition of accounting rules and processes*: rules and accounting processes were created for the new accounting treatment in both the balance sheet and income statement of the leases to which the UBI Group is a party;
- c. *implementation of the IT solution*: the IT solution that will be used to manage leases in the UBI Group's accounting procedures was identified and implemented.

The UBI Group's application choices

Within the IFRS 16 transition project, the UBI Group made the following design choices:

- not to apply grandfathering, with the resulting redetermination of the scope of the leases to be subject to the new Standard;
- recognition of the effects of initial application of the Standard according to the “modified retrospective” approach, i.e. without retrospectively recognising the effects of application of the Standard in application of IAS 8;
- not to apply IFRS 16 to lease contracts having intangible assets as their underlying.

As permitted by IFRS 16, the Group elected to apply the following practical expedients in the transition to the new Standard “on a lease-by-lease basis”:

- no recognition of assets and liabilities relating to lease contracts with a residual term of 12 months or less (regardless of the original term of the contract);
- exclusion of the initial direct costs of measuring the right-of-use asset;
- estimate of the term of the lease on the basis of the experience gained and information available at the date of initial application with regard to the exercise of the extension or early termination options.

Impacts of the initial application of IFRS 16

IFRS 16 requires the recognition of assets (rights of use) relating to the following categories of goods:

- real estate properties;
- company cars;
- hardware.

The “non-lease component” of contracts of these two latter varieties is to be separated and accounted for in accordance with IFRS 15.

The marginal financing rate used to estimate the impact was constructed internally: the rate curve was formulated as the sum of the risk-free rate and the spread on UBI's unsecured

issues, adjusted to reflect the type of asset underlying the lease contract (car, real property or plant and equipment).

Given the UBI Group's policy choice to adopt the “modified retrospective” approach at the date of initial application of the Standard by recognising assets consisting of the rights to use the leased property with an amount equal to the value of the lease liabilities, the impact of FTA on shareholders equity as at 1st January 2019 will be nil.

In addition, given the effects on weighted assets of the recognition of “property, plant and equipment”, the impact in terms of basis points on Common Equity Tier 1 (CET1) has been preliminarily estimated at approximately -7 basis points.

International accounting standards with application subsequent to 2018

(IAS/IFRS) standard Interpretazione (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 17	Insurance Contracts	18/05/2017
IAS 28	Amendments to IAS 28: Long Term Interests in Associates and Joint Ventures	12/10/2017
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual improvements to IFRS Standards 2015-2017 Cycle	12/12/2017
IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	07/02/2018
Conceptual framework	Amendments to References to the Conceptual Framework in IFRS Standards	29/03/2018
IFRS 3	Amendment to IFRS 3 Business Combinations	22/10/2018
IAS 1, IAS 8	AmendmentS to IAS 1 and IAS 8: Definition of Material	31/10/2018

The standards listed above are not applicable for the preparation of the 2018 consolidated financial statement because their application is subject to endorsement by the European commission through the issue of specific EU Regulations¹⁹.

SECTION 3 Consolidation scope and methods

The consolidated financial statements include the financial and operating results of UBI Banca Spa and of the companies either directly or indirectly controlled by it, including within the scope of consolidation companies which operate in sectors different from which the Parent operates and the special purpose entities (SPEs/SPVs), when the conditions of effective control occur, even in the absence of a shareholdings, but in relation to what is termed “business”.

Changes in the companies included in the scope of consolidation compared to 31st December 2017 are as follows:

- Banca Teatina Spa: on 20th February 2018 a deed for the merger of Banca Teatina into the Parent was signed and filed on the following 22nd February with the competent Bergamo Company Register. It took effect with regard to third parties from 26th February and for accounting and tax purposes from 1st January 2018;
- Etruria Informatica Srl was merged into UBI Sistemi e Servizi Scpa with effect from 1st June 2018 and for accounting and tax purposes from 1st January 2018. All relationships of an operating and financial nature were fully taken over by the surviving company;

¹⁹ With regard to IFRS 14, we report that the European Commission has decided to suspend the endorsement process for the standard while waiting for the definition of the new standard relating to “rate regulated activities”.

- on 12th October 2018 UBI Banca increased its investment in the share capital of BancAssurance Popolari Spa to 92.4903% from 89.5342% before, by purchasing shares from Crédit Agricole Cariparma Spa (2.9561% of the share capital). On 22nd October the investment was brought up to 100% following further purchases concluded with Mint Street Holding Spa (5.3486% of the share capital) and with IG. Group Srl (2.1611% of the share capital).

With regard to the consolidation methods used, companies subject to control are consolidated using the full line-by-line method, while those interests over which the Group exercises significant influence are measured using the equity method.

Changes in the consolidation scope

The following transactions also occurred in 2018 which changed the scope of consolidation of the Group:

- UBI SPV BBS 2012 Srl, UBI SPV BPCI 2012 Srl and UBI SPV BPA 2012 Srl: these three companies are currently in voluntary liquidation in accordance with company records filed with the Company Register on 15th May 2018 after the respective boards of directors had resolved to voluntarily wind the companies up on 9th May;
- Assieme Srl: on 10th September the company signed the contract for the transfer of line of business consisting of the total assets organised for carrying on its insurance brokerage business to Sinergie Italia Broker di Assicurazioni Srl. On the same day, an Extraordinary Shareholders' Meeting of the company resolved its early dissolution and voluntary liquidation. This was filed with the Company Register and took place on 18th September;
- UBI Pramerica SGR Spa and UBI Management Company SA: on the basis of prior approval at the end of June by the Management Board and Supervisory Board of the Parent, in a meeting held on 31st July 2018 the shareholders voted to change the registered name of the companies to, respectively, Pramerica SGR Spa and Pramerica Management Company SA with effect from 5th November 2018. Corporate governance remains unchanged: the two shareholders of UBI Pramerica SGR Spa (UBI Banca and Prudential International Investments Corporation) retain their equity interests (65% and 35%, respectively); UBI Pramerica SGR Spa owns 100% of UBI Management Company SA. The objective pursued was to enhance the distinctive traits of the company, which are its capacity for global investment combined with its knowledge of distribution networks and investors, by broadening its potential client base. The rebranding project regards the entire range of investment solutions offered: it is in fact planned to change the names of funds and Sicav's in line with the new company name.

1. Equity investments in companies subject to exclusive control

Name	Registered address	Operating headquarters	Type of ownership (1)	Details of investment		% of votes (2)
				Investing company	% held	
1. Unione di Banche Italiane Spa - UBI Banca	Bergamo			CAPOGRUPPO		
2. 24-7 Finance Srl	Brescia	Brescia	4	UBI Banca Spa	10.000%	10.000%
3. BPB Immobiliare Srl	Bergamo	Bergamo	1	UBI Banca Spa	100.000%	100.000%
4. Centrobanca Sviluppo Impresa Spa	Milan	Milan	1	UBI Banca Spa	100.000%	100.000%
5. IW Bank Spa	Milan	Milan	1	UBI Banca Spa	100.000%	100.000%
6. Prestitalia Spa	Bergamo	Rome	1	UBI Banca Spa	100.000%	100.000%
7. UBI Factor Spa	Milan	Milan	1	UBI Banca Spa	100.000%	100.000%
8. UBI Finance Srl	Milan	Milan	1	UBI Banca Spa	60.000%	60.000%
9. UBI Finance 2 Srl (in liquidation)	Brescia	Brescia	4	UBI Banca Spa	10.000%	10.000%
10. UBI Leasing Spa	Brescia	Brescia	1	UBI Banca Spa	100.000%	100.000%
11. Pramerica Management Company Sa	Luxembourg	Luxembourg	1	Pramerica SGR Spa	100.000%	100.000%
12. Pramerica SGR Spa	Milan	Milan	1	UBI Banca Spa	65.000%	65.000%
13. UBI Sistemi e Servizi Scpa	Brescia	Brescia	1	UBI Banca Spa IW Bank Spa Pramerica SGR Spa UBI Factor Spa UBI Academy Scrl BancAssurance Popolari Spa Prestitalia Spa	91.936% 4.315% 1.438% 0.719% 0.010% 0.072% 0.072%	98.562%
14. UBI Trustee Sa	Luxembourg	Luxembourg	1	UBI Banca Spa	100.000%	100.000%
15. UBI Finance CB 2 Srl	Milan	Milan	1	UBI Banca Spa	60.000%	60.000%
16. UBI SPV BBS 2012 Srl (in liquidation)	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
17. UBI SPV BPCI 2012 Srl (in liquidation)	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
18. UBI SPV BPA 2012 Srl (in liquidation)	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
19. UBI SPV GROUP 2016 Srl	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
20. UBI SPV LEASE 2016 Srl	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
21. Kedomus Srl	Brescia	Brescia	1	UBI Banca Spa	100.000%	100.000%
22. UBI Academy Scrl	Bergamo	Bergamo	1	UBI Banca Spa IW Bank Spa UBI Factor Spa Pramerica SGR Spa UBI Sistemi e Servizi Scpa UBI Leasing Spa Prestitalia Spa	88.000% 3.000% 1.500% 1.500% 3.000% 1.500% 1.500%	100.000%
23. Oro Italia Trading Srl (in liquidation)	Arezzo	Arezzo	1	UBI Banca Spa	100.000%	100.000%
24. Mecenat Srl	Arezzo	Arezzo	1	UBI Banca Spa	95.000%	95.000%
25. BancAssurance Popolari Spa	Arezzo	Rome	1	UBI Banca Spa	100.000%	100.000%
26. BancAssurance Popolari Danni Spa	Arezzo	Rome	1	UBI Banca Spa BancAssurance Popolari Spa	50.765% 49.235%	100.000%
27. Focus Impresa	Ancona	Ancona	1	UBI Banca Spa	80.769%	80.769%
28. Assieme Srl (in liquidation)	Arezzo	Arezzo	1	BancAssurance Popolari Spa	90.000%	90.000%
29. Marche Mutui 2 Società per la Cartolarizzazione a r.l.	Rome	Rome	4 (*)		0.000%	0.000%
30. Marche M6 Srl	Conegliano Veneto (TV)	Conegliano Veneto (TV)	4 (*)		0.000%	0.000%

(*) Companies that fall within the scope of consolidation 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.

Key

- (1) Type of ownership:
 - 1 = majority of voting rights in ordinary general meetings
 - 2 = dominating influence over ordinary general meetings
 - 3 = agreements with other shareholders
 - 4 = other forms of control
 - 5 = joint control
- (2) Votes available at ordinary shareholders' meetings, distinguishing between actual and potential

2. Assessments and significant assumptions to determine scope of consolidation

The full line-by-line consolidation method

Subsidiaries subject to control are consolidated using the full line-by-line method. In compliance with IFRS 10, the concept of control goes beyond a majority percentage interest in the share capital of an investee and it arises when an entity is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity.

The line-by-line consolidation method involves summing the items of the income statements and balance sheets of subsidiaries on a line-by-line basis. The following adjustments are made for this purpose:

- (a) the carrying amounts of the subsidiaries held by the Parent and the corresponding part of the equity are eliminated;
- (b) the proportion of equity and of profit or loss for the year attributable to other shareholders is stated under a separate item.

If the results of the above adjustments are positive, then they are recognised (after first allocating them if possible to the assets or liabilities of the subsidiary) as goodwill within item 130 “intangible assets” on the date of the first consolidation, if the necessary conditions apply. If the resulting differences are negative they are normally charged to the income statement.

Intragroup balances and transactions, including revenues, costs and dividends are completely eliminated.

The operating results of a subsidiary that is acquired during the year are included in the consolidated balance sheet starting from the date on which it is acquired. Similarly, the operating results of a subsidiary that is disposed of are included in the consolidated balance sheet until the date on which control over the company is released.

The accounts used in the preparation of consolidated financial statements are stated as of the same date.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and events.

If a subsidiary uses different accounting policies from those employed in the consolidated financial statements for like transactions and other events in similar circumstances, adjustments are made to its accounts for the purposes of the consolidation.

The equity method

Equity investments over which the Group exercises significant influence or has joint control, as defined in IAS 28 and IFRS 11, are measured using the equity method.

Under this method an equity investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the investor's share of the profit or loss of the associate after the acquisition date. The proportion of the profit or loss for the year made by the investee attributable to the investor is stated in the income statement of the latter. Dividends received from an investee reduce the carrying amount of the investment; adjustments to the carrying amount may also be required arising from a change in the portion of the investee's equity attributable to the investor that have not been recognised in the income statement. These changes include changes arising from the revaluation of property, plant and equipment and from exchange rate differences on items in foreign currency. The portion of those changes attributable to the investor are recorded directly in its equity.

Where potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights. Where the investee incurs continued losses, if these exceed the carrying amount of the investee, then this is written off and further losses are only recognised if the investor has contracted legal or implicit obligations or has made payments on behalf of the investee. If

the investee subsequently realises a profit, the investor resumes recognition of its share of the profits only after reaching the share of the profit which was previously not recognised. For the purposes of consolidating investments in associates and/or companies subject to joint control, the figures from the financial statements prepared and approved by the boards of directors of the individual companies are used. Where accounts prepared according to international standards are not available those prepared according to national accounting standards are used after first verifying that there are no significant differences.

The consolidating entity ceases use of the equity method from the date on which it ceases to exercise significant influence or joint control over the investee and it is recognised according to the approach described in section A.2 of these notes, starting from that date, on condition that the associate or company subject to joint control does not become a subsidiary.

3. Equity investments in companies subject to exclusive control with significant minority interests

For the purposes of preparing the tables that follow, an interest was considered significant when:

- the minority interest is greater than or equal to 10% of the share capital of the investee and
- the accounting data of the investee are significant for a reader of the consolidated financial statements.

3.1 Minority interests, availability of minority votes and dividends distributed to minority interests

Name of companies	Percentage of minority interests	Percentage of minority interest votes (1)	Dividends distributed to minority interests
1. Pramerica SGR Spa	35.0%	35.0%	44,721

3.2 Equity investments with significant minority interests: accounting figures

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Gross income	Operating expenses	Profit (Loss) on continuing operations before tax	Post tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
1. Pramerica SGR Spa	228,468	1	175,814	75	85,108	96,814	7	141,727	-38,863	102,864	72,291	-	72,291	5	72,296

4. Significant restrictions

As concerns regulatory requirements we report (i) that the UBI Group is a banking group subject to the regulations contained in Directive 2013/36/EU on “access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms” (CRD IV) and in Regulation (EU) No. 575/2013 relating to “Prudential requirements for credit institutions and investment firms” (CRR) and (ii) that it controls financial institutions subject to those same regulations.

The ability of the subsidiary banks to distribute capital or dividends is restricted therefore to compliance with those regulations both in terms of the amount of minimum own funds they may hold and in terms of the maximum amount of the profits they may distribute.

Furthermore, the Parent has commitments contained in its Articles of Association which require it to allocate part of its profits to specific charitable initiatives.

As concerns liquidity within the Group no restrictions exist of a company ownership or legal nature to its transfer. Information on liquidity risk is given in Part E - Information on risks and hedging policies, Section 3 - Liquidity Risk.

5. Other information

Companies in which no equity investment is held, but for which shares have been received as pledges are excluded from the scope of the consolidation, in consideration of the purpose of possession, which is to secure the loan granted and not to exercise control and determine financial and operating policies in order to obtain the economic benefits deriving from them.

The balance sheet, income statement and statement of cash flows of consolidated companies which operate with a reference currency other than the euro are translated at the exchange rate ruling at the end of the year. All the exchange rate differences resulting from the translation are recognised in a separate reserve in equity. If an investment is disposed of, this reserve is eliminated with a simultaneous profit or loss in the income statement at the time of disposal.

International financial reporting standards require the recognition in the financial statements of corporate events in a manner which reflects the underlying economic substance of them.

No equity investments held directly or indirectly by the Parent with an interest of less than 20%, or for which voting rights below that threshold were held, over which it is considered it exerted significant influence, existed as at the balance sheet date. Furthermore, with the exception of equity investments held for merchant banking activities classified within item 20 c) “Other financial assets mandatorily measured at fair value”, no equity investments held directly or indirectly by the Parent with an interest of more than 20% are held over which it is considered it did not exert significant influence.

No significant restrictions existed as at the balance sheet date on the capacity of associate companies to transfer funds to the investing company in payment of dividends or repayment of loans or advances.

The balance sheet dates of the companies measured according to the equity method were the same as that of the Parent.

SECTION 4 Subsequent events

With regard to the provisions of IAS 10, subsequent to 31st December 2018, the reporting date for the consolidated financial statements, and until 7th February 2019, the date on which the proposed financial statement was authorised by the Management Board for submission to the Supervisory Board, no events occurred sufficient to make adjustments to the figures presented in the report necessary.

SECTION 5 Other aspects

Voluntary Scheme of the Interbank Deposit Protection Fund

– Intervention in support of Banca Carige

On 30th November 2018 the General Meeting of the banks participating in the Voluntary Scheme of the Interbank Deposit Protection Fund, of which UBI Banca Group has been a member since December 2015, approved the intervention in support of Banca Carige.

The Voluntary Scheme's purpose is to intervene in support of the recovery of member banks and the overall financial stability of the banking sector. The initiative to recovery Banca Carige is divided into the two separate but related phases:

1. the issue of subordinated bonds (Tier 2) of a maximum of €400 million at the fixed gross nominal rate of 13% per annum, of which a maximum of €320 million offered to the Voluntary Scheme for direct subscription;
2. a capital increase by the Bank to be undertaken through the issue of new ordinary shares, to be offered as an option to those entitled, with a total maximum amount (inclusive of any share premium) of €400 million, which may also be subscribed by the entitled through credit compensation repayment of the subordinated bonds set out in point 1.

On 29th November 2018 the UBI Banca Group, whose share of the Voluntary Scheme is 7.59%, resolved in favour of its participation in the support operation promoted by the Voluntary Scheme.

On 30th November last, following the aforementioned resolution by the General Meeting of the Voluntary Scheme, the Scheme directly subscribed for total subordinated bonds of €318.2 million²⁰. Accordingly, on 4th December last the UBI Banca Group paid its share, as indicated above, of €24.4 million.

The payment was accounted for by recognising a financial asset associated with the debt securities in question under the item *“Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value”*.

We also report that:

- on 22nd December 2018 the General Meeting of Banca Carige did not approve the authorisation for the Board of Directors relating to the capital increase²¹;
- on 2nd January 2019, following the dissolution of the bank's Board of Directors, the European Central Bank placed Banca Carige in extraordinary administration;
- on 7th January 2019 the government approved a decree-law offering broad guarantees protecting the rights and interests of Banca Carige's customers, one aim of which was to permit the extraordinary administration to pursue the process of consolidating the bank's financial position and turning around its operations.

As at 31st December 2018, in view of subsequent measurement of the investment, with the aim of providing all member banks with a common basis for determining the fair values of the financial assets acquired as a result of the intervention, the Voluntary Scheme requested an appraisers report from an independent third-party expert.

This report was used as a basis for measuring the assets. However, in application of the UBI Group's policy for measuring financial assets for which the counterparty is subject to extraordinary administration, the Group decided to adjust the carrying amount of the investment by €22 million, as classified to item 110b *“Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value”*.

The investment's post-adjustment carrying amount therefore came to €2.4 million as at 31st December 2018.

²⁰ As an integral part of its commitment to subscribe for the subordinated bonds, the Voluntary Scheme undertook to lend them, under a securities lending agreement, to the party responsible for offering the capital increase, so that the said party might possibly use them to subscribe and pay in the capital increase through offsetting.

²¹ Per the terms of the Tier 2 subordinated bond, the interest on the bond therefore accrues at the rate of 16% with retroactive effect from the date of issue of the bonds.

Accounting for the extraordinary contribution to the National Resolution Fund

The Italian Government's 2016 *Legge di stabilità*²² ("stability law" – annual finance law) states, in the event that the National Resolution Fund (hereinafter 'NRF') does not have sufficient funds to sustain resolution efforts over time, that Italian banks must pay:

- a) additional contributions to the NRF itself, within the overall limit, inclusive of the ordinary and extraordinary contributions paid to the NRF, pursuant to articles 70 and 71 of EU Regulation 2014/806²³;
- b) for 2016 only, two additional quotas on top of the regular contribution to the Single Resolution Fund (SRF).

Art. 25 of Decree Law No. 237 of 23rd December 2016 specifies that such additional contributions are to be paid to cover any and all of NRF's obligations, losses, costs and liabilities arising from or in any event related to the execution of provisions to start resolutions and with the requirement to ensure that they can be effectively executed, even if as a consequence of amendments made to them.

In this respect, on 27th December 2016 the Bank of Italy, in its capacity as the national resolution institution, had called in the two annual instalments to the contribution mentioned in point b) above²⁴.

With account taken of the fund's financial requirements, last May the Bank of Italy called in a portion of the additional contributions mentioned in letter b) of which a total of €12.9 million to be paid by the UBI Banca Group²⁵.

The cost in question, relating to the second quarter, was recognised in accordance with IFRIC 21²⁶, within the item "Other administrative expenses".

The national consolidated tax option

The *Testo Unico delle Imposte sui Redditi* (Consolidated Income Tax Law) grants the option for companies belonging to the same Group to calculate a single total income corresponding, generally speaking, to the algebraic sum of the taxable income of the different companies (the Parent and companies directly and/or indirectly controlled by more than 50% according to certain requirements) and as a consequence to calculate a single tax on the income of the companies in the Group (known as a "national tax consolidation", regulated by articles 117-129 of the Consolidated Income Tax Law).

In view of this option, the Italian companies in the Group adhered to the national tax consolidation of the Parent, UBI Banca, and calculated the tax expense relating to them by transferring the corresponding taxable income to the Parent.

In the interest of completeness of information, it is reported that the following additional significant aspects occurred in 2018:

- within the framework of the Strategic Non-Performing Loans Plan, a GACS-backed securitisation programme was undertaken, for the details of which see the chapter of the consolidated report entitled "Significant events in 2018";
- assessment of the impacts of the tax provisions of the *Legge di Bilancio 2019*²⁷ ("2019 Budget Law") detailed in the notes to the consolidated financial statements, Part B – Section 14 on balance sheet assets, "Tax assets and tax liabilities".

²² Cf. Art. 1, paragraph 848, Law No. 208/2015 of 28th December 2015.

²³ Amounting to at most three times the regular contribution.

²⁴ This totalled €74.7 million for the UBI Banca Group.

²⁵ The contribution which was paid by the Group on 22nd June 2018.

²⁶ This was along the same lines as that which was done with regard to the additional contributions recognised in 2016 in compliance, moreover, with the Bank of Italy notification entitled Additional contributions to the national resolution fund: accounting treatment and treatment for supervisory reporting dated 25th January 2017.

²⁷ Law No. 145 of 30th December 2018, published in the *Official Journal* of 31st December 2018.

List of the main IFRS standards endorsed by the European Commission²⁸

IAS/IFRS	ACCOUNTING STANDARDS	EU REGULATIONS
IAS 1	Presentation of financial statements	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, 1986/17
IAS 2	Inventories	1126/08, 1255/12, 1905/16, 2067/16, 1986/17
IAS 7	Statement of cash flows	1126/08, 1274/08, 70/09, 494/09, 243/10, 1254/12, 1174/13, 1986/17, 1990/17
IAS 8	Accounting policies, changes in accounting estimates and errors	1126/08, 1274/08, 70/09, 1255/12, 2067/16
IAS 10	Events after the reporting date	1126/08, 1274/08, 70/09, 1142/09, 1255/12, 2067/16
IAS 12	Income taxes	1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 1174/13, 1905/16, 2067/16, 1986/17, 1989/17
IAS 16	Property, plant and equipment	1126/08, 1274/08, 70/09, 495/09, 1255/12, 301/13, 28/15, 2113/15, 2231/15, 1905/16, 1986/17
IAS 17	Leases	1126/08, 243/10, 1255/12, 2113/15
IAS 19	Employee benefits	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	1126/08, 1274/08, 70/09, 475/12, 1255/12, 2067/16
IAS 21	The effects of changes in foreign exchange rates	1126/08, 1274/08, 69/09, 494/09, 149/11, 475/12, 1254/12, 1255/12, 2067/16, 1986/17
IAS 23	Borrowing costs	1260/08, 70/09, 2113/15, 2067/16, 1986/17
IAS 24	Related party disclosures	632/10, 475/12, 1254/12, 1174/13, 28/15
IAS 26	Retirement benefit plans	1126/08
IAS 27	Consolidated and separate financial statements	1254/12, 1174/13, 2441/15
IAS 28	Investments in associates and joint ventures	1254/12, 2441/15, 1703/16, 2067/16, 182/18
IAS 29	Financial reporting in hyperinflationary economies	1126/08, 1274/08, 70/09
IAS 32	Financial instruments: presentation	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, 1905/16, 2067/16, 1986/17
IAS 33	Earnings per share	1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 2067/16
IAS 34	Interim financial reporting	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	1126/08, 1274/08, 69/09, 70/09, 495/09, 243/10, 1254/12, 1255/12, 1374/13, 2113/15, 1905/16, 2067/16
IAS 37	Provisions, contingent liabilities and contingent assets	1126/08, 1274/08, 495/09, 28/15, 1905/16, 2067/16, 1986/17
IAS 38	Intangible assets	1126/08, 1274/08, 70/09, 495/09, 243/10, 1254/12, 1255/12, 28/15, 2231/15, 1905/16, 1986/17
IAS 39	Financial instruments: recognition and measurement	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, 1986/17
IAS 40	Investment property	1126/08, 1274/08, 70/09, 1255/12, 1361/14, 2113/15, 1905/16, 1986/17, 400/18
IAS 41	Agriculture	1126/08, 1274/08, 70/09, 1255/12, 2113/15, 1986/17
IFRS 1	First-time adoption of international financial reporting standards	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, 1986/17, 182/18, 519/18
IFRS 2	Share-based payment	1126/08, 1261/08, 495/09, 243/10, 244/10, 1254/12, 1255/12, 28/15, 2067/16, 289/18
IFRS 3	Business combinations	495/09, 149/11, 1254/12, 1255/12, 1174/13, 1361/14, 28/15, 1905/16,

²⁸ To provide full information we report that on 8th February 2018, the European Commission published Regulation (EU) No. 2018/182 which endorses certain marginal modifications to the following accounting standards IFRS 1, IFRS 12 and IAS 28.

		2067/16, 1986/17
IFRS 4	Insurance contracts	1126/08, 1274/08, 1165/09, 1255/12, 1905/16, 2067/16, 1986/17, 1988/17
IFRS 5	Non-current assets held for sale and discontinued operations	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	1126/08
IFRS 7	Financial instruments: disclosures	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, 1986/17
IFRS 8	Operating segments	1126/08, 1274/08, 243/10, 632/10, 475/12, 28/15
IFRS 9	Financial instruments	2067/16, 1986/17, 498/18
IFRS 10	Consolidated financial statements	1254/12, 313/13, 1174/13, 1703/16
IFRS 11	Joint arrangements	1254/12, 313/13, 2173/15
IFRS 12	Disclosure of interests in other entities	1254/12, 313/13, 1174/13, 1703/16, 182/18
IFRS 13	Fair value measurement	1255/12, 1361/14, 2067/16, 1986/17
IFRS 15	Revenue from contracts with customers	1905/16, 1986/17, 1987/17
IFRS 16	Leasing (*)	1986/17

(*) From 1st January 2019, the date on which application of the standard becomes compulsory, the provisions of the following standards and interpretations have no longer been applicable: IAS 17, IFRIC 4, SIC 15 and 27.

SIC/IFRIC	INTERPRETATION DOCUMENTS	EU REGULATIONS
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	1126/08, 1274/08, 1986/17
IFRIC 2	Members' shares in co-operative entities and similar instruments	1126/08, 53/09, 1255/12, 301/13, 2067/16
IFRIC 4	Determining whether an arrangement contains a lease	1126/08, 70/09, 1255/12
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1126/08, 1254/12, 2067/16
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	1126/08
IFRIC 7	Applying the restatement approach under IAS 29 "Financial reporting in hyperinflationary economies"	1126/08, 1274/08
IFRIC 10	Interim financial reporting and impairment	1126/08, 1274/08, 2067/16
IFRIC 12	Service concession arrangements	254/09, 1905/16, 2067/16, 1986/17
IFRIC 14	Prepayments of a minimum funding requirement	1263/08, 1274/08, 633/10, 475/12
IFRIC 16	Hedges of a net investment in a foreign operation	460/09, 243/10, 1254/12, 2067/16
IFRIC 17	Distributions of non-cash assets to owners	1142/09, 1254/12, 1255/12
IFRIC 19	Extinguishing financial liabilities with equity instruments	662/10, 1255/12, 2067/16
IFRIC 20	Stripping costs in the production phase of a surface mine	1255/12
IFRIC 21	Levies	634/14
IFRIC 22	Foreign currency transactions and advance consideration	519/18
IFRIC 23	Uncertainty over Income Tax Treatments	1595/18
SIC 7	Introduction of the euro	1126/08, 1274/08, 494/09
SIC 10	Government assistance — no specific relation to operating activities	1126/08, 1274/08
SIC 15	Operating leases — Incentives	1126/08, 1274/08
SIC 25	Income taxes — Changes in the tax status of an enterprise or its shareholders	1126/08, 1274/08
SIC 27	Evaluating the substance of transactions in the legal form of a lease	1126/08, 1905/16, 2067/16
SIC 29	Service concession arrangements: disclosures	1126/08, 1274/08, 70/09, 1986/17
SIC 32	Intangible assets — Website costs	1126/08, 1274/08, 1905/16, 1986/17

A.2 – THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

1. Financial assets measured at fair value through profit or loss (FVTPL)

1.1. Definition and classification

Those financial assets that are not classified within “Financial assets measured at fair value through other comprehensive income” and within “Financial assets measured at amortised cost” are classified within item 20 “Financial assets measured through profit or loss”. In detail:

a) Financial assets held for trading

A financial asset (debt security, equity security, loan, UCITS share) is recognised within item “20. a) Financial assets measured at fair value through profit or loss: financial assets held for trading” if it is:

- managed with the objective of realising cash flows through the disposal of the asset, and is therefore associated with Other business models, because it is:
 - acquired or incurred principally for the purpose of selling or repurchasing it in the short-term;
 - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- or it is a financial asset which is a derivative²⁹ (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument³⁰).

b) Financial assets designated at fair value

A financial asset (debt securities and loans) may be designated on initial recognition on the basis of the fair value option recognised by IFRS 9, as classified within “Financial assets designated at fair value” and therefore recognised within item “20. b) Financial assets measured at fair value through profit or loss: financial assets designated at fair value”.

A financial asset can only be designated at fair value through profit or loss on initial recognition when that designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’), which otherwise would result in the measurement of assets or liabilities or recognition of profit or loss on a different basis.

c) Other financial assets mandatorily measured at fair value

A financial asset (debt security, equity security, loan, UCITS share and loan) is recognised within item “20. c) Financial assets measured at fair value through profit or loss: financial assets mandatorily measured at fair value” if it is:

- a financial instrument for which the return is measured on the basis of the fair value and it is therefore associated with the Other business models;
- an instrument for which the objective contractual characteristics do not give rise on specified dates to cash flows that are solely payments of principal and interest on the

²⁹ A “derivative” is defined as a financial instrument or other contract with the following characteristics:

- its value changes in response to the change in an interest rate, in the price of a financial instrument, in a commodity price, in a foreign currency exchange rate, in a price, interest rate or credit rating index, or credit worthiness index or other specific variable;
- it requires no initial investment, or a net initial investment that is smaller than would be required for other types of contract from which a similar response to changes in market factors would be expected;
- it is settled at a future date.

With regard to derivative financial instruments, these are subject to netting of current positive and negative values in the balance sheet where they relate to the same counterparty if the legal right currently exists to offset those amounts and they are then settled on a net basis. Derivatives also include those that are embedded in complex financial contracts in which the host contract is not a financial asset that falls within the scope of application of IFRS 9, which are subject to separate recognition because:

- their economic risks and characteristics are not closely related to the economic risks and characteristics of the host contract;
- the embedded instruments would meet the definition of a derivative even if separated;
- the hybrid instruments to which they belong are not measured at fair value with changes in fair value recognised in profit or loss.

³⁰ Reference is made to point 4 “Hedging transactions” for further details.

principal amount outstanding where the solely payment of principal and interest test ("SPPI" test) has not been passed³¹.

1.2. Recognition criteria

"Financial assets measured at fair value through profit or loss" are recognised initially when, and only when, the entity becomes party to the contractual provisions of the instruments, which is to say:

- at the time of settlement for debt securities equity securities or loans; or,
- on the subscription date if they are derivative contracts.

Measurement on initial recognition is at the fair value of the instrument (generally the same as its cost) without considering any transaction costs or income directly attributable to the instruments themselves.

1.3. Measurement criteria

Subsequent to initial recognition, these assets are measured at fair value³² with changes in fair value recognised through profit or loss, within the following items:

- within item "80. Net trading income" for financial assets recognised within item "20. a) Financial assets held for trading";
- within item "110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value" for financial assets recognised within item "20. b) Financial assets designated at fair value";
- within item "110. b) Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value" for financial assets recognised within item "20. c) Other financial assets mandatorily measured at fair value".

Interest on financial instruments which are loans and debt securities classified within item "20. Financial assets held for trading" under balance sheet assets is also classified within the item "10. Interest and similar income".

1.4. Derecognition criteria

"Financial assets measured at fair value through profit or loss" are derecognised from the balance sheet when one of the following situations occurs:

- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off³³ and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset³⁴;
- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute "substantial" modifications³⁵.

The profit or loss resulting from the derecognition of financial assets is recognised through profit or loss within the following items:

- "80. Net trading income" for financial assets recognised within item "20. a) Financial assets held for trading";

³¹ In fact IFRS 9 states that the classification of financial assets should be made on the basis:

- of the entity's business model for managing the financial assets;
- of the contractual cash flow characteristics of the financial asset.

³² The measurement of the fair value of the financial assets is based on prices quoted on active markets or on internal valuation models which are generally used in financial practice as described in greater detail in Part A.4 "Information on fair value" of the Notes to the 2018 consolidated financial statements of the UBI Banca Group.

³³ See also in this regard the information reported in the subsequent section "16. Other information".

³⁴ "Debt forgiveness".

³⁵ Information concerning the identification of cases of substantial modifications is given in section "16. Other information".

- “110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value” for financial assets recognised within item “20. b) Financial assets designated at fair value”;
- “110. b) Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value” for financial assets recognised within item “20. c) Other financial assets mandatorily measured at fair value”.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

2.1 Definition and classification

The following financial assets (debt securities, equity securities and loans) are classified within asset item “30. Financial assets measured at fair value through other comprehensive income” in the balance sheet:

- financial instruments (debt securities and loans) associated with the hold to collect and sell business model, the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and which therefore have passed the SPPI test;
- equity securities (shareholdings that do not qualify as control, an associate or a joint arrangement) for which an “OCI election” has been made to present changes in the fair value in other comprehensive income³⁶.

Financial instruments held within the framework of a business model the objective of which is achieved both through the receipt of cash flows and through selling the instruments themselves can be associated with a hold to collect and sell business model.

2.2 Recognition criteria

Financial instruments measured at fair value through other comprehensive income are recognised initially when, and only when, the entity becomes a party to the contractual provisions of the instrument and that is at the time of settlement, at an amount equal to the fair value which is generally the same as their cost.

This value includes costs or income directly connected with the instruments themselves.

2.3 Measurement criteria

Subsequent to initial recognition, these assets continue to be measured at fair value with changes in fair value recognised within item “120. Valuation reserves”.

Interest on financial instruments which are loans and debt securities classified within asset item “30. Financial assets measured at fair value through other comprehensive income” in the balance sheet is recognised in the income statement within item “10. Interest and similar income”.

An estimate is made at the end of each annual or interim reporting period and solely for instruments associated with the hold to collect and sell business model of impairment losses on these assets, calculated in compliance with IFRS 9 impairment rules³⁷.

Impairment losses are recognised immediately in the income statement within the item “130. Net impairment losses for credit risk”, against the item “120. Valuation reserves”, as are recoveries of a portion or the entirety of impairment losses previously recognised. Reversals are recognised when the quality of the asset improves sufficiently to reduce the overall impairment loss previously recognised.

³⁶ In fact in compliance with the provisions of IFRS 9, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

³⁷ Details are given in section “16. Other information”.

The amount which represents the progressive discounting of the time value calculated at the time of recognition of the impairment loss is recognised in the income statement within item “10. Interest and similar income”.

Additionally, dividends relating to equity securities for which an “OCI election” has been made are recognised within item “70. Dividends and similar income”.

2.4 Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised from the balance sheet when one of the following situations occurs:

- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off³⁸ and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset³⁹; or
- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute “substantial” modifications.

The profit or loss resulting from the derecognition of these assets is recognised as follows:

- in P&L within item “100. b) Income (losses) from disposal or repurchase of: financial assets measured at fair value through other comprehensive income” for financial instruments associated with the hold to collect and sell business model. Otherwise, in all other cases it is recognised within item “130. Net impairment losses for credit risk”;
- as equity within item “120. Valuation reserves” for equity instruments for which an “OCI election” has been made. Following the derecognition of these assets, the balance of the amounts recognised within item “120. Valuation reserves” is reclassified into item “150. Reserves”.

3. Financial assets measured at amortised cost

3.1 Definition and classification

Financial assets (debt securities and loans) associated with the hold to collect business model for which the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and which therefore have passed the SPPI test are recognised within item “40. Financial assets measured at amortised cost”.

Financial instruments held within the framework of a business model the objective of which is to hold them in order to collect the cash flows are associated with the hold to collect business model.

More specifically the following are recognised within this item:

- loans and advances to banks (e.g.: current account overdrafts, security deposits, debt securities);
- loans and advances to customers (e.g. mortgages, financial lease transactions, factoring transactions, debt securities).

³⁸ See also in this regard the information reported in the subsequent section “16. Other information”.

³⁹ “Debt forgiveness”.

3.2 Recognition criteria

Financial instruments measured at amortised cost are recognised initially when, and only when, the entity becomes a party to the contractual provisions of the instrument and that is at the time of settlement, at an amount equal to the fair value, understood as the cost of the instrument, inclusive of any costs and income directly attributable to it.

Repurchase agreements with the obligation or right to repurchase or resell at term are recognised as funding or lending transactions. For transactions with a spot sale and forward repurchase, the spot cash received is recognised in the accounts as borrowings, while the spot purchase transactions with forward resale are recognised as lending for the spot amount paid.

3.3 Measurement criteria

These financial instruments are measured at amortised cost⁴⁰ calculated using the effective interest method. The result of the application of this method is recognised in the income statement within item “10. Interest and similar income”.

The amortised cost of a financial asset is the amount at which it was measured on initial recognition net of principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and less any decrease (as a result of impairment, or inability to recover the asset).

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or expense over the relative life. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. To determine the effective interest rate, the cash flows must be estimated considering all the contractual terms of the financial instrument (e.g. prepayment, call and similar options), but future credit losses shall not be considered. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, the transaction costs and all other premiums or discounts.

An estimate is made at the end of each annual or interim reporting period of impairment losses on these assets, calculated in compliance with IFRS 9 impairment rules⁴¹.

Impairment losses are recognised immediately in the income statement within item “130. Net impairment losses for credit risk” as are recoveries of a portion or the entirety of the impairment losses previously recognised.

Reversals are recognised when the quality of the exposure improves sufficiently to reduce the overall impairment loss previously recognised.

The amount which represents the progressive release of the discounts calculated at the time of recognition of the impairment loss is recognised in the income statement within item “10. Interest and similar income”.

3.4 Derecognition criteria

Financial assets measured at amortised cost are derecognised from the balance sheet when one of the following situations occurs:

- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off⁴² and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset⁴³; or

⁴⁰ The fair value is measured for all assets recognised within this item for information purposes only. For assets subject to effective hedging, the fair value is calculated in relation to the risk that is hedged for measurement purposes. The procedures employed to calculate the fair value of assets measured at amortised cost are described in Part A.4 “Information on fair value” of these Notes to the Financial Statements.

⁴¹ Details are given in section “16. Other information”.

⁴² See also in this regard the information reported in the subsequent section “16. Other information”.

⁴³ “Debt forgiveness”.

- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute “substantial” modifications.

The profit or loss resulting from the derecognition of financial assets measured at amortised cost is recognised in the income statement within item “100. a) Income (loss) from disposal or repurchase of: financial assets measured at amortised cost” in cases of transfer. Otherwise, in all other cases it is recognised within item “130. Net impairment losses for credit risk”.

4. Hedging transactions

The UBI Banca Group has taken advantage of the option allowed on first-time adoption of IFRS 9 to use the provisions of international accounting standard IAS 39 for hedge accounting.

4.1 Definition and classification

Hedging transactions are designed to neutralise losses on determined assets or liabilities (or groups of assets and/or liabilities) attributable to a determined risk by means of the gains realised on another instrument (or group of instruments) if that particular risk should actually result in losses.

The UBI Banca Group uses the following types of hedging transactions, presented consistently in the accounts and described below:

- a fair value hedge: the objective is to offset adverse changes in the fair value of the asset or liability hedged;
- a cash flow hedge: the objective is to hedge against exposure to variability in expected cash flows with respect to the initial expectations.

Only derivative contracts with an external counterparty may be designated as hedging instruments.

4.2 Recognition criteria

As with all derivatives, derivative financial instruments used for hedging are initially recognised and subsequently measured at fair value and are classified, depending on whether the value is positive or negative, in the balance sheet under assets within item “50. Hedging derivatives” and under liabilities within item “40. Hedging derivatives” respectively.

A relationship qualifies as a hedge and is appropriately represented in the accounts if, and only if, all the following conditions are satisfied:

- at the start of the hedging transaction the relationship is formally designated and documented, including the company’s risk management objective and strategy for undertaking the hedge. This documentation includes identification of the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposures to changes in the fair value of the item hedged or in the cash flows attributable to the risk hedged;
- the hedging is expected to be highly effective;
- the planned transaction hedged, for hedging cash flows, is highly probable and presents an exposure to changes in cash flows that could have effects on the income statement;
- the effectiveness of the hedging can be reliably measured;
- the hedging is measured on an ongoing basis and is considered highly effective for all the financial years in which it was designated.

4.2.1 *Methods for testing effectiveness*

A hedge relationship is judged effective, and as such is appropriately presented in the accounts, if at its inception and during its life the changes in the fair value or cash flows of the hedged item attributable to the hedged risk are expected and have almost always been completely offset by the changes in the fair value or cash flows of the hedging instrument. This conclusion is reached when aforementioned changes in fair value or in cash flows fall within a range of between 80% and 125%.

The effectiveness of a hedge is tested at inception and at each reporting date by means of a prospective test designed to demonstrate the expected effectiveness of the hedge during its life. Further retrospective tests are conducted monthly on a cumulative basis where the objective is to measure the degree of effectiveness of the hedge in the reporting period and therefore to verify whether the hedge has actually been effective in the period.

Derivative financial instruments that are considered hedges from a profit and loss viewpoint, but which do not satisfy the requirements to be considered effective instruments for hedging are recognised within item “20. a) Financial assets measured at fair value through profit and loss: financial assets held for trading” or within item “20. Financial liabilities held for trading” and the profits and losses within the corresponding item “80. Trading income (loss)”.

If the above tests do not confirm the effectiveness of the hedge, then if it is not derecognised, the derivative contract is reclassified within derivatives held for trading and the instrument hedged is again measured according to the criterion applied for its balance sheet classification.

4.3 *Measurement criteria*

4.3.1 *Fair value hedging*

Fair value hedging is treated as follows:

- the profit or loss resulting from measuring a hedging instrument at fair value is recognised in the income statement within item “90. Net hedging income (loss)”;
- the profit or loss on the item hedged attributable to the hedged risk adjusts the value in the accounts of the hedged item and is recognised immediately, regardless of the type of asset or liability hedged, in the income statement within the aforementioned item.

Hedge accounting is discontinued prospectively in the following cases:

- the hedging instrument expires or is sold, terminated, or exercised;
- the hedge no longer meets the hedge accounting criteria described above;
- the entity revokes the designation.

If the asset or liability hedged is measured at amortised cost, the higher or lower value resulting from measuring them at fair value as a result of the hedge becoming ineffective is recognised through profit or loss, according to the effective interest rate method or at constant rates in the event of a hedge on a portfolio of assets and liabilities where that method is not feasible, or in a single amount if the hedge has been derecognised.

The methods used for measurement of the fair value of the risk hedged in the assets or liabilities subject to hedging are described in Part A.4 “Information on fair value” of the Notes to the 2018 Consolidated financial statements.

4.3.2 *Cash flow hedging*

When a derivative is designated as a hedge of exposure to changes in expected cash flows from an asset or liability in the balance sheet or a future transaction considered highly probable, the accounting treatment of the hedge is as follows:

- the profits or losses (from the measurement of the hedging derivative) attributable to the effective portion of the hedge are recognised in a special reserve in equity termed “120. Valuation reserves”;

- the profits or losses (from changes in the fair value of the hedging derivative) attributable to the ineffective portion of the hedge are recognised directly in the income statement within item “90. Net hedging income (loss)”;
- the asset or liability hedged is measured according to the class of asset or liability to which it belongs.

If a future transaction occurs which involves recognising non-financial assets and liabilities, the corresponding profits or losses initially recognised within item “120. Fair value reserves” are then transferred from that reserve and included as an initial cost of the asset or liability that is recognised. If the future hedged transaction subsequently involves recognition of a financial asset or liability, the associated profits or losses that were originally recognised within item “120. Valuation reserves” are reclassified to the income statement in the same reporting period or periods during which the assets acquired or liabilities incurred have an effect on the income statement. If a portion of the profits or losses recognised in the fair value reserve are not considered recoverable, it is reclassified to the income statement within item “80. Net trading income (losses)”.

In all cases other than those already described, the profits or losses initially recognised within item “120. Valuation reserves” are transferred to the income statement to reflect the time and manner in which the future transaction is recognised in the income statement.

An entity must discontinue hedge accounting prospectively in each of the following circumstances:

- a) the hedging instrument expires or is sold, terminated, or exercised (for this purpose the replacement or exchange of one hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or exchange forms part of an entity's documented hedging strategy). In this case the total profit (or loss) on the hedging instrument continues to be recognised directly in equity until the reporting period in which the hedge became effective and it continues to be recognised separately until the programmed hedging transaction occurs;
- b) the hedge no longer satisfies the criteria for hedge accounting. In this case the total profit or loss on the hedging instrument continues to be recognised directly in equity starting from the reporting period in which the hedge became effective and it continues to be recognised separately in equity until the programmed hedging transaction occurs;
- c) it is no longer considered that the future transaction should occur, in which case any related total profit or loss on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge became effective must be recognised through profit or loss;
- d) the entity revokes the designation. For hedges of a programmed transaction, total profits or losses on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge became effective continues to be recognised separately in equity until the programmed transaction occurs or it is expected that it will no longer occur.

If it is expected that the transaction will no longer occur, the total profit (or loss) that had been recognised directly in equity is transferred to the income statement.

4.3.3 Hedging portfolios of assets and liabilities

Hedging of portfolios of assets and liabilities (“macrohedging”) and appropriate accounting treatment is possible after first:

- identifying the portfolio to be hedged and dividing it by maturity dates;
- designating the risk to be hedged;
- identifying the interest rate risk to be hedged;
- designating the hedging instruments;
- determining the effectiveness.

The portfolio for which the interest rate risk is hedged may contain both assets and liabilities.

This portfolio is divided on the basis of expected maturity or repricing dates of interest rates after first analysing the structure of the cash flows.

Changes in the fair value of the hedged instrument are recognised in the income statement within item “90. Net hedging income (loss)” and in the balance sheet within item “60. Fair value change in hedged financial assets” or within item “50. Fair value change in hedged financial liabilities”

Changes occurring in the fair value of the hedging instrument are recognised in the income statement within item “90. Net hedging income (loss)” and under assets in the balance sheet within item “50. Hedging derivatives” or under liabilities within item “40. Hedging derivatives”.

5. Equity investments

5.1 Definition and classification

5.1.1 Subsidiaries

A “subsidiary” is defined as a company over which the Parent exercises control. Such a condition occurs when the latter is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity.

The existence of control is also determined by considering the presence of potential voting rights and contractual rights which empower the owner to significantly influence the returns of the subsidiary.

5.1.2 Companies subject to joint control

A “company subject to joint control” is defined as a company governed by a contractual arrangement whereby the parties to it that hold joint control enjoy rights over the net assets of the arrangement. Joint control assumes that control over the arrangement is shared contractually and that it only exists when the unanimous consent of all the parties that share the control is required for decisions that regard important activities.

5.1.3 Associates

An “associate” is defined as a company in which the investor exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the company invested in but not to control or have joint control of it.

5.2 Recognition criteria

Equity investments in associates or joint ventures are recognised at cost of purchase plus any accessory costs.

5.3 Measurement criteria

In the consolidated financial statements equity investments in subsidiaries are fully consolidated line-by-line.

Investments in associates and companies subject to joint control are measured by adopting the equity method.

Any objective evidence that an equity investment has been subject to impairment is assessed as at each annual or interim reporting date. The recoverable amount is then calculated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount calculated in this way is less than carrying amount the difference is recognised in the income statement within item “250. Profits (losses) of equity investments” (equity accounted investees). Any future reversals of impairment are also included in the item where the reasons for the original impairment no longer apply.

5.4 Derecognition criteria

Equity investments are derecognised in the balance sheet when the contractual rights to the cash flows from the financial assets expire or when the financial assets are disposed of with the substantial transfer of all the risks and rewards deriving from ownership of them. The profit or loss on the disposal on investments valued using the equity method are recognised in the income statement within item “250. Profits (losses) of equity investments” (equity accounted investees); the profit or loss on the disposal of equity investments other than those valued using the equity method is recognised in the income statement within item “280. Profits (losses) on disposal of investments”.

6. Property, plant and equipment

6.1 Definition and classification

6.1.1 Definition of assets for functional use

Property, plant and equipment includes assets for functional use (i.e. business assets)⁴⁴, investment property⁴⁵, land, moveables, furnishings and equipment of various types, which it is considered will be used over a time horizon of longer than one year.

This item also comprises property, plant and equipment, measured according to IAS 2 “Inventories”, resulting both from the enforcement of guarantees and purchases at auction.

Finance lease contracts are also included within tangible assets (for functional use and held for investment) even if the legal title to the assets remains with the leasing company.

6.2 Recognition criteria

Property, plant and equipment, functional and other assets, are initially recognised at cost (item “90. Property, plant and equipment”), inclusive of all costs directly connected with bringing it to working condition for the use of the assets and purchase taxes and duties that are not recoverable. This amount is subsequently increased to include expenses incurred from which it is expected future benefits will be obtained. The costs of ordinary maintenance are recognised in the income statement at the time at which they are incurred, while extraordinary maintenance costs (improvements) from which future benefits are expected are capitalised by increasing the value of the relative asset.

Improvements and expenses incurred to increase the value of leased assets from which future benefits are expected are recognised:

- within the most appropriate category of item “90. Property, plant and equipment” if they are independent and can be separately identified, whether they are third parties assets held on the basis of a ordinary leasing contract or whether they are held under a financial leasing contract;
- within item “90. Property, plant and equipment” if they are not independent and cannot be separately identified, as an increase to the type of assets concerned if held by means of a financial leasing contract or within item “130. Other assets” if they are held under an ordinary leasing contract.

The cost of property, plant and equipment is recognised as an asset if, and only if:

- it is probable that the future economic benefits associated with the asset will flow to the enterprise;

⁴⁴ “Assets for functional use” are defined as tangible assets possessed to be used for the purpose of carrying on a company’s business and where the use is planned to last longer than one year.

Assets for functional use also include properties rented to employees, ex employees and their heirs, as well as works of art.

⁴⁵ “Investment property” is defined as properties held in order to earn rentals or for capital appreciation. As a consequence, investment property is to be distinguished from assets held for the use of the owner because they generate cash flows that are very different from the other assets held by the banking group.

- the cost of the asset can be reliably determined.

6.3 Measurement criteria

Subsequent to initial recognition, items of property, plant and equipment for use in operations are recognised at cost, as defined above, net of accumulated depreciation and any permanent cumulative impairment. The depreciable amount, equal to cost less the residual value (i.e. the amount that would be normally obtained from disposal, less disposal costs, if the asset was normally in the conditions, including age, expected at the end of its useful life), should be allocated on a systematic basis over the asset's useful life by adopting the straight line method of depreciation. The useful life of an asset, which is reviewed periodically to detect any significant change in estimates compared to previous figures, is defined as:

- period of time over which it is expected that an asset can be used by a company; or
- the quantity of products or similar units that an entity expects to obtain from the use of the asset.

Since property, plant and equipment may consist of items with different useful lives, land, whether by itself or as part of the value of a building is not depreciated since it constitutes a fixed asset with an indefinite life. The value attributable to the land is deducted from the total value of a property for all buildings in proportion to the percentage of ownership. Buildings, on the other hand, are depreciated according to the criteria described above.

Works of art are not depreciated because they generally increase in value over time.

Depreciation of an asset starts when it is available for use and ceases when the asset is written off the accounts, which is the most recent of when it is classified as for sale and the date of elimination from the accounts. As a consequence depreciation does not stop when an asset is left idle or is no longer in use, unless the asset has already been fully depreciated.

Improvements and expenses which increase the value are depreciated as follows:

- if they are independent and can be separately identified, according to the presumed useful life as described above;
- if they are not independent and cannot be separately identified, then if they are held under an ordinary leasing contract, over the shorter of the period in which the improvements and expenses can be used and that of the remaining life of the contract taking account of any individual renewals, or if the assets are held under a finance lease contract, over the expected useful life of the assets concerned.

The depreciation of improvements and expenses to increase the value of leased assets recognised within item "130. Other assets" is recognised within item "230. Other net operating income (expense)".

At the end of each annual or interim reporting period the existence of indications that demonstrate the impairment of the value of an asset are assessed. The loss is determined by comparing the carrying amount of the tangible asset with the lower recoverable amount. The latter is the greater of the fair value⁴⁶, net of any sales costs, and the relative use value intended as the present value of future cash flows generated by the asset. The loss is immediately recognised in the income statement within item "210. Depreciation and net impairment losses on property, plant and equipment"; the item also includes any future recovery in value if the causes of the original write down no longer exist.

Property, plant and equipment recognised in accordance with IAS 2 is measured at the lower of the cost or the net realisable value, which is the estimated net amount⁴⁷ that the entity would expect to realise from the sale.

6.4 Property, plant and equipment acquired through finance leases

A finance lease is a contract that substantially transfers all the risks and rewards incident to ownership of an asset. Legal title may or may not be transferred at the end of the lease term.

⁴⁶ The procedures employed to calculate the fair value of real estate assets are described in Part A.4 "Information on fair value" of the Notes to the 2018 consolidated financial statements.

⁴⁷ This is the estimated cost of completion and the estimated costs necessary to make the sale.

The beginning of the lease term is the date on which the lessee is authorised to exercise his right to use the asset leased and therefore corresponds to the date on which the lease is initially recognised.

When the contract commences, the lessee recognises the financial lease transactions as assets and liabilities in its balance sheet at the fair value of the asset leased or, if lower, at the present value of the minimum payments due. To determine the present value of the minimum payments due, the discount rate used is the contractual interest rate implicit in the lease, if practicable, or else the lessee's incremental borrowing rate is used. Any initial direct costs incurred by the lessee are added to the amount recognised for the asset.

The minimum payments due are apportioned between the finance charges and the reduction of the residual liability. The former are allocated over the lease term so as to produce a constant rate of interest on the residual liability.

The finance lease contract involves recognition of the depreciation charge for the asset leased and of the finance charges for each financial year. The depreciation policy used for assets acquired under finance leases is consistent with that adopted for owned assets. See the relative paragraph for a more detailed description.

6.5 Derecognition criteria

Property, plant and equipment are derecognised in the balance sheet when they are disposed of or when they are permanently retired from use and no future economic benefits are expected from their disposal. Any gains or losses resulting from the retirement or disposal of the tangible asset, calculated as the difference between the net consideration on the sale and the carrying amount of the asset are recognised in the income statement within item "280. Profits (losses) on the disposal of investments".

7. Intangible assets

7.1 Definition and classification

An intangible asset is defined as an identifiable non-monetary asset without physical substance that is used in carrying on a company's business.

The asset is identifiable when:

- it is separable, which is to say capable of being separated and sold, transferred, licensed, rented, or exchanged;
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from other rights and obligations.

An asset possesses the characteristic of being controlled by the enterprise as a result of past events and the assumption that its use will cause economic benefits to flow to the enterprise. An entity has control over an asset if it has the power to obtain future economic benefits arising from the resource in question and may also limit access by others to those benefits.

Future economic benefits arising from an intangible asset might include receipts from the sale of products or services, savings on costs or other benefits resulting from the use of the asset by an enterprise.

An intangible asset is recognised if, and only if:

- (a) it is probable that the expected future economic benefits attributable to the asset will flow to the entity;
- (b) the cost of the asset can be measured reliably.

The probability of future economic benefits occurring is assessed on the basis of reasonable and supportable assumptions that represent the best estimate of the economic conditions that will exist over the useful life of the asset.

The degree of probability attaching to the flow of economic benefits attributable to the use of the asset is assessed on the basis of the sources of information available at the time of initial recognition, giving greater weight to external sources of information.

In addition to goodwill and software used mainly over several years, intangible assets related to assets under management, assets under custody and core deposits recognised following business combination operations are also considered as intangible assets.

7.1.1 Intangible assets with a finite useful life

A finite useful life is defined for an asset where it is possible to estimate a limit to the period over which the related economic benefits are expected to be produced.

Intangible assets recognised considered as having a finite useful life include software, intangible assets related to assets under management and assets under custody and core deposits.

7.1.2 Intangible assets with an indefinite useful life

An indefinite useful life is defined for an asset where it is not possible to estimate a predictable limit to the period over which the asset is expected to generate economic benefits for a company. The attribution of an indefinite useful life to an asset does not arise from having already programmed future expenses which restore the standard level of performance of the asset over time and prolong its useful life.

Intangible assets considered as having an indefinite useful life include goodwill.

7.2 Recognition criteria

Assets recognised under the balance sheet item “100. Intangible assets” are stated at cost and any expenses subsequent to the initial recognition are only capitalised if they are able to generate future economic benefits and only if those expenses can be reliably determined and attributed to the assets.

The cost of an intangible asset includes:

- the purchase price including any non-recoverable taxes and duties on purchases after commercial discounts and bonuses have been deducted;
- any direct costs incurred in bringing the asset into use.

7.3 Measurement criteria

Subsequent to initial recognition intangible assets with a finite useful life are recognised at cost net of total amortisation and any losses in value that may have occurred. Amortisation is calculated on a systematic basis over the best estimate of the useful life of the asset (see definition in the section “Property, plant and equipment) using the straight line method for all intangible assets except for intangible assets relating to customer accounts recognised following the purchase price allocation resulting from business combination operations. In this case the amortisation is calculated on the basis of the estimated average life of the customer relationships.

Amortisation begins when the asset is available for use and ceases on the date on which the asset is eliminated from the accounts.

Intangible assets with an indefinite useful life (see, goodwill, as defined in the section below if positive) are recognised at cost net of any impairment loss resulting from periodic reviews when tests are performed to verify the appropriateness of the carrying amount of the assets (see section below). As a consequence amortisation of these assets is not calculated.

No intangible assets arising from research (or from the research phase of an internal project) are recognised. Research expenses (or the research phase of an internal project) are recognised as expenses at the time at which they are incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if the following can be demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it becomes available for sale or use;
- (b) the intention of the company to complete the intangible asset to use it or sell it;

(c) the capacity of the company to use or sell the intangible asset.

At the end of each annual or interim reporting period the existence of potential impairment of the value of intangible assets is assessed. The impairment loss is given by the difference between the carrying amount of the assets and the recoverable amount and is recognised, as are any reversals of impairment losses, within item “220. Amortisation and net impairment losses on intangible assets”, with the exception of impairment losses on goodwill which are recognised within item “270. Net impairment losses on goodwill”.

7.4 Goodwill

Goodwill is defined as the difference between the purchase cost and the fair value of assets and liabilities acquired as part of a business combination which consists of the union of separate enterprises or businesses in a single entity required to prepare financial statements. The result of almost all business combinations consists in the fact that a sole entity, an acquirer, obtains control over one or more separate businesses of the acquiree. When an entity acquires a group of activities or net assets that do not constitute a business it allocates the cost of the group to individual assets and liabilities identified on the basis of their relative fair value at the date of acquisition.

A business combination may give rise to a holding relationship between a parent company and a subsidiary in which the acquirer is the parent company and the acquiree is the subsidiary.

All business combinations are accounted for using the purchase method of accounting. The purchase method involves the following steps:

- (a) identification of the acquirer (the acquirer is the combining enterprise that obtains control of the other combining enterprises or businesses);
- (b) determination of the acquisition date;
- (c) determination of the cost of the business combination, intended as the consideration transferred by the purchaser to the shareholders of the acquiree;
- (d) the allocation, as at the acquisition date, of the cost of the business combination by means of the recognition, classification and measurement of the identifiable assets acquired and the identifiable liabilities assumed;
- (e) recognition of any existing goodwill.

Business combinations performed with subsidiary undertakings or with companies belonging to the same group are recognised on the basis of the significant economic substance of the transactions.

In application of that principle, the goodwill arising from those transactions in the consolidated financial statements is recognised:

- (a) within asset item 100 of the balance sheet if significant economic substance is found;
- (b) as a deduction from equity if it is not found.

These transactions are eliminated from the consolidated financial statements and are therefore recognised solely as the relative costs incurred in relation to parties external to the Group.

The goodwill recognised in the consolidated financial statements of the Group (“goodwill arising on consolidation” resulting from the elimination of the equity investments in subsidiaries) is the result of all the goodwill and positive consolidation differences relating to some of the companies controlled by the Parent.

Any changes in the share of ownership which do not result in the loss or acquisition of control are to be considered, in compliance with IFRS 10, as transactions between shareholders and as a consequence the relative effects must be recognised as either an increase or a decrease in equity.

7.4.1 Allocation of the cost of a business combination to assets and liabilities and contingent liabilities

The acquirer:

- (a) recognises the goodwill acquired in a business combination as assets;
- (b) measures that goodwill at its cost to the extent that it is the excess of the cost of the business combination over the acquirer's share of interest in the net fair values of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill acquired in a business combination represents a payment made by the acquirer in the expectation of receiving economic future benefits from the asset which cannot be identified individually and recognised separately.

After initial recognition, the acquirer values the goodwill acquired in a business combination at the relative cost net of cumulative impairment.

The goodwill acquired in a business combination must not be amortised. The acquirer tests the asset for impairment annually or more frequently if specific events or changed circumstances indicate that it may have suffered a reduction in value, according to the relative accounting standard.

The standard states that an asset (including goodwill) has suffered an impairment loss when the amount recognised in the accounts exceeds the recoverable amount understood as the greater of the fair value, net of any sales expenses and its value in use, defined by section 6 of IAS 36.

In order to test for impairment, goodwill must be allocated to cash generating units or to groups of cash generating units, in observance of the maximum aggregation limit which cannot exceed the operating segment identified in accordance with IFRS 8.

7.4.2 Negative goodwill

If the acquirer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- (a) reviews the identification and measurement of the identifiable assets, liabilities and contingent liabilities of the acquiree and the determination of the cost of the business combination;
- (b) immediately recognises any excess existing after the new measurement in the income statement.

7.5 Derecognition criteria

Intangible assets are derecognised in the balance sheet following disposal or when no economic future benefit is expected from its use or disposal.

8. Non-current assets and disposal groups held for sale

The aggregate of non-current assets and liabilities and non-current groups of assets and liabilities is composed of

- assets held for sale that do not satisfy the requirements of IFRS 5 to qualify as "discontinued operations"; and
- "continued operations" as defined in IFRS 5.

The carrying amount of that aggregate will presumably be recovered through the sale rather than by continued use and the relative assets and liabilities are classified within the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with disposal groups held for sale" respectively.

In order to be classified within these items the assets or liabilities (or disposal groups) must be immediately available for sale and there must be active, concrete programmes to sell the assets or liabilities in the short term.

These assets or liabilities are measured at the lower of the carrying amount and their fair value net of disposal costs.

Profits and losses attributable to groups of assets or liabilities held for sale are recognised in the income statement within item “320. Profit (loss) after tax on non-current assets and groups of assets held for disposal”.

Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

9. Current and deferred taxation

Tax assets and liabilities are stated in the balance sheet within items “110. Tax assets” and “60. Tax liabilities”.

9.1 Current tax assets and liabilities

Current tax for the current and prior periods is recognised as a liability to the extent that it has not yet been settled; any excess compared to the amount due is recognised as an asset.

Current tax assets (liabilities) for the current and prior years, are measured at the amount expected to be paid to/recovered from taxation authorities, using the tax rates and tax laws in force.

Current tax assets and liabilities are derecognised in the accounts in the year in which the assets are realised or the liabilities are extinguished.

9.2 Deferred tax assets and liabilities

Deferred tax liabilities are recognised for all taxable temporary differences unless the deferred tax liability arises from:

- goodwill for which amortisation is not deductible for tax purposes; or
- the initial recognition of an asset or a liability in a transaction which:
 - is not a business combination; and
 - at the time of the transaction, affects neither the accounting nor the taxable profit.

Deferred tax assets are not calculated for higher values of assets for which the tax regime has been suspended relating to equity investments and to reserves for which the tax regime has been suspended because it is considered there are no reasonable grounds to assume they will be taxed in future.

Deferred tax liabilities are recognised in the balance sheet within item “60. Tax liabilities b) deferred”.

A deferred tax asset is recognised for all deductible temporary differences if it is probable that a taxable income will be used against which it will be possible to use the deductible temporary difference, unless the deferred tax asset arises from:

- negative goodwill which is treated as deferred income;
- the initial recognition of an asset or liability in a transaction which:
- which is not a business combination; and
- affects neither the accounting profit nor the taxable profit at the time of the transaction.

Deferred tax assets are recognised within balance sheet item “110 Tax assets b) deferred”.

Deferred tax assets and deferred tax liabilities are subject to constant monitoring and are measured using the tax rates that it is expected will apply in the period in which the tax asset will be realised or the tax liability will be extinguished on the basis of the tax regulations established by laws currently in force.

Deferred tax assets and deferred tax liabilities are derecognised in the accounts in the year in which:

- the temporary difference which gave rise to them becomes payable with regard to deferred tax liabilities or deductible with regard to deferred tax assets;

- the temporary difference which gave rise to them is no longer valid for tax purposes.

Deferred tax assets and deferred tax liabilities are not normally discounted to present values nor even, normally, offset one against the other.

10. Provisions for risks and charges

10.1 Definition

A provision is defined as a liability of uncertain timing or amount.

A contingent liability, however, is defined as:

- a possible obligation, the result of past events, the existence of which will only be confirmed by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
- a present obligation that is the result of past events, but which is not recognised in the accounts because:
 - it is improbable that financial resources will be needed to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the accounts, but are only reported, unless they are considered a remote possibility.

10.2 Recognition and measurement criteria

A provision is recognised if and only if:

- there is a present obligation (legal or implicit) that is the result of a past event; and
- it is probable that the use of resources suitable for producing economic benefits will be required to fulfil the obligation; and
- a reliable estimate can be made of the amount arising from fulfilment of the obligation.

The amount recognised as a provision represents the best estimate of the expenditure required to settle the present obligation at the reporting date and reflects the risks and uncertainties that inevitably characterise a number of facts and circumstances. The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is a substantial aspect. Future events that might affect the amount required to settle the obligation are only taken into consideration if there is sufficient objective evidence that they will occur.

Provisions made for risks and charges include those for the risk attaching to any existing tax litigation.

Provisions for risks and charges also include:

- provisions relating to financial commitments and guarantees issued subject to IFRS 9 impairment rules⁴⁸;
- expenses relating to pension funds and defined benefits pursuant to the provisions of IAS 19.

10.3 Derecognition criteria

The provision is reversed when it becomes improbable that the use of resources designed to produce economic benefits will be required to settle the obligation.

⁴⁸ Details are given in section 16 "Other information".

11. Financial liabilities measured at amortised cost

11.1 Definition and classification

The various forms of interbank and customer funding are recognised within the following balance sheet items:

- “10. a) Financial liabilities measured at amortised cost: due to Banks”;
- “10. b) Financial liabilities measured at amortised cost: due to customers”; and
- “10. c) Financial liabilities measured at amortised cost: debt securities issued”.

These items also include liabilities recognised by a lessee in financial leasing operations.

11.2 Recognition criteria

The liabilities in question are recognised in the balance sheet at the time when the funding is received or when the debt securities are issued.

The amount initially recognised is the fair value, which is normally the same as either the consideration received or the issue price, inclusive of any additional expenses or income that are directly attributable to the transaction and determinable from the outset, regardless of when they are paid.

The amount of the initial recognition does not include all those costs that are reimbursed by the creditor counterparty or that are attributable to internal costs of an administrative character.

11.3 Measurement criteria

After initial recognition medium to long-term financial liabilities are measured at amortised cost using the effective interest method as defined in previous paragraphs.

Short-term liabilities, for which the time factor is insignificant, are measured at cost⁴⁹.

11.4 Derecognition criteria

Financial liabilities are derecognised in the balance sheet when they mature or are extinguished.

The repurchase of own securities issued results in derecognition of the securities with the consequent redefinition of the liability for debt instruments issued. Any difference between the repurchase value of own securities and the corresponding carrying amount of the liabilities is recognised in the income statement within item “100. c) “Income from the disposal or repurchase of d) financial liabilities”. Any subsequent re-issue of the securities previously subject to derecognition in the accounts constitutes a new issue for accounting purposes with the consequent recognition at the new issue price without any effect in the income statement.

12. Financial liabilities held for trading

12.1 Definition and classification

A financial liability is defined as held for trading and is therefore recognised within item “20. Financial assets held for trading”, if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short-term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument⁵⁰).

⁴⁹ The procedures employed to calculate the fair value of liabilities and debt securities issued, performed for information purposes only, are described in Part A.4 “Information on fair value” of the Notes to the 2018 consolidated financial statements.

12.2 Recognition criteria

Financial liabilities held for trading are recognised on the subscription date or the issue date.

Measurement on initial recognition is at cost considered to be the fair value of the instrument without considering any transaction costs or income directly attributable to them.

The negative value of derivative contracts held for trading, the negative value of any implicit derivatives implicit in complex contracts, but not strictly related to them and therefore subject to separation and liabilities that originate from uncovered short positions generated by securities trading activity are included in this category of liabilities.

12.3 Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes recognised within item “80. Net trading income”⁵¹.

12.4 Derecognition criteria

Financial liabilities held for trading are derecognised from the balance sheet when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership.

The profit or loss from the transfer of financial assets held for trading is recognised in the income statement within item “80. Trading income (loss)”.

13. Financial liabilities designated at fair value

13.1 Definition and classification

A financial liability may be classified on initial recognition within “Financial liabilities designated at fair value”, on the basis of the fair value option recognised by IFRS 9, or only when:

- a) it is a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly alters the cash flows that would otherwise be generated by the contract;
- b) the designation as at fair value through profit or loss allows better information to be provided because:
 - it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
 - a group of financial liabilities, or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel.

13.2. Recognition criteria

Financial liabilities designated at fair value, classified on the basis of the fair value option, are recognised as at the issue date.

Measurement on initial recognition is at cost considered to be the fair value of the instrument without considering any transaction costs or income directly attributable to them.

⁵⁰ Reference is made to point 4 “Hedging transactions” for further details.

⁵¹ Reference is made for details concerning the calculation of the fair value to Part A.4 “Information on fair value” of the Notes to the 2018 consolidated financial statements.

13.3. Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value⁵² with changes recognised in the income statement within item “110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets designated at fair value”.

With specific reference to changes in fair value relating to the credit rating, these are recognised within item “120. Valuation reserves” in equity unless the accounting treatment would create or enlarge an accounting mismatch in profit or loss. In the latter case the changes in question should be recognised in the aforementioned item in the income statement.

13.4 Derecognition criteria

Financial liabilities designated at fair value are derecognised from the balance sheet when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership.

The profit or loss from the transfer of financial liabilities held for trading is recognised in the income statement within item “110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value”.

14. Foreign currency transactions

14.1 Definition

The foreign currency is a currency that is not the functional currency of the entity, which is in turn the currency of the primary economic environment in which an entity operates.

14.2 Recognition criteria

A foreign currency transaction is recorded at the time of initial recognition in the functional currency applying the spot exchange rate between the functional currency and the foreign currency ruling on the date of the transaction.

14.3 Measurement criteria

At each reporting date:

- (a) foreign currency monetary amounts⁵³ are translated using the closing rate;
- (b) non-monetary items⁵⁴ measured at historical cost in foreign currency are translated using the exchange rate ruling at the date of the transaction;
- (c) non-monetary items measured at fair value in a foreign currency are translated using the exchange rates that existed on the dates when the fair values were determined.

Exchange rate differences arising from the settlement of monetary items, or from the translation of monetary items at rates different from those at which they were translated when initially recognised during the year or in previous financial statements, are recognised in the income statement for the period except for exchange rate differences arising on monetary items that form part of a net investment in a foreign operation.

Exchange rate differences arising from a monetary item that forms part of a net investment in a foreign operation of an entity that prepares financial statements are recognised in the income statement of the individual company financial statements of the entity that prepares the financial statements or the individual company financial statements of the foreign operation. These exchange rate differences in the financial statements that include the foreign

⁵² Reference is made for details concerning the calculation of the fair value to Part A.4 “Information on fair value” of the Notes to the 2018 consolidated financial statements.

⁵³ “Monetary” items are defined as relating to determined sums in foreign currency, which is to say to assets and liabilities which must be received or paid for a determined amount in foreign currency. The defining characteristic of a monetary item is therefore the right to receive or an obligation to pay a set or calculable number of foreign currency units.

⁵⁴ See the note on “monetary” items for the contrary.

operation (e.g. in the consolidated accounts when the foreign operation is a subsidiary) are initially recognised as a separate component in equity and are recognised in the income statement at the time of the disposal of the net investment.

When a profit or loss on a non-monetary item is recognised directly in equity, each change in that profit or loss is also recognised directly in equity. However, when a profit or loss on a non-monetary item is recognised in the income statement each change in that profit or loss is recognised in the income statement.

The financial statements of foreign subsidiaries and associates which employ an accounting currency that is different from that of the Parent are translated using the exchange rates ruling at the reporting date

15. Insurance assets and liabilities

The UBI Banca Group recognises assets and liabilities and also the profits and losses for the period relating to its subsidiary insurance companies on the basis of the provisions of IFRS 9. It does this because:

- since it is not a “financial conglomerate”⁵⁵ it does not apply the “deferral approach”⁵⁶;
- it has opted not to apply the “overlay approach”⁵⁷.

15.1 Technical reserves

These relate solely to contracts falling within the scope of IFRS 4. An accounting practice known as “shadow accounting” has been adopted, where the fair value component of the assets in separate management portfolios, originally recognised in equity, is posted to the reserves. *In fact, paragraph 30 of IFRS 4 states: “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 unrealised gains shall not be recognised directly in equity.”* On the basis of those provisions it is permitted to attribute income and expenses resulting from the fair value measurement of financial instruments assigned to separate management portfolios.

The value adjustment must be calculated by applying the minimum withheld to the balance of the unrealised capital gains and losses on the securities in each separate management portfolio, recognised in the fair value reserve.

⁵⁵ In accordance with Art. 2 of Directive 2002/87/EC, a group, or sub-group of a group, constitutes a financial conglomerate when it satisfies the following conditions:

- a regulated entity is at the head of the group or at least one of the subsidiaries in the group is a regulated entity;
- where there is a regulated entity at the head of the group, this is either a parent undertaking of another entity in the financial sector, an entity which holds a participation in another entity in the financial sector, or an entity linked with an entity in the financial sector by a relationship which involves management on a unified basis pursuant to a contract concluded with that undertaking or provisions in the articles of association or in which the administrative, management or supervisory bodies consist for the major part of the same persons;
- where there is no regulated entity at the head of the group, the group's activities mainly occur in the financial sector;
- at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector;
- the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant.

⁵⁶ This approach is reserved to financial groups which constitute “financial conglomerates” on the basis of which entities belonging to them, within the insurance sector, may opt not to apply the provisions of IFRS 9 for the preparation of consolidated financial statements until the financial year ending 31st December 2020. This approach is also applicable for groups whose activities are predominantly connected with insurance activities.

⁵⁷ An option which may taken by companies that issue insurance contracts, which are required to apply IFRS 9 because they do not belong to “financial conglomerates”. This option, which may be exercised on First-Time Adoption of IFRS 9, allows the amount needed for the income statement result at the end of the year to be the same as it would have been had the company applied the provisions of IAS 39 in place of IFRS 9 to be reclassified from the income statement to the statement of OCI. Only those financial assets can be designated for the aforementioned approach which:

- are measured at fair value and recognised through profit or loss, but would not have been measured in that manner in accordance with IAS 39;
- are not held in relation to activities with no connection (e.g. banking activities) with contracts that fall within the scope of application of IFRS 4.

A liability adequacy test (LAT) conducted in accordance with IFRS 4 shows that the requirements are met.

Any additional reserves in case of death relating to Business Sector III policies are reported in equity.

15.2 Net insurance premiums

Comprises premiums relating to Business I and V contracts.

15.3 Net profit (loss) on insurance operations

This includes the following items:

- commissions and other acquisition costs from insurance policy contracts relate to Business Sectors I and V only;
- management fees on investments related to securities management charges;
- acquisition and liquidation expenses relating to Business Sector III investment contracts;
- expenses relating to claims. This includes amounts disbursed for claims settlements, net of reinsurance and inclusive of liquidation expenses relating to contracts subject to IFRS 4. Amounts disbursed and liquidation expenses in insurance Business Sectors III and VI are not included, as they are classified as administrative expenses, nor are changes in mathematical reserves for Business III and VI policies, while according to IAS they are defined as financial liabilities.

16. Other information

Impairment of financial instruments

The following items are subject to impairment rules in accordance with IFRS 9:

- “Financial assets measured at amortised cost”;
- “Financial assets measured at fair value through other comprehensive income” that are not equity securities;
- loan commitments and guarantees granted that are not measured at fair value through profit or loss.

General approach

The calculation of “expected credit losses” (ECL), which is to say expected losses to be recognised through profit and loss as impairment losses, was carried out on the basis of whether there has been a significant increase in the credit risk of a financial instrument compared with that calculated on the date of its initial recognition.

To achieve this, the instruments subject to impairment rules are associated in accordance with those rules with different stages characterised by different approaches to the calculation of impairment losses⁵⁸.

In detail:

- in the absence of a significant increase in credit risk since its initial recognition, the financial instrument is maintained in stage 1 and an impairment loss is recognised in the financial statements equal to the 12-month expected credit losses (i.e. the expected credit losses that result from default events on a financial asset that are possible within 12 months of the reporting date);
- in the presence of a significant increase in credit risk since initial recognition, the financial instrument is assigned to stage 2 or stage 3 if the financial instrument is impaired⁵⁹ and an

⁵⁸ The stages differ not only in the procedures employed to calculate impairment losses on loans but also in those used to calculate interest, details of which are given under the relative point of this section 16.

impairment loss is recognised in the balance sheet equal to the lifetime expected credit losses (i.e. the expected credit losses that result from all possible default events over the expected life of a financial asset).

“Purchase or originated credit impaired” (POCI) financial assets and assets that are measured in accordance with the “Simplified method” (details of which are given under special parts in this section) constitute an exception to the above.

An improvement in credit risk sufficient to eliminate the conditions that had led to a significant increase in it or in other words the loss of non-performing status leads to the return of the financial instrument to its previous stage. In this case the entity recalculates the impairment loss previously recognised, and recognises it through profit and loss as a reversal.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all possible cash shortfalls) over the expected life of the financial instrument.

The general approach used to estimate expected credit losses involves the application of regulatory risk parameters adjusted for compliance with the IFRS 9 accounting standard.

Expected credit losses over the following 12 months are a fraction of the expected losses over the entire lifetime of a loan and they represent losses that will occur if a default were to occur in the 12 months following the reporting date, weighted on the basis of the probabilities that a default will occur.

The evaluation of non-performing positions normally takes place on a case-by-case basis. The method for estimating impairment losses recognised on non-performing loans is based on discounting expected future cash flows, taking account of any guarantees to back the positions and of any advances received. The fundamental elements for determining the present value of cash flows are the identification of the estimated cashflows, the relative maturity dates and the discount rate to apply. The amount of the impairment losses is equal to the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the effective interest rate and appropriately updated for instruments with variable interest rates, or, for cases of exposures classified as bad, with the effective interest rate existing as at the date of classification as bad.

Simplified method

The calculation of expected credit losses according to the simplified method is carried out on the basis of the lifetime ECL and does not therefore require verification of the presence of a significant increase in credit risk compared with that existing on the date of initial recognition. The UBI Group has adopted that method for trade loans and receivables and contractual assets in the absence of significant financial components, or in other words only for those cases for which the adoption of the simplified approach is compulsory under IFRS 9. In fact in this respect Group has opted not to use this method for those cases in which application is optional.

Calculation of interest income on impaired financial assets

As already stated in previous sub-sections, the calculation of interest income is carried out by applying the “effective interest rate criterion” except for “purchase or originated credit impaired” (POCI) financial assets discussed in a following part of this sub-section.

The calculation of interest income differs according to the stage with which the financial instrument is associated for the purposes of determining impairment losses. In detail:

- for assets associated with stages 1 and 2, which is to say performing positions, the effective interest rate is applied to the gross carrying amount of the financial asset consisting of the

⁵⁹ In this respect, the UBI Banca Group has adopted the definition given in the 5th update of Bank of Italy Circular No. 262/2005, which states that non-performing exposures are the sum of all exposures considered non-performing past due, unlikely to pay or bad, as defined under supervisory regulations in force.

amortised cost of the financial instrument without the overall impairment losses recognised;

- for assets associated with stages 3, which is to say non-performing positions, the effective interest rate is applied to the amortised cost of the financial instrument, consisting of the gross carrying amount less the cumulative impairment losses recognised.

Purchased or originated credit impaired assets (POCI)

“Purchase or originated credit impaired assets” (POCI) are defined as exposures that are non-performing at the purchase or origination date.

POCI assets also include credit exposures acquired in the course of disposal transactions (individual portfolio) and business combinations.

The assets in question are not identified by any specific balance sheet item, but are stated in the balance sheet in accordance with IFRS 9 classification rules.

On this basis reference is made to the information given on the items in question for the initial recognition, measurement and derecognition criteria. With specific reference to:

- a. the application of the effective interest rate; and
- b. the calculation of impairment losses;

the specifications given below are made.

1. The effective interest rate method

The interest recognised should be calculated by applying the “credit adjusted effective interest rate”, which is the interest rate which at the time of initial recognition exactly discounts all the estimated future cash flows at amortised cost of the asset, incorporating also the expected credit losses in the estimate (unlike the method used to calculate the effective interest rate).

This interest rate is applied to the amortised cost of the instrument, which is the gross carrying amount of the asset minus the cumulative impairment losses.

2. Calculation of net impairment losses

The assets in question are subject to the calculation of the lifetime expected credit losses of the financial instrument with no possibility of transfer to 12-month expected credit losses should there be a significant improvement in the credit risk of the exposure. More specifically, it is underlined that the expected credit losses are not recognised on the first measurement date of the financial instrument because they are already included in the calculation of the “credit adjusted effective interest rate”, but only if there have been changes in the expected credit losses compared with those initially estimated.

Contractual modifications of financial assets

Contractual modifications made to financial assets can be classified in the following two categories:

1. contractual modifications which, on the basis of their “significance”, lead to the derecognition of the financial asset and are therefore treated according to “derecognition accounting” rules;
2. contractual modifications which do not lead to the derecognition of the financial asset and are therefore treated according to “modification accounting” rules.

1. “Derecognition accounting”

If the contractual modifications lead to derecognition of the financial asset the modified financial instrument is recognised as a new financial asset. The new modified asset is subject to an SPPI test in order to decide how to classify it and is recognised at fair value.

The difference between the carrying amount of the derecognised asset and that which is recognised is stated within item “130. Net impairment losses for credit risk”.

2. “Modification accounting”

In cases of “modification accounting” the gross carrying amount of the financial instrument is recalculated, by discounting the new cash flows determined by the modified contract at the original effective interest rate of the financial asset. All the differences between the amount recalculated in this way and the gross carrying amount are recognised in the income statement within item “140. Profits (losses) from contractual modifications without derecognition”.

The UBI Banca Group defines “significance” in this respect on the basis of the nature of the modification requested by the counterparty. In this regard the following two cases are identified:

1. modifications made due to financial difficulties of the counterparty (i.e. forbearance measures);
2. modifications made for “commercial” reasons.

1. Modifications made due to financial difficulties of the counterparty⁶⁰

In cases of modifications for counterparties that present financial difficulties (both performing and non-performing), the definition given to the term “substantial” is essentially qualitative because with these modifications the Group intends to maximise the recovery of the original exposure. The quantitative impact that the contractual modifications may have on the value of the financial instrument the contractual provisions of which are subject to modification is therefore considered irrelevant.

On this basis, contractual modifications to the financial instrument are considered “substantial” where its owner is exposed to new types of risk or to modifications to the instrument which alter its nature such as for example the introduction of clauses to convert the debt instrument into a capital instrument.

2. Modifications made for “commercial” reasons.

In cases of contractual modifications made solely for commercial reasons, such as changes to the interest rate, whether the modification is substantial or not is assessed not only on the basis of the qualitative reasoning mentioned in the previous point, but also on the basis of percentage changes in the cash flows from the financial instrument before and after the modification.

In this regard, the Group determines the significance of the change on the basis of a special quantitative parameter which is identified on the basis of current market interest rates in light of the consideration that the substantial nature of the commercial renegotiation is strictly linked to the level of market interest rates (i.e. the risk free interest rate), which has a determining influence on the bank’s profits in terms of net interest income. More specifically, the UBI Banca Group sets a number of different significance thresholds based on the current level of market interest rates.

Write-off

The gross carrying amount of a financial asset is reduced when, in accordance with IFRS 9, there is no reasonable expectation of recovery. A write-off, which constitutes a derecognition event, may regard a financial asset in its entirety or a portion thereof and may be carried out before legal actions initiated for the purpose of recovering the exposure are concluded.

A write-off does not necessarily imply that the Bank has waived its legal right to recover the credit. Such a waiver known as cancellation of the debt or “debt forgiveness”, nevertheless involves cancellation or write-off of the impaired position.

Any recoveries from payments received, subsequent to write-off, are recognised within reversals of impairment.

⁶⁰ This is defined as all those contractual modifications made for reasons that are not determined by financial difficulties of the counterparty.

Derivatives embedded in hybrid contracts

An "embedded derivative" is defined as a component of a hybrid (combined) instrument that also includes a host non-derivative contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in financial liabilities are separated from the host contracts and treated in the accounts as stand-alone derivatives if and only if⁶¹:

- the economic risks and characteristics of the embedded derivative are not closely related to the economic risks and characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) contract is not measured at fair value with changes in fair value recognised through profit or loss.

Treasury shares

The treasury shares present in the UBI Banca Group portfolio are deducted from equity.

No profit or loss arising from the purchase, sale, issue or cancellation of treasury shares is recognised in the income statement.

The differences between the purchase and sale price arising from these transactions are recorded in equity reserves.

Employee benefits

Definition

Employee benefits are defined as all forms of consideration given by an enterprise in exchange for services rendered by employees. Employee benefits can be classified as follows:

- short-term benefits (not including benefits due to employees for end of contract) which it is planned to pay entirely within twelve months from the end of the year in which the employees provided their services;
- post-employment benefits at the end of an unemployment contract due after the contract of employment has terminated;
- benefits due to employees for the ending of an employment contract;
- other long-term benefits, other than the previous, which it is not planned to pay entirely within the twelve months from end of the financial year in which employee rendered the relative employment service.

Post-employment benefits and defined service provisions

Recognition criteria

Following the reform of supplementary pensions pursuant to Legislative Decree No. 252/2005, portions of post-employment benefit funds maturing from 1st January 2007 constitute a "defined benefit plan".

The liability relating to those portions is measured on the basis of the contributions due without the application of any actuarial methods. However, post-employment benefits maturing up until 31st December 2006 continue to constitute a "post-employment benefit" belonging to the "defined benefit plan" series and as such require the amount of the obligation to be determined on an actuarial basis and to be discounted to present values because the debt may be extinguished a long time after the employees have rendered the relative service.

⁶¹ In compliance with the provisions of IFRS 9, derivatives embedded in financial assets are not subject to separation. On the other hand, derivatives embedded in non-financial assets are subject to separation if the above-mentioned conditions are met.

The amount is accounted for as a liability amounting to:

- (a) the present value of the defined benefit obligation as at the reporting date;
- (b) plus any actuarial gains (less any actuarial losses) recognised in a separate reserve in equity;
- (c) less the fair value at the reporting date of any assets at the service of the plan.

Measurement criteria

“Actuarial gains/losses”, recognised in a special valuation reserve in equity, comprise the effects of adjustments arising from the reformulation of previous actuarial assumptions as a result of actual experience or from changes in the actuarial assumptions themselves.

The “Projected Unit Credit Method” is used to calculate the present value. This considers each single period of service as giving rise to an additional unit of severance payment and therefore measures each unit separately to arrive at the final obligation. This additional unit is obtained by dividing the total expected service by the number of years that have passed from the time service commenced until the expected payment date. Application of the method involves making projections of future payments based on historical analysis of statistics and of the demographic curve and discounting these flows on the basis of market interest rates. The rate used for present value discounting purposes is determined by making reference to market yields observed as at the reporting date for “high quality corporate bonds” or to yields on securities with a low credit risk.

Stock Options/Stock Grants

Stock option and stock grant plans are defined as personnel remuneration schemes where the service rendered by an employee (or a third party) is remunerated by using equity instruments (including options on shares).

The cost of these transactions is measured at the fair value of equity instruments granted and is recognised in the income statement under item “190. a) Administrative expenses: staff costs” on a straight line basis over the vesting period of the plan.

The fair value determined relates to the equity instruments granted at the time of grant and takes account of market prices, if available, and the terms and conditions upon which the instruments were granted.

Segment reporting

Segment reporting is defined as the manner in which financial information on an enterprise is reported by operating segment.

An operating segment is defined as a component of an entity:

- that engages in business activities that generate revenues and expenses;
- whose operating results are reviewed regularly by the entity’s chief operating decision maker, to make decisions about the resources to be allocated to the segment and assess its performance; and
- for which separate financial information is available.

Segment reporting is based on elements that senior management uses to make operating decisions (a “management approach”) and consequently the identification of operating segments is performed on the basis of the current system of reporting to management which is based primarily on operational analysis of legally recognised entities.

Segment reporting is completed by information on the geographical areas in which revenues are produced and assets are held.

Revenue

Definition

Revenue is the gross inflow of economic benefits resulting from business arising from the ordinary operating activities of an enterprise when these inflows create an increase in equity other than an increase resulting from payments made by shareholders.

Recognition criteria

Revenue resulting from contractual obligations towards customers is recognised only if the following criteria are met:

- a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
- b) the entity can identify each party's rights regarding the goods or services to be transferred;
- c) the entity can identify the payment terms for the goods or services to be transferred;
- d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

Recognition of variable consideration

Revenue that consists of variable consideration is recognised through profit or loss if it can be reliably estimated and only if it is highly probable that all or a large part of the consideration will not need to be reversed in the income statement in subsequent periods.

In cases of great uncertainty over the nature of the consideration or the fact that probability of receipt is difficult to predict and beyond the control of the Bank, then it is only recognised when the uncertainty is resolved, which normally occurs close to or at the end of the financial year for consideration of this type.

Procedures and timing for the recognition of consideration

The consideration in a contract, the collection of which must be probable, is allocated to the single performance obligations resulting from the contract.

Some contracts with customers involve the provision of a package of services to a customer in return for payment of an annual fee. In order to recognise the consideration in the accounts, these services constitute different "performance obligations", to which the bank must allocate the price of the operation on the basis of the relative stand-alone price.

The time at which recognition of revenue takes place is based on the time of the performance of the obligations either in one single solution or alternatively over the period of time set for performing the various obligations.

Revenue from financial assets

Interest is recognised on an accruals basis that takes into account the effective yield of the asset. Negative components of income accruing on financial assets are recognised within the item "Interest and similar expense", while positive components accruing on financial liabilities are recognised within the item "Interest and similar income";

Arrears of interest are recognised within item "10. Interest and similar income", at the time at which they are actually collected.

Dividends are recognised when shareholders acquire the right to receive payment.

Expenses or revenues resulting from the sale or purchase of financial instruments, determined by the difference between the amount paid or received for the transaction and the fair value of

the instrument are recognised through profit or loss on initial recognition of the financial instrument when the fair value is determined:

- by making reference to current and observable market transactions in the same instrument;
- by using measurement techniques which use, as variables, only data from observable markets.

Expenses

Expenses are recognised in the accounts at the time at which they are incurred while following the criteria of matching expenses to revenues that result directly and jointly from the same transactions or events. Expenses that cannot be associated with revenues are recognised immediately in the income statement.

Expenses directly attributable to financial instruments measured at amortised cost and determinable from the outset, regardless of the time at which they are settled, are recognised through profit and loss by applying the effective interest rate.

Impairment losses are recognised through profit and loss in the year in which they are measured.

A.3 – INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount, and interest income

The UBI Group has not changed its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018⁶². As a result, no financial assets have been reclassified during the year.

For the sake of full disclosure, it should be noted that UBI Banca had performed no reclassifications in the previous year in financial asset portfolios from asset classes recognised at fair value into classes recognised at amortised cost with regard to the options introduced by Regulation (EC) No. 1004/2008 of the European Commission.

A.3.2 Reclassified financial assets: change of business model, fair value and effects on comprehensive income

The UBI Group has not changed its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018. As a result, no financial assets have been reclassified during the year.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

The UBI Group has not changed its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018. As a result, no financial assets have been reclassified during the year.

⁶² For details, see the section “Transition to the new financial reporting standards IFRS 9 and IFRS 15”.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 – “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This value is therefore what is known as an “exit price” which reflects the properties of the asset or liability subject to measurement from the perspective of a third party market participant.

A fair value measurement relates to an ordinary transaction carried out or which could be carried out between market participants, where, the market is defined as:

- the principal market, which is the market with the highest volume and level of transactions for the asset or liability in question to which the Bank has access;
- or, in the absence of a principal market, the most advantageous market, which is that in which it is possible to obtain the highest price for the sale of an asset or the lowest purchase price for a liability with account taken of transaction and transport costs.

To increase consistency and comparability in fair value measurements and related disclosures, IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.

The objective of this classification is to establish a hierarchy in terms of the objectivity of the fair value as a function of the degree of discretion adopted, by giving priority to observable market inputs which reflect the assumptions that market participants would use in the measurement of assets and liabilities.

The fair value hierarchy is defined on the basis of the data inputs (with reference to their origin, type and quality) using the models for determining fair value and not on the basis of the measurement models themselves. In this perspective the highest priority is given to input level one.

Fair value determined on the basis of level one inputs

Fair value is determined on the basis of observable inputs, i.e. quoted prices in active markets for the financial instrument, that the entity can access at the measurement date of the instrument. The existence of quoted prices in an active market is the most reliable evidence of fair value and therefore these quoted prices shall be given priority as the input to be used in the valuation process.

According to IFRS 13, a market is defined as active when transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

More specifically, equities and bonds quoted on a regulated market (e.g. MOT/MTS – electronic corporate/government bond markets) and those not quoted on regulated markets for which prices are available on a continuous basis from the main information platforms which represent actual and orderly market transactions.

The fair value of listed securities on regulated markets is normally given by the reference price published on the last trading day of the reporting period on the respective markets on which they are quoted. For securities not quoted on regulated markets, the fair value is given by the price on the last transaction date considered representative on the basis of internal policies.

As concerns other financial instruments that may be held with a level one input such as, for example, derivatives, exchange traded funds and listed property funds, the fair value is given by the closing price on the respective listed markets on the measurement date or in the case of listed UCITS, mutual funds, Sicav's and hedge funds, it is given by the official NAV (net asset value), if this is considered representative according to internal policies.

Fair value determined on the basis of level two inputs

Where no prices are available on active markets, the fair value is measured by using prices observable on inactive markets or by using measurement models which make use of market inputs.

The valuation is performed by using inputs that are either directly or indirectly observable, such as for example:

- prices listed on active markets for identical assets or liabilities;
- observable inputs such as interest rates or yield curves, implicit volatilities, early repayment risk, default rates and illiquidity factors.

On the basis of the above, the valuation resulting from the technique adopted involves marginal use of unobservable inputs because the most important inputs used in the valuation are taken from the market and the results of the calculation methods used replicate quotations on active markets.

The following are included in level two:

- OTC derivatives;
- equity securities;
- bonds;
- loans and receivables;
- shares of funds (e.g. private equity funds)⁶³.

Assets and liabilities measured at cost or at amortised cost, for which the fair value is given in the notes to the financial statements purely for information purposes, are classified in level two only if the unobservable inputs do not have a significant impact on the result of the valuation. Otherwise they are classified in level three.

Fair value determined on the basis of level three inputs

The valuation is determined by the use of significant inputs not taken from the market, which therefore involve the adoption of estimates and internal assumptions.

The following are included in level three of the fair value hierarchy:

- OTC derivatives
- equity securities measured:
 - a. with the use of significant unobservable inputs;
 - b. using methods based on an analysis of the fundamentals of the investee;
 - c. at cost.
- hedge funds, for which consideration is given not only to the official NAVs but also to liquidity and/or counterparty risk;
- options on financial equity investments;
- loans and receivables;
- bonds resulting from the conversion of loans and receivables.

Finally, fair value is classified in level three as a result of the use of market inputs that have been adjusted significantly to reflect valuation aspects inherent to the instrument measured.

A.4.1 Fair value levels two and three: measurement techniques and the inputs used

The method adopted to calculate the fair value of OTC derivatives involves the use of closed formula models. Specifically, the main pricing models used for OTC derivatives are the following: Black Yield, Black Fwd, Black Swap Yield, Cox Fwd, Trinomial, Lnormal, Normal, and CMS Convexity Analytical.

⁶³ For which the fair value is given by the NAV.

Derivative instruments that are not managed in the target software applications, relating to instruments used to hedge certain types of embedded options in structured bonds issued, are measured using internal models (stochastic models with Monte Carlo simulations). The pricing models implemented for derivatives are used on an ongoing basis and are subject to periodic verification designed to assess their reliability over time.

The market data used to calculate the fair values of derivatives is classified, according to its availability, as follows:

- the prices of quoted instruments: all products quoted by major international exchanges or on the main data provider platforms;
- market inputs available on info provider platforms: all instruments which, although not quoted on an official market, are readily available on info provider networks by means of guaranteed ongoing contributions from brokers and market makers.

The inputs used to calculate the fair value of OTC derivatives include yield curves and Cap&Floor volatilities for major currencies (euro, US dollar, GBP, yen, CHF), the main exchange rates and the relative volatilities and the FX swap points. As explained later in greater detail, the fair value of some types of OTC derivatives takes counterparty risk into account. The calculation of this component is carried out by using default probabilities and the percentage of credit recovery from counterparties.

As concerns credit risk, market practice is to adopt two measures capable of identifying the impacts of possible changes in counterparty credit rating and incorporating this in the fair value: credit value adjustment (CVA - counterparty non-performance risk) and debt value adjustment (DVA - own non-performance risk).

The method currently adopted by the UBI Group to determine CVA and DVA is based on Monte Carlo simulations to estimate the future value of over-the-counter (OTC) derivatives.

This methodology involves the following implementation steps:

- the parameters are determined for the calculation using the Monte Carlo approach;
- the relative PD and LGD curves are associated with each corporate counterparty on the basis of a combination of the sector and the rating;
- market CDS curves are used for counterparties for which no internal PD curves exist;
- the future exposure is calculated for each derivative falling within the calculation perimeter. In the absence of collateral, the future exposure at time t is defined as the expected MtM value at the time t .

CVA and DVA are calculated for OTC derivatives entered into with counterparties outside the Group for whom no CSA agreements with complete daily or weekly margin calculations are present.

On the other hand, for OTC derivatives backed by CSAs with complete daily or weekly margin calculation, counterparty and own credit risk is considered not significant, and this therefore logically also reduces the CVAs and the DVAs to nil, which as a consequence are not calculated for these types of instruments. Similar considerations are also applicable to intragroup derivatives for the considerations reported above.

Given the predominant use of unobservable inputs, the fair value of OTC derivatives is classified in level two of the hierarchy, except for those derivatives where the CVA (estimated internally) is important for determination of the fair value. The fair value of these instruments is classified in fair level three of the hierarchy.

The UBI Banca Group's policy for options on equities is to measure the fair value with account taken of the probability of exercise given the particular nature of the options in question. The fair value calculated in this way is classified in level three of the hierarchy.

Equity securities

As concerns the methods used to measure the fair value of equity instruments not quoted on an active market, the UBI Banca Group has identified the following hierarchy of valuation techniques:

- 1) the direct transactions method;
- 2) the comparable transactions method;
- 3) the stock market multiples method
- 4) financial and earnings methods;
- 5) balance sheet methods.

Equity instruments are measured by considering the applicability of the methods in the order given above. In the final instance, where it is impossible to use the above techniques, these instruments are measured at cost.

The direct transactions method

Application of the direct transactions method involves applying the implicit value resulting from the most recent significant transaction recorded on the shares of the investee. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.

If the transaction that occurred on the market involved a controlling stake or one which gave significant influence over the investee by the acquirer, then it is possible that the price paid incorporated a premium for control. This aspect is considered by a possible adjustment to the value of the investment. Therefore, the pro rata value of the economic capital of the company is reduced by between 25% and 35%. That adjustment, resulting from the use of unobservable and significant inputs results in classification of the fair value in level three of the hierarchy.

The comparable transactions method

Application of the comparable transactions method involves analysis of transactions to purchase shares in companies with operating and capital characteristics of the same type as those of the investee and the subsequent calculation of an implicit multiple given by the transaction price. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.

If the transaction that occurred on the market involved a controlling stake or one which gave significant influence over the investee by the acquirer, then it is possible that the price paid incorporated a premium for control. This aspect is considered by a possible adjustment to the value of the investment. Therefore, the pro rata value of the economic capital of the company is reduced by between 25% and 35% to reflect the lack of powers within the investee. That adjustment, resulting from the use of unobservable and significant inputs results in classification of the fair value in level three of the hierarchy.

The stock market multiples method

This method allows a company to be valued on the basis of data derived from quotations of comparable companies (in terms of sales turnover, equity, leverage) observed on the relative stock market in a period within the last 30 days and last year prior to the measurement date. It is performed by processing the most significant multipliers (stock market multiples) resulting from the ratio between the value that the stock market attributes to these companies and those of their operating and capital performance indicators that are considered most significant. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.

The need to adjust the valuations obtained, which is not infrequent, when applying the stock market multiple methods in order to take account of possible differences in the comparability of the companies used and the liquidity of the instruments measured, the pro rata value of the economic capital of the company is generally reduced by between 10% and 40% to reflect, for example, the limited liquidity of the investment and/or significant differences in size between the investee and the companies in the sample. This adjustment, resulting from the use of unobservable and significant inputs results in the classification of the fair value in level three of the hierarchy.

Financial and earnings methods

The financial and earnings methods provide an estimate of the fair value of the shareholding by determining the present value of a series of cash flows or earnings based on a discount rate that incorporates all factors that a market operator would include in the valuation of such an investment, including, for example, the remuneration of risk capital and debt and based on the financial/business plan of the company held.

Given that these methods assume the use of unobservable inputs, the resulting fair value is classified at level three of the hierarchy.

Balance sheet methods

Balance sheet methods provide a calculation of the fair value of an investee based on balance sheet figures, adjusted in the light of gains and losses implicit in the assets and liabilities of the investee and the possible valuation of intangible components. The fair value determined by using these methods, based on unobservable inputs, is classified in level three of the hierarchy.

Bonds

The procedure for estimating the fair value adopted by the UBI Banca Group for bonds involves the use of a specific valuation model, the discounted cash flow model. The measurement process may be broken down into the following steps:

- an estimate of the cash flows paid by the instrument both in terms of interest and repayment of capital;
- an estimate of the spread which represents the credit rating of the issue of the instrument;
- an estimate of a spread which represents the illiquidity of the instrument in order to take account of the low liquidity which characterises the pricing of a “non-contributed” instrument (not officially quoted).

Given the predominant use of unobservable inputs, the fair value thereby calculated is classified in level two of the hierarchy, except for those instruments where the component of the spread that represents the illiquidity is important for determining the fair value and for some bonds resulting from the conversion of loans and receivables, which are classified in level three of the hierarchy.

The following are comprised within the inputs used to calculate the fair value of bonds: interest rate curves of major currencies (euro, US dollar, GBP, yen, CHF), the credit spreads of the issuers of the bond subject to measurement (taken from instruments quoted on markets considered active) and a spread representative of the illiquidity of the instrument measured, calculated on the basis of the credit spread of the issuer.

Financial Assets

Loans and advances to customers or to banks that have been recognised under item 20.c, “Financial assets measured at fair value: other financial assets mandatorily measured at fair value”, for having not passed the Solely Payments of Principal and Interest (SPPI) Test are measured at fair value.

Loans and advances to customers are normally measured at fair value using valuation techniques.

More specifically the method adopted by the UBI Banca Group to estimate the fair value of performing loans and receivables involves discounting cash flows, defined as the sum of the principal and interest resulting from the different due dates of the repayment schedule, reduced by the amount of the expected loss and discounted at a rate which incorporates the risk-free component and a spread representing the cost of capital and funding.

More specifically, the following inputs are used:

- a base discount rate, based on the Euribor yield curve;
- default risk and risk of potential loss, expected and unexpected, measured on the specific loan during its entire life. These values are represented by internal credit risk measurement parameters such as the rating, the PD and LGD, differentiated by customer segment. The PD associated with each rating is on a multi-year basis and, as with LGD, takes account of point-in-time and forward-looking corrective factors. Finally, for unexpected loss, the Group’s cost of capital is also taken into account;
- the funding spread is calculated using a blended curve. For each maturity date this curve represents the marginal cost of funding calculated as the weighted average of the market curves for the cost of the Bank’s funding from customers (retail curve) and on wholesale markets (initial wholesale curve). The weights used for each funding curve are calculated at

least annually when the Funds Transfer Pricing Regulation is updated on the basis of new inflows forecast by the Funding Plan.

In order to identify the correct level in the fair value hierarchy obtained using the above valuation technique, the level of significance of the unobservable inputs must be properly assessed.

In this respect, the fair value resulting from the application of the method described above is compared with a benchmark that is calculated which employs a discount curve composed from observable market data.

If the comparison shows that the fair value is significantly different from that calculated using the aforementioned benchmark, the fair value is classified in level three. Otherwise it is classified in fair value level two. In the case of non-performing positions, fair value is determined based on the recoverable value of the position. This is calculated by taking account of the elements of the contract on which the loan is based and may entail, for example, measurement of the cash flows resulting from the sale of the properties used to guarantee the loan or the measurement of any equity instruments acquirable following the introduction of an equity-conversion clause for the position.

The fair value of **loans and advances to banks** is normally determined based on the net present value (NPV) of the cash flows of these instruments.

Shares of private equity funds

The fair value of shares in private equity funds is calculated on the basis of the last NAV available and considering the various communications received from the fund (e.g. redemptions, dividend distributions) from the date of the last available NAV until the measurement date. The NAV is then adjusted if necessary to take into consideration situations of particular risk and non-performance associated with the investment.

Shares of hedge funds

The fair value of hedge funds classified under level three of the hierarchy is determined based on the official NAV and is adjusted to take account of liquidity and/or counterparty risk.

Assets and liabilities, the fair value of which is given in the notes to the financial statements

Financial Assets

Measurement of the fair value of loans to customers and to banks recognised within financial assets measured at amortised cost, which is done for the purposes of disclosures in the notes the financial statements, is done in the same manner as described in the section “Loans” above with regard to assets and liabilities measured at fair value.

Therefore, it should also be noted that the carrying amount is, according to convention, assumed to be equal to fair value for:

- all non-instalment transactions (i.e. current accounts and unsecured guarantees);
- operations maturing within the year;
- non-performing positions;

which are classified as level three of the hierarchy.

With regard to non-performing positions, with the exception of situations in which the presence of objective factors deriving from measurements of specific positions and/or portfolios expressed by third parties call for the use of values derived from these measurements, the carrying amount has been assumed to be an approximation of fair value in that – although there was an active market in 2018 in Italy, too, for the purchase of portfolios of non-performing loans – the values seen, given, in part, the nature of the financial assets concerned or the specific characteristics of each individual portfolio, have been subject to a particularly high degree of variability in relation to the discount rates implicit in the pricing and, consequently, in the expected yields. Given the above, identification of a discount rate

different from the one used in calculating amortised cost for the purpose of determining the fair value of non-performing positions has been deemed to be arbitrary/overly subjective.

Investment property

Reference is made for the determination of the fair value of investment properties to the market value, determined mainly by means of outside appraisers, defined as the highest price at which the sale of a property might reasonably be expected to have been concluded unconditionally for cash consideration on the measurement date between independent counterparties.

The procedures adopted for determining the market value are based on the following methods:

- the direct comparative or market method, based on a comparison between the asset in question and other similar assets subject to sale or currently on sale on the same market or on competing markets. The quotations obtained are subject to adjustments designed to incorporate the specific characteristics of the asset. More specifically, the value attributed to the asset considers its location, accessibility, quality and the possible presence of unique aspects.
- the income method based on the present value of potential market incomes for a similar property, obtained by capitalising the income at a market interest rate. This method is based on the existence of a direct relationship between an asset and the income that it is able to generate. For the purposes of identifying the income, reference is usually made to the average ordinary gross income calculated on the basis of the total gross commercial area.

The above methods are carried out individually and the values obtained are appropriately averaged.

The method used for identifying the percentage of the market value attributable to land is based on an analysis of the location of the property, taking account of the type of construction, the state of conservation and the cost of rebuilding the entire building.

The fair value determined in this manner is classified in level three of the hierarchy due to the absence in the Italian market of reference indicators which might confirm the reliability of the valuation. As a consequence, the inputs used cannot be classified in level two.

Financial Liabilities

The fair value of amounts due to banks and customers is normally calculated for the purposes of disclosure in the notes to the financial statements for liabilities due after one year.

This is done by calculating the present value of future cash flows using a discount rate that incorporates a component related to our own credit risk, and it is applied both to amounts due to banks and amounts due to ordinary customers, including the “non-banking” companies of the Group. Using variables observable on the reference market, this approach results in the classification of the fair value under level two of the hierarchy.

For liabilities due within one year or with an indeterminate due date, the book value recognised can be considered an adequate approximation of the fair value, which as a consequence results in classification in level three of the hierarchy.

This classification is also adopted for amounts due to the European Central Bank.

Debt securities issued

As these are liabilities issued, held as assets by third parties, the valuation techniques used have been developed from the perspective of a market participant who holds the debt securities as assets. In this specific case the components considered are as follows:

- the time value of the money, measured by the risk-free yield curve;
- the risk of failing to satisfy own obligations, measured by own credit spread.

The inputs used to measure the fair value include the yield curves of major currencies (euro, US dollar, GBP, yen, CHF) and UBI Banca’s issue spreads, measured from the funding conditions existing as at the reporting date, classified by type of counterparty for whom the security issued is destined.

The inputs used are observable and involve classification in level two of the hierarchy, except for cases in which UBI Banca issue spreads are not available, an aspect which involves an internal estimate of those spreads and classification of the securities in level three of the hierarchy and of bonds issued by the Bank to loans granted to customers, for which the fair value is calculated using the loan parameters. In this case both instruments are classified within fair value level three of the hierarchy.

A.4.2 Measurement processes and sensitivities

The UBI Banca Group has set a special policy for the determination of fair values officially set out in special regulations approved by the members of governing bodies. The purpose of these policies is to ensure proper and consistent application of the provisions of IFRS 13.

An analysis is given below of the sensitivity of equity instruments for which the fair value measurement is classified in level three of the hierarchy as a result of the use of unobservable significant inputs.

This analysis was conducted by formulating a stress test for the inputs in question, which takes account of the minimum and maximum value that these inputs can take, reported for each valuation technique used in the previous sub-section A.4.1 “Fair value levels two and three”.

For equity instruments measured at fair value through profit or loss for which it is possible, given the model used, to conduct a sensitivity analysis, in the event of using the maximum adjustment allowed for unobservable inputs, this would result, as opposed to the figures shown in the financial reports, in a fair value of less than 13.2%. Conversely, in the event of using the minimum adjustment, the fair value, unlike the figures in the financial reports, would be greater than 10.5%. For equity instruments for which we have opted for the other comprehensive income (OCI) approach and for which it is possible, given the model used, to conduct a sensitivity analysis, in the event of using the maximum adjustment allowed for unobservable inputs, the fair value would be insignificantly less than the figure shown in the financial reports. Conversely, in the event of using the minimum adjustment, the figure in the financial reports would be confirmed.

With regard to credit exposures classified among “Financial assets measured at fair value through profit or loss – other financial assets mandatorily measured at fair value”, the fair-value measurement of which is classified as level three of the hierarchy, no sensitivity analysis is conducted because, in the case of performing exposures, the impact is not deemed to be relevant, whereas for non-performing exposures, given the method of determining fair value and the volatility of the estimates of expected cash flows, sensitivity analysis is not deemed to be significant.

As concerns other financial instruments subject to fair value measurement and classified within level three of the fair value hierarchy (OTC derivatives, hedge funds, bonds resulting from the conversion of loans and options on equity investments), no sensitivity analysis is conducted either because the methods of quantifying the fair value do not allow alternative hypotheses to be made concerning the unobservable inputs used for the purposes of valuation, or because the effects of changing those inputs are not considered important.

A.4.3 Fair value hierarchy

With regard to assets and liabilities subject to fair value measurement on a recurring basis, classification in the right level of the fair value hierarchy is carried out by making reference to rules and methods contained in Bank regulations. Possible transfers to a different level of the hierarchy are identified on a monthly basis. Examples might be transfers resulting from the “disappearance” of an active market on which they are quoted or the use of a different method of measurement not previously applicable.

A.4.4 Other information

No situations exist in the UBI Banca Group in which the maximum or best use of a non-financial asset is different from its current use.

Furthermore, no situations exist in which financial assets and liabilities managed on a net basis in relation to market or credit risk are subject to fair value measurement on the basis of the price that would be received from the sale of a net long position or from the transfer of a net short position.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value level

Assets/liabilities measured at fair value	31.12.2018			31.12.2017 restated		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	257,120	672,276	534,133	736,376	698,763	537,070
a) financial assets held for trading	6,136	318,740	80,840	467,416	344,211	75,526
b) financial assets designated as at fair value	11,028	-	-	11,271	-	-
c) other financial assets mandatorily measured at fair value	239,956	353,536	453,293	257,689	354,552	461,544
2. Financial assets measured at fair value through other comprehensive income	10,589,504	87,810	48,865	12,246,393	64,696	58,527
3. Hedging derivatives	-	42,479	1,605	-	167,028	2,879
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	10,846,624	802,565	584,603	12,982,769	930,487	598,476
1. Financial liabilities held for trading	123	410,823	31	81	411,524	48
2. Financial liabilities designated as at fair value	-	105,836	-	-	43,021	-
3. Hedging derivatives	-	110,801	-	-	100,590	-
Total	123	627,460	31	81	555,135	48

The impact of CVA and DVA on the determination of the fair value of derivative financial instruments at consolidated level came to €8.4 million and €0.3 million respectively.

No transfers were made between level one and two in the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level three)

	Total	Financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
		of which: a) financial assets held for trading	of which: b) financial assets designated as at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances (*)	536,739	75,526	-	461,213	58,818	2,879	-	-
2. Increases	132,738	15,309	-	117,429	5,223	-	-	-
2.1. Purchases	41,433	2	-	41,431	-	-	-	-
2.2. Profits recognised in:								
2.2.1. Income statement	60,010	11,979	-	48,031	-	-	-	-
- of which gains	47,998	10,029	-	37,969	-	-	-	-
2.2.2. Equity		X	X	X	742	-	-	-
2.3. Transfers from other levels	3,328	3,328	-	-	4,451	-	-	-
2.4. Other increases	27,967	-	-	27,967	30	-	-	-
3. Decreases	(135,344)	(9,995)	-	(125,349)	(15,176)	(1,274)	-	-
3.1. Sales	(18,352)	(38)	-	(18,314)	(4,856)	-	-	-
3.2. Redemptions	(9,128)	(7)	-	(9,121)	-	-	-	-
3.3. Losses recognised in:								
3.3.1. Income statement	(72,358)	(7,281)	-	(65,077)	-	(1,214)	-	-
- of which losses	(62,160)	(682)	-	(61,478)	-	(1,214)	-	-
3.3.2. Equity		X	X	X	(1,282)	(60)	-	-
3.4. Transfers to other levels	(2,668)	(2,668)	-	-	-	-	-	-
3.5. Other decreases	(32,838)	(1)	-	(32,837)	(9,038)	-	-	-
4. Closing balances	534,133	80,840	-	453,293	48,865	1,605	-	-

(*) The opening balances incorporate the accounting impacts of First-Time Adoption of financial reporting standard IFRS 9. They are therefore not fully comparable with the figures restated as at 31st December 2017.

- ***Financial assets held for trading***

Increases in financial assets held for trading are due primarily to measurement of options on equity investments and include transfers to level three of derivatives for which the credit valuation adjustment risk for the counterparty was greater than the limits set by Group policy (€3.3 million).

Profits recognised through profit and loss related mainly (in the amount of €9.4 million) to gains on options on equity investments.

Losses recognised through profit or loss related to losses on derivative contracts outstanding in the amount of €0.7 million and to losses on derivatives closed during the year in the amount of €6.6 million.

- ***Financial assets mandatorily measured at fair value***

With regard to increases, of particular note among purchases are the acquisition of a new financial asset as a result of the Voluntary Scheme formed at the IDPF in favour of Banca Carige in the amount of €24.4 million and the contribution to the Atlante Fund in the amount of €15.3 million.

Profits recognised through profit or loss mainly concern gains on the securities portfolio (€35.4 million) and profits on the disposal of financial assets (€5.6 million).

With regard to decreases, of particular note among sales is the disposal of financial instruments within the scope of the restructuring of loan positions in the amount of €13.5 million

Losses recognised through profit or loss include €38 million in losses on the Parent's securities portfolio (€21.1 million of which related to the financial assets purchased as a result of the Voluntary Scheme formed at the IDPF in favour of Banca Carige), as well as losses recognised as a result of disposals during the period (€2.2 million).

- ***Financial assets measured at fair value through other comprehensive income***

Sales during the year totalled €4.9 million (€4.3 million of which related to the equity instruments of Consorzio Servizi Bancari).

Losses recognised in equity include €0.6 million for impairment losses on financial assets purchased in relation to the Voluntary Scheme formed at the IDPF in favour of Carim and Carismi.

- ***Hedging derivatives***

Decreases consisted of negative changes in the fair value of a derivative to hedge a loan denominated in AED.

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level three)

	Financial liabilities held for trading	Financial liabilities designated as at fair value	Hedging derivatives
1. Opening balances	48	-	-
2. Increases	31	-	-
2.1. Issues	-	-	-
2.2. Losses recognised in:			
2.2.1. Income statement	2	-	-
- of which losses	2	-	-
2.2.2. Equity	X	X	-
2.3. Transfers from other levels	29	-	-
2.4. Other increases	-	-	-
3. Decreases	(48)	-	-
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised in:			
3.3.1. Income statement	(4)	-	-
- of which gains	(3)	-	-
3.3.2. Equity	X	X	-
3.4. Transfers to other levels	(44)	-	-
3.5. Other decreases	-	-	-
4. Closing balances	31	-	-

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: distribution by fair value level

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017 restated			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	102,798,587	2,795,836	29,901,127	73,439,518	102,648,875	2,871,547	30,658,240	70,576,575
4. Investment property	257,931	-	-	335,458	260,699	-	-	324,696
5. Non-current assets and disposal groups held for sale	2,972	-	-	-	962	-	-	-
Total	103,059,490	2,795,836	29,901,127	73,774,976	102,910,536	2,871,547	30,658,240	70,901,271
1. Financial liabilities measured at amortised cost	109,445,664	17,096,164	6,434,671	85,493,786	111,182,776	15,287,729	11,188,099	85,281,773
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	109,445,664	17,096,164	6,434,671	85,493,786	111,182,776	15,287,729	11,188,099	85,281,773

A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”

The information relates to 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 or loss on the basis of paragraph B5.1.2 A of IFRS 9.

In consideration of the above, we report that during the year 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.

PART B – Notes to the consolidated balance sheet

ASSETS

SECTION 1 Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: composition

	Total 31.12.2018	Total 31/12/2017 restated
a) Cash in hand	734,266	710,606
b) Sight deposits with central banks	983	100,972
Total	735,249	811,578

SECTION 2 Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: composition by type

Items/Amounts	31.12.2018			Total	31.12.2017 restated			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
A. On-balance sheet assets								
1. Debt securities	340	208	100	648	447,813	343	100	448,256
1.1 Structured securities	1	32	100	133	20	29	100	149
1.2 Other debt securities	339	176	-	515	447,793	314	-	448,107
2. Equity securities	4,725	-	26	4,751	17,730	-	54	17,784
3. Shares of UCITS	1	-	-	1	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total A	5,066	208	126	5,400	465,543	343	154	466,040
B. Derivative instruments								
1. Financial derivatives	1,070	318,532	80,714	400,316	1,873	343,868	75,372	421,113
1.1 for trading	1,070	318,532	8,625	328,227	1,873	343,868	12,672	358,413
1.2 Connected with fair value options	-	-	-	-	-	-	-	-
1.3 other	-	-	72,089	72,089	-	-	62,700	62,700
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-	-	-
2.2 connected with fair value options	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total B	1,070	318,532	80,714	400,316	1,873	343,868	75,372	421,113
Total (A+B)	6,136	318,740	80,840	405,716	467,416	344,211	75,526	887,153

The decrease recorded by “Debt securities – other debt securities” in 2018 is primarily attributable to the sale of foreign government securities (French OATs and German Bund) carried out in the first quarter of 2018. Italian government securities were also redeemed, amounting to €17.2 million, in the first half of 2018.

Financial derivatives (level two) refer mainly to OTC transactions related to the trading activity and were composed mainly of interest rate swaps for €254 million, options for approximately €25 million, forwards for approximately €37 million and swaps on commodities for approximately €4 million, attributable to UBI Banca business on the market.

The amount for the level three financial derivatives relates to options on equity investments.

2.2 Financial assets held for trading: composition by debtors/issuers and counterparties

Items/Amounts	Total 31.12.2018	Total 31/12/2017 restated
A. ASSETS		
1. Debt securities	648	448,256
a) Central banks	-	-
b) Public administrations	366	447,793
c) Banks	148	288
d) Other financial companies	18	-
of which: insurance companies	-	-
e) Non-financial companies	116	175
2. Equity securities	4,751	17,784
a) Banks	17	835
b) Other financial companies	869	2,936
of which: insurance companies	44	1,148
c) Non-financial companies	3,865	14,013
d) Other issuers	-	-
3. Shares of UCITS	1	-
4. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: Insurance companies	-	-
e) Non-financial companies	-	-
e) Households	-	-
Total A	5,400	466,040
B. DERIVATIVE INSTRUMENTS		
a) Central counterparties	612	79
b) Other	399,704	421,034
Total B	400,316	421,113
Total (A+B)	405,716	887,153

2.3 Financial assets designated at fair value: composition by type

Items/Amounts	31.12.2018			Total	31.12.2017 restated			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	11,028	-	-	11,028	11,271	-	-	11,271
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	11,028	-	-	11,028	11,271	-	-	11,271
2. Financing	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
Total	11,028	-	-	11,028	11,271	-	-	11,271

Financial assets designated at fair value were practically unchanged and relate entirely to the Group's insurance business.

Debt securities, the only aggregate in the item, were composed of €7 million of Italian government securities, almost unchanged compared with 2017, government securities of other countries, slightly down, and, to a marginal extent, corporate securities.

2.4 Financial assets designated at fair value: composition by debtors/issuers

Items/Amounts	Total 31.12.2018	Total 31/12/2017 restated
1. Debt securities	11,028	11,271
a) Central banks	-	-
b) Public administrations	10,777	10,513
c) Banks	61	434
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	190	324
2. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
e) Households	-	-
Total	11,028	11,271

2.5 Other financial assets mandatorily measured at fair value: composition by type

Items/Amounts	31.12.2018			Total	31.12.2017 restated			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	63,261	34,572	48,087	145,920	67,814	41,756	18,050	127,620
1.1 Structured securities	2,942	33,970	48,087	84,999	1,874	36,032	16,796	54,702
1.2 Other debt securities	60,319	602	-	60,921	65,940	5,724	1,254	72,918
2. Equity securities	22,241	2,377	200,729	225,347	21,913	2,477	218,139	242,529
3. Shares of UCITS	154,454	192,184	40,564	387,202	167,962	133,547	32,581	334,090
4. Financing	-	124,403	163,913	288,316	-	176,772	192,774	369,546
4.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	124,403	163,913	288,316	-	176,772	192,774	369,546
Total	239,956	353,536	453,293	1,046,785	257,689	354,552	461,544	1,073,785

Debt securities (levels one and two) are attributable mainly to activity carried out by the Group's insurance business. In particular €4.6 million of Italian government securities are related entirely to insurance business since the Parent's portfolio of Italian government securities, mandatorily measured at fair value, was completely disposed during the year. The level three structured securities, include financing instruments obtained as part of the restructuring of some credit positions, an interest of €2.4 million held towards the Voluntary Scheme with reference to the support of Banca Carige and 5% of the junior and mezzanine tranches resulting from the securitisation of a portfolio of bad loans backed by GACS.

Equity securities, mostly classified within fair value level three, relate to equity investments and more specifically those held in the Bank of Italy (€99.2 million), Società Aeroporto Civile di Bergamo Orio al Serio (€54.9 million), NEXI (€11.3 million) and Depobank Spa (€4.7 million).

Shares of UCITS (level one) include €103.4 million attributable to insurance business. Level two contains financial assets received in return for the transfers of loans by UBI Banca. Shares of UCITS relating to the investment by the Parent in the Atlante Fund are recognised in level three.

2.6 Other financial assets mandatorily measured at fair value: composition by debtors/issuers

	Total 31.12.2018	Total 31/12/2017 restated
1. Equity securities	225,347	242,529
of which: banks	104,348	123,097
of which: other financial companies	29,974	17,566
of which: non-financial companies	91,025	98,635
2. Debt securities	145,920	127,620
a) Central banks	-	-
b) Public administrations	7,524	48,435
c) Banks	63,918	60,593
d) Other financial companies	24,332	514
of which: insurance companies	20,738	-
e) Non-financial companies	50,146	18,078
3. Shares of UCITS	387,202	334,090
4. Financing	288,316	369,546
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	14,054	14,870
d) Other financial companies	59,175	31,155
of which: insurance companies	17,391	-
e) Non-financial companies	205,700	297,176
e) Households	9,387	26,345
Total	1,046,785	1,073,785

SECTION 3 Financial assets measured at fair value through other comprehensive income – Item 30

3.1 Financial assets measured at fair value through other comprehensive income: composition by type

Items/Amounts	31.12.2018			Total	31.12.2017 restated			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	10,589,504	87,810	-	10,677,314	12,246,393	64,696	16	12,311,105
1.1 Structured securities	714,515	6,688	-	721,203	430,376	13,070	1	443,447
1.2 Other debt securities	9,874,989	81,122	-	9,956,111	11,816,017	51,626	15	11,867,658
2. Equity securities	-	-	48,850	48,850	-	-	58,511	58,511
3. Financing	-	-	15	15	-	-	-	-
Total	10,589,504	87,810	48,865	10,726,179	12,246,393	64,696	58,527	12,369,616

Debt securities (level one) are composed of the following:

- Italian government securities, down compared with the previous year, amounting to €6.3 billion (of which €1.2 billion relating to insurance business);
- foreign government securities amounting to €3.3 billion;
- other bonds issued by major national and international banks and financial and corporate institutions amounting to €1 billion.

Equity securities (all in level three) include financial assets acquired following intervention by Voluntary Scheme formed by the Interbank Deposit Protection Fund to assist Carim and Carismi amounting to €1.5 million (€0.9 million mezzanine and €0.6 million junior).

3.2 Financial assets measured at fair value through other comprehensive income: composition by debtors/issuers

Items/Amounts	Total 31.12.2018	Total 31/12/2017 restated
1. Debt securities	10,677,314	12,311,105
a) Central banks	-	-
b) Public administrations	9,461,666	11,267,091
c) Banks	437,336	383,218
d) Other financial companies	304,660	335,068
of which: insurance companies	22,570	-
e) Non-financial companies	473,652	325,728
2. Equity securities	48,850	58,511
a) Banks	3,355	3,194
b) Other issuers:	45,495	55,317
- other financial companies	18,770	28,428
of which: insurance companies	-	-
- non-financial companies	26,460	22,895
- other	265	3,993
3. Financing	15	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	15	-
of which: insurance companies	15	-
e) Non-financial companies	-	-
f) Households	-	-
Total	10,726,179	12,369,616

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount				Total impairment losses			Total 31.12.2018	Total partial write-offs
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three		
- Debt securities	10,566,880	9,795,624	116,931	9,501	(4,732)	(1,765)	(9,501)	10,677,314	-
- Financing	-	-	15	-	-	-	-	15	-
31.12.2018	10,566,880	9,795,624	116,946	9,501	(4,732)	(1,765)	(9,501)	10,677,329	-
31.12.2017	-	-	-	-	-	-	-	12,369,616	-
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-	-

This table does not report figures for the previous year because following the modifications introduced by the accounting standards in force as at 1st January 2018, the figures as at 31st December 2017, restated in accordance with the provisions of the 5th update of Bank of Italy Circular No. 262/2005, would not be useful for comparative purposes.

SECTION 4 Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: composition of loans and advances to banks by type

Type of transaction/Amounts	Total 31.12.2018						Total 31/12/2017 restated					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and advances to central banks	8,204,801	-	-	-	-	8,204,801	5,799,045	-	-	-	-	5,799,045
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve requirement	8,204,801	-	-	X	X	X	5,799,045	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and advances to banks	1,861,080	-	-	-	113	1,860,964	2,022,087	-	-	-	422,641	1,599,443
1. Financing	1,860,971	-	-	-	7	1,860,964	2,021,876	-	-	-	422,433	1,599,443
1.1 Current accounts and sight deposits	744,727	-	-	X	X	X	823,602	-	-	X	X	X
1.2. Term deposits	10,869	-	-	X	X	X	19,924	-	-	X	X	X
1.3. Other financing	1,105,375	-	-	X	X	X	1,178,350	-	-	X	X	X
- Reverse repurchase agreements	12	-	-	X	X	X	10,363	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	16	-	-	X	X	X
- other	1,105,363	-	-	X	X	X	1,167,971	-	-	X	X	X
2. Debt securities	109	-	-	-	106	-	211	-	-	-	208	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	109	-	-	-	106	-	211	-	-	-	208	-
Total	10,065,881	-	-	-	113	10,065,765	7,821,132	-	-	-	422,641	7,398,488

Loans and advances to central banks were up €2.4 billion on the previous year and were attributable entirely to the deposit held with the Bank of Italy by the Parent relating to the compulsory reserve (of which €7.5 billion relating to freely available reserves).

4.2 Financial assets measured at amortised cost: composition of loans and advances to customers by type

Type of transaction/Amounts	Total 31.12.2018						Total 31/12/2017 restated					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	83,011,632	5,975,964	597,121	-	29,901,014	62,740,411	83,947,080	8,029,668	528,598	-	30,235,599	63,178,087
1. Current account overdrafts	6,951,328	613,160	134,164	X	X	X	7,715,551	1,087,569	131,185	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	55,500,752	3,771,400	343,941	X	X	X	56,906,627	4,792,876	323,434	X	X	X
4. Credit cards, personal loans and salary-backed loans	3,403,660	81,995	3,095	X	X	X	3,041,903	124,160	943	X	X	X
5. Finance leases	5,203,961	819,427	58,922	X	X	X	5,541,888	1,004,204	53,788	X	X	X
6. Factoring	2,309,088	215,404	-	X	X	X	2,184,824	250,180	-	X	X	X
7. Other financing	9,642,843	474,578	56,999	X	X	X	8,556,287	770,679	19,248	X	X	X
2. Debt securities	3,745,110	-	-	2,795,836	-	633,342	2,850,995	-	-	2,871,547	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	3,745,110	-	-	2,795,836	-	633,342	2,850,995	-	-	2,871,547	-	-
Total	86,756,742	5,975,964	597,121	2,795,836	29,901,014	63,373,753	86,798,075	8,029,668	528,598	2,871,547	30,235,599	63,178,087

The most important items in the stage one and stage two portfolio are as follows:

- the item “1.3. Mortgages” includes, amongst other things, assets to back covered bond issuances amounting to €17.6 billion (of which €0.7 billion non-performing), assets subject to securitisation amounting to €4.6 billion (of which €0.2 billion non-performing) and also assets subject to synthetic securitisations amounting to €0.3 billion (of which €9.4 million non-performing);
- the item “1.4. Credit cards, personal loans and salary-backed loans” (cessione del quinto) recorded growth, attributable almost entirely to consumer credit business due in particular to Prestitalia salary and pension-backed loans in light of initiatives taken to increase this business carried out under the Business Plan;
- the item “1.7 Other financing” increased significantly due in particular to foreign business;
- the item “2.2 Other debt securities” consisted mainly of Italian government securities. Furthermore, the item includes €628.5 million of senior securities subscribed by the Parent as part of the operation to transfer a portfolio of bad loans to the independent securitisation vehicle Maior SPV Srl, fully backed by GACS (reference is made to Section E for further information).

4.3 Finance leases

Timeline	Non-performing exposures	minimum payments		interest rate	gross investment	
		share capital	of which secured remaining amount			of which unsecured remaining amount
on sight	476.054	62.183	8.749	12.376	74.559	-
up to 3 months	3.793	127.757	2.500	30.617	158.374	-
3 months to 1 year	18.422	540.062	16.124	120.781	660.843	-
1 year to 5 years	108.161	2.275.549	253.717	446.026	2.721.575	-
over 5 years	188.779	2.183.541	650.344	264.296	2.447.837	-
indeterminate maturity	24.218	14.869	-	-	14.869	-
total	819.427	5.203.961	931.434	874.096	6.078.057	-

Net loans and advances to customers for finance leases, totalled approximately €6,078,057 thousand of which €819,427 thousand were “Non-performing assets” (entries relating to other financing, other assets, deposits and current accounts and other securities are not reported separately).

The lending portfolio for the finance leases of UBI leasing consisted of 33,617 contracts, composed, by remaining debt, as follows:

- 79% property sector;
- 12% machinery and equipment sector;
- 5% energy sector;
- 3% auto sector;
- 1% nautical sector.

The ten most significant exposures had a total remaining value of €244,535 thousand.

A negative balance for potential lease instalments (relating to the index value of the instalments) was recognised during the year amounting to €84,143 thousand.

4.4 Financial assets measured at amortised cost: composition by debtors/issuers of loans and advances to customers by type

Type of transaction/Amounts	Total 31.12.2018			Total 31/12/2017 restated		
	Stages one and two	Stage three	of which: assets purchased or originated credit impaired	Stages one and two	Stage three	of which: assets purchased or originated credit impaired
1. Debt securities	3,745,110	-	-	2,850,995	-	-
a) Public administrations	3,116,567	-	-	2,850,995	-	-
b) Other financial companies	628,543	-	-	-	-	-
of which: insurance companies	3,550	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	83,011,632	5,975,964	597,121	83,947,080	8,029,668	-
a) Public administrations	969,103	16,196	701	769,154	36,309	-
b) Other financial companies	4,821,041	114,519	3,214	4,874,524	115,418	-
of which: insurance companies	141,757	4	2	171,038	71	-
c) Non-financial companies	41,933,140	3,891,431	406,845	44,720,854	5,706,277	-
d) Households	35,288,348	1,953,818	186,361	33,582,548	2,171,664	-
Total	86,756,742	5,975,964	597,121	86,798,075	8,029,668	-

The comparative amounts for the financial year 2017 stated in the tables in this Section 4 – Financial assets measured at amortised cost, report amounts for performing assets under stages one and two and the amounts for non-performing exposures under stage three, measured according to the provisions of IAS 39.

4.5 Financial assets measured at amortised cost: gross amount and total impairment losses

	Gross amount				Total impairment losses			Total 31.12.2018	Total partial write-offs
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three		
- Debt securities	3,746,852	3,117,627	-	-	(1,633)	-	-	3,745,219	-
- Financing	81,271,733	-	12,359,302	9,716,770	(170,708)	(382,923)	(3,740,806)	99,053,368	938,276
31.12.2018	85,018,585	3,117,627	12,359,302	9,716,770	(172,341)	(382,923)	(3,740,806)	102,798,587	938,276
31.12.2017	-	-	-	-	-	-	-	102,648,875	-
of which: financial assets purchased or originated credit impaired	X	X	128,406	476,966	X	(4,748)	(3,503)	597,121	51,692

This table does not report figures for the previous year because following the modifications introduced by the accounting standards in force as at 1st January 2018, the figures as at 31st December 2017, restated in accordance with the provisions of the 5th update of Bank of Italy Circular No. 262/2005, would not be useful for comparative purposes.

SECTION 5 Hedging derivatives – Item 50

5.1 Hedging derivatives: composition by type of hedge and by level

	Fair value 31.12.2018				NA	Fair value 31/12/2017 restated				NA
	L 1	L 2	L 3			L 1	L 2	L 3		
A) Financial derivatives	-	42.479	1.605	23.057.090		-	167.028	2.879	19.888.992	
1) Fair value	-	42.479	-	23.032.269		-	167.028	-	19.864.542	
2) Cash flow	-	-	1.605	24.821		-	-	2.879	24.450	
3) Foreign investments	-	-	-	-		-	-	-	-	
B) Credit derivatives	-	-	-	-		-	-	-	-	
1) Fair value	-	-	-	-		-	-	-	-	
2) Cash flow	-	-	-	-		-	-	-	-	
Total	-	42.479	1.605	23.057.090		-	167.028	2.879	19.888.992	

Legenda

FV= fair value

VN= valore nominale

Financial derivatives consist mainly of interest rate hedges of the interest rate swap type on financial liabilities.

5.2. Hedging derivatives: composition by portfolios hedged and type of hedge

Transactions / Type of hedging	Fair Value							Cash flow		Foreign investments
	Specific						Macro-hedge	Specific	Macro-hedge	
	Debt securities and interest rates	Equity securities and share indices	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	2,101	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	1,605	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	2,101	-	-	-	-	-	-	1,605	-	-
1. Financial liabilities	40,378	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	40,378	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 Fair value change in hedged financial assets (macro-hedge) – Item 60

6.1 Fair value change in hedged assets: composition by portfolios hedged

Fair value change in hedged assets/ Amounts	Total 31.12.2018	Total 31/12/2017 restated
1. Positive changes	122,799	50,761
1.1 of specific portfolios:	122,799	50,761
a) financial assets measured at amortised cost	122,799	50,761
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 general	-	-
2. Negative changes	(25,370)	(52,796)
2.1 of specific portfolios	(25,370)	(52,796)
a) financial assets measured at amortised cost	(25,370)	(52,796)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 general	-	-
Total	97,429	(2,035)

SECTION 7 Equity investments – Item 70

7.1 Equity investments: information on investments

Name	Registered address	Operating headquarters	Type of ownership	Details of investment		% of votes
				Investing company	% held	
B. Companies subject to considerable influence						
1. Lombarda Vita Spa	Brescia	Verona	significant influence	UBI Banca Spa	40.000%	40.000%
2. Aviva Vita Spa	Milan	Milan	significant influence	UBI Banca Spa	20.000%	20.000%
3. Zhong Ou Fund Management Co.	Shenzen (China)	Shenzen (China)	significant influence	UBI Banca Spa	25.000%	25.000%
4. Polis Fondi SGR Spa	Milan	Milan	significant influence	UBI Banca Spa	19.600%	19.600%
5. SF Consulting Srl	Bergamo	Mantova	significant influence	UBI Banca Spa	35.000%	35.000%
6. UFI Servizi Srl	Rome	Rome	significant influence	Prestitalia Spa	23.167%	23.167%
7. Montefeltro Sviluppo Scarl	Urbania (PS)	Urbania (PS)	significant influence	UBI Banca Spa	26.370%	26.370%

The balance sheet as at 31st December 2018 includes equity-accounted investees only. The larger equity investments, for which the carrying amount includes goodwill arising on consolidation, were tested for impairment, using the average of the multiples of a sample of comparable companies.

The market value for the insurance companies Aviva Vita Spa and Lombarda Vita Spa was calculated on the basis of a sample of companies quoted on active European stock markets considering the price/book value (P/BV) multiple adjusted for non-controlling interests and for intangible assets. The source for the amounts used was Bloomberg. The value (pro rata) was compared with the carrying amount of the equity investments in the consolidated financial statements.

- **Aviva Vita Spa:** the equity attributable to the Parent amounted to €66.1 million, inclusive of profit for the year ended 31st December 2018 and also of a positive consolidation difference amounting to €1.1 million;
- **Lombarda Vita Spa:** the equity attributable to the Parent amounted to €154.9 million, inclusive of profit for the year ended 31st December 2018 and of a positive consolidation difference amounting to €29.4 million.

Testing amounts recognised for the equity investments in the consolidated financial statements against the “pro rata” fair value found no evidence of impairment losses as at 31st December 2018.

7.2 Significant investments: book value, fair value and dividends received

Name	Carrying amount	Fair value (*)	Dividends received
B. Companies subject to considerable influence			
1. Lombarda Vita Spa	154,905	-	7,471
2. Aviva Vita Spa	66,059	-	-
TOTAL	220,964	-	7,471

(*) The fair value of the equity investments is not given in the table because they are companies that are not listed.

7.3 Significant investments: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Impairment losses and reversals on property, plant and equipment and intangible assets	Profit (Loss) on continuing operations before tax	Post tax profit (loss) from continuing operations	Profit (loss) on discontinued operations net of taxes	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
B. Companies subject to considerable influence														
1. Lombarda Vita Spa	X	8,169,446	290,553	8,006,487	139,665	1,580,683	X	X	45,402	30,271	-	30,271	(7,592)	22,679
2. Aviva Vita Spa	X	14,242,500	280,900	14,307,900	-109,500	2,001,200	X	X	42,100	26,300	-	26,300	-	26,300

(*) Profit (loss) for the year as in the reporting package provided by the insurance companies for the preparation of the consolidated financial statements and subject to audit.

7.4 Non-significant investments: accounting information

Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenues	Post tax profit (loss) from continuing operations	Profit (loss) on discontinued operations net of taxes	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
Companies subject to joint control	-	-	-	-	-	-	-	-	-
Companies subject to considerable influence	33,164	272,816	130,184	199,976	31,013	-	31,013	-134	30,879

The accounting information relates to the following investments:

- Zhong Ou Fund Management Co.;
- Polis Fondi Sgr Spa;
- UFI Servizi Srl;
- SF Consulting Srl;
- Montefeltro Sviluppo Scarl.

7.5 Equity investments: annual changes

	Total 31.12.2018	Total 31/12/2017 restated
A Opening balances	243,165	254,364
B Increases	24,627	23,993
B.1 Purchases	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	24,627	23,993
C Decreases	(13,664)	(35,192)
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Impairment losses	-	-
C.4 Other changes	(13,664)	(35,192)
D Final balances	254,128	243,165
E Total revaluations	-	-
F Total impairment losses	-	-

The amount recognised on line B.4 “Other changes” consists mainly of the following:

- profits for the year totalling €24,602 thousand. The following are particularly worthy of note:

Zhong Ou Fund Management Co.	€6,978 thousand
Lombarda Vita Spa	€12,108 thousand
Aviva Vita Spa	€5,220 thousand

The amount recognised on line C.4 “Other changes” consists mainly of the following:

- dividends of €7,471 thousand received from Lombarda Vita Spa, and of €3,040 thousand from Zhong Ou Fund Management Co.

7.6 Significant assessments and assumptions to establish the existence of joint control or significant influence

Part A, Section 3 of these notes to the financial statements may be consulted for further information.

7.7 Commitments relating to equity investments in companies subject to joint control

Nothing to report.

7.8 Commitments relating to equity investments in companies subject to significant influence

Commitments relating to the possible exercise of options

Lombarda Vita Spa: as part of the renewal of life *banc assurance* agreements with the Cattolica Assicurazioni Group concluded on 30th September 2010, the options on the respective investments in the Lombarda Vita joint venture were reformulated with call options only, exercisable on the basis of the occurrence of predetermined conditions.

Aviva Vita Spa: as part of the definition of the new partnership agreements between the Aviva Group and the UBI Banca Group in the life insurance distribution sector concluded on 22nd December 2014, call options were agreed on the respective stakes held in the life insurance company, exercisable on the basis of the occurrence of predetermined conditions.

Zhong Ou Asset Management Company (formerly Lombarda China Fund Management Company): a partnership agreement entered into as part of asset management business focused on the Chinese market signed between UBI Banca and the current shareholders, which involves a series of call options which can be exercised if determined trigger events occur concerning the respective investment held in Zhong Ou Fund Asset Management Company. UBI Banca holds an approximately 1.7% stake in the total share capital of the company classified within non-current assets held for sale according to IFRS 5, because it is subject to future disposal on the basis of agreements entered into between the shareholders and the management of the company.

7.9 Significant restrictions

Nothing to report.

7.10 Other information

Nothing to report.

SECTION 8 Technical reserves of reinsurers – Item 80

8.1 Technical reserves of reinsurers: composition

	Total 31.12.2018	Total 31/12/2017 restated
A. Non-life	-	347
A.1 Premium reserves	-	143
A.2 Claims reserves	-	204
A3. Other reserves	-	-
B. Life	-	-
B.1 Mathematical reserves	-	-
B.2 Reserves for sums to be paid	-	-
B3. Other reserves	-	-
C. Technical reserves where the investment risk is borne by the insurers	-	-
C1. Reserves relating to contracts on which performance is linked to investment funds and market indexes	-	-
C2. Reserves resulting from the management of pension funds	-	-
D. Total technical reserves of reinsurers	-	347

SECTION 9 Property, plant and equipment – Item 90

9.1 Property, plant and equipment for use in operations: composition of assets measured at cost

Assets/amounts	Total 31.12.2018	Total 31/12/2017 restated
1. Owned assets	1,666,706	1,521,362
a) land	840,542	810,387
b) buildings	636,505	569,438
c) furnishings	44,521	35,840
d) electronic equipment	83,429	62,567
e) other	61,709	43,130
2. Assets acquired through finance leases	27,689	29,682
a) land	15,946	16,546
b) buildings	11,743	13,136
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
Total	1,694,395	1,551,044
<i>of which: obtained through the enforcement of guarantees received</i>	<i>37,523</i>	<i>23,773</i>

The item “of which: obtained through the performance of guarantees received” includes property, plant and equipment held by UBI Leasing as a result of the termination of non-performing finance lease contracts.

9.2 Tangible assets held for investment: composition of assets valued at cost

Assets / amounts	Total 31.12.2018				Total 31/12/2017 restated			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Ow ned assets	257,745	-	-	335,270	260,508	-	-	324,509
a) land	154,618	-	-	193,639	153,784	-	-	184,635
b) buildings	103,127	-	-	141,631	106,724	-	-	139,874
2. Assets acquired through finance leases	186	-	-	188	191	-	-	187
a) land	33	-	-	33	33	-	-	32
b) buildings	153	-	-	155	158	-	-	155
Total	257,931	-	-	335,458	260,699	-	-	324,696
of which: obtained through the enforcement of guarantees received	-	-	-	-	-	-	-	-

9.3 Property, plant and equipment for functional use: composition of assets revalued

No property, plant and equipment for functional use revalued are held.

9.4 Tangible assets held for investment: composition of assets measured at fair value

No tangible assets held for investment recognised at fair value are held.

9.5 Inventories of property, plant and equipment subject to IAS 2 rules: composition

Assets/amounts	31.12.2018	31.12.2017 restated
1. Inventories di property, plant and equipment obtained through the enforcement of guarantees received	12,908	-
a) land	2,071	-
b) buildings	10,837	-
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
2. other inventories of property, plant and equipment	-	-
Total	12,908	-
of which: measured at fair value net of selling expenses	-	-

Property, plant and equipment measured in accordance with IAS 2 “Inventories” resulting from their purchase at auction to close non-performing credit exposures carried out by the company Kedomus are recognised within this item.

9.6 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balances	954,941	1,534,737	300,072	378,784	542,305	3,710,839
A.1 Total net reductions in value	(128,008)	(952,163)	(264,232)	(316,217)	(499,175)	(2,159,795)
A.2 Net opening balances	826,933	582,574	35,840	62,567	43,130	1,551,044
B. Increases	33,327	108,084	13,876	46,478	31,220	232,985
B.1 Purchases	32,253	79,394	13,876	46,478	31,215	203,216
B.2 Capitalised improvement expenses	-	28,686	-	-	-	28,686
B.3 Reversal of impairment losses	-	-	-	-	-	-
B.4 Positive changes in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other changes	1,074	4	-	-	5	1,083
C. Decreases	(3,772)	(42,410)	(5,195)	(25,616)	(12,641)	(89,634)
C.1 Sales	(110)	(144)	(2)	(133)	(5)	(394)
C.2 Depreciation	-	(37,554)	(5,035)	(25,260)	(12,310)	(80,159)
C.3 Impairment losses recognised in:	(2,256)	(1,015)	-	-	-	(3,271)
a) equity	-	-	-	-	-	-
b) income statement	(2,256)	(1,015)	-	-	-	(3,271)
C.4 Negative changes in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	(1,253)	(2,040)	X	X	X	(3,293)
a) tangible assets held for investment	(679)	(809)	-	-	-	(1,488)
sale	(574)	(1,231)	-	-	-	(1,805)
C.7 Other changes	(153)	(1,657)	(158)	(223)	(326)	(2,517)
D. Final net balances	856,488	648,248	44,521	83,429	61,709	1,694,395
D.1 Total net reductions in value	(126,154)	(997,675)	(272,459)	(339,123)	(512,206)	(2,247,617)
D.2 Final gross balances	982,642	1,645,923	316,980	422,552	573,915	3,942,012
E. Value at cost	-	-	-	-	-	-

9.7 Property held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balances	153,817	106,882
B. Increases	3,615	5,827
B.1 Purchases	1,512	4,388
B.2 Capitalised improvement expenses	-	393
B.3 Positive changes in fair value	-	-
B.4 Reversals of impairment losses	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from properties used in operations	679	809
B.7 Other changes	1,424	237
C. Decreases	(2,781)	(9,429)
C.1 Sales	(747)	(238)
C.2 Depreciation	-	(6,416)
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	(417)	(605)
C.5 Negative exchange rate differences	-	-
C.6 Transfers to other asset portfolios	(1,617)	(1,162)
a) properties for functional use	-	-
b) non-current assets and disposal groups held for sale	(1,617)	(1,162)
C.7 Other changes	-	(1,008)
D. Final balances	154,651	103,280
E. Fair value	193,672	141,786

The increase in land and buildings is mainly attributable to the purchase of a part of the assets relating to a property fund originating from the merger of the former New Banks.

As concerns expenses for capitalised improvements, these are restructuring expenses for upgrading the functioning of the agency network, in line with a new commercial strategy, in accordance with the Business Plan.

External appraisers were appointed for impairment testing purposes to appraise the entire real estate portfolio; it found marginal differences compared with the carrying amounts. The estimate was based on generally accepted valuation principles, by applying the following measurement criteria:

- the direct comparative or market method, based on a comparison between the asset in question and other similar assets subject to sale or currently on sale on the same market or competing markets;
- the income method, based on the present value of potential market incomes for a property, obtained by capitalising the income at a market rate.

The above methods were performed individually and the values obtained or each one were appropriately averaged.

The results of the appraisal method described resulted in a write-down of real estate property positions amounting to approximately €4.3 million.

9.8 Inventories of property, plant and equipment subject to IAS 2 rules: annual changes

	Inventories of property, plant and equipment obtained through the enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Furnishings	Electronic equipment	Other		
A. Opening balances	-	-	-	-	-	-	-
B. Increases	2,173	11,357	-	-	-	-	13,530
B.1 Purchases	1,515	8,097	-	-	-	-	9,612
B.2 Reversals of impairment losses	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other changes	658	3,260	-	-	-	-	3,918
C. Decreases	(102)	(520)	-	-	-	-	(622)
C.1 Sales	(102)	(520)	-	-	-	-	(622)
C.2 Impairment losses	-	-	-	-	-	-	-
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Final balances	2,071	10,837	-	-	-	-	12,908

The item refers mainly to real estate properties present as at 31st December 2017 and subject to reclassification in compliance with the provisions of the 5th update of Bank of Italy Circular No. 262.

9.9 Commitments to purchase property, plant and equipment

Assets/amounts	Total 31.12.2018	Total 31/12/2017 restated
A. Assets for functional use		
1.1 owned	108,024	4,618
- land	-	-
- buildings	94,438	66
- furnishings	290	-
- electronic equipment	-	550
- other	13,296	4,002
1.2 Finance lease	-	-
- land	-	-
- buildings	-	-
- furnishings	-	-
- electronic equipment	-	-
- other	-	-
Total A	108,024	4,618
B. Assets held for investment		
2.1 owned	-	-
- land	-	-
- buildings	-	-
2.2 Finance lease	-	-
- land	-	-
- buildings	-	-
Total B	-	-
Total (A+B)	108,024	4,618

The commitments reported above form part of the normal planning activities of the Bank and they represent orders not yet executed as at the balance sheet date.

As at 31st December 2018 the amount stated under the item Assets for operational use - owned - buildings, represents a commitment undertaken by the Parent for the total purchase of assets relating to a property fund originating from the merger of the former New Banks.

SECTION 10 Intangible assets – Item 100

10.1 Intangible assets: composition by type of asset

Assets/amounts	Total 31.12.2018		Total 31/12/2017 restated	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	1,465,260	X	1,465,260
A.1.1 attributable to the Group	X	1,465,260	X	1,465,260
A.1.2 attributable to minority interests	X	-	X	-
A.2 Other intangible assets	264,430	37	263,031	37
A.2.1 Assets measured at cost:	264,430	37	263,031	37
a) Internally generated intangible assets	-	-	-	-
b) Other assets	264,430	37	263,031	37
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	264,430	1,465,297	263,031	1,465,297

Details of the item “Goodwill” are given below.

	Total 31.12.2018	Total 31/12/2017 restated	changes
<i>Figures in thousands of euro</i>			
UBI Banca Spa (*)	1,195,840	1,195,840	-
Pramerica SGR Spa	170,284	170,284	-
IW Bank Spa	88,754	88,754	-
UBI Factor Spa	8,260	8,260	-
UBI Sistemi e Servizi SCpA	2,122	2,122	-
TOTAL	1,465,260	1,465,260	-

(*) In 2017 Banco di Brescia Spa, Banca Popolare di Ancona Spa, Banca Popolare di Bergamo Spa and Banca di Valle Camonica Spa were merged into UBI Banca Spa.

The goodwill recognised in the consolidated financial statements of the UBI Banca Group (“goodwill arising on consolidation” resulting from the elimination of the equity investments in subsidiaries) is the result of all the goodwill items relating to UBI Banca and to some of the companies controlled by it.

“Other intangible assets with finite useful life” amounting to €264.4 million were comprised mainly of the assets:

- resulting from the purchase price allocation carried out on 1st April 2007 following the merger of the former Banca Lombarda e Piemontese Group into the former BPU Banca Group on 1st April 2007, for a total of €65.8 million relating to:
 - “asset under management” consisting both of the asset management and the relative distribution activities totalled €35.6 million. These assets are amortised over the estimated remaining useful life of the customer relationships. The amortisation for the year amounted to €3.1 million (€3.7 million for the year ended 31st December 2017);
 - “assets under custody” business totalling €30.2 million, with total amortisation of €2.2 million (€2.1 million for the year ended 31st December 2017);
- resulting from the purchase price allocation carried out on 1st April 2017 following the merger of the New Banks for a total of €26.5 million relating to:
 - “asset under management” consisting both of the asset management and the relative distribution activities totalled €12.3 million. These assets are amortised over the

remaining useful life of the customer relationships. The amortisation for the year amounted to €3.8 million;

- “assets under custody” business totalling €2 million with total amortisation for the year of €0.6 million;
- “core deposits”, which constitute intangible assets relating to customer relationships totalling €12.2 million with total amortisation for the year of €3.8 million.

The remaining balance consists almost exclusively of software, allocated mainly to UBISS Scpa, the UBI Group service company.

In compliance with IAS 36, an impairment test is performed at the end of each year (or more frequently if an analysis of internal or external circumstances should give rise to doubts that the value of the assets can be recovered). The result of the impairment test as at 31st December 2018 did not find any need to proceed to recognition of impairment losses on the item goodwill.

All the specific intangible assets of the UBI Banca Group (intangible assets connected with assets under management and under custody) have a finite useful life. Therefore in accordance with IAS 38 there is no obligation to subject those assets to impairment tests on an annual basis, but only each time evidence appears of impairment that is greater than the amortisation.

Intangible assets associated with assets under management, assets under custody and core deposits originating from the merger operations mentioned above were not tested for impairment because no changes were recorded in the relative assets which determine the value of the intangible assets associated with them (within the perimeter of the PPA) by an amount greater than the annual amortisation rate and no changes occurred in terms of the profitability of those assets.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2018
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A Opening gross balances	2,780,406	-	-	1,552,142	37	4,332,585
A.1 Total net reductions in value	(1,315,146)	-	-	(1,289,111)	-	(2,604,257)
A.2 Net opening balances	1,465,260	-	-	263,031	37	1,728,328
B. Increases	-	-	-	77,976	-	77,976
B.1 Purchases	-	-	-	77,899	-	77,899
B.2 Increases in intangible internal assets	X	-	-	-	-	-
B.3 Reversal of impairment losses	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- in equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	77	-	77
C. Decreases	-	-	-	(76,577)	-	(76,577)
C.1 Sales	-	-	-	(132)	-	(132)
C.2 Impairment losses	-	-	-	(75,579)	-	(75,579)
- Amortisation and depreciation	X	-	-	(75,579)	-	(75,579)
- Impairment losses	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- in equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	(866)	-	(866)
D. Final net balances	1,465,260	-	-	264,430	37	1,729,727
D.1 Total net impairment losses	(1,315,146)	-	-	(1,364,690)	-	(2,679,836)
E. Final gross balances	2,780,406	-	-	1,629,120	37	4,409,563
F. Value at cost	-	-	-	-	-	-

10.3 Other information

Software

The useful life of software considered for the purposes of amortisation is five years.

The figure for contracted commitments to purchase intangible assets was €11.9 million for the acquisition of software.

Impairment tests on goodwill

The goodwill recognised in the consolidated balance sheet of UBI Banca is the result of all the goodwill items and all the positive consolidation differences arising from the business combinations of the subsidiaries of UBI Banca Spa, as reduced by prior year impairment losses. The criterion followed in the allocation of goodwill in the UBI Group considers the minimum level at which it is monitored which coincides, with regard to banking activities, to the banking segment (former IFRS 8) and with regard to other business to the respective legal entities (non-banking financial segment). A second level impairment test is conducted on consolidated cash flows to test the general integrity of the goodwill recognised in the consolidated balance sheet. The allocation criterion followed did not undergo any changes compared with 31.12.2017, because it was a consequence of the reorganisation began in 2016 (the Single Bank project) designed to simplify the organisational structure of the Group's banking business. This reorganisation involved the following:

- the merger by incorporation of the former network banks (Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Regionale Europea, CARIME, Banca Popolare di Ancona and Banca di Valle Camonica) during the last quarter of 2016 and in 2017;
- the merger into UBI Banca Spa of the banks acquired in 2017 consisting of Banca Adriatica (the former Nuova Banca delle Marche), Banca Tirrenica (the former Nuova Banca dell'Etruria) and Banca Teatina (the former Nuova Cassa di Risparmio di Chieti).

The UBI Group has not changed its operating segments (pursuant to IFRS 8) following its reorganisation (consisting of banking, non-banking financial, and finance and corporate centre), because the reorganisation affected the banking operating segment only and did not modify (except marginally) the other segments. Following that organisational simplification, the Group proceeded to aggregate the goodwill relating to the "former network banks" within the banking segment. More specifically, the Single Bank's structure involved the allocation of general banking activities to the two main customer targets (individuals and corporate), but the detailed implementation and the pursuit of strategic objectives was accomplished by means of the creation of "macro geographical areas" in order to create unified management in the various local areas of the two segments. This meant that the recoverability of goodwill took place by means of the unified and co-ordinated management of the commercial segments insofar as they are intrinsically related to each other. For that reason, the banking segment constitutes the Group CGU on which the recoverability of goodwill is tested because it is the minimum level at which: (i) the Group's strategy aims at recovering the goodwill (and that monitoring its recoverability); (ii) the allocation of goodwill is not arbitrary. It should be considered here that international accounting standards identify the segment as the maximum limit at which goodwill can be tested and monitored.

The value measurement used to calculate the recoverable amount of the CGUs to which goodwill is allocated is the value in use. Making the value measurement (IAS 36.31) requires an estimate of the "future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal" and the application of "the appropriate discount rate to those future cash flows". The financial measurement criterion adopted by the UBI Group to calculate the value in use is the "Excess Capital" variant of the "Dividend Discount Model".

The carrying amount of the legal entities belonging to the non-banking financial segment and the carrying amount of the banking segment was calculated in a manner consistent with the criterion with which the recoverable amount was estimated. For the CGUs belonging to the non-banking financial segment, the notional carrying amount of each CGU to which goodwill was allocated corresponded to the sum of the following:

- the equity plus the profit of the legal entity, inclusive of goodwill, net of i) dividends currently being paid, calculated on the profit earned in 2018 and ii) the carrying amounts of the equity investments;
- adjustments to the purchase price allocation (PPA former Banche Popolari Unite Group and former Banca Lombarda e Piemontese Group), inclusive of the write-ups of real estate properties, loans and receivables and obligations and intangible assets identified in the PPA;
- any consolidation differences there may be, “grossed up” on a notional basis. As already reported, for CGUs that are not wholly owned, for impairment purposes goodwill must be restated on a notional basis including the goodwill attributable to minority interests (not recognised in the consolidated financial statements) by means of “grossing up” (i.e. goodwill attributable to the Parent/percentage ownership attributable to the Parent) in consideration, amongst other things, of example seven in IAS 36. This adjustment regards consolidation differences relating to Pramerica.

For the banking segment, which does not coincide with a legal entity, the carrying amount on the other hand is obtained starting from the following:

- the equity in the separate balance sheet of UBI Banca (to which the banking segment relates), inclusive of goodwill;
- the equity absorbed by other activities relating to UBI Banca. These are:
 - a) the equity absorbed by “corporate centre” activities (inclusive of consolidated equity investments);
 - b) the equity absorbed by the finance activities.

The impairment test, for which the procedure was defined prior to the approval of the financial statements, made use of methodological support from an external appraiser of high standing. The projections on which the value in use estimate is based:

- c) are founded on reasonable and consistent assumptions, which represent the best estimate that can be made by management of the possible economic conditions that may manifest over the useful life of the asset in question;
- d) use the 2019 budget and 2020-2023 projections as a starting point which incorporate the most recent macroeconomic and regulatory trends and make use of the best estimates available to management;
- e) use a time horizon of five years as the explicit forecast period in compliance with IAS 36;
- f) are only adopted for the purposes of measurement after appropriate analysis has been carried out of gaps between preliminary 2018 final figures and 2018 budget figures to find the causes of the gaps and after making sure that those gaps are incorporated in the projections;
- g) with due prudence, involve a gradual return to normal market conditions in the medium-term as a result of:
 - i) an estimate of short-term interbank interest rates (3-month Euribor rate) consistent with forward/future interest rates. The average annual three-month interbank rate (3-month Euribor rate) is 0.783% for 2022 and 0.951 % for 2023 (compared with a 3-month Euribor of 0.927% used in the 31/12/2017 impairment test for the year 2022). The interest rate forecast for 2023 is aligned with interest rate futures (a futures interest rate on the 3-month Euribor for December 2023 of 1.01%) recorded in December 2018. More specifically, the 3-month Euribor rate is forecast to be negative until 2020 when it will reach levels of 0.233% in 2021 and 0.783% in 2022. The size of the rise in interest rates ensures a progressive normalisation of markups and markdowns, even if still lower than levels observed historically;
 - ii) projections for loans show a flat scenario (an average annual growth rate of 0.04% in the period 2018-2023). Projections for growth in direct funding are higher than those for lending (CAGR 2018-2023 = 1.77%). The hypotheses formulated lead to growth in operating income at a compound annual growth rate that is greater proportionally to growth in volumes as a result of the forecast rise in interbank interest rates, a fall in

- the BTP-Bund spread and a rise in net fee and commission income (attributable to growth in volumes of indirect funding);
- iii) the trend for operating expenses incorporates the more recent corporate ownership action designed to contain them;
- iv) the cost of risk (net impairment losses on loans/loans to customers) is forecast to fall compared with the figures observed in 2018, although it will still be higher than the levels observed historically in pre-crisis periods.

The estimated value of use involves an estimate of the terminal value, which consists of the calculation of the present value of the cash flows freely distributable to shareholders after the explicit forecast period, based on the net profit forecasts for the last year of the forecast (2023). The sustainability of those cash flows is supported by comparison of profits estimated by management with the forecasts of analysts that follow the UBI share up until 2021 (the last year for which adequate cover is given by equity analysts who follow the share). For the purposes of calculating freely available cash flows, a preliminary calculation was made of the minimum regulatory capital, in line with minimum requirements set by the European Central Bank in terms of the Tier 1 capital ratio¹ as per the draft letter and subsequent discussions with the supervisory authority as part of the “Supervisory Review and Evaluation Process” (SREP).

The cash flow freely distributable to shareholders beyond the explicit forecast period is capitalised at a rate that represents the difference between the opportunity cost of equity (“*coe*”) and the estimated perpetual growth rate (*g*).

Finally, the value of use is based on the opportunity cost of capital (cost of equity – “*coe*”) estimated consistent with the provisions of accounting standard IAS 36 and “Guidelines for impairment tests on goodwill in contexts of financial and real crisis” issued by the *Organismo Italiano di Valutazione* (OIV – Italian Valuation Body) on the basis of a capital asset pricing model (CAPM):

$$coe = Risk\ Free + b \times Equity\ Risk\ Premium$$

The opportunity cost of capital is equal to the sum of the risk free rate and a risk premium corresponding to the product of the beta of the share and the overall market risk premium (equity risk premium).

- a) The specific yield to maturity of the interbank rate for each year of the forecast was assumed as the risk free rate, in accordance with paragraph A21 of IAS 36, plus a spread between the corresponding yield to maturity of the benchmarks on Italian government securities and the same interbank interest rate. The risk free rate used to estimate the cost of equity is consistent with future interest rates forecast by management and assumed for the estimate of future cash flows used in the measurement. The risk free rate assumed in the terminal value is 2.95% (i.e. the sum of the interbank rate of 0.86% and a spread of 2.08% obtained from the daily difference observed in the course of December 2018 between the ten-year government securities rate and the ten-year interbank rate) which is consistent with the estimates for risk free rates used by management for long-term forecasts of net interest income (average annual 3-month Euribor rate forecast for 2023 = 0.95%). The risk free rate rose 0.88% compared with impairment measurements made as at 31.12.2017 (the amount assumed in the terminal value as at 31.12.2017 = 2.07%). The rise is attributable to the change in the scenario for the BTP-Bund spread;
- b) the equity risk premium is 5.0% in line with the consensus reported by equity analysts. The measurement of the equity risk premium as at 31.12.2018 had not changed since 31.12.2017.
- c) for the banking segment and for the Group as a whole (second level impairment test), the beta was estimated at 1.62x (1.60x as at 31.12.2017) and is based on historical returns on the share over five years and the FTSE Italia All Share market index.

¹ Which also complies with the “MDA-relevant” requirement for the purposes of calculating the maximum distributable dividend.

The beta estimate as at 31.12.2018 (1.62x), based on historical returns for the share over five years (calculated on a monthly basis) was higher than both those based on historical returns for the share over one year (1.28x) and over two years (1.47x) and the return implicit in options (1.31x).

d) for the other companies, the beta was estimated using the same method as that used in the previous year, on the basis of the returns for comparable European companies.

On the basis of the parameters reported above, the opportunity cost of own capital for the banking segment (banks) and for the UBI Banca Group was 11.03%, up compared with 10.09% as at 31.12.2017.

A growth rate for long-term income of 1.40% was assumed for the banking segment, slightly down compared with that used in the previous year (1.35%) due to a (slight) rise in long-term estimates of the risk free rate. The growth rate for companies that do not carry out conventional banking activities was assumed to be 0%.

Therefore the rate of capitalisation (coe – g) for the banking segment as at 31.12.2018 was 9.63% (11.03% - 1.40%), up compared with the measure of 8.74% assumed for the 2017 impairment test.

The table below shows estimates of the opportunity cost of capital and of growth for the different CGUs to which goodwill was allocated (in bold type). The same measures assumed for the impairment test as at 31.12.2017 are given in italics.

Consistent with the procedures employed for previous impairment tests, the fundamental estimate of the opportunity cost of capital for the banking segment and the UBI Group, as described here, is also reconciled with the consensus estimate made by the equity analysts who follow the UBI Banca share.

CGU	Initial discount rate net of taxes	Final discount rate net of taxes	Nominal growth rate in income for the calculation of the terminal value	Rate of capitalisation of income for the calculation of the terminal value
Banking Segment / UBI Consolidated	8.28% <i>7.60%</i>	11.03% <i>10.09%</i>	1.40% <i>1.35%</i>	9.63% <i>8.74%</i>
UBI Factor, UBI Leasing, Prestitalia	6.21% <i>4.77%</i>	8.96% <i>7.26%</i>	0.00% <i>0.00%</i>	8.96% <i>7.26%</i>
Pramerica	5.80% <i>4.75%</i>	8.55% <i>7.25%</i>	0.00% <i>0.00%</i>	8.55% <i>7.25%</i>
IW Bank Private Investment	5.10% <i>4.75%</i>	7.84% <i>7.25%</i>	0.00% <i>0.00%</i>	7.84% <i>7.25%</i>

As a consequence of all the above, the impairment tests performed on the single CGUs resulted in no need to recognise impairment losses on goodwill. The second level impairment test showed recoverable amounts greater than equity.

The value in use of the Parent is greater than the stock market capitalisation. The difference between the value in use and the stock market capitalisation can be explained by the fact that in the current context, the stock market:

- only captures expected short-term results (representing a minority shareholder outlook) rather than longer-term result outlooks (even though consensus based) on which, however, the value in use estimate is based;
- measurement of the non-performing loan portfolio aligned with the implicit multiples of comparable transactions rather than with a loan management outlook on which the value in use estimate is based.

A sensitivity analysis was performed in compliance with IAS 36 to identify the variation in key variables (cost of equity, cost of risk, income growth rate in the terminal value,

cost:income ratio) that would render the recoverable amount of the different banking segment CGUs equal to their carrying amounts in the consolidated financial statements.

The analysis shows that for the banking segment an increase of 1.73% in the cost of risk, a rise of 3.01% in the cost of equity, a fall of 5.32% in the terminal value for the income growth rate and finally a rise of 29.96% in the cost:income ratio (operating expenses divided by operating income) would bring the recoverable amount into line with the carrying amount.

For the other companies, the analysis shows that for UBI Factor an increase of 0.09% in the cost of risk, a rise in the cost of equity of 1.22% %, a fall in the income growth rate in the terminal value of 1.67% and finally a rise of 6.33% in the cost:income ratio would bring the recoverable amount into line with the carrying amount.

<i>CGU/Segment</i>	<i>Sensitivity</i>			
	Rise in the cost of risk required to obtain: value in use = carrying amount	Rise in the cost:income ratio required to obtain: value in use = carrying amount	Rise in the cost of equity required to obtain: value in use = carrying amount	Growth rate needed to obtain: value in use = carrying amount
Banking Segment	1.73%	29.96%	3.01%	-5.32%
Pramerica	n.s.	48.21%	19.58%	-124.06%
IW Bank Private	0.48%	1.58%	0.70%	-0.93%
UBI Factor	0.09%	6.33%	1.22%	-1.67%

SECTION 11 Tax assets and tax liabilities – Asset item 110 and Liability item 60

11.1 Deferred tax assets: composition

	Total 31.12.2018	Total 31/12/2017 restated
Balancing entry in the income statement	2,690,355	2,539,381
Balancing entry in equity	143,440	133,455
Total	2,833,795	2,672,836
for the following reasons:		
- impairment losses on loans and advances to customers not deducted	765,571	790,355
- impairment losses loans and advances to banks, unsecured loan guarantees and other not deducted	33,241	24,405
- losses	345,277	322,501
- to cover merger of New Banks	82,119	165,811
- adjustment of Single Bank amortised cost	2,949	19,238
- to cover Single Bank mergers	-	8,183
- intangible assets and goodwill	1,039,545	1,027,463
- post employment benefits	8,593	11,081
- application of IFRS (amortised cost in particular)	24,550	27,947
- advance depreciation and amortisation	5,722	5,480
- property, plant and equipment	50,603	45,649
- staff costs	35,949	42,084
- provisions for risks and charges not deducted	73,171	83,305
- IFRS9 reserve	240,063	-
- fair value change in securities and equity investments	118,640	84,289
- other	7,802	15,045

11.2 Deferred tax liabilities: composition

	Total 31.12.2018	Total 31/12/2017 restated
Balancing entry in the income statement	121,756	131,674
Balancing entry in equity	10,229	23,158
Total	131,985	154,832

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	Total 31.12.2018	Total 31/12/2017 restated
1. Opening balance	2,539,381	2,508,921
2. Increases	310,200	462,552
2.1 Deferred tax assets arising during the year	298,023	77,465
a) relating to previous years	757	917
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	297,266	76,548
2.2 New taxes or increases in tax rates	2,571	-
2.3 Other increases	9,606	385,087
3. Decreases	(159,226)	(432,092)
3.1 Deferred tax assets derecognised during the year	(145,813)	(117,721)
a) reversals of temporary differences	(141,987)	(116,603)
b) impairment losses on non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(3,826)	(1,118)
3.2 Reductions in tax rates	-	(13)
3.3 Other decreases	(13,413)	(314,358)
a) transformation in tax credits pursuant to Law 214/2011	(12,978)	(287,732)
b) other changes	(435)	(26,626)
4. Final balance	2,690,355	2,539,381

With regard to changes in 2018, the increase in deferred tax assets during the year, amounting to €298,023 thousand, is mainly the consequence of the recognition of deferred tax assets corresponding to the future benefit of the deductibility in subsequent years of the reserve for the first time adoption of IFRS 9 relating to expected credit losses recognised on loans and advances to customers measured at amortised cost.

In fact following the approval of the Government Budget (Law No. 145 of 30th December 2018), the deductibility of that reserve, which according to the original rules was to be in full for the financial year 2018, both for corporate income tax (IRES) and regional production tax (IRAP) purposes, was modified and allowed in the amount of 10% in 2018 with the remaining 90% to be deducted over the nine subsequent tax periods.

Deferred taxes derecognised during the year, amounting to €145,813 thousand, consisted, in addition to the use/release of tax provisions, mainly of the measurement of loans to which the purchase price had been allocated.

11.4 Changes in deferred tax assets pursuant to Law No. 214/2011

	Total 31.12.2018	Total 31/12/2017 restated
1. Opening balance	1,817,819	1,956,572
2. Increases	147	161,217
3. Decreases	(12,978)	(299,970)
3.1 Reversals of temporary differences	-	(12,238)
3.2 Transformation in tax credits	(12,978)	(287,732)
a) resulting from losses for the year	(3,080)	(247,540)
b) resulting from tax losses	(9,898)	(40,192)
3.3 Other decreases	-	-
4. Final balance	1,804,988	1,817,819

11.5 Changes in deferred tax assets (balancing entry in the income statement)

	Total 31.12.2018	Total 31/12/2017 restated
1. Opening balance	131,673	104,761
2. Increases	3,849	70,748
2.1 Deferred tax liabilities arising during the year	2,893	11,316
a) relating to previous years	-	54
b) due to changes in accounting principles	-	-
c) other	2,893	11,262
2.2 New taxes or increases in tax rates	-	29
2.3 Other increases	956	59,403
3. Decreases	(13,766)	(43,835)
3.1 Deferred tax liabilities derecognised during the year	(13,766)	(33,164)
a) reversals of temporary differences	(13,737)	(31,075)
b) due to changes in accounting policies	-	-
c) other	(29)	(2,089)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	(10,671)
4. Final balance	121,756	131,674

11.6 Changes in deferred tax assets (balancing entry in equity)

	Total 31.12.2018	Total 31/12/2017 restated
1. Opening balance	67,592	99,995
2. Increases	103,522	71,834
2.1 Deferred tax assets arising during the year	103,519	33,050
a) relating to previous years	-	2
b) due to changes in accounting policies	-	-
c) other	103,519	33,048
2.2 New taxes or increases in tax rates	-	84
2.3 Other increases	3	38,700
3. Decreases	(27,674)	(38,374)
3.1 Deferred tax assets derecognised during the year	(19,016)	(36,901)
a) reversals of temporary differences	(19,005)	(36,894)
b) impairment losses on non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	(11)	(7)
3.2 Reductions in tax rates	-	(114)
3.3 Other decreases	(8,658)	(1,359)
4. Final balance	143,440	133,455

11.7 Changes in deferred tax liabilities (balancing entry in equity)

	Total 31.12.2018	Total 31.12.2017 restated
1. Opening balance	40,588	68,288
2. Increases	218	14,110
2.1 Deferred tax liabilities arising during the year	30	12,070
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	30	12,070
2.2 New taxes or increases in tax rates	-	1,024
2.3 Other increases	188	1,016
3. Decreases	(30,577)	(59,240)
3.1 Deferred tax liabilities derecognised during the year	(26,655)	(32,312)
a) reversals of temporary differences	(26,655)	(32,308)
b) due to changes in accounting policies	-	-
c) other	-	(4)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(3,922)	(26,928)
4. Final balance	10,229	23,158

11.8 Other information

Finally, taxes of €2,683 thousand in respect of dividends that will be paid by subsidiaries in 2018 have been recognised within deferred tax liabilities with the balancing entry in the income statement (€2,424 thousand as at 31st December 2017).

Probability test on deferred taxes

As reported in Part A – Accounting Policies in these notes to the financial statements – the recognition of deferred tax liabilities and assets is performed in compliance with the criteria set out in IAS 12, as follows:

- with account taken of all taxable temporary differences, for deferred tax liabilities, except in some specific cases;
- with account taken of all taxable temporary differences, for deferred tax assets, if it is probable that future taxable income will be earned, against which the temporary difference may be used. The effects, amongst other things, of article 117 *et seq* of the Consolidated Income Tax Law (Tax Consolidation) are taken into consideration in the calculation of taxable income.

As is known, tax assets are measured on the basis of the tax rates that it is expected will apply in the year in which the tax asset will be realised. These assets are tested periodically to measure the degree of recoverability and to verify the level of the rates applicable as well as the obligation to measure assets not recognised or derecognised because they did not satisfy the requirements in prior years (“reassessment”).

In this respect, as already reported, the 2016 *Legge di stabilità* (“stability law” – annual finance law) introduced an IRES surtax as of 2017 for credit institutions with a rate of 3.5% which, limited to the banking sector only, therefore determines a total rate for IRES in future years of 27.5%.

As at 31st December 2018 deferred tax assets recognised within the item “140 Tax assets b) deferred” totalled €2,833.8 million and were generated by the following:

- excess of impairment losses recognised on loans pursuant to Art. 106, paragraph 3 of the Consolidated Income Tax Law: €765.6 million;
- goodwill and other intangible assets, subject, amongst other things, to tax relief in accordance with the law, for which the amortisation is deductible in subsequent years: €1,039.5 million, with regard to the amounts reported in both the separate and the consolidated financial statements (article 15 paragraph 10 *bis* of Decree Law No. 185/2008 introduced by Decree Law No. 98/2011 converted by Law No. 111/2011);
- impairment losses on the FVOCI securities portfolio, deduction of the reserve for First-Time Adoption of IFRS 9 for expected credit losses on loans and advances to customers, provisions and expenses not deductible for accrual reasons in accordance with Consolidated Income Tax Law amounting to €683.5 million.
- tax losses accrued in prior years relating to the UBI Group tax consolidation amounting to €345.3 million.

When the probability test was carried out on deferred tax assets recognised in the balance sheet as at 31st December 2018, those resulting from deductible temporary differences relating to write-downs and losses on loans and advances to customers, goodwill and other indefinite useful life intangible assets (known as “qualified deferred tax assets”) amounting to €1,805 million were considered separately.

Since the tax year ended 31st December 2011, it has in fact been possible to convert into tax credits deferred tax assets (IRES –corporate income tax) recognised in the balance sheet against tax losses resulting from the deferred deduction of temporary differences relating to impairment losses on loans to customers and on goodwill (Art. 2, paragraph 56-*bis*, Decree Law No. 225 of 29th December 2010, introduced by Art. 9, Decree Law No. 201 of 6th December 2011). A similar conversion has been allowed with effect from the tax year 2013, if an IRAP (regional production tax) return declares a net negative value for production, relating to the deferred tax assets for IRAP which relate to the aforementioned temporary differences that led to the determination of a net negative value for production (Art. 2, paragraph 56-*bis* 1, Decree Law No. 225 of 29th December 2010, introduced by Law No. 147/2013). These conversion hypotheses – which are in addition to that already provided where an individual balance sheet records a loss for the year (Art. 2, paragraphs 55 and 56, Decree Law No. 225/2010, as last amended by Law No. 147/2013) – have introduced an additional and supplementary procedure for recovery designed to ensure the recovery of the deferred tax assets in question in all situations, independently of the future profits of a company.

The convertibility of deferred tax assets on IRES tax losses and on a net negative value of production for IRAP purposes which are determined by qualified temporary differences therefore amount to a sufficient condition for the recognition of the aforementioned deferred tax assets in the balance sheet which makes the relative probability test obsolete. This approach is also confirmed in a joint document No. 5 issued by the Bank of Italy, the Consob (securities market authority) and Isvap (insurance authority) on 15th May 2012 (issued in respect of a co-ordination committee on the application of the IFRS) relating to the tax accounting treatment for tax assets resulting from law No. 214/2011 and in the subsequent IAS Italian Banking Association document No. 112 of 31st May 2012 (“Tax credit resulting from the transformation of deferred tax assets: Bank of Italy, Consob and ISVAP clarifications on the application of IFRS”).

On the basis of those assumptions, UBI Banca has carried out the following tests:

- identification of deferred tax assets, other than those relating to write-downs and losses on loans, goodwill and other indefinite useful life intangible assets (“non-qualified deferred tax assets”) recognised in the balance sheet amounting to €1,028.8 million;
- analysis of those non-qualified deferred tax assets separately distinguishing them as follows:
- those which depend on future profits and arise from temporary differences (“residual non-qualified deferred tax assets”) which, at the time when the deferred taxation is recognised, are distinguished by probable type and timing of use;
- those which depend on future profitability, but do not arise from temporary differences (“deferred tax assets arising from IRES tax losses”);
- forecasts of future income designed to verify its capacity to absorb deferred tax assets specified in the preceding points.

Whether they are recognised is in fact strictly dependent on the Group’s ability to generate future taxable income to absorb them, with account taken, with regard to IRES tax losses, that current tax law allows them to be carried forward with no limit on time (Art. 84, paragraph 1 of the Consolidated Income Tax Law).

The analysis carried out shows that with regard to IRES, the forecasts for future consolidated profits for the period 2019-2023 are such as to allow future taxable income for IRES purposes to fully recover the residual deferred tax assets.

As concerns deferred tax assets relating to tax losses that can be carried forward but are not yet recognised in the balance sheet, the amount relating to the Group is €550 million. In this respect, as already reported, in accordance with IAS 12, whether these deferred tax assets can be recognised is strictly dependent on the Group’s ability to generate sufficient future taxable income to absorb them, over the time frame considered, in compliance with the policies pursued by the UBI Group.

In the case in question, we report that following the probability test carried out as at 31st December 2018, the UBI Group considered it advisable not to recognise any benefit on the above amount (which concerns the deferred tax assets relating to the tax losses of the three banks acquired) while account is taken of the fact that the necessary conditions for their recognition will manifest in future.

It is nevertheless underlined that the possibility of recognising these amounts in future years remains if the necessary conditions set by IAS 12 and the policies pursued by the UBI Group in this respect are satisfied.

SECTION 12 Non-current assets and liabilities and groups of assets and the associated liabilities held for disposal – Asset item 120 and Liability item 70

12.1 Non current assets and disposal groups held for sale: composition by type of asset

	Total 31/12/2018	Total 31/12/2017 restated
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	609	614
A.3 Property, plant and equipment	2,363	348
of which: obtained through the enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	2,972	962
of which measured at cost	2,972	962
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. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated as at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 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 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 discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 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	-	-

12.2 Other information

Nothing to report.

SECTION 13 Other assets - Item 130

13.1 Other assets: composition

Description/Amounts	Total 31.12.2018	Total 31/12/2017 restated
Balance of illiquid portfolio items	-	178,500
VAT tax credits and payments on account	3,398	2,489
Payments on account for stamp duty on banking documents and deeds	318,587	232,604
Tax credits on withholding tax	664	4,010
Items in transit	238,215	352,892
Debtor items in transit not yet posted to destination accounts	374,786	334,735
Bills, securities, coupons and fees to be debited to customers and correspondents	108,066	82,385
Cheques drawn on the bank	-	9,233
Improvements to third party leased assets	35,564	28,452
Accrued income not attributed to specific items	15,040	14,564
Prepaid expenses not attributed to specific items	42,504	23,066
Sundry debtor items	141,893	188,129
Total	1,278,717	1,451,059

LIABILITIES

SECTION 1 Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: composition by type of amounts due to banks

Type of transaction/Amounts	Total 31.12.2018				Total 31/12/2017 restated			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	12,380,250	X	X	X	12,428,723	X	X	X
2. Due to banks	4,854,329	X	X	X	4,304,283	X	X	X
2.1 Current accounts and sight deposits	715,782	X	X	X	1,023,954	X	X	X
2.2 Term deposits	84,618	X	X	X	62,532	X	X	X
2.3 Financing	3,998,518	X	X	X	3,156,438	X	X	X
2.3.1 Repurchase agreements	2,460,728	X	X	X	1,665,484	X	X	X
2.3.2 Other	1,537,790	X	X	X	1,490,954	X	X	X
2.4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	55,411	X	X	X	61,359	X	X	X
Total	17,234,579	-	-	17,064,259	16,733,006	-	-	16,808,680

Item 1 “Due to central banks” reports the carrying amount for non-conventional refinancing operations with the ECB, TLTRO IIs, for a nominal amount of €12.5 billion.

Item “2.3.2 Financing other” consists almost entirely of outstanding transactions with the European Investment Bank (EIB), i.e. medium to long-term funding transactions with the EIB designed to support SMEs.

1.2 Financial liabilities measured at amortised cost: composition by type of amounts due to customers

Type of transaction/Amounts	Total 31.12.2018				Total 31/12/2017 restated			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	65,887,975	X	X	X	64,258,153	X	X	X
2. Term deposits	977,078	X	X	X	2,364,594	X	X	X
3. Financing	513,092	X	X	X	513,627	X	X	X
3.1 Repurchase agreements	239,639	X	X	X	167,157	X	X	X
3.2 Other	273,453	X	X	X	346,470	X	X	X
4. Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	1,043,242	X	X	X	1,298,453	X	X	X
Total	68,421,387	-	-	68,409,267	68,434,827	-	-	68,449,661

Item “2. Term deposits”, originated almost entirely by the New Banks, is reducing progressively as these are no longer subject to renewal on maturity;

Item “3.1 Repurchase agreements” is comprised mainly of repos with *Cassa di Compensazione e Garanzia* (a central counterparty clearing house). Repurchase agreements with customers are essentially attributable to business with institutional counterparties of the Parent and have non-Italian government bonds as their underlying.

Item “3.2 Financing liabilities – other” includes approximately €260 million made available to the Group by the *Cassa Deposito e Prestiti* (CDP – state controlled fund and deposit institution) as part of intervention to support SMEs.

1.3 Financial liabilities at amortised cost: composition by type of debt securities issued

Type of security / Amounts	Total 31.12.2018				Total 31/12/2017 restated			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	23,422,397	17,096,164	6,067,370	20,260	24,865,262	15,287,729	10,042,696	18,367
1.1 structured	2,943,357	2,090,203	760,812	18,553	3,923,231	2,394,436	1,566,979	17,285
1.2 other	20,479,040	15,005,961	5,306,558	1,707	20,942,031	12,893,293	8,475,717	1,082
2. Other securities	367,301	-	367,301	-	1,149,681	-	1,145,403	5,065
2.1 structured	-	-	-	-	-	-	-	-
2.2 Other	367,301	-	367,301	-	1,149,681	-	1,145,403	5,065
Total	23,789,698	17,096,164	6,434,671	20,260	26,014,943	15,287,729	11,188,099	23,432

As at 31st December 2018 bonds issued as part of covered bond operations amounted to €11 billion.

Bond issues consisting of issues on the EMTN market totalled €3.7 billion.

1.4 Details of subordinated debt/securities

Description /Amount	31.12.2018	31.12.2017 restated
Subordinated securities issued	2,420,271	2,994,437

A list of the individual bond issues is given in the table on the following page.

1.5 Details of structured debts

No structured debts have been recognised.

1.6 Leasing debts

No leasing debts have been recognised.

Subordinated securities

ISSUER			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	
						31.12.2018	31.12.2017
UNIONE DI BANCHE ITALIANE	1	2011/2018 - mixed rate ISIN IT0004767742 - Currency euro Listed on MOT (electronic bond market)	Quarterly fixed rate 6.25% until 2014 and subsequently floating Euribor 3M + 1% .	18-11-2018		-	2 22,339
	2	2016/2026 - floating rate ISIN XS1404902535 - Currency euro - EMTN	Annual fixed rate 4.25% until 2021; subsequently floating rate swaps 5Y + 4.182% .	05-05-2026	Repaid in a single payment on maturity	750,000	7 50,000
	3	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% .	13-03-2019	from 13-03-2014	370,000	3 70,000
	4	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% .	30-06-2019	from 30-06-2014	365,000	3 65,000
	5	2011/2018 - fixed rate ISIN IT0004718489 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 5.50% .	16-06-2018	Redemption by fixed rate annual amortisation schedule from 16-06-2014	-	80,000
	6	2011/2018 - fixed rate ISIN IT0004723489 Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 5.40%	30-06-2018	Redemption by fixed rate annual amortisation schedule from 30-06-2014	-	80,000
	7	2012/2019 - fixed rate ISIN IT0004842370 - Currency euro Listed on MOT (electronic bond market) (*)	Half year fixed rate 6%	08-10-2019	Redemption by fixed rate annual amortisation schedule from 08-10-2015	194,091	3 88,183
	8	2012/2019 - mixed rate ISIN IT0004841778 - Currency euro Listed on MOT (electronic bond market)	Quarterly fixed rate 7.25% until 2014 and subsequently floating Euribor 3M + 5%	08-10-2019		200,000	2 00,000
	9	2017/2027 - mixed rate ISIN Number XS1580469895 - Currency euro - EMTN	Annual fixed rate 4.45% until 2022; subsequently floating rate EU SA 5 + 4.24% .	15-09-2027	Repaid in a single payment on maturity unless an early redemption option is exercised on 15/09/2022	500,000	5 00,000
Bancassurance Popolari	10	2014/2019 - fixed rate ISIN Number IT0005055436 Currency euro	Annual fixed rate 6.50%	29-09-2019	Repaid in a single payment on maturity	3,150	3,150
	11	2014/2019 - fixed rate ISIN Number IT0005072324 Currency euro	Annual fixed rate 6.50%	30-12-2019	Repaid in a single payment on maturity	1,700	1,700
						2,383,941	2,960,372

(*) The security in question is not eligible for inclusion in the regulatory capital due to contract clauses concerning the security itself

SECTION 2 Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: composition by type

Type of transaction/Amounts	Total 31.12.2018					Total 31/12/2017 restated				
	NA	Fair value			FV*	NA	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (a)	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives		123	410.823	31	410.977		81	411.524	48	411.653
1.1 for trading	X	123	410.823	31	X	X	81	411.524	48	X
1.2 Connected with fair value options	X	-	-	-	X	X	-	-	-	X
1.3 other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-	-		-	-	-	-
2.1 for trading	X	-	-	-	X	X	-	-	-	X
2.2 connected with fair value options	X	-	-	-	X	X	-	-	-	X
2.3 other	X	-	-	-	X	X	-	-	-	X
Total (b)	X	123	410.823	31	X	X	81	411.524	48	X
Total (A+B)	X	123	410.823	31	X	X	81	411.524	48	X

NA = nominal or notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV* = Fair value calculated excluding changes in value due to changes in the creditworthiness of the issuer since the issue date

Financial derivatives (level two) relate mainly to OTC transactions connected with trading activity and were composed mainly of interest rate swaps for approximately €369 million, forwards for approximately €33 million, options for approximately €7 million and swaps on commodities for approximately €4 million.

The changes should be interpreted in relation to the corresponding item recognised within financial assets held for trading.

2.2 Details of “Financial liabilities held for trading”: subordinated liabilities

No subordinated financial liabilities held for trading have been recognised.

2.3 Details of “Financial liabilities held for trading”: structured debt

No structured debt financial liabilities held for trading have been recognised.

SECTION 3 Financial liabilities designated at fair value – Item 30

3.1 Financial assets designated at fair value: composition by type

Type of transaction/Amounts	Total 31.12.2018					Total 31/12/2017 restated				
	NA	Fair value			FV*	NA	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- loan commitments	-	X	X	X	X	-	X	X	X	X
- financial guarantees granted	-	X	X	X	X	-	X	X	X	X
2. Due to customers	105.836	-	105.836	-	105.836	43.021	-	43.021	-	43.021
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	105.836	-	105.836	-	X	43.021	-	43.021	-	X
of which:										
- loan commitments	-	X	X	X	X	-	X	X	X	X
- financial guarantees granted	-	X	X	X	X	-	X	X	X	X
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Strutturati	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	105.836	-	105.836	-	105.836	43.021	-	43.021	-	43.021

NA = nominal or notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV* = Fair value calculated excluding changes in value due to changes in the creditworthiness of the issuer since the issue date

3.2 Details of “Financial liabilities designated at fair value”: subordinated liabilities

No items of this type exist for the UBI Banca Group.

SECTION 4 Hedging derivatives – Item 40

4.1 Hedging derivatives: composition by type of hedge and by level

	31.12.2018				31/12/2017 restated			
	NA	Fair value			NA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives	18,866,020	-	110,801	-	11,053,513	-	100,590	-
1. Fair value	18,866,020	-	110,801	-	11,036,554	-	99,464	-
2. Cash flow	-	-	-	-	16,959	-	1,126	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flow	-	-	-	-	-	-	-	-
Total	18,866,020	-	110,801	-	11,053,513	-	100,590	-

NA = nominal or notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial derivatives consist mainly of interest rate hedges of the interest rate swap type on financial assets measured at fair value through other comprehensive income and at amortised cost as well as on financial liabilities.

4.2 Hedging derivatives: composition by portfolios hedged and type of hedge

Transactions /Type of hedging	Fair Value							Cash flow	
	Specific						Macro-hedge	Specific	Macro-hedge
	Debt securities and interest rates	Equity securities and share indices	Currencies and gold	Credit	Commodities	Other			
1. Financial assets measured at fair value through other comprehensive income	56,321	-	-	-	X	X	X	-	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X
3. Portfolio	X	X	X	X	X	X	42,405	X	-
4. Other transactions	-	-	-	-	-	-	X	-	X
Total assets	56,321	-	-	-	-	-	42,405	-	-
1. Financial liabilities	12,075	X	-	-	-	-	X	-	X
2. Portfolio	X	X	X	X	X	X	-	X	-
Total liabilities	12,075	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-

SECTION 5 Fair value change in macro-hedged financial liabilities – Item 50

5.1 Fair value change in hedged liabilities

Fair value change in hedged liabilities/Components of the group	Total 31.12.2018	Total 31/12/2017 restated
1. Positive changes in financial liabilities	74,297	-
2. Negative changes in financial liabilities	-	-
Total	74,297	-

SECTION 6 Tax liabilities – Item 60

Details of tax liabilities are reported in Assets Section 11.

SECTION 7 Liabilities associated with assets held for disposal – Item 70

See Assets Section 12 for details

SECTION 8 Other liabilities – Item 80

8.1 Other liabilities: composition

Description / Amounts	Total 31.12.2018	Total 31/12/2017 restated
Balance of illiquid portfolio items	668,995	-
Credit items in transit in departments or branches pending posting to accounts	607,581	847,864
Sums available to customers and banks for transactions in the course of payment	7,831	16,069
Items payable to tax authorities on behalf of third parties	30,378	32,319
Items in transit	57,106	128,143
Tax withheld on income paid to third parties	187,276	118,014
Indirect taxes payable	41,697	29,611
Social security contributions for third parties in the course of payment	944	1,030
Dividends and sums due to shareholders	343	290
Amounts due to staff pension funds, inclusive of accessory costs	23,752	30,087
Accrued expenses not attributed to specific items	16,091	8,960
Deferred income not attributed to specific items	26,910	31,199
Payables for educational, cultural, charitable and social purposes	2,184	4,720
Debt for post-employment benefit/welfare schemes	23	240
Doubtful overall outcomes on guarantees granted and commitments	-	-
Due to personnel	503,687	586,333
Residual creditor items	918,143	859,865
Total	3,092,941	2,694,744

SECTION 9 Post-employment benefits – Item 90

9.1 Annual changes in post-employment benefits

	Total 31.12.2018	Total 31/12/2017 restated
A. Opening balances	350,779	332,006
B. Increases	2,925	88,827
B.1 Allocation for the year	580	1,667
B.2 Other changes	2,345	87,160
C. Decreases	(47,007)	(70,054)
C.1 Payments made	(43,503)	(61,506)
C.2 Other changes	(3,504)	(8,548)
D. Final balances	306,697	350,779

“Part A – Accounting policies - Section 16 – Other information” gives further details on the accounting policies pursued.

9.2 Other information

The demographic and actuarial hypotheses adopted to measure the post-employment benefit provision as at 31/12/2018	
Mortality rate	2017 SIM (Italian male statistics) and SIF (Italian female statistics) tables (Italian National Office of Statistics data) were used.
Post-employment benefit advances	The probability of advance payments, calculated on the basis of historical data for the Group, is 2% while the average amount requested is between 45% and 100% of the available provision.
Inflation rates	Long-term forecasts of the scenario for inflation led to the use of a rate of 1.5%.
Discount rates	A discount rate of 1.03%, was used, calculated as the weighted average of the EUR Composite AA curve as at 31.12.2018, using, as weights, the ratios between the amount paid and advanced for each maturity date and the total amount to be paid and advanced until the extinction of the population considered. This was performed because IAS 19 states that reference should be made to the market yields of "high quality corporate bonds", or to yields on securities with a low credit risk. By making reference to the definition of "investment grade" securities, where a security qualifies for that classification if its rating is equal to or higher than BBB for S&P or Baa2 for Moodys, it was decided to consider only securities issued by corporate issuers with a class "AA" rating with the assumption that this class identifies an average level for "investment grade" securities and thereby excludes higher risk securities. Since IAS 19 makes no explicit reference to a specific market sector for the bonds, it was decided to opt for a "composite" market curve which therefore summarises the prevailing market conditions on the valuation date for securities issued by companies belonging to different sectors, including utilities, telephone, financial, banking and industrial sectors. The Euro area was used for the geographical area.

The demographic and actuarial hypotheses adopted to measure the post-employment benefit provision as at 31/12/2017	
Mortality rate	2016 SIM (Italian male statistics) and SIF (Italian female statistics) tables (Italian National Office of Statistics data) were used.
Post-employment benefit advances	The probability of advance payments, calculated on the basis of historical data for the Group, is 2% while the average amount requested is between 45% and 100% of the available provision.
Inflation rates	Long-term forecasts of the scenario for inflation led to the use of a rate of 1.5%.
Discount rates	A discount rate of 1.0783%, was used, calculated as the weighted average of the EUR Composite AA curve as at 31.12.2017, using, as weights, the ratios between the amount paid and advanced for each maturity date and the total amount to be paid and advanced until the extinction of the population considered. This was performed because IAS 19 states that reference should be made to the market yields of "high quality corporate bonds", or to yields on securities with a low credit risk. By making reference to the definition of "investment grade" securities, where a security qualifies for that classification if its rating is equal to or higher than BBB for S&P or Baa2 for Moodys, it was decided to consider only securities issued by corporate issuers with a class "AA" rating with the assumption that this class identifies an average level for "investment grade" securities and thereby excludes higher risk securities. Since IAS 19 makes no explicit reference to a specific market sector for the bonds, it was decided to opt for a "composite" market curve which therefore summarises the prevailing market conditions on the valuation date for securities issued by companies belonging to different sectors, including utilities, telephone, financial, banking and industrial sectors. The Euro area was used for the geographical area.

SECTION 10 Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: composition

Items/Components	Total 31.12.2018	Total 31/12/2017 restated
1. Provisions for credit risk relating to commitments and guarantees granted	64,410	47,344
2. Provisions on other commitments and guarantees granted	-	-
3. Company pension funds	91,932	137,213
4. Other provisions for risks and charges	348,849	399,052
4.1 litigation and tax	117,826	117,111
4.2 staff costs	62,963	80,562
4.3 other	168,060	201,379
Total	505,191	583,609

Provisions for risks and charges for litigation mainly concern disputes over compounding of interest and investment services provided.

Provisions for staff costs consist mainly of provisions for incentive schemes, company bonuses and trade union agreements, for liabilities that are still of uncertain amount and for the best estimates of redundancy incentive expenses.

The amount as at 31st September 2017 indicated in item 1 represents the credit risk associated with commitments and guarantees granted. It was recognised within the item “Other liabilities” and has now been reclassified into the item “Provisions for risks and charges” in compliance with the 5th update of Bank of Italy Circular No. 262.

10.2 Provisions for risks and charges: annual changes

	Provisions for commitments and other guarantees granted	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	-	137,213	399,052	536,265
B. Increases	-	2,460	105,342	107,802
B.1 Allocation for the year	-	1,530	99,876	101,406
B.2 Changes due to passage of time	-	920	179	1,099
B.3 Changes due to changes in discount rate	-	-	125	125
B.4 Other changes	-	10	5,162	5,172
C. Decreases	-	(47,741)	(155,545)	(203,286)
C.1 Use for the year	-	(11,156)	(93,239)	(104,395)
C.2 Changes due to changes in discount rate	-	-	-	-
C.3 Other changes	-	(36,585)	(62,306)	(98,891)
D. Final balances	-	91,932	348,849	440,781

10.3 Provisions for credit risk relating to commitments and guarantees granted

	Provisions for credit risk relating to commitments and guarantees granted			
	Stage one	Stage two	Stage three	Total
Loan commitments	7,912	3,080	53	11,045
Financial guarantees granted	16,812	8,830	27,723	53,365
Total	24,724	11,910	27,776	64,410

10.4 Provisions for other commitments and other guarantees granted

No items of this type exist for the UBI Banca Group.

10.5 Defined benefit company pension funds

As concerns defined benefit company pension funds the entry on the balance sheet is composed of defined benefit obligations subject to periodic actuarial measurement in accordance with the applicable sector regulations in force, the rules laid down in the relative company regulations and the provisions of IAS 19.

The following demographic assumptions, valid for all the funds described below, were assumed:

- for the annual probabilities of death of pensioners and their surviving spouses and close family members, SI 2017 tables were used, modified to take account of the link with the progressive increase in life expectation;
- for the annual probabilities of death of personnel in service, where these cases occur, the SI 2017 tables were used, separately by gender and appropriately modified to take account of the historical mortality data for UBI Group employees in service, and of data for larger similar groups;
- for the probabilities of leaving a family, those adopted in the INPS (national insurance institute) model, separately by gender;
- account was taken of the latest legislation for the maximum retirement age.

A detailed description is given below of the funds of which the item is composed. The following is given: movements occurring during the year; the specific economic and financial hypotheses for each one; the duration in years, and that is the average financial life as at the date of the measurement of future cash flows; sensitivity analysis of the DBO, which is to say the value of the liability obtained with shifts of plus or minus 50 bps in the hypothesised discount rate and inflation rate used for measurement purposes.

10.5.1 Description of the funds

		Former Banca Regionale Europea Spa		former CARIME Spa			former Banca Adriatica Spa								
	former Centrobanca	former B.M.L.	former C.R.C.	former CARICAL	former CARIPUGLIA	former CARISAL	former Banca Ca.Ri.Ma. (1)	former Banca Ca.Ri.Ma. transferred to former Se.Ri.Ma. (2) (tax collection business)	former Mediocredito Fondiario Centro Italia (3)	former C.R. Pesaro (4)	former C.R. Jesi (5)	former C.R. Pesaro transferred to former SE.R.I.T. (6) (tax collection business)	former CARILO	ex TEATINA	Total
A. Opening balances	974	9.802	11.571	32.921	9.015	628	16.711	410	2.463	8.288	7.836	279	872	35.443	137.213
B. Increases	9	157	134	263	72	5	137	3	20	78	64	3	7	20	972
B.1 Interest expense	9	116	134	263	72	5	137	3	20	68	64	3	7	20	921
B.2 Actuarial losses	-	-	-	-	-	-	-	-	-	10	-	-	-	-	10
B.3 Provisions	-	41	-	-	-	-	-	-	-	-	-	-	-	-	41
B.4 Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which business combination transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Decreases	(97)	(1.677)	(1.456)	(4.263)	(1.029)	(71)	(2.108)	(70)	(264)	(787)	(992)	(123)	(94)	(33.222)	(46.253)
C.1 Benefits paid	(63)	(532)	(1.017)	(3.232)	(884)	(66)	(1.578)	(36)	(230)	(787)	(783)	(24)	(92)	(261)	(9.585)
C.2 Actuarial gains	(34)	(1.145)	(439)	(1.031)	(145)	(5)	(530)	(34)	(34)	-	(209)	(99)	(2)	(7)	(3.714)
C.3 Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	(32.954)	(32.954)
D. Final balances	886	8.282	10.249	28.921	8.058	562	14.740	343	2.219	7.579	6.908	159	785	2.241	91.932

(*) For the funds labelled 1), 3), 4) and 5) investments were made in securities, liquidity and real estate properties, financed entirely from the Bank's own capital. The fund labelled 2) is governed by the regulations for the "Fund to supplement payments from the pension fund for office employees of direct tax collection and payment service providers pursuant to Law No. 377 of 2.4.1958, and subsequent amendments". Since the tax collection service was transferred on 1st January 1990 to the former Banca Se.Ri.Ma, now Equitalia, from the former Banca Ca.Ri.Ma., as a result of trade union and similar agreements the bank agreed to pay an amount equal to that portion of the supplementary pensions attributable to it relating to the period of service provided to the former Banca Ca.Ri.Ma. by employees of the former Se.Ri.Ma., currently retired pensioners. The fund labelled 6) relates to liabilities of the Bank for years of service provided to the former Cassa di Risparmio di Pesaro by employees in the tax collection sector, currently receiving a pension, as a result of agreements entered into as of 1st January 1990 when the tax collection service was transferred to Serit Spa.

Former Centrobanca

This is a supplementary pension fund for the staff of the company Centrobanca (Banca Centrale di Credito Popolare Spa) in which there are now seven remaining pensioners participating.

The fund provides the following types of direct pension benefits:

- a direct supplementary pension for old-age and length of service at the time when requirements for access to benefits paid by INPS (national insurance Institute) are met and provided the participant has participated in the fund for at least 15 years;
- a direct supplementary pension for invalidity at the time when requirements for access to benefits paid by INPS (national insurance Institute) are met and provided the participant has participated in the fund for at least five years.

Description of the main actuarial assumptions

	former Centrobanca	
a) Annual discount rate (*)	1.07%	
b) Annual pension revaluation rate	1.20%	
c) Inflation rate	1.50%	
d) Expected rate of wage increase	n.a.	
Direct pensioners	7	
Indirect pensioners	-	
In service and redundant	n.a.	
Total	7	
Average financial duration (in years)	9.55	
Sensitivity analysis on the DBO:	+0,50%	-0,50%
Discount rate	847,857	927,279
inflation rate	920,444	853,500

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

UBI BANCA SPA (former BANCA REGIONALE EUROPEA Spa)

As at 31.12.2018 a fund existed to supplement compulsory invalidity, old-age and survivors insurance for the staff of Banca Regionale Europea (merged with effect from November 2016), originally from the former Banca del Monte di Lombardia and from the former Cassa di Risparmio di Cuneo.

The fund pays the following pension benefits as a direct pension for:

- old-age, when the participants have reached the age limits set in the contracts in force at the time, provided that they have participated in the fund for at least 15 years;
- length of service, when the participants have reached the minimum age limits set in the contracts in force at the time;
- invalidity when, having obtained recognition of the condition of invalidity and whatever the age, a length of service of at least five years has been served, or whatever the length of service, if the invalidity is permanent and caused by work.

Furthermore, survivors of participants receive an 'indirect pension' if a participant dies while in service after one year of participation in the fund or after any period if death was caused

by work and a surviving dependent's pension if a participant dies, provided a direct pension has been paid.

Description of the main actuarial assumptions

	former B.M.L.	former C.R.C.
a) Annual discount rate (*)	1.23%	1.23%
b) Annual pension revaluation rate	1.20%	1.20%
c) Inflation rate	1.50%	1.50%
d) Expected rate of wage increase	3.00%	3.00%
Direct pensioners	33	31
Indirect pensioners	21	39
In service and redundant	17	n.a.
Total	71	70
Average financial duration (in years)	9.64	9.42
Sensitivity analysis on the DBO:	+0,50%	-0,50%
Discount rate	7,768,155	8,859,063
Inflation rate	8,682,727	7,907,117

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

UBI BANCA Spa (former CARIME Spa)

As a result of the merger by incorporation of Banca Carime Spa (with legal effect from February 2017), the following funds were acquired by UBI Banca:

1. the fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio di Calabria e Lucania (Registration No. 9059 in the Pension Fund Register);
2. the fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio di Puglia (Reg. No. 9124 in the Pension Fund Register);
3. The fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio Salernitana (Reg. No. 9053 in the Pension Fund Register).

The funds pay the following pension benefits as a direct pension for:

- old-age, when the participants have reached 60 years of age if men and 55 years of age if women, provided that they have provided at least 15 years of service;
- length of service, when the participants have provided 35 years of service if men, or 30 years, if women, independently of their age;
- invalidity at any age when permanently and completely unable to work through disability and participating in the fund (in addition, for the fund of the former Cassa di Risparmio di Puglia the invalidity must be caused by work and for the fund of the former Cassa di Risparmio Salernitana participation for at least 5 years is required).

Furthermore, survivors of participants receive an 'indirect pension' if a participant dies while in service and a surviving dependent's pension if a participant dies, provided a direct pension has been paid.

Description of the main actuarial assumptions

	former CARICAL		former CARIPUGLIA		former CARISAL	
a) Annual discount rate (*)	0.94%		0.94%		0.94%	
b) Annual pension revaluation rate	1.20%		1.20%		1.20%	
c) Inflation rate	1.50%		1.50%		1.50%	
d) Expected rate of wage increase	n.a.		n.a.		n.a.	
Direct pensioners	112		36		3	
Indirect pensioners	139		39		3	
In service and redundant	n.a.		n.a.		n.a.	
Total	251		75		6	
Average financial duration (in years)	8.91		8.01		7.10	
Sensitivity analysis on the DBO:	+0,50%	-0,50%	+0,50%	-0,50%	+0,50%	-0,50%
Discount rate	27,761,158	30,179,018	7,769,424	8,367,631	544,803	581,346
Inflation rate	29,971,619	27,928,714	8,318,797	7,809,684	578,544	547,159

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

UBI BANCA Spa (former Banca Adriatica Spa)

As at 31.12.2018 six types of defined benefit pension schemes existed following the merger by incorporation of Banca Adriatica Spa (with legal effect from October 2017):

1. Pension fund for staff belonging to the credit sector of the former Cassa di Risparmio di Macerata Spa (former Banca Ca.Ri.Ma);
2. pension fund for the former employees of Banca Ca.Ri.Ma transferred to Se.Ri.Ma. (now Equitalia Servizi di Riscossione Spa.);
3. Pension fund for the staff of the former Mediocredito Fondiario Centro Italia Spa;
4. Pension fund for the staff of the tax collection service of the former Cassa di Risparmio di Pesaro;
5. Pension fund for the staff of the former Cassa di Risparmio di Jesi;
6. Pension fund for the staff of the tax collection service of the former Cassa di Risparmio di Pesaro transferred to the former SE.RI.T. Spa.

The purpose of the aforementioned funds is to ensure that the participants receive benefits to supplement the pensions paid by the “invalidity, old-age and survivors insurance” managed by INPS (national insurance institute) in the amount and according to the procedures set by the individual sets of regulations.

Description of the main actuarial assumptions

	former Banca Ca.Ri.Ma.	former Banca Ca.Ri.Ma. transferred to former Se.Ri.Ma. (tax collection business)	former Mediocredito Fondiario Centrale Italia	former C.R. Pesaro	former C.R. Jesi	former C.R. Pesaro transferred to former SE.Ri.T. (tax collection business)
a) Annual discount rate (*)	0.96%	0.96%	0.96%	0.96%	0.96%	0.96%
b) Annual pension revaluation rate	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
c) Inflation rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
d) Expected rate of wage increase	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Direct pensioners	85	3	14	78	40	-
Indirect pensioners	136	5	4	54	49	5
In service and redundant	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	221	8	18	132	89	5
Average financial duration (in years)	9.41	7.41	7.70	8.75	8.51	7.51
Sensitivity analysis on the DBO:	+0,50%	-0,50%	+0,50%	-0,50%	+0,50%	-0,50%
Discount rate	14,114,461	15,422,972	455,804	487,910	2,142,528	2,299,980
Inflation rate	15,308,179	14,206,139	485,403	457,915	2,287,419	2,152,992
	7,848,647	7,323,842	7,146,278	6,682,303	163,468	154,080

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

UBI BANCA Spa (former Cassa di Risparmio di Loreto Spa)

This is a supplementary pension fund regulated by the Company Agreement of 1st July 1974 and subsequent amendments and additions and by the applicable regulations for the sector in force. The purpose of the fund is to ensure that the participants, or those holding their rights, receive benefits to supplement the pensions paid from time to time, and for any reason, by INPS (national insurance institute).

The aforementioned agreement is an integral part of the regulations for the “Cassa Di Risparmio di Loreto Pension Fund” (version dated 5th September 2013) which contains two sections:

- Section I which represents a portion of the fund reserved for the payment of defined benefits of a supplementary nature compatible with the provisions of the applicable laws in force;
- Section II which operates under a defined contribution individual capitalisation regime for personnel in service on 1st January 1997 or subsequently appointed.

The fund provides the following types of direct pension benefits:

- a direct supplementary pension for old-age when the participant has reached 60 years of age, if a man, or 55 years of age if a woman, and provided they have given at least 15 years of service;
- a direct supplementary pension for length of service when the participant has provided 35 years of service if a man, or 30 years if a woman, independently of their age.

The information reported below relates solely to pension costs determined under a defined benefit regime.

With regard to the defined contribution section, since no legal or substantial guarantees exist regarding the return of the capital and/or other returns to the beneficiaries, the capital of the fund is not recognised in any way on the balance sheet of the Bank, whose sole obligation consists of paying defined contributions to the separate capital on a contractual basis.

Description of the main actuarial assumptions

	former CARILO	
a) Annual discount rate (*)	0.96%	
b) Annual pension revaluation rate	1.20%	
c) Inflation rate	1.50%	
d) Expected rate of wage increase	n.a.	
Direct pensioners	5	
Indirect pensioners	4	
In service and redundant	n.a.	
Total	9	
Average financial duration (in years)	7.47	
Sensitivity analysis on the DBO:	+0,50%	-0,50%
Discount rate	758,981	812,789
Inflation rate	808,549	762,503

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

Banca Teatina Spa

As at 31.12.2018 a pension fund existed with no legal personality with separate and independent capital.

Until 31.12.1998 the fund was exclusively of a supplementary pension nature (Section 1); subsequently it was transformed into a defined contribution fund (Section 2). That transformation involved the following:

- for personnel already retired as at 31.12.1998, the maintenance of the supplementary pension benefits by carving out a portion of the mathematical reserves existing as at that date;
- for personnel already participating in the fund as at 27.04.1993, the transformation of the “supplementary treatment” into “complementary treatment” by dividing up the remaining portion of the mathematical reserve existing as at 31.12.1998, which constitutes the initial endowment of each participant and is funded by a further contribution from both the company and the worker;
- for personnel appointed subsequent to 27.04.1993, the formation of a complementary fund with equal contributions from the company and personnel in accordance with the provisions of Legislative Decree No. 124/93.

With regard to Section 1, only 26 former Carichiati Spa pensioners now remain as participants in the fund (of which 11 direct).

Section 1 of the fund regards employees who retired up until 31.12.1998. The fund pays the following benefits:

- 1) a direct pension to the participant;
- 2) an indirect pension to survivors of the participant;
- 3) a survivor's pension for survivors of a deceased participant after retirement.

In accordance with Art. 11, the fund pays pension benefits that are supplementary to amounts paid by INPS (national insurance institute) as a direct old-age, length of service or invalidity pension when, having obtained recognition of the condition of invalidity and whatever the age, a length of service of at least five years has been served, or whatever the length of service, if the invalidity is permanent and caused by work.

Furthermore, in accordance with Art. 16, survivors of participants receive an 'indirect pension' if a participant dies while in service after five years of participation in the fund or after any period if death was caused by work, or a surviving dependent's pension if a participant dies.

With regard to Section 2, in view of the way in which this works there is no additional cost over and above the payment of the contractually agreed contributions.

Description of the main actuarial assumptions

	Banca Teatina	
a) Annual discount rate (*)	0.91%	
b) Annual pension revaluation rate	1.20%	
c) Inflation rate	1.50%	
d) Expected rate of wage increase	n.a.	
Direct pensioners	11	
Indirect pensioners	15	
In service and redundant	n.a.	
Total	26	
Average financial duration (in years)	8.63	
Sensitivity analysis on the DBO:	+0,50%	-0,50%
Discount rate	2,154,718	2,335,714
Inflation rate	2,320,201	2,167,035

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 20.12.2018.

10.5.3 Description of the funds

No "plan assets" exist which meet the requirements of IAS 19. That standard states that this must be assets held by an entity that is legally separate from the reporting entity. Since there are no "plan assets" and because the actuarial gains and losses are recognised entirely in the year in which they occur, the current value of the funds is the same as the liabilities recognised in the balance sheet.

10.6 Provisions for risks and charges – other provisions

	Total 31.12.2018	Total 31/12/2017 restated
1. Provision for revocation (clawback) risks	20,176	12,849
2. Provision for bonds and default	2,220	5,526
3. Other provisions for risks and charges	145,664	183,004
Total	168,060	201,379

10.7 Contingent liabilities

	Total 31.12.2018	Total 31/12/2017 restated
for personnel litigation	-	480
for revocation (clawback) risks	8,566	8,566
for compounding of interest	-	-
for claim risks	-	-
for tax litigation	140,157	140,372
for other litigation	910,531	411,489
- former New Banks	307,980	-
- former Stand-Alone UBI Banca Group	602,551	411,489
Total	1,059,254	560,907

The liabilities regulated by IAS 37, characterised by the absence of certainty over the timing or the amount of future expense required to settle presumed liabilities, can be classified as being of the following types:

- probable liabilities;
- contingent liabilities (possible or remote).

The correct identification of the nature of liabilities is of fundamental importance because it determines whether or not the risk deriving from an obligation must be recognised in the financial statements.

The recognition of a provision for risks and charges represents a probable liability of uncertain timing or amount¹ and the amount recognised represents the best estimate of the expenditure required to settle the obligation existing as at the reporting date and reflects the risks and uncertainties that inevitably characterise a number of different facts and circumstances.

The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is significant.

Future events that might affect the amount required to settle the obligation are only taken into consideration if there is sufficient objective evidence that they will occur.

The measurement of provisions is periodically reviewed to verify that they are reasonable.

The general and theoretical legal parameters which govern the process of determining the present value of provisions, which is performed for each single case of litigation and for the relative residual life, are given below:

- **type/nature of the litigation**, to be assessed in the light of the legal claims formulated by the counterparty. Various “macro-families” are identifiable in this respect such as corporate litigation, labour law cases, financial intermediation litigation, litigation generically definable as compensation for damages (resulting from non-performance of contract obligations, illegal actions, violation of regulations) etc.;

- **degree of “innovation” in the litigation**, to be assessed by considering whether the issues turn on matters already known and “weighed” by the Bank or on completely new

¹ Details of the criteria for recognising provisions are given in Part A.2 of the notes to the financial statements “The main items in the financial statements”, sub-section 12 “Provisions for risks and charges”, which may be consulted.

matters which therefore require study (e.g. resulting from a change in the legislation or in legal orientations);

- **degree of strategic importance of the litigation:** for commercial reasons the Group might for example decide to end a case very rapidly even if it had grounds for defence that would allow it to resist in court for a long time;
- **average length of litigation**, to be weighted taking account of geographical factors, which is to say the location of the jurisdiction in which the case is tried and the state of progress of the trial. In this respect a decision must be taken on the source of the statistics from which data is obtained and assistance can be obtained from the lawyers who represent the Bank in litigation and who have direct knowledge of the jurisdictions concerned for each case;
- **the “nature” of the counterparty** (e.g. a private individual or a legal entity, a professional operator or not, a consumer or not, etc.).

A contingent liability is defined as:

- a possible obligation, the result of past events, the existence of which will only be confirmed by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
- a present obligation that is the result of past events, but which is not recognised in the accounts because:
 - it is improbable that financial resources will be needed to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the accounts, but if they are considered “possible”, they are reported only. On the other hand, in compliance with IAS 37, contingent liabilities that are considered remote require no disclosure.

As occurs for amounts relating to provisions (for probable liabilities), the amounts for contingent liabilities are also subject to periodic verification because it is possible that events may occur which make them remote or probable with the possible need, in the latter case, to make a provision for them in the financial statements.

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

The Group is party to a number of legal proceedings arising from the ordinary performance of its business. In order to meet the claims received, appropriate provisions have been made on the basis of a reconstruction 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 on the matters in question. 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.

Significant litigation (claims of greater than or equal to €5 million) for which the **probable risk** has been estimated by Group companies are as follows:

1. 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;
2. a claim for a refund of payments due to the alleged breaching, by UBI Banca (former Banca Adriatica) of the usury rate limit, as well as for damages against a pool of banks (including Banca Adriatica) for alleged violation of agreements contained in the Interbank Convention connected with the plaintiff company's debt repayment plan pursuant to article 67 of the Bankruptcy Law. Judgement is currently reserved pending preliminary objections²;
3. an action 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 first instance court case is ongoing;
4. a claim for damages against UBI Leasing, brought by a client company, for alleged contract breaches by UBI Leasing itself, along with erroneous reports to the Centrale Rischi (central credit register);
5. a claim for the reimbursement of amounts paid as contributions by a public body to UBI Leasing, on the basis of a transfer of credit by the leasing user that was returned to the client upon verification of correct payment of the lease instalments.

Significant litigation (claims of greater than or equal to €5 million) for which a [possible risk](#) (or [contingent liability](#)) has been estimated by Group 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 government subsidies, pursuant to Law No. 46/1982, 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) has 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 in addition to a claim for consequent damages 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

² For this dispute, the 18th January 2017 agreement between UBI Banca and the National Resolution Fund is applicable, given that the case concerns the operations of the New Banks prior to the acquisition. As already reported, the contract for the acquisition of the New Banks contained determined declarations, guarantees and releases from liability provided by the seller (the National Resolution Fund) in favour of UBI Banca [the guarantees and releases from liability related also to the period prior to the formation of the "Bridge Entities" (23rd November 2015) and they therefore also cover liabilities that may have originated from activities carried out by the banks (i.e. the "Old Banks"), before they were subject to resolution procedures] which regarded, amongst other things, relations with REV Gestioni Crediti Spa and with the Atlante Fund II [as the transferors of the loans and receivables of those banks classified as bad and unlikely-to-pay (disposals of loans took place "without recourse" and therefore the seller assumed all the risks and rewards of the loans sold, IAS 39 – Derecognition)], regarding risks of a legal nature or risks in general relating to existing or threatened legal action, which is to say regarding violations of the law and any contingent liabilities.

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. The case is currently at the preliminary stage. The next hearing, as per the former article 184 of the Italian Code for Civil Proceedings, will take place on 19th February 2019.

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 filed a defence in both actions before the Council of State in order to be able to also file a defence before the Constitutional Court, which in fact occurred in April 2017. The President of the Court set 20th March 2018 as the date for the hearing to debate the case, on the conclusion of which the court threw out the question of legitimacy raised by the Council of State on its merits. The court first confirmed that the conditions of necessity and urgency in accordance with the decree law existed. Furthermore, the legislation appealed against, which in implementation of European legislation on capital requirements allows banks to set limits on redemptions in the event of a shareholder’s withdrawal, did not harm the right of ownership. The regulatory powers conferred on the Bank of Italy fall within the limits permitted by the constitution. The case continued before the Council of State and following a discussion hearing held on 19th October 2018, the Council ruled and deemed that it should pass the case to the Court of Justice pursuant to Art. 267 of the Treaty on the functioning of the European Union in relation to five “questions” posed by the appellants.

- 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. A court-appointed expert has reduced the potential damages caused by the delayed bankruptcy declaration from the original €150 million claimed by the official receiver to around €3-4

million. Because the Bank has raised a plea to compensate by means of a portion of its admitted claim of €12 million as creditor, the lawyer appointed for this case does not foresee a need to recognise specific provisions. The next hearing, for final pleadings, is scheduled for May 2019;

- claim for damages against UBI Banca, originating from the former Banca Popolare di Ancona, relating to alleged irregularities in the credit granting process. The receiver of the bankrupt company appealed against a ruling of the court of first instance in favour of the Bank;
- an action brought against UBI Banca (former Banca Popolare di Ancona) by a bankrupt shipping company claiming alleged damages caused by the official receiver of the company acting together with former Banca Popolare di Ancona (and with all the other banks operating in the financial centre against which similar actions have been brought). This case regards the issue of the debt securities which had the appearance of bonds issued by the shipping company but which on the contrary had no legal connection 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. 46/1982 processed by a third party bank belonging to its “RTI” (temporary grouping of companies);
- a case originating with the former Banca Carime for contractual and other liabilities resulting from the revocation of credit facilities. The ruling in favour of UBI Banca in the court of first instance was appealed against by the claimants. The appeal proceedings are currently in progress. The case has been adjourned until a hearing set for 25th June 2019 for final pleadings;
- claim for damages, brought within a bankruptcy case, relating to the Bank’s role in financing a public tender offer. The operation contested in the summons is the same that had been contested in two previous compensation actions³ started in 2011 by official receivers on behalf of another two companies belonging to the same group as the current claimant and which had been abandoned in 2016 by the official receivers of the claimants;
- legal action brought by a beneficiary of public subsidies (the Region of Campania Programme Contract) in relation to which UBI Banca (replacing the former Centrobanca in arrangements the latter had entered into with authorities to manage formalities connected with processing subsidy applications) has been summoned jointly and severally with those concessionary authorities in its capacity as the ‘concessionary bank’ appointed by those authorities, before the Civil Court of Rome, for the annulment of a ministry order revoking subsidies granted (this order had been issued as a result of our proposal, because the company in question had rented out its business, in violation of what is expressly stipulated in the relevant regulations) and for the full reinstatement of the subsidies;
- a dispute concerning contractual and non contractual liability action, deriving from the non-disbursement (by UBI Banca to a now-bankrupt company) of several instalments of a land mortgage for a “Stato Avanzamento Lavori (SAL)”. Over the course of this case, the claim has increased owing to the voluntary intervention of three shareholders, who are protesting against the non-repayment of several loans granted to the same company following that company’s bankruptcy. On 26th June 2018, a hearing was held for the questioning of witnesses. The outcome of this hearing – in keeping with the Bank’s

³ These disputes, related to companies of the Burani Group, have been covered in detailed disclosures in the financial statements for previous years (from 2011 to 2016).

request and disregarding the other party's request for the court to appoint an expert – the judge has scheduled a hearing for final pleadings for 22nd October 2019;

- dispute regarding the cancellation of current account credit lines and subsequent disposal of pledged securities, an action which was carried out to offset debt exposures in the current account that had arisen as a result of intense trading in shares (especially foreign stocks) between 1999 and 2002, by means themselves the subject of a dispute;
- 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 November 2017 a ruling was made by the Court of Trani rejecting the claims of the claimant and ordering the counterparty to pay costs. The ruling was notified to the counterparty in order to impose short time limits for an appeal. The case was appealed on 9th January 2018. The case has been adjourned until 13th March 2020 for final pleadings;
- claim for damages, brought by the receiver of a bankrupt company, for alleged fraudulent lending by the Bank and consequent exacerbation of its debt position. The first hearing is expected to take place in late February 2019;
- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche Spa in an equity offering to increase the share capital. The case is currently at the preliminary stage⁴;
- claim for damages against UBI Banca (former Banca Adriatica) arising from the loss of value of the ownership stake held, by the Foundation, in Cassa di Risparmio di Loreto Spa. The case is currently at the preliminary stage⁴;
- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche Spa in an equity offering to increase the share capital. The case is currently at the preliminary stage⁴;
- writ of summons brought by a guarantor against UBI Banca (former Banca Adriatica), in which the guarantor made a preliminary request, by decree pursuant to former article 700 of the Code for Civil Proceedings, to immediately cancel a report to the CRIF, nullify the classification of the debt position as non-performing and, above all, the voiding of the guarantee, due to a violation of the principles of integrity and good faith by the Bank. The case is currently at the judgement stage⁴;
- writ of summons brought by a guarantor against UBI Banca (former Banca Adriatica), in which the guarantor requests that fiduciary guarantees granted by the Bank be declared null and void, due to the failure to establish a maximum amount guaranteed pursuant to article 1938 of the Civil Code. The case is currently at the judgement stage⁴;
- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche Spa in an equity offering to increase the share capital. The case is currently at the preliminary stage⁵;
- claim for damages against UBI Banca (former Banca Adriatica) resulting from alleged illegitimate and negligent conduct over time by the Bank regarding matters related to a land mortgage disbursed to SAL. The case is currently at the preliminary stage⁵;
- claim for damages against UBI Banca (former Banca Adriatica) for alleged usury interest rates charged in current accounts⁵;

⁴ See note 2.

- claim for damages against UBI Banca (former Banca Adriatica) for supposed illegitimacy and invalidity of usury and compounding of interest clauses, and for alleged illegitimate and inappropriate conduct by the Bank in managing the contractual relationship⁵;
- claim for damages against UBI Banca (former Banca Adriatica) and consequent request for contract terminations due to the Bank's alleged failure to fulfil its tender contract obligations on six leases of buildings under construction⁵;
- summons, served by the receivership of a bankrupt company, against UBI Banca (traced back to the former Medioleasing Spa, a company that was merged into Nuova Banca Marche), to declare null and void a contract under which, in 2009, that company sold Medioleasing Spa a building in the context of a sale and lease back operation (with a building yet to be constructed) and to consequently return the building itself to the receivership, along with its present and future returns and revenue⁵.

UBI Leasing

- legal action to challenge a settlement that seeks to resolve a dispute over the ownership of leased assets;
- legal action brought by the receivership of a bankrupt company that was a user and supplier of UBI Leasing, seeking payment from UBI Leasing of amounts withheld as a security deposit in relation to the execution of works under a tender contract to build a property that was the subject of a lease.

UBI Factor

- legal proceedings with a local health authority relating to receivables collected following an injunction of 2001 (this injunction is temporarily executive). Subsequently, in a partial ruling the Court of Appeal repealed the injunction, giving rise to the risk of having to return the amount collected arose. After a Supreme Court of Cassation ruling in 2015 (upheld further by the 30th January 2017 ruling by the Rome Court of Appeal, in which the judgement was summarised), the risk of potential losses was reduced to the difference between the amount of interest collected and the amount calculated by applying the legal interest rate. In rulings in May and June 2018, the Supreme Court of Cassation then rejected the two appeals over resolving the interest amount; as such, it will be quantified as per the original Court of Appeal judgement. At the same time, one of the two Supreme Court rulings was appealed against, as the preconditions were met. Upon conclusion of the two cases, any amount not recognised could be recovered by the transferor.

* * *

With respect to the information reported in the previous Notes to the Financial Statements in the 2017 financial statement, we highlight that the following *significant legal disputes have come to a conclusion*:

- a summons served on UBI Banca (former Banca Carime) to claim back payments made for compounding of interest, interest, charges, remunerations and costs not agreed. A ruling was issued on 29th July 2017, notified on 30th September 2017, throwing out the claims ordering the claimant to pay costs;
- bankruptcy clawback action against UBI Banca (former Banca Popolare Commercio e Industria), brought by FDG Spa, was closed with a Supreme Court of Cassation ruling in the Bank's favour;

⁵ See note 2.

- a case brought against UBI Banca involving a claim for damages for contractual liability, resulting from withdrawal from a contract concerning the development of software. A ruling was issued against the Bank as jointly liable with another bank summoned for an amount less than the existing provision made. This position has been closed following the verdict;
- “revocation” bankruptcy clawback actions against UBI Banca (former Banca Popolare di Ancona), brought by Napoli Calcio Spa;
- arbitration award relating to arbitration proceedings initiated by a company operating in the naval sector involving a dispute over a derivatives transaction concluded with UBI Banca (former Banco di Brescia), with a claim for the restitution of both the negative differentials paid by the customer and the ‘implicit costs’. The award, issued on 21st May 2018, was partially against UBI Banca, ordering the Bank to pay 11.6 million dollars plus fees. The award was appealed and the case was registered on the general trial list of the Brescia Court of Appeal. On 6th December 2018, however, the dispute was settled through a payment to the company of 9 million dollars (€7.9 million), plus 50% of the arbitration registration tax, equal to €158,000.

* * *

- Also with respect to information reported in the 2017 financial statement, we highlight the reclassification as a *remote risk* of a claim for damages against UBI Banca (former Cassa di Risparmio di Loreto Spa and former Banca Popolare di Ancona Spa) for alleged illegitimate, null and void clauses on the compounding of interest, maximum overdraft charges and usury, for illicit reports of unauthorised overdrafts made by the Bank, as well as for failure to act in good faith in preliminary negotiations and negotiations for the granting of credit⁶.

* * *

To complete the information we report the following:

- with a provision dated 15th May 2017 the Autorità Garante della Concorrenza e del Mercato (AGCM – Italian Competition Authority) ruled that no penalties should be imposed on the Italian Banking Association and 11 Banks (including UBI Banca) involved in the origination and definition of an interbank agreement for the service named “Sepa-compliant Electronic Database Alignment” (SEDA)⁷ service, due to the non-serious nature of the violation relating to a presumed agreement restricting competition. This was also in view of the regulatory and economic framework in which the conduct occurred (see previous financial reports for greater details on the proceedings). The final provision of the proceedings ruled that the parties involved should in any event cease their current conduct, abstain in future from similar conduct and present a special report to give an account of the measures adopted by 1st January 2018.
Compliance with the provision was ensured by revising the interbank agreement in question and making changes to the general contract and the remuneration provided for in it, in order to change to a different system, previously already agreed upon with the AGCM, based on the application of multilateral interchange fees (MIF) linked to costs.
Implementation of the new general contract, co-ordinated by the Italian Banking Association, which supervised the various stages with its circulars, involved the implementation of a set of changes to the structure of the contracts and to the software apps, and this required, amongst other things, the termination of all existing contracts and the need for the banks that held contractual agreements for the delivery of the beneficiary side of the SEDA service (i.e. the alignment PSP) to sign new contracts with customers who wanted to continue to use the service under the new conditions. The new contract came into force on 1st January 2018.
All the activities carried out were promptly reported to the AGCM in a report prepared by the Italian Banking Association, to which UBI Banca adhered.

⁶ See note 2.

⁷ SEDA 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.

On 10th August UBI Banca received an official notification from the AGCM to confirm that the procedures put in place by the Italian Banking Association and by the banks involved are considered by the authority to be compliant with the measures indicated in the final provision, although it reserves the right to monitor the correct implementation of the new model in the future.

As already reported, UBI Banca appealed against the provision of 15th May 2017 before the administrative courts, disputing the entire basis of the existence of an agreement to restrict competition. A date has not yet been set at present for the hearing to debate the case before the TAR (regional administrative tribunal) of Latium.

- the Bank did not comply with the unfavourable decisions made by the Arbitrator for Financial Disputes on appeals brought by former Banca delle Marche shareholders, as the reasoning provided by the Arbitrator, with reference to Legislative Decree No. 180/2015 and subsequent Bank of Italy provisions issued on 22nd November 2015, according to which the Bank's capacity to be a defendant in these proceedings does exist, is irreconcilable with the Bank's lack of alternative remedies permitted under the regulations governing the arbitration procedure. This non-compliance is thus the only option consistent with the defence position taken by the Bank, including in a court setting. The Bank's argument for non-compliance was elucidated to the Arbitrator and to the Consob in a specific letter, which among other things stressed that the utmost consideration has been given to the work performed by the Arbitrator for Financial Disputes. Meanwhile, the administrative fees charged to the Bank in relation to the proceedings have been paid;
- over the course of 2018, the AGCM commenced fact-finding proceedings vis-à-vis UBI Banca (among others) to verify potential violations of the Consumer Code in terms of unfair commercial practices in the sale of diamonds by third-party companies through the banking channel. During its discussions with the AGCM, the Bank illustrated its proper conduct in the matter, submitting a proposal to the aforementioned authority, in the spirit of full and active cooperation, to make commitments to further strengthen its (already present) control procedures with regard to the operations in question and its level of transparency of information provided to customers. With a provision notified on 12th October 2018, the AGCM announced that it had accepted these commitments and concluded the fact-finding proceedings with no violations having been ascertained.

Anti money-laundering notifications

In 2018, the UBI Banca Group was served with ten "written notifications of findings" for failure to report suspect transactions in accordance with articles 35 and 56 of the Anti-Money Laundering Law.

Details are provided below of both the new AML positions and pre-existing ones for which updates took place during the year.

1) New positions

- notification served by the Guardia di Finanza (Finance Police) of Brescia to a branch manager of the former Banca Popolare Commercio e Industria for failure to report transactions involving credit transfers received from abroad totalling €954,000. The notification also cites failure to fulfil customer due diligence obligations and delays in obtaining information to determine if a person is 'politically exposed'. The Guardia di Finanza has deferred to the Ministry of Economy and Finance (MEF) to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;
- notification served by the Guardia di Finanza of Brescia to a branch manager of the former Banca Popolare di Ancona for failure to report transactions involving cash deposits totalling €26,195,570 by a banking counterpart. The Guardia di Finanza has deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;
- notifications served by the Guardia di Finanza of Brescia to three managers in office at a branch of the former Banca Regionale Europea for failure to report transactions involving credit transfers received from abroad totalling €675,000. The Guardia di Finanza has

deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;

- notification served by the Guardia di Finanza of Brescia to a Large Corporate Accounts Manager at the former Banco di Brescia for failure to report a transaction involving a credit transfer received from abroad in the amount of €5,252,115. The Guardia di Finanza has deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;
- notification served by the Guardia di Finanza of Brescia to two managers in charge at a branch of the former Banca Regionale Europea for failure to report suspect transactions involving domestic credit transfers totalling €2,688,043. The Guardia di Finanza has deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;
- notification served by the Guardia di Finanza of Ancona to an IW Bank manager for failure to report suspect transactions in the amount of €42,030. The Guardia di Finanza has deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits;
- notification served by the Guardia di Finanza of Brescia to the Head of a Macro Geographical Area at UBI Factor Spa for failure to report a suspect factoring transaction in the amount of €46,716,867. The Guardia di Finanza has deferred to the MEF to determine the penalty. The relevant defence documents were submitted to the MEF within the established time limits.

2) Updates to pre-existing positions

- a fine of €100,000 imposed in 2014 (contested in 2010) notified to a former branch manager of the former Banca Popolare di Ancona, regarding transactions totalling €1 million, for which an adverse ruling was made in the court of first instance in October 2016. It was possible to lodge an appeal until April 2017. An application to suspend the fine in appeal was declared inadmissible because the court considered that the harmful effect was attributable to the decision for which suspension had not been ruled possible in the court of first instance and not to the ruling appealed against. Payment of the fine was made in August 2017;
- in January 2018, with ruling no. 313/2018, the Court of Appeal of Rome rejected an appeal, thus finding the manager and the Bank jointly and severally liable to pay the expenses to the MEF. On 1/10/2018, within the legal time limit, an appeal was filed to the Court of Cassation;
- a fine of €110,000 imposed in 2012 (on charges dating back to 2007), notified to a branch manager of the former Banca Popolare di Ancona, regarding transactions totalling €1,000,000, for which the first instance ruling went against the MEF. An appeal was submitted in June 2015, which was rejected, after which a cancellation of the initial fine imposed by the Court of Macerata was requested. In January 2016, the MEF appealed to the Court of Cassation. In June 2016, the reimbursement of legal fees related to the first and second instance rulings in UBI Banca's favour was received from the MEF. The Court of Cassation, with ruling no. 9520/18 on 18th April 2018, annulled the Ancona Court of Appeal ruling, referring the case back to the Ancona Court of Appeal, with a different composition, including to establish the expenses related to the present ruling. The case has thus resumed at the Court of Appeal with jurisdiction, and the first hearing is scheduled for 5/2/2019;
- a fine of €70,000 imposed in 2013 on the Bank jointly and severally (on charges dating back to 2008 for which the relevant employee was fined €120,000), notified to a branch manager of the former Banca Carime, regarding transactions totalling €1,200,000, against which an appeal was filed to the first instance court in 2013, which was rejected in 2015. An appeal to the appellate court was then filed and in 2016 a suspension request was rejected and the court was adjourned until final pleadings on 24/10/2018. This case is therefore awaiting the ruling;

- a fine of €205,000 imposed in 2014 on the Bank jointly and severally (on charges dating back to 2010), notified to a branch manager of the former Banca Popolare di Ancona, regarding transactions totalling €2,200,000, against which an appeal has been filed to the Court of Appeal. In 2016, a suspension request was rejected, and hence the payment was made to the MEF. The hearing to debate the case was set for 11/12/2018 and has since been postponed until 19/5/2020;
- a fine of €57,000 imposed in 2016 on the Bank jointly and severally (on charges dating back to 2011), notified to a branch manager of the former Banco di Brescia, regarding transactions totalling €566,000. Following an appeal filed in February 2018, the fine was reduced to €11,320 and paid on 27/3/2018. On 23/5/2018, an appellate court appeal was nevertheless submitted.
- a fine of €36,000 imposed in 2017 on the Bank jointly and severally (on charges dating back to 2015), notified to a branch manager of the former Banca Popolare di Ancona, regarding transactions totalling €360,000, against which an appeal was filed. The hearing was initially scheduled for 12/2/2018 but has been postponed until 3/12/2019.

Also, given that five years have passed since the relative notification dates, the following proceedings, for which defence documents in response to the MEF's claims were drafted and sent within the established time limits, can be considered expired:

- notification served by the Guardia di Finanza on 9th April 2013 to a branch manager and on the following 12th April to UBI Banca Spa, for failure to report suspect transactions in the amount of around €3,000,000;
- notification served by the Guardia di Finanza on 10th April 2013 to a branch manager and on the following 13th April to UBI Banca Spa, for failure to report a suspect transaction in the amount of around €240,000;
- notification served by the Guardia di Finanza on 18th October 2013 to a branch manager and to UBI Banca Spa, for failure to report a suspect transaction in the amount of around €130,000.

As regards the remaining 37 pre-existing positions, no noteworthy events occurred during the year.

Finally, concerning the status of anti-money laundering notifications relating to the former 'New Banks', we report that in one case, the Bank's appeal was partly accepted during the year, with the fine reduced from €797,427 to €40,000. We await a potential challenge from the MEF against this decision in the first half of 2019.

Due to five years having passed since the notification date, two alleged violations notified to two employees for failure to report suspect transactions totalling €220,000 can be considered expired.

For the remaining 11 positions relating to the former 'New Banks', no noteworthy events occurred during the year.

Over the course of 2018, the UBI Banca Group received 15 formal notifications for non-compliance with the provisions of Title III of amended Legislative Decree No. 231/2007, for which the total maximum fine is €260,000. Nine of those notifications have been settled by means of payments in exchange for the cancellation of any criminal charges, while for four others, defence documents have been submitted.

Concerning the status of notifications served to the former 'New Banks', we report that no notifications were received in 2018 of alleged infractions or violations of these regulations.

Tax litigation

Tax inspections and other investigative activities

On 29th May 2017 the Central Assessment Department of the Revenue Agency commenced a general tax inspection into UBI Banca Spa regarding the tax year 2014. This inspection, some aspects of which were later extended to tax year 2013, concluded on 12th October 2018 with an assessment report stating the probable subsequent issue of a notice of assessment containing a single finding related to transborder transactions with subsidiaries (i.e., transfer pricing operations).

In the Revenue Agency's opinion, UBI Banca Spa did not adhere to market standards when measuring commissions charged to subsidiary UBI Banca International as compensation for the guarantee issued on a portion of financing disbursed in excess of the 25% Luxembourg regulatory capital level.

UBI Banca Spa considered it best to resolve the dispute via a tax assessment mutual consent process rather than initiate tax litigation. Consequently, on 21st December, UBI Banca paid the additional taxes claimed by the Revenue Agency (about €748,000 in corporate income tax and €152,000 in regional production tax, plus legal interest). The affair has therefore been concluded.

On 6th December 2017 the Arezzo Police Tax Unit of the *Guardia di Finanza* (finance police) commenced a general tax inspection into Oro Italia Trading Spa in liquidation for the tax years 2013, 2014 and 2015. The inspection was concluded on 5th July 2018 with notification of a tax assessment report already forwarded to the Tuscany Regional Department of the tax authorities, responsible for making the necessary checks in preparation for the issue of a possible notice of assessment. An appropriate examination of the matter is currently in progress, while of course the issues in question nevertheless relate to tax years prior to the period when the former Banca Popolare dell'Etruria and Lazio Società cooperativa were placed in extraordinary administration and were subsequently subject to a resolution procedure and therefore these matters are regulated by the contractual agreements for the acquisition of the New Banks.

Assessment notices

UBI BANCA SPA (FOR ITSELF AND FOR THE MERGED BANCA CARIME AND BPB IMMOBILIARE): THE CONTRIBUTION OF IMMOBILIARE SERICO

This is litigation brought by companies in UBI Banca Group (UBI Banca Spa for itself and for the merged Banca Carime and BPB Immobiliare) against action taken by the tax authorities designed to reclassify operations to contribute lines of property business carried out in 2003 to the company Immobiliare Serico as the disposal of real estate properties.

The reclassification carried out by the tax authorities resulted in a demand for additional IRPEG (former corporate income tax) and VAT and the relative fines totalling €82.8 million. The actions brought by companies in the UBI Banca Group were successful before the courts of both first and second instance, but going through the State Attorney the tax authorities appealed the rulings made before the court of second instance to the Supreme Court of Cassation. All the Group companies officially filed applications to appear and the dates of the relative hearings have not yet been set.

On the basis, amongst other things, of expert opinion received, it is considered that the risk of losing the case is "unlikely", in view also of the favourable rulings before the courts of first and second instance. Finally the amounts paid when provisional demands were made have been fully repaid as result of the successful rulings.

UBI BANCA: 2003 IRPEG (FORMER CORPORATE INCOME TAX)

In November 2011 UBI Banca Spa (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.

UBI Banca Spa was victorious in both the first and second instance rulings. The Revenue Agency, through the State Attorney, presented an appeal to the Supreme Court of Cassation on 8th May 2017 and UBI Banca applied to appear in its defence within the legal time limits. The date for the hearing has not yet been set.

UBI BANCA SPA FOR THE MERGED BANCA POPOLARE COMMERCIO E INDUSTRIA: REFUSE TAX 2014

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. 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 has been adjourned several times in order to allow the parties to arrive at an out-of-court settlement agreement at amounts less than those assessed.

UBI Banca Spa and the City reached an out-of-court settlement on 27th February 2018, which quantified the refuse tax due as amounting to a total of €154 thousand. As a consequence, the Tax Commission of the Province of Milan declared the matter closed with a ruling filed on 16th March 2018.

UBI BANCA SPA: 2014 REFUSE TAX

On 23rd November 2017, the City of Milan served UBI Banca Spa with a notice to pay municipal refuse tax (TARI) for the year 2014 totalling €92 thousand; UBI Banca Spa submitted an appeal on 29th January 2018 to the Tax Commission of the Province of Milan. The hearing to debate the appeal, originally set for 19th June 2018, was postponed to 17th December 2018 to enable the parties to reach an out-of-court settlement. UBI Banca Spa and the City did reach an out-of-court settlement on 3rd December 2018, which quantified the refuse tax due as amounting to a total of €68 thousand. The Tax Commission of the Province of Milan therefore declared at the 17th December 2018 hearing that the matter in dispute was closed. The related ruling is still pending.

UBI BANCA SPA, FORMER BANCA CARIME: IRPEG AND ILOR (FORMER CORPORATION TAX-FORMER LOCAL INCOME TAX) 1996 AND 1997

This litigation regards two notices of tax assessment regarding the claimed usefulness over more than one year of costs incurred in 1996 and 1997 and fully charged to the income statement in those years.

Banca Carime contested these assessment notices and, in 2011, was victorious at the second instance. The Revenue Agency then filed an appeal to the Supreme Court of Cassation and the Bank applied to appear in defence within the legal time limits.

Following the hearing held in chambers on 10th July 2018, with an order lodged on 26th September 2018 the Supreme Court of Cassation ruled in favour of the appeal made by the Revenue Agency and passed the case back to the Regional Tax Commission of Calabria. UBI Banca Spa as the survivor of the merger of Banca Carime, is still within the legal time limits to appear again before that commission.

Because Banca Carime was purchased by Intesa BCI (now Intesa San Paolo Spa) and the tax years assessed are covered by a full contractual guarantee in favour of UBI Banca Spa, no provision was made to cover this litigation.

UBI BANCA SPA, FORMER BANCA POPOLARE DI ANCONA: 2016 REGISTRATION TAX

The Pesaro office of the Revenue Agency notified UBI Banca Spa of the following payment demands:

- in March 2017, for registration tax claimed on a debt restructuring agreement with a corporate client, with the additional tax calculated at €34 thousand;
- in April 2017, for registration tax claimed on a debt restructuring agreement with another corporate client, with the additional tax calculated at €90 thousand.

These same demands were also served in the same period on the merged Banca Adriatica and other banks participating in a debt restructuring agreement as jointly and severally liable with UBI Banca Spa with regard to the tax authorities.

In both cases the Revenue Agency applied registration tax at a rate of 1% on the acknowledgement of the debt as an action listed in the restructuring agreements covered by Art. 182 *bis* of the bankruptcy law.

UBI Banca Spa and the other banks, including Banca Adriatica jointly with the other corporate clients, appealed against the two tax demands before the Tax Commission of the Province of Pesaro within the legal time limits. The relative hearings were held on 6th October 2017. The Tax Commission of the Province of Pesaro rejected the appeals and confirmed the tax claims ordering the appellants to pay costs. Against these rulings, an appeal was submitted to the Marche Regional Tax Commission through applications filed on 19th June 2018.

UBI BANCA SPA: REGISTRATION TAX

On 2nd August 2017 the Bari office of the Revenue Agency served a demand for payment of registration tax for the tax year 2016 on UBI Banca, allegedly due in relation to Centrobanca's (merged into UBI Banca in 2013) acceptance as an official creditor in the bankruptcy case of a customer. The additional taxation was calculated at €84 thousand.

UBI Banca Spa won the first instance case; the Revenue Agency of Bari filed a partial appeal to the Puglia Regional Tax Commission through an application on 9th November 2018, limiting its claim to €36 thousand in additional taxes. UBI Banca Spa applied to appear in defence, submitting its objections to the Regional Tax Commission on 7th January 2019.

Also on the issue of registration tax, during the year UBI Banca Spa filed appeals against undue recovery of taxation on a contract for the disposal of loans carried out for guarantee purposes and on legal documents, for a total amount of around €90 thousand.

UBI BANCA SPA (FORMER BANCA TIRRENICA IN ITS CAPACITY AS THE SURVIVOR OF THE ETRURIA LEASING MERGER): 2010 MORTGAGE TAXES

On 23rd April 2012 the Revenue Agency (Department I of the Province of Rome) served an adjustment and payment notice on the former Etruria Leasing regarding the sales value of a real estate property purchased in 2010 by the leasing company (it assessed a value of €15.6 million compared with a declared value of €3.5 million) and as a result demanded additional mortgage tax of €181 thousand and additional land registration tax of €60 thousand, plus interest and fines.

In view of the adverse result of an application for tax assessment by consent submitted by the seller of the property (jointly liable) in November 2012 the former Etruria Leasing lodged an appeal before the Tax Commission of the Province of Rome, which was upheld in full.

The Revenue Agency appealed that ruling before the Tax Commission of the Region of Latium in 2016 and the then Nuova Banca Popolare dell'Etruria e del Lazio applied to appear at the hearing within the legal time limits. On conclusion of that hearing held on 10th April 2017, with the ruling filed on 14th February 2018, the Regional Tax Commission partially upheld the Revenue Agency's appeal and recalculated the sales value of the property at €9 million.

On 21st August 2018 UBI Banca Spa lodged an appeal before the Supreme Court of Cassation against the judgment of the Regional Tax Commission.

UBI BANCA SPA (FORMER BANCA ADRIATICA IN ITS CAPACITY AS THE SURVIVOR OF THE MEDIOLEASING MERGER): MORTGAGE AND LAND REGISTRATION TAXES, TAX YEAR 2010

On 28th May 2015 Department I of the Province of Rome of the Revenue Agency served a notice of adjustment and demand for payment of mortgage and land registration taxes relating to the purchase of a real estate property, which was then let under a finance lease. The notice of adjustment and demand payment was also served on the seller of the property as jointly liable with the former Medioleasing and which at the time of the sale had issued a full release from liability in favour of the company. The total amount of these mortgage and land registration taxes claimed by the Revenue Agency is €132 thousand plus fines of an equal amount and interest, as the value of the real estate property, which forms the basis for the higher tax demanded, was adjusted from €1.7 million to €6.25 million.

The then Medioleasing challenged this payment demand within the legal time limits before the Tax Commission of the Province of Rome. The latter, in a ruling issued on 28th March 2018, partially accepted the appeal, recalculating the value of the property at €2.5 million. Both the Revenue Agency and the Bank, owing to the partial losses each suffered in the case, appealed in October 2018 to the Lazio Regional Tax Commission. A date for the hearing to debate the case has not yet been set.

UBI BANCA SPA (FORMER BANCA TIRRENICA) AND ORO ITALIA TRADING: 2014 VAT

As part of payment of Group VAT, on 28th December 2015 Nuova Banca dell'Etruria e del Lazio and Oro Italia Trading submitted an application to the Department of the Region of Tuscany of the Revenue Agency for a VAT rebate for the tax year 2014 amounting to approximately €3.2 million, which prudentially had not been deducted due to possible contestations of an alleged "carousel fraud". The Revenue Agency denied the right to the rebate and in April 2016 the two companies appealed to the Tax Commission of the Province of Florence. The hearing, originally set for May 2017, was adjourned with no date set.

UBI LEASING: RESOLUTION OF VARIOUS TAX DISPUTES FOR 2003 (IRPEG, IRAP AND VAT) AND 2004 (IRES AND IRAP)

On 15th December 2008, the Revenue Agency notified UBI Leasing of a tax assessment (no. R0K03T101348/2008) containing findings regarding IRPEG (the former Italian corporate income tax), IRAP (regional production tax) and VAT for tax year 2003, claiming additional taxes due totalling €108 thousand. On 19th December 2008, the Revenue Agency notified UBI Leasing of a further tax assessment (no. R0K03T101416/2008) containing additional findings regarding IRPEG, IRAP and VAT for tax year 2003, claiming additional taxes due totalling €149 thousand plus interest and fines.

These claims are related to invoices issued by two suppliers for transactions that, according to the Revenue Agency, objectively did not take place (specifically, equipment sold several times to several different companies that operate financial leasing businesses). UBI Leasing challenged these notices and won both the first and second instance court cases (the appeals to the two notices were combined into one case beginning with the first instance). In 2013, the Revenue Agency, through the State Attorney, submitted an appeal to the Supreme Court of Cassation. UBI Leasing applied to appear in defence within the legal time limits.

On 13th October 2009, the Revenue Agency notified UBI Leasing of a tax assessment (no. TMB030200259) containing findings regarding IRES (corporate income tax) and IRAP (regional production tax) for tax year 2004. This assessment report essentially concerns non-deductible depreciation and amortisation of long-term costs, provisions for impairment losses on loans implicit in financial leasing contracts (the main finding in numerical terms)

and costs considered non-deductible, amounting to additional taxes due totalling €217 thousand, plus interest and fines.

UBI Leasing accepted some of the findings contained in the assessment notice (for additional IRES and IRAP of around €24 thousand) and challenged the remaining portion of the assessment.

The tax claim was then further reduced during the various instances of judgement, as the Revenue Agency (via its Lombardy Regional Office) dropped its claim on one of the findings in the dispute (for total IRES and IRAP charges of around €35 thousand), thus leaving approximately €158 thousand in IRES and IRAP taxes under dispute.

On 16th January 2019, the UBI Leasing Board of Directors resolved to settle all three of these pending tax disputes with the Supreme Court of Cassation, taking advantage of the so-called *pace fiscale* ("fiscal peace agreement") regulation, by agreeing to pay a sum of less than €20 thousand in accordance with the terms and conditions that will be established under specific implementation provisions to be issued by the Revenue Agency.

IW BANK: FINE FOR PARTIAL NON-PAYMENT OF BALANCE OF WITHHOLDING TAXES ON INTEREST INCOME FOR 2007

In 2010, IW Bank proceeded to remedy its position for partial non-payment of the balance of withholding taxes on customers' interest income from deposits and current accounts paid in 2007. This was accomplished by paying the full amount of withholdings deemed unpaid, plus the related interest, after having submitted corrections to tax returns. IW Bank still expected administrative fines to be issued, given that the time limit to submit a dutiful acknowledgement of taxes owed had lapsed.

In 2011, the Revenue Agency initially imposed an administrative fine for filing inaccurate tax returns for the full amount of the undeclared withholdings (this fine was paid by IW Bank in accordance with the law), and subsequently served a further payment demand for around €624 thousand (30% of the withholdings not paid). IW Bank challenged this payment demand in the courts, and won in both the first and second instance. In 2014, the Revenue Agency filed an appeal to the Supreme Court of Cassation, and IW Bank applied to appear in defence within the legal time limits. A date for the hearing to debate the case has not yet been set.

IW BANK: FINE FOR PARTIAL NON-PAYMENT OF BALANCE ON WITHHOLDING TAXES ON INTEREST INCOME FOR 2007

In May 2011, the Revenue Agency served IW Bank with a payment demand for about €102 thousand, citing an alleged insufficient advance payment of withholding taxes on interest income from deposits and current accounts paid to customers, also imposing a fine of €94 thousand plus collection fees.

The dispute lies in the fact that IW Bank made the advance payment on withholding taxes for an amount equal to 90% of the amount due for the previous tax year, whereas the Revenue Agency contended that the appropriate payment to make was 100% of the amount due for the previous year.

IW Bank challenged this payment demand in the courts, and won in both the first and second instance. In 2014, the Revenue Agency filed an appeal to the Supreme Court of Cassation, and IW Bank applied to appear in defence within the legal time limits. A date for the hearing to debate the case has not yet been set.

SECTION 11 Technical reserves – Item 110

11.1 Technical reserves: composition

This item corresponds to liabilities item C in the balance sheet of an insurance company.

	Direct work	Indirect work	31.12.2018	31/12/2017 restated
A. Non-life business	-	-	-	1.999
A.1 Premium reserves	-	-	-	1.525
A.2 Claims reserves	-	-	-	474
A.3 Other reserves	-	-	-	-
B. Life business	1.877.449	-	1.877.449	1.778.702
B.1 Mathematical reserves	1.863.880	-	1.863.880	1.766.645
B.2 Reserves for sums to be paid	12.865	-	12.865	11.499
B.3 Other reserves	704	-	704	558
C. Technical reserves where the investment risk is borne by the insured	-	-	-	-
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	1.877.449	-	1.877.449	1.780.701

11.2 Technical reserves: annual changes

	31.12.2018
A. Non-life business	
Opening balances	1.999
Business combination transactions	
change in reserves	-1.999
Final holdings	-
B. Life business	
Opening balances	1.778.702
Business combination transactions	
Change due to premiums	73.553
Change due to income and other bonuses paid to policy holders	24.144
Change due to exchange rate differences	
Change in other technical reserves	1.050
Final holdings	1.877.449

SECTION 12 Redeemable shares – Item 130

12.1 Redeemable shares: composition

No shares have been issued with redemption clauses.

SECTION 13 Equity attributable to the Parent – Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Share capital” and “treasury shares”: composition

	31.12.2018	31.12.2017 restated
Number of ordinary shares	1,144,285,146	1,144,285,146
nominal value per share in euro	2.50	2.50
Number of treasury shares	7,861,190	2,984,880
nominal value per share in euro	2.50	2.50

The share capital of UBI Banca Spa as at 31st December 2018 amounted to €2,843,177,160 divided into 1,144,285,146 shares with no nominal value.

13.2 Share capital – Number of shares of the Parent: annual changes

Items/Type	Ordinary	Other
A. Shares existing at the beginning of the year	1,144,285,146	-
- fully paid up	1,144,285,146	-
- not fully paid up	-	-
A.1 Treasury shares (-)	(2,984,880)	-
A.2 Outstanding shares: initial number	1,141,300,266	-
B. Increases	141,031	-
B.1 New issues	-	-
- by payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of Directors	-	-
- other	-	-
B.2 Sale of treasury shares	141,031	-
B.3 Other changes	-	-
C. Decreases	(5,017,341)	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(5,017,341)	-
C.3 Company disposal operations	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	1,136,423,956	-
D.1 Treasury shares (+)	7,861,190	-
D.2 Shares existing at year-end	1,144,285,146	-
- fully paid up	1,144,285,146	-
- not fully paid up	-	-

13.3 Share capital: other information

A total of 141,031 treasury shares were granted during the year, in implementation of “Remuneration and incentive policies for ‘identified staff’”. 5,017,341 treasury shares were also purchased for use in the personnel incentive schemes. For further details see “Part I – Share-based payments”.

13.4 Reserves of profits: other information

Reserves of profits in the consolidated financial statements decreased by €289.2 million. The main causes were due to the allocation of €125.4 million to dividends and to the adoption of IFRS 9 which led to a decrease of €866.9 million. The increases were due to the use of share premiums amounting to €12 million to cover the losses of UBI Banca Spa and to the capitalisation of consolidated profit amounting to €690.6 million.

13.5 Capital instruments: composition and annual changes

Nothing to report.

13.6 Other information

Nothing to report.

SECTION 14 Minority interests – Item 190

14.1 Details of the item 190 “minority interests”

Name of companies	Total 31.12.2018	Total 31/12/2017 restated
Equity investments in consolidated companies with significant minority interests		
1. Pramerica SGR Spa	46,875	66,617
Other equity investments	3,909	13,071
Total	50,784	79,688

14.2 Capital instruments: composition and annual changes

Nothing to report.

OTHER INFORMATION

1. Commitments and financial guarantees granted

Transactions	Nominal value of commitments and financial guarantees granted			Total 31.12.2018	Total 31/12/2017 restated
	Stage one	Stage two	Stage three		
1. Loan commitments	33,856,709	1,756,926	359,398	35,973,033	37,395,625
a) Central banks	-	-	-	-	-
b) Public administrations	2,315,305	560	481	2,316,346	2,005,451
c) Banks	312,533	5,744	-	318,277	553,808
d) Other financial companies	2,004,799	38,337	857	2,043,993	2,373,808
e) Non-financial companies	26,258,292	1,515,935	338,799	28,113,026	29,288,562
f) Households	2,965,780	196,350	19,261	3,181,391	3,173,996
2. Financial guarantees granted	5,108,406	646,103	149,478	5,903,987	5,600,350
a) Central banks	120,000	-	-	120,000	120,000
b) Public administrations	73,213	-	-	73,213	75,705
c) Banks	227,735	53,799	-	281,534	290,017
d) Other financial companies	188,941	115,819	78	304,838	409,456
e) Non-financial companies	4,249,783	335,688	146,011	4,731,482	4,311,109
f) Households	248,734	140,797	3,389	392,920	394,063

2. Other commitments and other guarantees granted

No items of this type exist in the UBI Group.

3. Assets pledged to secure own liabilities and commitments

Portfolios	Nominal amount	
	Total 31.12.2018	Total 31/12/2017 restated
1. Financial assets measured at fair value through profit or loss	7,751	11,854
2. Financial assets measured at fair value through other comprehensive income	10,013,732	8,207,510
3. Financial assets measured at amortised cost	33,961,395	25,473,138
4. Property, plant and equipment	-	-
of which: property, plant and equipment which constitute inventories	-	-
Total	43,982,878	33,692,502

The table summarises assets recognised in the balance sheet pledged by the UBI Group to secure its liabilities.

The amount shown in line item “3. Financial assets measured at amortised cost” includes €15,550.2 million relating to mortgages transferred to the special purpose entity UBI Finance Srl as part of programmes to issue covered bonds and €1,186.9 million relating to mortgages used to back own securitisations.

The above is summarised as follows:

	31.12.2018	31/12/2017 restated
- UBI Banca Spa	-	-
- UBI Finance Srl	15,550,239	14,169,727
- UBI Finance CB2 Srl	-	-
- Own securitisation operations	1,186,852	1,382,161
- Total	16,737,091	15,551,888

The assets reported in the table used to back covered bond operations relate to the UBI Finance programme, for which UBI Banca Spa is the covered bond issuer.

The assets reported that are used to back own securitisations relate to “conventional securitisation” operations, with all or part of the notes sold on the market, where UBI Banca Spa takes the role of the originator following the mergers by incorporation of Banca Tirrenica and Banca Adriatica:

- Mecenate 2007 securitisation: €63.7 million;
- Marche Mutui 2 securitisation: €57.8 million;
- Marche M6 securitisation: €1,065.4 million.

The tables do not include assets to back the UBI Finance CB2 covered bond operation because the relative notes, issued by UBI Banca Spa, have all been repurchased by the issuer and therefore do not appear among liabilities in the balance sheet.

Similarly loans used to back “self-retained securitisations” do not appear in the table where the notes are entirely repurchased by UBI Banca Spa or by Group companies. These consist of the following operations:

- 24-7 Finance securitisation: €881 million of assets transferred against securities issued by 24-7 Finance Srl and entirely retained by UBI Banca;
- UBI SPV Group 2016 securitisation: €2,498 million, against securities issued by UBI SPV Group 2016 Srl and entirely retained by UBI Banca Spa;
- UBI SPV Lease 2016 securitisation: €2,899.5 million, against securities issued by UBI SPV Lease 2016 Srl and subscribed entirely by UBI Leasing Spa.

Reference is made to the special section in these notes for further details on the securitisations and covered bonds mentioned above.

The financial assets contained in the table relate to securities owned, pledged to guarantee liabilities and commitments of the Group as follows:

Portfolios	Guarantees of liabilities or commitments
Financial assets measured at fair value through profit or loss	
	Bank of Italy Advances 3,474
	Mortgages to back covered bonds 156
	Mortgages to guarantee own securitisations 72
	EIB Financing 4,049
	Pension Funds -
	7,751
Financial assets measured at fair value through other comprehensive income	
	Bank of Italy Advances 7,769,348
	EIB Financing 57,876
	Repurchase agreements 2,172,558
	Pension Funds 13,819
	Other transactions 131
	10,013,732
Financial assets at amortised cost - Customers	
	Bank of Italy Advances 15,216,449
	EIB Financing 1,464,229
	Mortgages to back covered bonds 15,550,239
	Mortgages to guarantee own securitisations 1,186,852
	Repurchase agreements 435,546
	Other transactions 108,080
	33,961,395

In addition to the assets reported above, securities were also pledged as guarantees as follows:

To guarantee	Nominal amount of securities
Liabilities and Commitments	issued by third parties
Bank of Italy Advances	5,170,027

In the table above the securities lodged with the Bank of Italy to back advances, acquired by means of reverse repurchase agreements, were issued by the special purpose entity UBI Lease 2016 for €2.1 billion (senior tranches) and acquired by the originator UBI Leasing Spa. Furthermore the notes issued as part of the securitisations originated by UBI Banca Spa included notes owned lodged as security with the Bank of Italy against advances relating to the following operations:

- 24-7 Finance: €549.9 million;
- UBI SPV Group 2016: €2.086 billion;
- Marche M6: €434.5 million.

4. Information on operating leases

No items of this type exist.

5. Composition of investments for unit-linked and index-linked policies

As at 31.12.2018 the UBI Group held no index-linked policies in portfolio. Investments relating to unit-linked policies and pension funds were composed mainly of shares of UCITS (83% of the item), debt securities (10.7% of the item) and equity instruments to a minor extent.

6. Management and intermediation on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	54,901,376
a) Purchases	28,076,978
1. Settled	28,073,344
2. Not settled	3,634
b) Sales	26,824,398
1. Settled	26,820,363
2. Not settled	4,035
2. Portfolio managements	59,072,599
a) Individual	27,252,151
b) Collective	31,820,448
3. Custody and administration of securities	77,713,312
a) Securities of third parties held on deposit: connected with depository bank activity (not including portfolio management)	-
1. Securities issued by companies included in the consolidation	-
2. Other securities	-
b) securities of third parties held on deposit (not including portfolio management): other	60,688,097
1. Securities issued by companies included in the consolidation	13,697,719
2. Other securities	46,990,378
c) Securities belonging to third parties, deposited with third parties	58,445,360
d) Own securities deposited with third parties	17,025,215
4. Other transactions	195,695,223

7. Financial assets subject to offsetting in the financial statements, or subject to master netting arrangements or similar agreements.

Type of instrument	Gross amount of the financial assets (a)	Amount of the financial liabilities offset in the accounts (b)	Net amount of the financial assets reported in the accounts (c=a-b)	Related amounts not offset in the accounts		Net amount 31.12.2018 (f=c-d-e)	Net amount 31/12/2017 restated
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	600,903	490,182	110,721	71,463	37,868	1,390	3,312
2. Repurchase agreements	-	-	-	-	-	-	79
3. Stock lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31.12.2018	600,903	490,182	110,721	71,463	37,868	1,390	X
Total 31.12.2017 restated	581,261	341,313	239,948	100,308	136,249	X	3,391

8. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar agreements.

Type of instrument	Gross amount of the financial liabilities (a)	Amount of financial assets offset in the accounts (b)	Net amount of the financial liabilities reported in the accounts (c=a-b)	Related amounts not offset in the accounts		Net amount 31.12.2018 (f=c-d-e)	Net amount 31/12/2017 restated
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	986,197	490,182	496,015	71,463	405,768	18,784	7,780
2. Repurchase agreements	2,498,930	-	2,498,930	2,498,930	-	-	2,154
3. Stock lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31.12.2018	3,485,127	490,182	2,994,945	2,570,393	405,768	18,784	X
Total 31.12.2017 restated	1,987,747	341,313	1,646,434	1,234,549	401,951	X	9,934

With regard to derivatives, offsetting has been carried out in the accounts between the same counterparties for an amount of €490.2 million, where all of the criteria laid down by IAS 32 are met. This offsetting involved certain classes of OTC derivatives (IRS Plain Vanilla) in line with the provisions of European Regulation No. 648/2012 (European Market Infrastructure Regulation – “EMIR”).

The following has been reported in the columns for related amounts not subject to offsetting: the value of the related derivative by single counterparty up to the full amount under financial instruments, while the margin deposits are given up to the full amount, again for single related counterparty under the column for deposits received or made.

As a consequence, given the related items for derivatives assets and liabilities and the amount of the respective margin deposits received or made, the column for the net amount (table 7) represents the residual exposure solely of the Parent by counterparty of €1.4 million, while the residual exposure of third parties (table 8) is €18.8 million.

The conditions set by IAS 32 were not met for offsetting asset and liability repo positions with the same counterparties in the financial statements.

The following has been reported in the columns for related amounts not subject to offsetting: the fair value of the underlying security by single counterparty up to the full amount under instruments, while the margin deposits are given up to the full amount, also by single related counterparty under the column for deposits received.

9. Stock lending transactions

The UBI Banca Group offers a stock lending service through the company IW Bank Spa for both institutional and retail counterparties. For retail counterparties this service allows customers to both borrow securities (against payment of commission) and to lend securities (in return for consideration paid by IW Bank Spa). As concerns institutional counterparties, on the other hand, IW Bank Spa lends securities to counterparties in return for a commission.

10. Information on joint arrangements

Nothing to report.

PART C – NOTES TO THE CONSOLIDATED INCOME STATEMENT

SECTION 1 Interest – Items 10 and 20

1.1 Interest income and similar: composition

Items/Type	Debt securities	Financing	Other transactions	Total 2018	Total 2017 restated
1. Financial assets measured at fair value through profit or loss:	761	7,048	-	7,809	2,305
1.1 Financial assets held for trading	119	-	-	119	2,305
1.2 Financial assets designated as at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	642	7,048	-	7,690	-
2. Financial assets measured at fair value through other comprehensive income	176,100	-	X	176,100	152,568
3. Financial assets measured at amortised cost	69,253	1,959,477	-	2,028,730	1,904,654
3.1 Loans and advances to banks	13	6,125	X	6,138	7,499
3.2 Loans and advances to customers	69,240	1,953,352	X	2,022,592	1,897,155
4. Hedging derivatives	X	X	(51,734)	(51,734)	120,658
5. Other assets	X	X	170	170	402
6. Financial liabilities	X	X	X	59,029	80,864
Total	246,114	1,966,525	(51,564)	2,220,104	2,261,451
of which: interest income on impaired financial assets				278,841	183,660

In compliance with the provisions of the 5th update of Bank of Italy Circular No. 262/2005 item “4. hedging derivatives” for the year ended 31st December 2018 contains the balance for the hedging differentials stated not on the basis of the positive or negative value of the differentials themselves (as required under the previous rules) but according to the positive or negative value of the flow of interest that the derivatives themselves actually modify.

Item “6. Financial liabilities” includes the interest income earned on financial liabilities due to the effect of negative interest rates and more specifically, €50.8 million of income earned on amounts due to banks relating to the TLTRO II benefit earned in the period.

The item “of which: interest income on impaired financial assets”, which totalled €278.8 million, shows interest relating to impaired exposures to customers. In compliance with IFRS 9, the balance for the year ended 31st December 2018 includes €122 million net in relation to the reversal of time value connected with the measurement of non-performing exposures, to interest recognised on a net basis on non-performing loans and also to the release of the time value of the PPA relating to non-performing loans resulting from the operation to acquire the former New Banks (classified for the year ended 31st December 2017 within item 130).

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically, (i) interest on available-for-sale financial assets (former AFS) has been recognised within item “2. Financial assets measured at fair value through other comprehensive income” in the above table and (ii) interest on loans and advances to customers, loans and advances to banks and held-to-maturity investments (former L&R and HTM) has been recognised within item “3. Financial assets measured at amortised cost”. As regards interest income on financial liabilities, this component has been reclassified out of the items loans and advances to banks and loans and advances to customers.

1.2. Interest income and similar income: other information

1.2.1 Interest income on financial assets held in foreign currency

1.2.2 Interest income on finance lease transactions

Items	Total 2018	Total 2017 restated
Interest income on financial assets held in foreign currency	32,451	54,997
Interest income on finance lease transactions	157,157	115,589

1.3 Interest expense and similar: composition

Items/Type	Borrowings	Securities	Other transactions	Total 2018	Total 2017 restated
1. Financial liabilities measured at amortised cost	(93,995)	(413,300)	-	(507,295)	(586,148)
1.1. Due to central banks	-	X	X	-	(5,404)
1.2. Due to banks	(36,455)	X	X	(36,455)	(20,726)
1.3. Due to customers	(57,540)	X	X	(57,540)	(78,402)
1.4. Debt securities issued	X	(413,300)	X	(413,300)	(481,616)
2. Financial liabilities held for trading	-	(2)	-	(2)	(566)
3. Financial liabilities designated as at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(36)	(36)	(79)
5. Hedging derivatives	X	X	197,509	197,509	-
6. Financial assets	X	X	X	(36,995)	(23,420)
Total	(93,995)	(413,302)	197,473	(346,819)	(610,213)

In compliance with the provisions of the 5th update of Bank of Italy Circular No. 262/2005, item “5. hedging derivatives” for the year ended 31st December 2018 contains the balance on the hedging differential stated not on the basis of the positive or negative value of the differentials themselves (as required under the previous rules), but according to the positive or negative value of the flow of interest that the derivatives themselves actually modify.

Item “6. Financial liabilities” shows income expense incurred on financial assets as a result of negative interest rates.

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically, with regard to interest expense on financial assets, it is underlined that this component has been reclassified out of the items amounts due to banks and amounts due to customers.

1.4 Interest expense and similar: other information*1.4.1 Interest expense on financial assets held in foreign currency**1.4.2 Interest expense on finance lease transactions*

Items	Total 2018	Total 2017 restated
Interest expense on liabilities held in foreign currency	(39,555)	(26,792)
Interest expense on finance lease transactions	(1,225)	(476)

1.5 Differentials relating to hedging transactions

Items	Total 2018	Total 2017 restated
A. Positive differentials on hedging transactions	238,964	171,615
B. Negative differentials on hedging transactions	(93,189)	(50,957)
C. Balance (A-B)	145,775	120,658

The interest relating to hedging transaction differentials recorded a positive balance of €145.8 million for the year ended 31st December 2018.

SECTION 2 Fees and Commissions – Items 40 and 50**2.1 Fee and commission income: composition**

Type of service/Amounts	Total 2018	Total 2017 restated
a) guarantees granted	49,341	46,115
b) credit derivatives	-	-
C) management, trading and advisory services:	957,538	945,016
1. trading in financial instruments	9,194	14,351
2. foreign exchange trading	8,297	8,455
3. portfolio management	391,662	388,719
3.1. individual	70,181	78,519
3.2. collective	321,481	310,200
4. custody and administration of securities	9,070	9,543
5. depository banking	-	-
6. placement of securities	245,814	260,491
7. receipt and transmission of orders	33,536	34,290
8. advisory activities	10,860	8,744
8.1 on investments	10,860	8,744
8.2 on financial structure	-	-
9. distribution of third party services	249,105	220,423
9.1. portfolio management	582	366
9.1.1. individual	582	366
9.1.2. collective	-	-
9.2. insurance products	214,256	191,910
9.3. other products	34,267	28,147
d) collection and payment services	183,812	179,114
e) servicer activities for securitisation transactions	-	132
f) services for factoring transactions	12,428	12,559
g) tax collection and payment services	-	-
h) management of multilateral trading systems	-	-
i) current account administration	225,757	239,475
j) other services	350,274	321,805
Total	1,779,150	1,744,216

Item j) “other services” includes fee and commission income for 2018 consisting of:

- financing to customers €220.3 million
- foreign transactions €14.7 million

2.2 Fee and commission expense: composition

Services/Amounts	Total 2018	Total 2017 restated
a) guarantees received	(18,242)	(1,182)
b) credit derivatives	-	-
c) management and trading services:	(83,439)	(98,434)
1. trading in financial instruments	(9,615)	(10,969)
2. foreign exchange trading	(3)	(1)
3. portfolio management	(8,751)	(8,981)
3.1. own	-	(63)
3.2. on behalf of third parties	(8,751)	(8,918)
4. custody and administration of securities	(6,497)	(6,648)
5. placement of financial instruments	(5,836)	(8,701)
6. financial instruments, products and services distributed through indirect networks	(52,737)	(63,134)
d) collection and payment services	(56,504)	(52,246)
e) other services	(40,048)	(45,563)
Total	(198,233)	(197,425)

SECTION 3 Dividends and similar income – Item 70**3.1 Dividends and similar income: composition**

Items/Income	Total 2018		Total 2017 restated	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,478	-	767	7
B. Other financial assets mandatorily measured at fair value	20,809	1,682	10,619	1,256
C. Financial assets measured at fair value through other comprehensive income	810	-	1,035	-
D. Equity investments	-	-	-	-
Total	23,097	1,682	12,421	1,263

Item “B. Other financial assets mandatorily measured at fair value” includes dividends of €14.4 million received on shares held in NEXI, approximately €4.5 million on shares in the Bank of Italy, approximately €1.2 million on shares in Sacbo and of €0.1 million on shares in SIA.

SECTION 4 Net trading income (loss) – Item 80**4.1 Net trading income (loss): composition**

Transactions/components of income	Gains (A)	Income from trading (B)	Losses (C)	Losses from trading (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	282	31,201	(1,225)	(4,747)	25,511
1.1 Debt securities	21	1,104	(144)	(601)	380
1.2 Equity securities	261	2,488	(1,081)	(2,813)	(1,145)
1.3 Shares in UCITS	-	4	-	-	4
1.4 Financing	-	-	-	-	-
1.5 Other	-	27,605	-	(1,333)	26,272
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
Financial assets and liabilities : Exchange rate differences	X	X	X	X	8,094
3. Derivative instruments	185,237	134,231	(127,718)	(159,435)	21,261
3.1 Financial derivatives	185,237	134,231	(127,718)	(159,435)	21,261
- on debt securities and interest rates	171,981	119,092	(122,737)	(146,865)	21,471
- on equity securities and share indices	9,436	5,957	(1,289)	(3,529)	10,575
- on currencies and gold	X	X	X	X	(11,054)
- other	3,820	9,182	(3,692)	(9,041)	269
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option	X	X	X	X	-
Total	185,519	165,432	(128,943)	(164,182)	54,866

The more significant impacts include the following:

- under “Financial assets held for trading”, the net positive result in line item “1.5 Other” recorded a positive result of approximately €26 million: the item in question includes profits and losses realised on currency transactions closed during the year. The net positive result recorded for debt securities and the net negative result recorded for equity securities (to which insurance business also contributed around €0.7 million) were for residual amounts;
- a positive result of approximately €8 million for exchange rate differences on financial assets and liabilities;

- with regard to derivatives instruments, net positive results for financial derivatives on debt securities and interest rates and on equity securities and share indices (amounting to approximately €21.5 million and €10.6 million respectively), compared with a net negative result for financial derivatives on currencies and gold (-€11.1 million).

SECTION 5 Net hedging income (loss) – Item 90

5.1 Net hedging income (loss): composition

Income components/Amounts	Total 2018	Total 2017 restated
A. Income relating to:		
A.1 Fair value hedge derivatives	249,795	183,090
A.2 Hedged financial assets (fair value)	298,335	51,020
A.3 Hedged financial liabilities (fair value)	82,141	160,010
A.4 Cash flow hedge financial derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging activity (A)	630,271	394,120
B. Expense relating to:		
B.1 Fair value hedge derivatives	(388,993)	(238,620)
B.2 Hedged financial assets (fair value)	(42,072)	(151,966)
B.3 Hedged financial liabilities (fair value)	(209,531)	(3,953)
B.4 Cash flow hedge financial derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total expense from hedging activity (B)	(640,596)	(394,539)
C. Net hedging income (loss) (A-B)	(10,325)	(419)
of which: result of hedges on net positions	-	-

With regard to the underlying positions of the hedging transactions, reference is made in particular to approximately -€1.3 million relating to debt securities measured at fair value through other comprehensive income, -€3.3 million relating to loans and advances to customers and -€5.5 million of bonds issued.

SECTION 6 Income (loss) from disposals or repurchases – Item 100

6.1 Income (loss) from disposals or repurchases: composition

Items/Income components	Total 2018			Total 2017 restated		
	Profits	Losses	Net income	Profits	Losses	Net income
Financial assets						
1. Financial assets measured at amortised cost	45,657	(122,314)	(76,657)	62,983	(54,102)	8,881
1.1 Loans and advances to banks	6	-	6	4	-	4
1.2 Loans and advances to customers	45,651	(122,314)	(76,663)	62,979	(54,102)	8,877
2. Financial assets measured at fair value through other comprehensive income	99,959	(30,482)	69,477	144,517	(9,521)	134,996
2.1 Debt securities	99,959	(30,482)	69,477	144,517	(9,521)	134,996
2.2 Financing	-	-	-	-	-	-
Total assets	145,616	(152,796)	(7,180)	207,500	(63,623)	143,877
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	356	-	356	72	-	72
3. Debt securities issued	1,935	(7,863)	(5,928)	1,052	(14,569)	(13,517)
Total liabilities	2,291	(7,863)	(5,572)	1,124	(14,569)	(13,445)

Item "1.2. Financial assets measured at amortised cost – Loans and advances to customers" relates to disposals of loans and forms part of an operational approach designed to reduce the impact of positions difficult to dispose of and with very large operating costs. In detail the item is comprised of the following: a total of -€74 million from a securitisation of bad loans concluded in September and backed by GACS¹; +€6.7 million from the large-scale disposal of loans completed in December; +€0.7 million relating to Prestitalia and the result of the disposal of individual loan positions. Furthermore, in compliance with the Bank of Italy communication dated 30th October 2018 and therefore diverging from previous practices followed by the banking industry, the UBI Group recognised only P&L components relating to the difference between the carrying amount on the date of derecognition and the amount received for the disposal within this item and vice versa recognised changes in value recorded from the beginning of the year and until the date of derecognition within item 130.

As concerns item "2.1 Financial assets measured at fair value through other comprehensive income – Debt securities", the net profits relate mainly to the Parent (disposals of government securities for €60.7 million and of corporate bonds for €2.9 million) and to a minor extent (€6.4 million) to insurance business.

Item "3. Debt securities issued" includes a loss attributable to the repurchase of Group bonds.

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically: (i) profits/losses from the disposal/repurchase of loans and advances to customers, loans and advances to banks and held-to-maturity investments (former L&R and HTM) have been recognised within item "1. Financial assets measured at amortised cost"; (ii) profits/losses from the disposal/repurchase of available-for-sale financial assets (former AFS) have been recognised within item "2. Financial assets measured at fair value through other comprehensive income" of this table. Because no item existed previously for equity securities and shares of UCITS, those amounts have been classified within item "2.1 Debt securities".

SECTION 7 Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Net change in fair value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets designated at fair value

Transactions/components of income	Gains (A)	Profit on sale (B)	Losses (C)	Losses on sale (D)	Net income [(A+B) - (C+D)]
1. Financial assets	1,850	169	(444)	(74)	1,501
1.1 Debt securities	1,850	169	(444)	(74)	1,501
1.2 Financing	-	-	-	-	-
2. Financial liabilities	-	-	(608)	-	(608)
2.1 Debt securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	(608)	-	(608)
3. Financial assets and liabilities in foreign currency: exchange rate differences	X	X	X	X	-
Total	1,850	169	(1,052)	(74)	893

¹ Reference is made to Part E – Section C – Securitisations in these notes to the consolidated financial statements.

This item shows the net result for financial assets designated at fair value, relating entirely to activity carried out as part of the Group's insurance business.

7.2 Net change in fair value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets mandatorily measured at fair value

Transactions/components of income	Gains (A)	Profit on sale (B)	Losses (C)	Losses on sale (D)	Net income [(A+B) - (C+D)]
1. Financial assets	44,016	11,574	(82,397)	(6,155)	(32,962)
1.2 Debt securities	30,141	1,493	(22,303)	(3,182)	6,149
1.1 Equity securities	5,855	4,058	(20,244)	(1,403)	(11,734)
1.3 Shares in UCITS	6,626	4,341	(17,632)	(965)	(7,630)
1.4 Financing	1,394	1,682	(22,218)	(605)	(19,747)
2. Financial assets: exchange rate differences	X	X	X	X	4,095
Total	44,016	11,574	(82,397)	(6,155)	(28,867)

The net result for “Other financial liabilities mandatorily measured at fair value”, which was an overall loss of €28.9 million, is attributable mainly to the items financing (-€19.7 million) and equity securities (-€11.8 million) and to a residual extent to shares of UCITS (-€5.2 million) and to debt securities (-€3.8 million).

The net result for the item “Financing” was affected by the overall change in fair value recorded by the portfolio during the year (-€20.8 million), rather than by profit-taking for the period (+€1.1 million).

As regards equity securities, losses amounting to €20.2 million were recognised during the year, of which €7.3 million on financial instruments acquired as part of the restructuring of credit positions.

Gains of €27.3 million were recorded on debt securities relating to the revaluation of financial instruments following changes in the credit risk of counterparties during the year, partially offset by losses of €22 million recognised, attributable primarily to the write-down of financial assets acquired following the intervention of the Voluntary Scheme formed by the Interbank Deposit Protection Fund (IDPF) on behalf of Banca Carige (reference is made to “Part A – Accounting policies, Section 4 – Other aspects” for further details).

SECTION 8 Net impairment losses for credit risk – Item 130

8.1 Net impairment losses for credit risk relating to financial assets measured at amortised cost: composition

Transactions / components of income	Impairment losses (1)			Reversals of impairment losses (2)		Total 2018	Total 2017 restated
	Stages one and two	Stage three		Stages one and two	Stage three		
		Write-o ffs	Other				
A. Loans and advances to banks	-	-	-	2,869	-	2,869	-
- Financing	-	-	-	2,867	-	2,867	-
- Debt securities	-	-	-	2	-	2	-
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-
B. Loans and advances to customers	-	(219,285)	(960,969)	37,723	500,659	(641,872)	(728,343)
- Financing	-	(219,285)	(960,969)	36,809	500,659	(642,786)	(728,343)
- Debt securities	-	-	-	914	-	914	-
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-
Total	-	(219,285)	(960,969)	40,592	500,659	(639,003)	(728,343)

Net impairment losses recognised in 2018 gave a credit loss rate of 0.72% compared with 0.77% for the year ended 31.12.2017 restated.

Furthermore, in compliance with the Bank of Italy communication dated 30th October 2018 and therefore diverging from previous practices followed by the banking industry, the UBI Group also recognised P&L components within this item relating to changes in the value of financial assets subject to disposal during the year recorded from the beginning of the year and until derecognition. These were previously recognised within item 100.

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically, net impairment losses on loans have been reported in this table which shows net impairment losses on financial assets measured at amortised cost. Furthermore, in compliance with IAS 39, the figures for the year ended 31st December 2017 include both (i) the adjustment recognised on that part of interest considered not recoverable, based on recognising interest on a net basis, relating to non-performing positions, and (ii) the reversal of the time value connected with the measurement of non-performing positions. According to IFRS 9 these components are not classified within this item, but as part of net interest income.

8.2 Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: composition

Transactions/components of income	Impairment losses (1)			Reversals of impairment losses (2)		Total 2018	Total 2017 restated
	Stages one and two	Stage three		Stages one and two	Stage three		
		Write-offs	Other				
A. Debt securities	(4,456)	-	-	5,182	-	726	(165,624)
B. Financing	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-
To tal	(4,456)	-	-	5,182	-	726	(165,624)

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically, net impairment losses on available for sale financial assets (former AFS) have been reported in this table which shows impairment losses on financial assets measured through other comprehensive income. Because the categories for equity securities and shares of UCITS no longer exist, the amounts for these have been recognised within item "A. Debt securities". More specifically, as already reported:

- the amount relating to equity securities consists mainly of impairment losses recognised on financial instruments acquired regarding the intervention to support Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato decided by the the Voluntary Scheme formed by the Interbank Deposit Protection Fund (IDPF).
- impairment losses on shares of UCITS regarded primarily the write-down of the Atlante Fund amounting to €108.7 million.

SECTION 9 Profits (losses) from contractual modifications without derecognition – Item 140

9.1 Profits (losses) from contractual modifications: composition

This item, which amounted to a loss of €37.4 million for the year ended 31st December 2018, incorporates the impacts of contractual modifications on medium to long-term loans to customers which, not being of a substantial amount, in accordance with the provisions of IFRS 9 and also with Group accounting regulations, do not involve derecognition of the assets in question, but recognition through profit or loss of the modifications to the contractual cash flows.

Reference is made to Part A.2 – Sub-section 16 – “Other information – Contractual modifications of financial assets” of these notes to the consolidated financial statements for further details.

SECTION 10 Net insurance premiums – Item 160

10.1 Net premiums: composition

Premiums from insurance activities	Direct work	Indirect work	Total 2018	Total 2017 restated
A. Life				
A.1 Gross premiums recognised (+)	372,603	-	372,603	153,876
A.2 Premiums reinsured (-)	(108)	X	(108)	(63)
A.3 Total	372,495	-	372,495	153,813
B. Non-life				
B.1 Gross premiums recognised (+)	1,357	-	1,357	1,301
B.2 Premiums reinsured (-)	(267)	X	(267)	(325)
B.3 Change in gross premiums reserve (+/-)	392	-	392	346
B.4 Change in reinsurer premium reserves (+/-)	(201)	-	(201)	(7)
B.5 Total	1,281	-	1,281	1,315
C. Total net premiums	373,776	-	373,776	155,128

The item comprises premiums for the year net of reinsurance transfers which fall within the scope of IFRS 4 – “Insurance contracts”. The balance is composed primarily of life insurance premiums.

SECTION 11 – Balance of other income/expenses of insurance operations – Item 170

11.1 Balance of other income/expense of insurance operations: composition

Items	Total 2018	Total 2017 restated
1. Net change in technical reserves	(158,425)	(90,395)
2. Claims paid during the year	(231,250)	(80,858)
3. Other income and expense on insurance operations	(6,421)	(2,131)
Total	(396,096)	(173,384)

11.2 Composition of the sub-item “Net change in technical reserves”

Net change in technical reserves	Total 2018	Total 2017 restated
1. Life		
A. Mathematical reserves	(157,493)	(91,041)
A.1 Gross annual amount	(157,493)	(91,041)
A.2 (-) Portion borne by reinsurers	-	-
B. Other technical reserves	(930)	647
B.1 Gross annual amount	(930)	647
B.2 (-) Portion borne by reinsurers	-	-
C. Technical reserves where the investment risk is borne by the insurers	-	-
C.1 Gross annual amount	-	-
C.2 (-) Portion borne by reinsurers	-	-
Total "life sector reserves"	(158,423)	(90,394)
2. Non-life	-	-
Changes in other non-life technical reserves other than claims reserves net of reinsurance	(2)	(1)
Total	(158,425)	(90,395)

11.3 Composition of the sub-item “Claims paid during the year”

Costs for claims	2018	2017 restated
Life sector: costs of claims net of reinsurance		
A. Amounts paid	(230,324)	(74,746)
A.1 Gross annual amount	(230,324)	(74,796)
A.2 (-) Portion borne by reinsurers	-	50
B. Change in reserves for sums to be paid	(814)	(6,131)
B.1 Gross annual amount	(814)	(6,131)
B.2 (-) Portion borne by reinsurers	-	-
Total life sector claims	(231,138)	(80,877)
Non-life sector: cost of claims, net of recoveries and reinsurance		
C. Amounts paid	(99)	(145)
C.1 Gross annual amount	(168)	(254)
C.2 (-) Portion borne by reinsurers	69	109
D. Change in recoveries net of portion borne by reinsurers	-	-
E. Changes in the claims reserve	(13)	164
E.1 Gross annual amount	(191)	215
E.2 (-) Portion borne by reinsurers	178	(51)
Total non-life sector claims	(112)	19
	(231,250)	(80,858)

The balance for the item is composed of income and expense from insurance operations that fall within the scope of IFRS 4 – “Insurance contracts” and which are not included in item “160 – Net insurance premiums” in the income statement. In particular it includes amounts paid to insureds, net of transfers to reinsurance, the change in net technical reserves and other components of insurance income and expenses relating principally to commissions paid to the distribution network for the sale and maintenance of insurance policies with customers.

11.4 Composition of the sub-item “Other income and expenses of insurance operations”

	2018	2017 restated
Other income	433	240
Life business	270	164
Non-life business	163	76
Other costs	(6.854)	(2.371)
Life business	(6.786)	(2.250)
Non-life business	(68)	(121)

SECTION 12 Administrative expenses – Item 190

12.1 Staff costs: composition

Type of expense/Sectors	Total 2018	Total 2017 restated
1) Employees	(1,535,802)	(1,530,448)
a) Wages and salaries	(1,048,541)	(1,035,532)
b) Social security charges	(276,007)	(276,406)
c) Post-employment benefits	(60,439)	(54,804)
d) Pension expense	(73)	(79)
e) Provision for post-employment benefits	27	(2,425)
f) Provision for pension and similar:	66	(2,543)
- defined contribution	1,027	(1,709)
- defined benefit	(961)	(834)
g) Payments to external supplementary pension plans:	(44,006)	(44,060)
- defined contribution	(44,003)	(43,031)
- defined benefit	(3)	(1,029)
h) Expenses resulting from share based payments	-	-
i) Other employee benefits	(106,829)	(114,599)
2) Other staff in service	(993)	(1,415)
3) Directors and statutory auditors	(9,114)	(10,433)
4) Expenses for retired staff	-	(167)
Total	(1,545,909)	(1,542,463)

Attention is drawn in particular to the item “Other employee benefits” which includes an expense of €55.3 million for the year ended 31st December 2018 compared to €61.5 million of the previous year, consisting of a contribution to the “solidarity fund” for voluntary redundancies under the Group Business Plan.

An analysis of changes that occurred compared with the previous year is given in the section “The income statement” in the Consolidated Management Report, which may be consulted.

12.2 Average number of employees by category

	2018	2017 restated
EMPLOYEES	19,540	19,429
a) senior managers	366	372
b) middle managers	8,189	8,179
c) remaining employees	10,985	10,878
OTHER PERSONNEL	104	134

“Other personnel” also includes the directors and statutory auditors of Group member companies.

12.3 Defined benefit company pension funds: expenses and income

See section 10.5 “Defined benefit company pension funds” in the balance sheet liabilities section.

12.4 Other employee benefits

The item “Other benefits for employees” consists mainly of expenses relating to the redundancy incentive scheme amounting to €55.3 million (€61.5 million for the year ended 31.12.2017) and expenses for luncheon vouchers amounting to €22 million.

Details of redundancy schemes are given in the “Consolidated Management Report” in the sections “Human resources” and “Implementation of the 2017-2020 Business Plan”.

12.5 Other administrative expenses: composition

	Total 2018	Total 2017 restated
A. Other administrative expenses	(758,107)	(804,831)
Rent payable	(70,561)	(71,626)
Professional and advisory services	(125,948)	(164,126)
Rentals hardware, software and other assets	(38,001)	(45,547)
Maintenance of hardware, software and other assets	(53,680)	(54,158)
Tenancy of premises	(48,410)	(48,531)
Property maintenance	(31,973)	(29,935)
Counting, transport and management of valuables	(12,990)	(13,781)
Membership fees	(97,139)	(83,630)
Information services and land registry searches	(11,162)	(12,315)
Books and periodicals	(1,064)	(1,308)
Postal	(12,428)	(15,365)
Insurance premiums	(32,195)	(30,633)
Advertising	(19,893)	(24,537)
Entertainment expenses	(1,111)	(1,556)
Telephone and data transmission expenses	(50,743)	(53,071)
Outsourced services	(57,828)	(63,811)
Travel expenses	(18,429)	(16,175)
Credit recovery expenses	(44,873)	(39,699)
Forms, stationery and consumables	(6,080)	(8,295)
Transport and removals	(8,771)	(9,316)
Security	(9,098)	(6,190)
Other expenses	(5,730)	(11,226)
B. Indirect taxes	(266,541)	(271,984)
Indirect taxes and duties	(11,414)	(15,212)
Stamp duty	(206,684)	(210,222)
Municipal property tax	(22,999)	(23,167)
Other taxes	(25,444)	(23,383)
Total	(1,024,648)	(1,076,815)

The item ‘Membership fees’ includes the ordinary contribution for the year 2018 to the National Resolution Fund (€42.1 million, of which €12.9 million for extraordinary contributions) and to the DGS (€41.7 million), as required by the respective EU directives recently issued.

Further information is given in a special section of the Consolidated Management Report.

SECTION 13 Net provisions for risks and charges – Item 200**13.1 Net provisions for credit risk relating to loan commitments and guarantees granted**

	Provisions	Releases	Net provisions in 2018	Net provisions in 2017 restated
Net provisions for credit risk relating to loan commitments and guarantees granted	(9,022)	32,945	23,923	31,584

The net releases for credit risk relating to guarantees and commitments arises from both collective impairment losses on performing unsecured guarantees and from non-performing exposures.

The balances for the year ended 31st December 2017 published in the consolidated financial statements in accordance with IAS 39 and the 4th update of Bank of Italy Circular No. 262/2005 have been restated in accordance with the 5th update of that circular and following IFRS 9 rules. More specifically, the figure for the year ended 31st December 2017 stated in this item represents the balance that had then been published within item 130d), which no longer exists in the current income statement, but which must be recognised within provisions for risks and charges.

13.2 Net provisions relating to other commitments and to other guarantees granted: composition

No items of this type exist for the UBI Banca Group.

13.3 Net provisions for other risks and charges: composition

	Provisions	Releases	Net provisions in 2018	Net provisions in 2017 restated
for revocation (clawback) risks	(9,814)	355	(9,459)	(310)
staff costs	-	-	-	4,958
for bonds in default	(340)	182	(158)	(499)
for litigation	(24,343)	12,197	(12,146)	(8,231)
Other	(16,013)	33,285	17,272	(4,850)
Total net provisions for other risks and charges: composition	(50,510)	46,019	(4,491)	(8,932)

The releases reported under the item “Other” include the release of provisions totalling €33.3 million attributable in particular to real estate transactions relating to contracts originating from the former New Banks for which the conditions arose at the end of 2018 to recognise a release due to the disappearance of the liability.

SECTION 14 Depreciation and net impairment losses on property, plant and equipment – Item 210

14.1 Net impairment losses on property, plant and equipment: composition

Assets/Components of income	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Property, plant and equipment				
A.1 Owned	(85,811)	(4,075)	-	(89,886)
- for functional use	(75,383)	(2,933)	-	(78,316)
- for investment	(10,428)	(1,142)	-	(11,570)
- Inventories	X	-	-	-
A.2 Acquired through finance lease	(764)	(218)	-	(982)
- for functional use	(260)	(218)	-	(478)
- for investment	(504)	-	-	(504)
Total	(86,575)	(4,293)	-	(90,868)

The column “Net impairment losses” relates to the results of impairment tests on property, plant and equipment, in compliance with the provisions of IAS 36. See section 9.7 of Part B of these notes to the consolidated financial statements for further information.

SECTION 15 Amortisation and net impairment losses on intangible assets – Item 220

15.1 Amortisation and net impairment losses on intangible assets: composition

Assets/Components of income	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(75.579)	-	-	(75.579)
- Internally generated by the Bank	-	-	-	-
- Other	(75.579)	-	-	(75.579)
A.2 Acquired through finance lease	-	-	-	-
Total	(75.579)	-	-	(75.579)

Further details are given in Section 10 “Intangible assets” in Section B of the assets part of these notes to the consolidated financial statements.

SECTION 16 Other net operating income/expense – Item 230

16.1 Other operating expense: composition

	Total 2018	Total 2017 restated
Other operating expenses	(67,787)	(84,624)
Fines and charges for late tax payments	-	(7)
Depreciation of improvements to third party leased assets	(5,422)	(6,091)
Ordinary maintenance of investment properties	-	-
Other expenses and prior year expense	(62,365)	(78,526)
- of which costs relating to finance lease contracts	(10,846)	(10,978)

16.2 Other operating income: composition

	Total 2018	Total 2017 restated
Other operating income	361.258	404.449
Charges to third parties for expenses on deposit and current accounts	20.451	25.984
Recovery of insurance premiums	17.998	19.758
Other income for property management	36	219
Recovery of taxes	227.245	229.386
Rent income	6.625	6.117
Other income, expense recoveries and prior years income	88.903	122.985
- of which recoveries on lease contracts	15.026	15.679

The item “Other income, expense recoveries and prior years income” comprises “Fast credit processing fees” amounting to €30.6 million (€35.8 million for the year ended 31st December 2017).

SECTION 17 Profits (losses) of equity investments – Item 250

17.1 Profits (losses) of equity investments: composition

Income components/sectors	Total 2018	Total 2017 restated
1) Jointly controlled entities		
A. Income	-	-
1. Revaluations	-	-
2. Profits on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expense	-	-
Net income	-	-
2) Companies subject to significant influence		
A. Income	24,602	23,801
1. Revaluations	-	-
2. Profits on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	24,602	23,801
B. Expense	-	(410)
1. Write-downs	-	-
2. Impairment losses due to deterioration	-	-
3. Losses on sale	-	(410)
4. Other expense	-	-
Net income	24,602	23,391
Total	24,602	23,391

The amount in item A.4 “Other operating income” of section 2 represents the profits of equity-accounted investees. More specifically, the most significant profits were approximately €7 million earned by Zhong Ou, approximately €12 million earned by Lombarda Vita and approximately €5.2 million by Aviva Vita.

Details of the contribution to profits of the main companies consolidated using the equity method are given in the note at the foot of Table 7.5 entitled “Equity investments: annual changes” in the balance sheet section.

SECTION 18 Net result of changes in the fair value of property, plant and equipment and intangible assets – Item 260

18.1 Net result of changes in the fair value (or the revalued value) or the presumable realisable value of property, plant and equipment: composition

No “Net result of changes in the fair value of property, plant and equipment and intangible assets” was recognised.

SECTION 19 Net impairment losses on goodwill – Item 270

19.1 Net impairment losses on goodwill: composition

No net impairment losses on goodwill were recognised in 2018.

SECTION 20 Profits (losses) from disposal of investments – Item 280

20.1 Profits (losses) from disposal of investments: composition

Income components/sectors	Total 2018	Total 2017 restated
A. Properties	1,230	1,734
- Profits on sale	1,328	1,872
- Losses on sale	(98)	(138)
B. Other assets	4,114	(875)
- Profit on sale	4,195	49
- Losses on sale	(81)	(924)
Net income	5,344	859

Profits from the disposal of other assets, recognised within item B included €4.2 million which represented the earnout resulting from the disposal of UBI Banca International, which took place in 2017.

SECTION 21 Taxes on income for the year for continuing operations – Item 300

21.1 Taxes on income for the year from continuing operations: composition

Income components/sectors	Total 2018	Total 2017 restated
1. Current taxes (-)	(114,432)	(40,033)
2. Change in current taxes of prior years (+/-)	(2,944)	1,849
3. Reduction in current taxes for the year (+)	29,420	2,015
3.a Reduction in current taxes for the year for tax credits pursuant to Law 214/2011 (+)	12,978	276,918
4. Change in deferred tax assets (+/-)	124,174	(340,864)
5. Change in deferred tax liabilities (+/-)	11,645	20,939
6. Taxation for the year (-) (-1+/-2+3+3a+/-4+/-5)	60,841	(79,176)

Taxes on income for the year from continuing operations for the year ended 31st December 2018 consisted of tax income in the amount of €60.8 million, mainly due to an increase in deferred tax assets as a result of the recognition of a non-recurring item due to a change made by Law No. 145 of 30th December 2018 (2019 Budget Law) to the deductibility rules

for the IFRS 9 First-Time-Adoption (FTA) reserve. This related to expected credit losses recognised on loans and advances to customers for which the negative components of income became deductible in the amount of 10% in 2018 with the remaining 90% deductible at constant rates over the following nine tax periods.

Reconciliation between theoretical taxation and actual taxation recorded in the accounts

IRES (corporate income tax)	taxable income	IRES	%
Theoretical IRES payable	457,647	(125,853)	27.50%
Permanent increases			
- Losses and impairment losses on FVLP securities	24,297	(6,682)	1.46%
- Non-deductible expenses (Municipal property tax - auto - interest in arrears)	8,877	(2,441)	0.53%
- Taxes on dividends of UBI subsidiaries	-	(4,574)	1.00%
Permanent decreases			
- Valuation of equity-accounted investees	(24,602)	6,766	-1.48%
- Untaxed dividends	(17,511)	4,816	-1.05%
- ACE (economic growth law)	(19,551)	5,377	-1.17%
- PEX and impairment reversals on FVPL securities	(11,819)	3,250	-0.71%
- Positive effect of company in tax consolidation	-	6,341	-1.39%
- Government budget impact	-	145,982	-31.90%
Effective IRES payable	417,338	32,981	-7.21%

IRAP (regional production tax)	taxable income	IRAP	%
Theoretical IRAP payable	457,647	(25,491)	5.57%
Permanent increases			
- Administrative expenses and staff costs not deductible for IRAP purposes	103,865	(5,785)	1.26%
- Impairment of tangible and intangible assets not deductible for IRAP purposes	17,187	(957)	0.21%
- Net provisions and other non-deductible components for IRAP purposes	34,205	(1,905)	0.42%
- Unrecoverable IRAP tax losses	79,932	(4,452)	0.97%
Permanent decreases			
- Impairment losses on FVPL securities not deductible for IRAP purposes	(9,853)	549	-0.12%
- Dividends	(11,466)	639	-0.14%
- Untaxed other operating income	(24,488)	1,364	-0.30%
- Valuation of equity-accounted investees	(24,602)	1,370	-0.30%
- IFRS9 loans and receivables (Government budget)	-	40,442	-8.84%
Effective IRAP payable	622,427	5,773	-1.26%
Total effective IRES and IRAP tax expense	457,647	38,754	-8.47%

The figures given in the table are taken from the reclassified financial statements presented in the Management Report.

SECTION 22 Profit (loss) after tax from discontinued operations – Item 320

22. Profit (loss) after tax from discontinued operations: composition

No “Profit (loss) after tax from discontinued operations” was recognised.

22.2 Details of taxes on income in relation to discontinued operations

No “Taxes on income in relation to discontinued operations” were recognised.

SECTION 23 Profit (Loss) for the year attributable to minority interests – Item 340

23.1 Details of the item 340 “Profit (loss) for the year attributable to minority interests”

Profit attributable to minority interests, inclusive of the effects of consolidation entries, totalled €25,894 thousand and was composed as follows:

Name of companies	Total 2018	Total 2017 restated
<i>Consolidated equity investments with significant minority interests</i>		
1. Pramerica SGR Spa	(24,983)	(25,555)
2. Bancassurance Popolari Spa (*)	(637)	(505)
3. Bancassurance Popolari Danni Spa	-	(10)
Other equity investments	(274)	(365)
Total	(25,894)	(26,435)

(*) The amount reported represents the profit attributable to minorities as at the date of the acquisition of full control by the Parent which took place in October.

SECTION 24 Other information

No situations exist which require further information.

SECTION 25 Earnings per share

Introduction

With the introduction of international accounting standards, all listed companies, or companies for which listing is in progress, which are required to prepare separate company and/or consolidated financial statements in compliance with IFRS (Legislative Decree No. 38/2005), must report the calculation of their earnings per share (EPS) in their financial statements in accordance with IAS 33.

More specifically that standard requires both basic earnings per share and diluted earnings per share to be reported:

- (i) **basic EPS** has been calculated by dividing the profit attributable to the ordinary equity holders of the Parent (numerator) by the weighted average number of ordinary outstanding shares (denominator) during the year;
- (ii) **diluted EPS** has been calculated by taking into account the dilutive effect of potential ordinary shares, i.e. financial instruments and/or contracts which assign rights to the holders to acquire ordinary shares.

Earnings per share in 2018

Calculation of basic EPS

On the basis of what has been stated above, the numerator for calculating basic EPS amounts to €392,774 thousand. With regard to the denominator of this indicator, the weighted average number of outstanding ordinary shares as at 31st December 2018 was 1,139,580,841.

In this respect:

- (i) ordinary shares of UBI Banca outstanding as at 1st January 2018 numbered 1,141,300,266;

- (ii) as at 31st December 2018 UBI Banca held 7,861,190 treasury shares in portfolio following movements resulting from the sales and further purchases and grants for a total of 4,876,310 shares in 2018;
- (iii) as a result of the above changes, the ordinary shares outstanding of UBI Banca numbered 1,136,423,956 as at 31st December 2018.

Calculation of diluted EPS

For the purposes of calculating diluted EPS, as already stated, account must be taken of the dilutive effect on the ordinary shares of the Parent resulting from the presence of “potential” ordinary shares that are outstanding, such as for example:

- (i) instruments representing debt or equity, including preference shares, that are convertible into ordinary shares;
- (ii) options and warrants;
- (iii) shares to be issued if the conditions defined in contractual agreements are met.

To summarise:

EPS	2018	2017 restated (*)
Consolidated profit attributable to the Parent (thousands of euro)	392,774	690,557
Weighted average number of ordinary shares outstanding	1,139,580,841	1,139,580,841
Basic earnings per share (in euro)	0.3447	0.6060
Diluted earnings per share (in euro)	0.3447	0.6060

The table that follows contains: (i) a reconciliation of consolidated profit attributable to the Parent and profit attributable to ordinary equity holders and also (ii) the dilutive effect on the average number of outstanding ordinary shares.

EPS	2018	2017 restated (*)
EPS with recognised profits		
Consolidated net profit attributable to the Parent (thousands of euro)	425.608	690.557
Profit not attributable to owners of ordinary equity instruments (thousands of euro) (**)	32.834	-
Consolidated profit attributable to the Parent (thousands of euro)	392.774	690.557
Number of shares in issue at the beginning of the year	1.141.300.266	973.268.421
Number of shares issued during the year	-	167.984.751
Change in the number of treasury shares during the year (+/-)	(4.876.310)	47.094
Number of shares in issue at the end of the year	1.141.300.266	1.141.300.266
Weighted average number of ordinary shares outstanding	1.139.580.841	1.139.580.841
Weighted average number of ordinary shares for diluted capital	1.139.580.841	1.139.580.841
Basic earnings per share (in euro)	0,3447	0,6060
Diluted earnings per share (in euro)	0,3447	0,6060

(*) The figure has been restated to take account of capital transactions which took place in 2018, in accordance with IAS 33.

(**) This consists mainly of the shares allocated to the unavailable reserve in accordance with the former Art. 6 of Legislative Decree No. 38/2006.

Part D – Consolidated statement of comprehensive income

Detailed statement of consolidated comprehensive income

Items		2018	2017 restated
10.	Profit (loss) for the year	451.502	716.992
	Other comprehensive income without transfer to the income statement:		
20.	Equity securities designated at fair value through other comprehensive income:	(3.292)	-
	a) change in fair value	(3.292)	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in their creditworthiness):	-	-
	a) change in fair value	-	-
	b) transfers to other equity items	-	-
40.	Hedges of equity securities designated at fair value through other comprehensive income:	-	-
	a) change in fair value (hedged instrument)	-	-
	a) change in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	(1.008)	-
60.	Intangible assets	-	-
70.	Defined benefit plans	976	(6.352)
80.	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserves of equity-accounted investees	(338)	-
100.	Income taxes relating to other comprehensive income without transfer to the income statement	2.442	1.715
	Other comprehensive income with transfer to the income statement:		
110.	Foreign investment hedges:	-	-
	a) changes in fair value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
120.	Exchange rate differences:	-	-
	a) changes in value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(52)	(407)
	a) changes in fair value	(52)	(407)
	b) transfer to the income statement	-	-
	c) other changes	-	-
140.	Hedging instruments (elements not designated):	-	-
	a) changes in value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(389.576)	(65.133)
	a) changes in fair value	(375.915)	19.927
	b) transfer to the income statement	(14.058)	(80.777)
	- impairment losses for credit risk	(2.411)	1.535
	- profits and losses from sale	(11.647)	(82.312)
	c) other changes	397	(4.283)
160.	Non-current assets and disposal groups held for sale:	-	-
	a) changes in fair value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves attributable to equity-accounted investees:	(4.037)	8.788
	a) changes in fair value	3.159	1.871
	b) transfer to the income statement	-	(2.492)
	- impairment losses	-	2.917
	- profits and losses from sale	-	(5.409)
	c) other changes	(7.196)	9.409
180.	Income taxes relating to other comprehensive income with transfer to the income statement	130.980	20.439
190.	Total other comprehensive income items	(263.905)	(40.950)
200.	Comprehensive income (item 10+190)	187.597	676.042
210.	Consolidated comprehensive income attributable to minority interests	25.858	26.515
220.	Consolidated comprehensive income attributable to the shareholders of the Parent	161.739	649.527

Part E - Information on risks and the relative hedging policies

SECTION 1 – Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, impairment losses, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and according to credit quality (carrying amount)

Portfolios/Quality	Bad loans	Unlikely-to-pay loans	Non-performing past-due exposures	Other non-performing exposures	Performing loans	Total
1. Financial assets measured at amortised cost	2,767,775	3,144,415	63,774	4,787,583	92,035,040	102,798,587
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,677,329	10,677,329
3. Financial assets designated as at fair value	-	-	-	-	11,028	11,028
4. Other financial assets mandatorily measured at fair value	3,066	141,901	285	1,051	287,933	434,236
5. Financial assets held for sale	-	-	-	-	-	-
Total 31.12.2018	2,770,841	3,286,316	64,059	4,788,634	103,011,330	113,921,180
Total 31.12.2017 restated	4,035,614	3,986,728	155,194	6,065,864	101,191,224	115,434,624

As at 31st December 2018, forbore exposures amounted to €4.655 billion net (of which €2.586 billion non-performing and €2.069 billion performing) and they related mainly to “Financial assets measured at amortised cost: loans and advances to customers”. See table A.1.5 for further details.

A.1.2 Distribution of financial assets by portfolio and according to credit quality (gross and net amounts)

Portfolios/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total impairment losses	Net exposure	Total partial write-offs	Gross exposure	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	9,716,770	(3,740,806)	5,975,964	938,276	97,377,887	(555,264)	96,822,623	102,798,587
2. Financial assets measured at fair value through other comprehensive income	9,501	(9,501)	-	-	10,683,826	(6,497)	10,677,329	10,677,329
3. Financial assets designated as at fair value	-	-	-	-	X	X	11,028	11,028
4. Other financial assets mandatorily measured at fair value	231,438	(86,186)	145,252	2,519	X	X	288,984	434,236
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31.12.2018	9,957,709	(3,836,493)	6,121,216	940,795	108,061,713	(561,761)	107,799,964	113,921,180
Total 31.12.2017 restated	12,683,197	(4,505,661)	8,177,536	-	107,656,961	(411,144)	107,257,088	115,434,624

Portfolios/Quality	Assets with markedly poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
Financial assets held for trading	930	4,726	396,238
Hedging derivatives	-	-	44,084
Total 31.12.2018	930	4,726	440,322
Total 31.12.2017 restated	1,983	7,745	1,065,325

B. Information on structured entities (other than securitisation special purpose entities)

Nothing to report.

B.1 Consolidated structured entities

Nothing to report.

B.2 Unconsolidated structured entities recognised in the accounts

Nothing to report.

B.2.1. Prudently consolidated structured entities

Nothing to report.

B.2.2. Other structured entities

Nothing to report.

SECTION 2 – Prudential consolidations risks

In compliance with current regulations, the UBI Group has adopted a risk control system which disciplines and integrates the organisational, regulatory and methodological guidelines of the system of internal controls with which all Group member companies must comply in order to allow the Parent to perform its activities of strategic, management and operational control in an effective and economical manner.

Group member companies co-operate pro-actively in identifying risks to which they are subject and in defining the relative criteria for measuring, managing and monitoring them.

The key principles on which Group risk analysis and management are based for the pursuit of an increasingly more knowledgeable and efficient allocation of economic and regulatory capital 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 appetite for risk helps to define the strategic positioning of the Group and it is defined in compliance with its mission and its strategy and its business and value creation objectives.

The definition of the UBI Group's appetite for risk includes quantitative and qualitative factors:

- from a quantitative viewpoint, the risk appetite is given by the amount of capital that the Bank is willing to put at risk and it helps to define the strategic positioning of the Group;
- from a qualitative viewpoint, risk appetite relates to the Group's desire to strengthen its management and monitoring systems and the efficiency and effectiveness of its system of internal controls.

Risk objectives and governance and risk-taking policies are set by the Supervisory Board, with support from specific committees (which have policy-formulation, consultative and fact-finding functions) and from the Chief Risk Officer (CRO), who reports directly to the Chief Executive Officer. The Management Board is responsible for implementing the risk management process. More specifically, it is the duty of the CRO to formally identify the relative framework of reference in order to determine the Group's "risk appetite framework". He is responsible for implementing governance and risk management system policies and for the measurement and monitoring of the Group's exposure to different types of risk. He also helps develop and foster a control culture within the Group and oversees the detection and monitoring of potential failure to comply with legislation and regulations.

Management of the risks to which the Group is exposed is carried out by means of a set of policies and the relative regulations to implement them which the Group has developed. The policies that govern different types of risk must comply with the definition of the target measures for measurable risk, while measures of an organisational nature must be specified for non-measurable risks.

The regulations to implement the management of each type of risk defined in the policies contain details of the risk-taking model, the characteristics of the measurement and monitoring system, the roles and responsibilities of personnel and the operational limits and rules used to determine them.

With Provisions No. 689988 of 19th July 2013 and No. 423940 of 16th May 2012, the Bank of Italy authorised the UBI Banca Group to use the advanced internal rating based (AIRB) approach to calculate capital requirements to meet credit risk for the sub-classes of the retail regulatory segment "exposures backed by residential real estate" and "other exposures (SME-retail)" and for the corporate regulatory segment. The authorisation allows the use of internal estimates for probability of default (PD) and loss given default (LGD) parameters for the RRE (Residential Real Estate - Individuals and Retail Businesses), the Retail Other (Retail Businesses) and the Corporate portfolios. UBI Banca received authorisation in the first quarter of 2018 from the ECB for the implementation of a "model change"¹, which will modify the Bank's internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions.

As at the reporting date, the scope of application, in terms of companies, for the approaches authorised is as follows:

- AIRB: IW Bank² and UBI Banca³;
- the remaining legal entities in the Group as well as the exclusive customers acquired following the merger of the "New Banks" continue to use the standardised approach until the date of the respective authorisation/roll-out.

The application for validation, which was approved by the Bank of Italy involves a roll-out plan for the portfolios subject to the AIRB approach which contains set deadlines for each supervisory customer segment ("corporate", "retail - RRE" and "retail - other") and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan covers the period 2019-

¹ See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at <http://www.ubibanca.it>.

² In 2015 the company IW Bank Spa was merged into UBI Banca Private Investment Spa and the new company was subsequently renamed IW Bank Spa.

³ The corporate ownership procedures for the creation of a Single Bank were completed with effect from 21/11/2016 for Banca Popolare Commercio e Industria Spa and Banca Regionale Europea Spa and from 20/02/2017 for Banca Popolare di Bergamo Spa, Banco di Brescia Spa, Banca di Valle Camonica Spa, Banca Popolare di Ancona Spa and Carime Spa, with the incorporation of the network banks into UBI Banca which was followed on 10/05/2017 with the acquisition from the Resolution Fund of the "Bridge Banks" (Nuova Banca delle Marche, Nuova Banca Popolare dell'Etruria e del Lazio and Nuova Carichieti) and the subsequent merger as part of the same Single Bank Project of Banca Adriatica (the former Nuova Banca delle Marche) on 23/10/2017 and of Banca Tirrenica (the former Nuova Banca Popolare dell'Etruria e del Lazio) on 27/11/2017 as approved on 11th May 2017 by the Supervisory Board. The stages for the merger of Banca Teatina (the former Nuova Carichieti) were completed in February 2018).

2025, while permanent exemption from the application of AIRB was requested for Group banks and for the following exposures:

- exposures to central governments and central banks;
- exposures to supervised intermediaries;
- exposures to non-profit institutions;
- exposures to members of the banking Group;
- exposures to equity instruments;
- exposures secured by collateral and counter-guarantees issued by the government, recognised in accordance with the legislation and regulations on credit risk mitigation;
- exposures backed by credit protection provided by the parties listed above (central governments, central banks and supervised intermediaries);
- generic types of exposure to economic counterparties not directly attributable to single debtor/creditor counterparties, but mainly to special purpose entities formed for covered bond operations and self-securitisations.

In April 2019 the ICAAP Report and the ILAAP Report as at 31st December 2018 on the capital adequacy self-assessment process and on liquidity respectively are to be sent to the supervisory authority.

When this document is published, the Pillar Three Disclosures will be published at the same time on the corporate website of UBI Banca (www.ubibanca.it – Investor Relations Section). The regulations⁴ have introduced obligations to publish information on capital adequacy, exposure to risks and the general characteristics of the systems designed to identify, measure and manage them.

The information to be provided favours greater transparency in the ways in which banks manage risk. The Bank of Italy has made special tables available in this respect in which the quantitative and qualitative information which banks must publish is classified, thereby making the data comparable.

This Section – Sub-sections 1, 2, 4 and 5⁵ – furnishes information on the risk profiles listed below, on the relative management and hedging policies pursued by the Group and its activities relating to financial derivative instruments:

- a) credit risk;
- b) market risks:
 - interest rate,
 - price,
 - currency,
- c) liquidity risk;
- d) operational risks.

Sections 3 and 4 also provide information on the risks pertaining to the insurance companies and other companies in the consolidation.

A report on the general framework of the risks and uncertainties to which the UBI Group is exposed is given in a special section of the Management Report, prepared in compliance with Legislative Decree No. 32 of 2nd February 2007, which implements EC Directive No. 2003/51/EC.

1.1 CREDIT RISK

Qualitative information

1. General aspects

Within the UBI Group, the Parent, UBI Banca Spa, assumes the role of governance and formalizes the strategic guidelines with reference, in part, to the assumption and management of credit risk connected to the granting of financing to ordinary customers, institutional counterparties, and

⁴ Pillar 3 Disclosures are regulated by Part Eight and Part Ten (Title I, Chapter 3) of Regulation EU 575/2013 (the "CRR") and by regulatory and implementation provisions issued by the European Commission.

⁵ The information is provided in reference to the Banking Group alone, except where expressly indicated that the complete set of consolidated companies is considered.

foreign subjects (risks for each country). UBI Banca also prepares the guidelines that inform the commercial policies of the consolidated loan portfolio and directs the processes and methods of credit processing, authorisation, disbursement and monitoring, and the recovery of non-performing positions.

There is a particular focus in the formulation of policies to manage credit risk on maintaining an appropriate risk-return profile and on taking risks that are consistent with the mission of the UBI Group.

Customer loyalty is a strength of the UBI Group, as we work to strengthen our position at the service of Italy's economic growth. Customer relationships are aimed at building lasting bonds that promote the sustainable generation of wealth according to processes that are sensitive to the social and environmental needs of the local communities in which we operate. Even in complex economic times such as those experienced during the recent recessions, the Group has ensured an appropriate availability of credit, adhering to applicable agreements with the Italian Banking Association, the Ministry of the Economy and Finance, and industry associations.

We constantly strive to listen to the financing needs of households and of small and medium sized-enterprises, as well as of the broader value chains in which businesses are involved due to the presence of larger manufacturing firms.

The UBI Group prefers transparency-based conduct, and our borrowers are urged to strengthen their attitude to information disclosure, which is considered an essential prerequisite for the development of the lending relationship. Greater transparency into the financial standing of the counterpart both makes it possible to personalise the product offering and allows for a more accurate assessment of creditworthiness to the benefit of projects with greater added value.

Innovation of the product lines is aimed at supporting the development of demand through balanced proposals in which interest rate levels are commensurate with the rating and are modulated based on risk mitigation efforts, such as through collateral or personal guarantees. When designing new products, a detailed report is prepared for senior management presenting the risk-return characteristics for the purpose of full and transparent compliance with strategic guidelines on the assumption of credit risk.

With regard to the **household** segment, updates to products and services were aimed at optimizing the flexibility of our offering, while at the same time ensuring a balanced composition of the loan portfolio in terms of the main types of lending operations, and namely: mortgage-backed loans, unsecured loans, personal loans, guarantees, institutional or internal facilitated measures, opening lines of credit, debit/credit cards, and pension or salary-backed loans. In any event, preference is given to transactions backed by collateral over unsecured credit.

As for the **corporate** segment, the new offering has been structured by industry/value chain, and preference has been given to entering into positions within the scope of agreements with trade and industry associations. By doing this, the UBI Group intends to incentivise the local economies to work collaboratively, which would be to the benefit of the many small businesses that contribute to the productivity of the Italian economy as a whole. In the direct relationship with each borrower company, the granting of loans is carried out through actions of varying intensity, from the development to closure of positions, and so as to select the organisations of greatest creditworthiness, certain crucial drivers have been introduced to the process. These drivers supplement the assessment of the counterparty alongside the typical factors concerning the market, such as macroeconomic variables and the outlook for the industry to which the counterparty belongs.

2 Credit risk management policies

In the performance of its traditional banking business, the Group is exposed to the risk that the loans it grants will not be repaid by borrowers when they are due and that partial or full impairment losses must be recognised on them. More specifically, the risk profile for lending is sensitive to the performance of the economy as a whole, to the deterioration in the financial position of counterparties (shortage of liquidity, insolvency, etc.), or to changes in their competitiveness, to structural or technological changes in corporate debtors and to other external

factors (e.g. changes in legislation, deterioration in the value of financial guarantees and mortgages connected with market performance). A further element of risk to which the Group pays particular attention is the degree of concentration of the loan portfolio in terms of borrowers or of industries.

2.1 Organisational aspects

The organisational model on which the units which manage lending activity is based is as follows:

- Parent units for centralised monitoring and co-ordination of the product companies;
- central units for the grant and monitoring of UBI Banca loans;
- lines of business specialising in specific customer segments (Top Private Banking, Corporate & Investment Banking, Remote Channels, Global Transaction Banking, etc.);
- Macro Geographical Areas (hereinafter MGAs) and the General Managements of subsidiaries, to which the following report:
 - Credit Areas present in each MGA, both with regard to central units (Loan Grant and Central Credit), the units responsible for managing and monitoring credit for their territories, and local units (Local Loan Approval Committees and Local Credit Units);
 - Local departments and branches,
 - Credit Departments of the product companies.

Within the Parent, the Chief Lending Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Audit Executive oversee the management of lending policies, overall monitoring of the loan portfolio, the refinement of assessment systems, problem loan management, and compliance with regulations.

Disbursement of loans is overseen by the Chief Lending Officer, to whom the “MGA Credit” units within each of the seven Macro Geographical Areas (MGAs) functionally report. The MGAs are the geographical divisions of UBI Banca Spa resulting from the merger of the Group’s former network banks. The MGA Credit units, in turn, hierarchically manage the MGA Loan Disbursement units directly and manage the organisational levels of the MGA Central Credit and MGA Local Credit units and the Local Loan Approval Committees indirectly. Within each MGA, there are also the aforementioned specialised units dedicated to monitoring the quality of the credit of performing and non-performing past-due exposures (Credit Quality Monitoring and Monitoring) and to the management of administrative support activities (Lending Administrative Support).

Then there are units organised by business in the form of the lending units dedicated to Corporate and Investment Banking, to Top-Private Customers, and to the Remote Channels.

Within the product companies and IW Bank Spa, the Credit Departments manage loan disbursement in compliance with the policies of the Group and under the oversight of the Chief Lending Officer and Chief Risk Officer of UBI Banca.

The bodies authorising credit act in accordance with the criteria established by the Management Board of UBI Banca Spa and, in particular, the principle of separation between proposing and authorising bodies is broadly applied. The powers granted also take into account the level of risk determined by the internal rating process. For all counterparties (individuals or groups of companies) with credit lines in place at the banks and companies of the Group in amounts of greater than €50 million (low-risk borrowers), greater than €35 million (intermediate-risk borrowers), or greater than €25 million (high-risk borrowers), the Parent must approve an Operational Limit to the credit that can be granted to the counterparty across the UBI Group. Responsibility for the granting/change/renewal/revocation of these Operational Limits has, on the basis of specific thresholds, been assigned to the Management Board or to the Credit Committee along with the obligation to inform the governing bodies in the event of a relevant resolution pursuant to the current credit risk management policies. Any changes in the operational limits regarding the relevant counterparties pursuant to Art. 136 of the Consolidated Banking Act are subject to compliance with supervisory regulations and, therefore, require the unanimous approval of the Management Board and the favourable vote of all members of the Supervisory Board.

Loan granting activity is also differentiated, at local level, by customer segment (retail/private banking/corporate and institutional) and specialised by the status of the loan: performing or non-performing past-due exposures (managed by retail, private banking and corporate lending units) and other non-performing positions (managed by the problem loan units).

IW Bank Spa and the companies of the Group must also request a prior, consultative, non-binding opinion from the Parent for combinations of specific amounts of authorised credit and determined internal rating classes. It is the Parent's duty to assess whether it is consistent with the credit policies of the Group, according to the criteria and parameters laid down in the credit authorisation regulations of the Group. A prior opinion is not required for credit authorisations for single counterparties or groups of companies which fall within the operational limits that have been set.

The various organisational units in UBI Banca, IW Bank, and the product companies that disburse loans are responsible for credit and commercial activities and they also hold responsibility for monitoring both the activity they perform directly and that performed by those units which report to them.

In particular, responsibility for managing and monitoring performing loans and non-performing past-due exposures is assigned, in the first instance, to the account managers, who maintain the relationship with customers on a daily basis and who can immediately perceive any signs of difficulty or deterioration in credit quality. Nevertheless, all employees of Group member companies are required to promptly report all information that might allow difficulties to be identified at an early stage or which might recommend different ways of managing accounts, by concretely participating in the monitoring process.

In the second instance, the local organisational units responsible for monitoring credit risk are the Credit Quality Management and Monitoring Units of the MGAs, which carry out monitoring, supervision and analysis of performing positions and of past-due exposures on both a case-by-case and a collective basis, where the intensity and degree of detail of the analysis is a function of the risk class attributed to the counterparties and the seriousness of the performance problems. The Credit Quality Management and Monitoring unit of the MGA, not involved in loan approval procedures, either on its own initiative or on submission of a proposal, may assess a position and decide or propose to a superior decision-making unit (through its own MGA Credit Area, when the decision does not lie within its powers) to change the classification of performing counterparties to a more serious status.

The Chief Lending Officer is assisted internally by the Credit Policies and Monitoring Area in defining the rules and guidelines for the management and monitoring of the Group's loan portfolio while monitoring quality. This area also manages the system of single loan reporting system at the Group level and ensures co-ordination of credit governance and is also equipped with a centralised unit dedicated to credit management in order to support the Account Manager in the timely resolution of credit irregularities (past-due instalments or overdrafts) regarding performing customers, both individuals and small economic operators. This unit makes use of: i) phone collection efforts, which involve reminder calls aimed at correcting the situation and assigning the positions to external credit recovery companies in order to track down customers that could not be reached; ii) centralised settlement efforts in order to analyse the causes that led to the irregularity and to assess the sustainability for the customer of any concessions in order to identify the most suitable solutions to restore the position to good standing.

Within the Parent, reporting to the Chief Lending Officer, there are two distinct units for the management of non-performing loans, the Credit Recovery Area, which handles bad loans, and the Problem Loans Area, which centrally manages exposures classified as unlikely to pay. Past-due exposures are handled directly by the specific units of the commercial functions.

The Problem Loan Area consists of services and functions that specialise in the following:

- the Problem Loan Support Function responsible for monitoring the problem loan portfolio (not including bad loans) and for providing support to the Head of the Problem Loan Area;
- the Restructuring and Significant Exposures service for the management of counterparties being restructured or classified as “unlikely-to-pay” restructured loans of UBI Banca and of UBI Leasing;
- the Individuals, Businesses and Small Sums Credit Service responsible for the management of other non-performing counterparties (with the exclusion of bad loans).

Over the last few years, the Credit Recovery Area has been the subject of a major re-organisation, and its activities include: the segmentation of bad loans and the creation of related portfolios based on the size and complexity of the position; the specialisation of recovery processes and of the units involved in line with the segments and portfolios defined; the monitoring of credit management processes; the assignment of recovery objectives to the account managers and assessment of the results achieved; the implementation of strategies aimed at optimising the recovery of specific portfolios, such as turning to real estate companies for the development of properties used as collateral for mortgage loans. This area is organised internally by way of services dedicated to specific segments:

- the Problem Loan Support Service, which is responsible for the overall monitoring both of unlikely-to-pay positions for the Group and of external credit recovery firms;
- Small Sum Recovery Service, to manage bad unsecured loans to private individuals for amounts of less than €25,000;
- Large Loan Recovery Service, specialising in the management of bad loans to both private individuals and businesses for amounts of over €1 million, or with a net book value of over €500,000. Particularly complex types of position are also managed by this service (e.g. pool financing, etc.);
- the Northern and Southern Loan Recovery Services, both Retail and Corporate, which are responsible for managing other types of loans that are not included within the scope of the Small Sum or Large Loan services.

The organisational area headed by the Chief Risk Officer contains the following areas: Capital & Liquidity Risk Management and Credit Risk Management which, through the specific functions that report to them and each within their own areas of responsibility, perform the following:

- define criteria and methodologies for the development of internal rating models – probability of default (PD), loss given default (LGD) and exposure at default (EAD) – in line with regulatory requirements and best practices;
- define corporate methods for assigning counterparty ratings;
- produce periodic analyses which illustrate the risk profile of the total loan portfolio and the commercial sub-portfolios at Group level and at the level of individual legal entities, in terms of distribution by rating class, LGD and Expected Loss, rates of loan deterioration and concentration in the most exposed customers;
- develop, in collaboration with the unit that reports to the Chief Financial Officer and in line with IFRS 9 as of 1st January 2018, the methods for the determination of collective allocations to provisions and for the definition of the staging allocation;
- calculate default rates for the Group and define the relative calculation methods for individual legal entities;
- provide input parameters (PD and LGD) for product pricing activities.

A specific unit is also in place with regard to credit risk for non-performing loans, in light, amongst other things, of the new “Guidance to banks on non-performing loans (NPLs)”⁶ issued in March 2017 by the European Central Bank which requires banks to formulate a strategy for non-performing loans⁷ with the aim of defining governance to manage them and reduce their amount. With regard to the risk control function in particular, the aforementioned guidance outlines a specific role of second level control with regard to overall management of the NPL portfolio, to banks putting remediation plans in place, and to the appropriateness of the levels of write down

⁶ Guidance to banks on non-performing loans (NPLs), the European Central Bank, March 2017.

⁷ Non-performing loans include, past due, unlikely-to-pay and bad loans.

applied. In line with regulatory instructions, the risk control function has started the required backtesting and quality assurance checks on the reports produced to support the assessments. Furthermore, with regard to regulations on controls⁸, the risk control function is also responsible for monitoring the overall portfolio both by large-scale verifications and also by analysing individual positions with regard to credit processes for the monitoring, classification and write down of loans and credit recovery. In order to ensure compliance with Group regulations, a unit is in place under the Chief Risk Officer to carry out second level controls.

Furthermore, the units headed by the Chief Risk Officer play a key role within the Basel 2 project:

- they provide the guidelines on credit risks;
- they draw up roll-out plans for models implemented at the Parent;
- they monitor the extent to which regulatory provisions are covered by internal rating models;
- they co-ordinate activities for the development and maintenance of internal rating processes and systems;
- they formulate policies for the assumption and management of credit risk.

More specifically, the Credit Risk Management Area formulates the operational details of policies by preparing regulations to implement them and also detailed documents, both for the Parent and for the single legal entities, which illustrate aspects relating to the definition, use, monitoring and reporting of risk in relation to compliance with the guidelines and the indicators that are set.

These documents are implemented by the corporate units in the various legal entities of the Group, which must have a knowledge of the risk profile and the risk management policies defined by the senior management of the Parent and which must contribute, each within the scope of their responsibilities, to the implementation, consistent with their corporate realities, of the risk management strategies and policies decided by the senior management of the Parent.

The area also:

- provides specialist support for the operational implementation of the policies and regulations for them, concerning the assumption and management of credit risk and it periodically monitors their consistency with Group operations, and proposes corrective action if necessary;
- monitors the progress of the strategic levers of the Operational Plan of the Group's NPL Strategy;
- oversees the monitoring indicators of the strategy for managing non-performing exposures in order to verify the actual implementation of actions aimed at achieving the objectives set when defining the NPL strategy.

Lastly, the units that report to the Chief Risk Officer then define in detail, and undertake, active credit portfolio management action in order to take initiatives to mitigate, monitor and transfer credit risk, assessing its impact on economic capital and on regulatory capital requirements.

2.2 Management, measurement and control systems

The Credit Risk Management Area is responsible for Group reporting on credit risk in order to monitor changes in the risk attached to lending for individual Macro Geographical Areas (MGAs)/Lines of Business/regulatory portfolios. The reports of single Group companies are submitted quarterly to Boards of Directors. For UBI Banca and the main product companies those reports describe the distributions by regulatory portfolio and by internal rating classes and risk parameters. They also show changes in average risk connected with the Corporate Market (Core and Large portfolios), the Retail Market (Business and Individuals portfolio) the Private Banking Market, and Other markets, while for the product companies the reports describe risks attaching to the various types of exposure and products marketed.

Special reports on specific matters are also prepared on the main components of credit risk.

The set of models which constitute the Group's internal rating system is managed by the area that reports to the Risk Management Officer with the support of the Credit Area.

Ratings are calculated using a counterparty approach. In line with internal policies, and on an annual basis, they are monitored in order to assess recalibration by updating the historical data series. For the "exposures to corporates" supervisory portfolio, the PD models developed by the

⁸ Cf. Circular No. 263/2006 (15th update) and Circular No. 285 of 17th December 2013.

UBI Group provide an overall assessment of counterparty risk through a combination of a quantitative and qualitative component. The quantitative component is developed and processed statistically: the technique selected is that of logistic regression, normally used to assess cases where the dependent variable (target) is dichotomous, either default or performing. The qualitative component of the rating model is based on information acquired by the account manager or a central unit⁹ of UBI Banca for large corporate positions and it meets the need to incorporate qualitative factors and information on the client that cannot be automatically standardised in ratings which accompanies and completes the quantitative analyses, in order to detect trends and assess creditworthiness more accurately.

The same considerations described above apply to retail exposure classes (for retail businesses and private individuals) except that the qualitative component is not considered. The quantitative component for granting and monitoring loans assesses the credit rating for small-size companies, by integrating it with geo-sectoral, economic and financial, and internal and external performance type assessments. The quantitative component for granting mortgages to private individuals assesses counterparty risk by integrating it with information on personal details and on the product, while the quantitative component for monitoring mortgages to private individuals assesses the credit rating by integrating it with information on personal details and external and internal performance.

The output of the models consists of nine rating classes that correspond to the relative PDs, calibrated by comprising default positions up to December 2016.

With regard to LGD, the determinant factors are: 1) Bad Loan LGD and average time of recovery (ATR), 2) Downturn LGD, 3) Danger Rate.

BAD LOAN LGD, for the calculation of LGD relating to bad loans, a model has been developed that calculates the values of Accounting LGD related to the entire recovery process (the “Lifetime Accounting” model), along with a model that recalibrates these values depending on the age of the bad loan (the “Defaulted Assets Accounting” model). To calculate LGD for positions in a status other than Bad Loans, a model has been developed that calculates the Economic LGD related to the entire recovery process (the “Lifetime Economic” model). The historical depth of the data observations for the estimate of Network Bank and UBI Banca Bad Loan LGD always guarantees at least eight years of closed non-performing loans. The date on which the last non-performing position was closed is 31st December 2016.

AVERAGE TIME OF RECOVERY (ATR), for bad loans, the Accounting LGD obtained with the models (both Lifetime and Defaulted Assets) are discounted based on an average time of recovery, which is determined by way of a specific model.

DOWNTURN LGD is an estimate, for regulatory econometric models, of the economic loss incurred on bad loans during periods of recession, calculated by applying a correction factor to the Bad Loan LGD to represent the greater expected risk with respect to the long-term average. This corrective factor is applied as a multiplier of the recovery rates.

DANGER RATE, this is the parameter applied to the estimated LGD (i.e. Bad Loan LGD * Downturn LGD) for performing and non-performing counterparties (in relation to the default status of Past Due and Unlikely-to-Pay). This parameter defines the potential path taken by a performing or non-performing counterparty (other than a bad loan) towards the “dead-end” state of bad loan. To calculate it, it is first necessary to calculate three specific components:

- *Probability of migration* between default states, which measures the probability of being classified as bad debt from performing, past-due, and unlikely-to-pay;
- *Exposure Delta*, which measures the change in exposure observed from the date of classification as defaulted to the date of migration to bad loan status;
- *Indirect costs* related to the problem loan management process.

The historical depth of the data observed for estimating the Danger Rate corresponds to the period January 2007 – December 2016 for the corporate segment and January 2009 – December 2016 for the retail regulatory segment.

⁹ This solution was adopted in order to ensure centralised management by specialists in the assessment of large corporate positions in conformity with internal Group assessments.

Credit processes within the Group work with information channelled from the rating system as described in detail below.

The operational units involved in the loan grant and renewal process use internal credit ratings, which constitute necessary and essential evaluation factors for credit authorisations when these are assessed and revised. Powers to authorise loans are based on the risk profiles of the customers or the transactions given by the credit rating and by the expected loss, while they are managed using *Pratica Elettronica di Fido* (electronic credit authorisation) software. The credit ratings are used, amongst other things, to monitor loans both by the management reporting system and in the information made available to units involved in the lending process.

The assignment to rating classes that are different from those calculated by the internal rating system on the basis of the models adopted is made by proposing an override on the rating for which the methods of presentation, examination and validation are different for cases of:

- higher rating override;
- lower rating override.

These changes are made on the basis of information not already considered by the rating model, not adequately weighted by the model or where it is intended to anticipate the future influence of the information.

In addition to the process for the disbursement, renewal and monitoring of credit and to the departmental reporting process just described, the processes directly affected by internal ratings or in which internal estimates of PD and LGD are described below.

[The calculation of collective impairment losses on performing loans](#)

On this topic, see sub-section 2.3, “Methods for the measurement of expected credit losses”, below.

[Calculation of minimum theoretical price levels for loans to customers](#)

The minimum theoretical price is the break-even price which ensures remuneration of lending risk such as expected loss and unexpected loss, or in other words the cost of the capital absorbed in accordance with prudential supervisory regulations. The minimum theoretical price corresponds to a level of profit adjusted for risk consistent with value creation approaches in place in the UBI Banca Group.

[Value creation, capital allocation and incentive schemes](#)

As part of its capital allocation processes, the UBI Group applies methodologies to assess risk adjusted performance that are designed to measure and summarise the effects of economic, asset, risk (recognition of impairment) and capital (risk weighted assets and expected loss net of impairment losses recognised) variables that impact the creation of wealth for shareholders. The creation of value is fully incorporated in incentive schemes as a determining factor in triggering incentives.

[Stress tests](#)

In order to assess vulnerabilities in its capital and liquidity management, the UBI Banca Group has developed a set of quantitative and qualitative techniques with which it assesses its exposure to exceptional, but plausible events. These techniques, termed stress tests, measure impacts for the bank in terms of risk resulting from combined changes in operating and financial variables, under adverse scenario hypotheses. The tests regard credit risk to a large extent.

Stress tests allow the Group's resilience to be measured by simulating and estimating the impacts of adverse situations with account taken of “propagation” mechanisms. They furnish intermediaries with important indications of their exposure to risks and to instruments, the adequacy of the relative mitigation and control systems and their ability to withstand unexpected losses also from a forward looking and planning viewpoint.

The UBI Banca Group performs three types of stress test:

- Global and regulatory stress tests (scenario analysis): These are activities both promoted by the supervisory authorities (EBA, ECB, etc.) aimed at testing the resilience of banks under adverse market conditions according to a framework methodology common to all the institutions involved concerning various types of risk simultaneously and carried out internally within the

general risk management framework and in conjunction with the (at least annual) preparation of the ICAAP-ILAAP report.

- Specific stress tests (sensitivity analysis): the Group assesses the impact that stress on a single risk factor (both macroeconomic and financial), on one or more regulatory parameters (e.g. PD, EAD), or on possible idiosyncratic events may have on capital adequacy, liquidity and profitability, both at the consolidated level and at the level of individual market or product. Specific stress tests are conducted by using sensitivity analysis to assess the impacts of changes in the risk factors that are tested;
- Reverse stress tests: the UBI Banca Group carries out reverse stress tests that start from identification of a predefined result with the aim of identifying the main vulnerabilities of the Group and improving risk management.

In 2018¹⁰ UBI Banca was subject to the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in co-operation with the Bank of Italy, the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). The adverse stress test scenario was set by the ECB/ESRB and developed over a three-year time horizon (2018-2020). The stress test employed a “static balance sheet” methodology whereby the overall size of the bank’s balance sheet, unchanged compared with December 2017, does not take into account future business strategies and management actions. While this was a particularly severe stress test, both in terms of the macroeconomic scenario and the methodology, based on an extraordinary year for UBI Banca, the Group’s capital ratios nevertheless remained very resilient.

Activity also continued in 2018 to revise, update and adopt policies and regulations for credit risk management. Existing policies are listed below together with the principal contents.

Credit risk management policy

“UBI Group credit risk management policies” exist within the Group, inclusive of the relative regulations to implement them and documents to set limits both for the Group and for single banks and companies. This regulation allows a common approach to be followed for the assumption of risk and procedures to manage it across the entire Group and it standardises risk indicators, while taking account of the specifics of each class of risk.

The policy gives details of limits and it defines the procedures for assuming risk for the following types of risk:

- credit risk: the risk of incurring losses resulting from the default by a counterparty with whom a position of credit exposure exists. Credit risk can be divided into the following two types:
 - credit risk relating to business with ordinary customers, with a specific focus on credit risk for structured finance operations;
 - credit risk relating to business with institutional customers and with ordinary customers resident in high risk countries;
- concentration risk: risk resulting from the existence of large exposures to single counterparties or groups of companies.

Ordinary customers

Standards, principles and limits to manage credit risk are set for ordinary customers both at consolidated level and for individual legal entities, on the basis of the availability of risk drivers generated by the internal rating model (rating class, probability of default and loss given default). The definition of the limits is based on a series of indicators expressed in terms of: capital allocation, values for maximum risk (defined as maximum expected loss and target [early warning threshold] and as credit loss), limits on the assumption of risks in terms of the distribution of exposures by credit rating class and the management of credit quality.

The Credit Risk Management Area prepares quarterly reports on compliance with the indicators set for all the areas concerned and for the governing bodies of the Parent and the companies in the Group.

¹⁰ Cf. The press release of 2nd November 2018, available on the corporate website at <http://www.ubibanca.it> in the Investor Relations Section.

Structured finance

A specific focus has been placed on structured finance business (specialised lending and leveraged transactions¹¹).

The term “structured finance operations” refers to non-standard finance operations, formulated on the basis of the specific requirements of customers, usually performed for industrial or infrastructure investments, or characterised by high levels of financial leverage.

With regard to Structured Finance customers, the limits for each counterparty are defined on the basis of an analysis carried out using a portfolio model that considers the riskiness and characteristics of the Structured Finance portfolio, the early warning capital attributed to it, and first-pillar (relating to credit risks) and second-pillar (covering single-name concentration risk) absorption.

Specifically, the following are defined: overall risk limits deriving from capital absorption based on the target capital ratios; limits by individual exposure at both the separate and consolidated level, based on the rating of the counterparty in addition to the parameters set by the supervisory authority; risk limits of the portfolio based on the target and maximum expected loss (on the sub-portfolio of the on-balance sheet performing leveraged transaction exposures only¹²).

Institutional counterparties and country risk

For institutional and ordinary customers resident in high risk countries, the risk management policy, the relative regulations to implement it and the documents containing the limits set standards, principles and limits designed to ensure proper management of the entire process of the assumption, management and monitoring of credit risk in this area.

Limits are set for maximum exposure to credit risk as follows:

- a maximum limit in terms of the degree of risk (minimum rating) for institutional counterparties and for countries;
- maximum exposure limits: an overall exposure limit (total amounts drawn) formulated by the different risk classes of the exposures (combinations of counterparty ratings and country ratings) at Group and individual company level;
- single name concentration limits: maximum limits on total authorised credit for each borrower for the different risk classes (combinations of counterparty ratings and country of residence ratings) defined at group level;
- country concentration limits: maximum limits on total authorised credit for each country defined at Group and individual company level.

Concentration risk

Concentration risk is dealt with as part of second pillar risks. The policy sets a specific capital requirement to take account of the higher sensitivity of a more concentrated portfolio.

Single name concentration risk is addressed by setting maximum exposure limits for single counterparties in order to limit risks of instability that would arise from high rates of concentration for loans to major borrowers if one of these should default. The limits set are based on counterparty ratings and the type of transaction.

The contents of the policy are set out in regulations and in a document which gives details of limits, the latter approved by the Management Board.

Policy for the distribution of mortgages through brokers

This policy regulates the procedures for the use of external distribution networks for granting mortgages to non-captive customers in order to mitigate potential credit, operational and reputational risks.

The policy defines the following:

- minimum capitalisation limits for the brokerage companies and a prohibition on direct agreements with mortgage brokers and real estate agents;

¹¹ Financing that highlights the characteristics envisaged by the Guidance on Leveraged Transactions issued by the European Central Bank in May 2017. This includes committed transactions with counterparties with a post-financing debt-to-EBITDA ratio of greater than 4 and/or counterparties owned by one or more financial sponsors, or private-equity or LBO investment companies with an investment time horizon of more than six months.

¹² For the specialised lending sub-portfolio, no target regulatory or early warning expected loss values are defined, given that the UBI Group has been authorised to apply the slotting criteria for these exposures for regulatory purposes.

- minimum contents for agreements between distribution networks and UBI Group companies including, for example, the specification of a minimum list of risk indicators to be monitored for which there must be a provision in the agreement that requires the network to remain within certain limits. Once those limits are exceeded penalties are applied (if maximum risk limits are exceeded) or bonuses are paid (if particularly low levels of risk are achieved) to the distribution network;
- an obligation by banks entering into agreements to put a process in place to monitor changes in the risk indicators just mentioned, with support from the Parent.

Policy on risks resulting from securitisations

The “Policy on risks resulting from securitisations”¹³ sets guidelines for the Group to manage risks relating to securitisations defined as “the risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk”. This risk relates to both conventional and synthetic securitisations originated by the Group which involve the transfer, at least partial, of the risk attaching to the securitised assets.

The process of implementing a securitisation involves formally stating the objective of the transaction and the role played by the UBI Group in it, quantification of the impacts on the financial statements and the tax aspects, consistency with development guidelines for the loan portfolio and verification that it is fully compliant with the requirements contained in supervisory regulations and other internal and external regulations.

The UBI Group makes sole use of agencies recognised by the Bank of Italy (ECAI – External Credit Assessment Institution) when assigning ratings to bonds and/or the tranches issued.

Policy for the management of guarantees acquired for credit risk mitigation purposes

In 2018 the Credit Risk Management Area introduced a new “Policy for the management of guarantees acquired for credit risk mitigation purposes” to replace the previous “residual risk” policy. By making reference to risks identified in the documents “RAF - Risk appetite framework” and “RAF - Risks in the UBI Banca Group” this policy established guidelines for the governance of guarantees acquired both at the initial stage and at the management and monitoring stage. The policy also establishes the monitoring process and the relative reference indicators for “residual” risk (i.e. guarantees relating to credit risk mitigation); this risk falls within the risks envisaged by supervisory regulations with reference to Pillar II and, therefore, not subject to the allocation of internal capital.

With regard to credit risk mitigation, the policy verifies the following: the consistency with the regulations that govern the management of credit risk mitigation instruments in compliance with the guidelines set by the governing bodies; the effective application of internal regulations “*ex post*”; and the effectiveness and efficiency of the management model for guarantees within the framework of second level credit control activities.

In this context, strategic orientations are defined relating to compliance with prudential criteria for admissibility and the minimum requirements for the management of the guarantees acquired and the indicators to be monitored as significant for the proper management of CRM activities.

¹³ With the update of the 2018 Risk Appetite Framework, amendments were made to this policy in a special section of the “Policy on Residual credit risk”.

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

The “Policy on internal controls to manage risk assets and conflicts of interest with regard to connected parties”, which implements Bank of Italy recommendations on “risk weighted assets and conflicts of interest with regard to connected parties”. Connected counterparty risk arises from the fact that “the closeness of persons to the decision-making centres of a bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, and other transactions with, those persons, which may result in possible distortions in the resource allocation process, the exposure of the bank to inadequately measured or monitored risks, and potential harm to depositors and shareholders”.

The policy defines guidelines and criteria for the adoption by the Group as a whole of appropriate organisational structures, internal control systems and specific internal policies to manage that risk within two areas defined by the regulations: prudential limits and approval procedures.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, strictly speaking, fall under the definition of connected parties, but whose work could in any case have a significant impact on the bank’s risk profile (e.g. “key staff”¹⁴, which is to say employees or associate workers of Group companies who are not related parties, but fall within the perimeter of the “identified staff”), the UBI Group has adopted – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise.

Policy to manage equity risk

The “Policy to manage equity risk” completes the adoption of policies to manage the various risks to which the UBI Group is exposed in terms of its operating and organisational characteristics and it incorporates provisions issued by the Bank of Italy on the subject of “Equity investments that may be held”.

Equity risk is defined as “Exposures to equity instruments”¹⁵ assumed by the Group, with the exclusion of fully consolidated equity investments, in relation to the following:

- equity investments held directly in both financial and non-financial companies and equity investments held indirectly through private equity funds (equity investments in *banc assurance* companies are not included given that they are included under insurance risk);
- other equity instruments that are not liquid within one day (equities, CIUs, property funds, hedge funds, debt and non-debt exposures including debt securities representing subordinated liabilities that confer a residual subordinated credit, residual commitments, etc.) included in portfolios in the banking book;
- equity investments acquired in businesses in temporary financial difficulty and for credit recovery.

With the adoption of this policy the Group has put appropriate controls in place designed to:

- contain the risk of locking up too much liquidity as a result of making equity investments in financial and non-financial companies;
- with specific reference to non-financial companies, promote risk and conflicting interest management that complies with the criterion of sound and prudent management.

Finally, a specific focus was placed on private equity business which consists of acquiring stakes in a target company either by purchasing existing shares from third parties or by subscribing new share issues to bring new capital to the target company. More specifically the mission and relative strategies are specified, distinguishing between the acquisition of direct interests and the subscription of units in private equity funds formed by entities within the Group or outside it.

¹⁴ See also the Single Policy on transactions with Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Parties in accordance with Bank of Italy Supervisory Regulations Circular No. 263, Identified Staff of the UBI Group, Identified Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Identified Parties, and the regulations governing transactions with connected persons of the UBI Group, which contains the principles and guidelines for all situations of actual or potential conflict of interest.

¹⁵ Cf. Regulation (EU) No. 575/2013, Article 133, with the exception of positions that are liquid within one day and/or already included in other risks defined in the document “RAF –Risk Appetite Statement”.

2.3 Methods for the measurement of expected credit losses

IFRS 9 calls for a single, forward-looking impairment model to be applied to financial assets measured at amortised cost and to those measured at fair value through other comprehensive income (OCI¹⁶, i.e. equity), as well as to financial guarantees and commitments to disburse loans, which requires the immediate recognition of credit losses even if only expected.

The more discretionary aspects of the standard, relating to the methods of calculating the impairment of financial instruments (both loans and debt securities), classified and measured at amortised cost or at FVOCI, are related to:

- the stage allocation of financial instruments following the determination of a significant increase in credit risk; and
- incorporation of 'forward-looking' scenarios in the definition of both stage allocation and the expected credit loss (ECL)¹⁷.

Stage allocation

For financial assets that are not impaired at the time they are purchased (or originated), in accordance with IFRS 9 impairment rules, they are divided into three stages and the recognition of credit losses is determined on the basis of the stage to which they are assigned as summarised in the table below.

Stage	Performing/Non-performing	Calculate amount Expected loss
Stage 1	Performing financial assets for which no significant increase in credit risk has been recorded since initial recognition for which the credit risk is considered low.	In proportion to the amount of the expected credit losses over the next 12 months (expected losses resulting from default events on the financial asset that are considered possible within 12 months of the reporting period).
Stage 2	Performing financial assets for which a significant increase in credit risk has been recorded since initial recognition.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).
Stage 3	Non-performing financial assets.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).

Given the above, we specify that the Group's stage allocation model, based on a case-by-case or tranche approach, in the case of debt securities (see the information given below), involves both qualitative and quantitative criteria in order to measure a significant increase in credit risk between the date of initial recognition of the financial instrument and the measurement date.

¹⁶ Except for equity instruments for which the entity decides to opt for the OCI election.

¹⁷ The standard defines expected credit losses as the "weighted average of credit losses with the respective risks of a default occurring as the weights". Expected losses must be estimated by considering possible scenarios and therefore by considering the best available information on past events, current conditions and supportable forecasts of future events, known as a "forward looking approach".

More specifically, moving a financial instrument from stage 1 to stage 2 is caused mainly by one of the following:

- lifetime probability of default (PD) changes with respect to a threshold value, specific for each transaction, calculated on the basis of the significant risk characteristics.
- presence of a continuously past-due position at the counterparty level of at least 30 days, if greater than the significance threshold determined in accordance with supervisory regulations concerning classification as non-performing;
- a forbearance measure has been agreed.

More specifically, with regard to the quantitative indicator (change in lifetime PD), a significant increase in credit risk is normally determined by comparing the change in lifetime PD recorded between the date of initial recognition of an individual transaction, or tranche if it is a debt instrument, and that of the observation, with threshold values specific to each transaction which consider the relevant risk characteristics.

The attribution of a lifetime PD to single transactions is carried out on the basis of the segment and rating class assigned to the debtor, or issuer of debt securities, both at the date of initial recognition and that of the observation. The PDs used to measure SICRs are the same as those used to calculate expected credit losses, which include forecasts of future macroeconomic factors by applying special satellite models (see the information reported below).

The relative changes in lifetime PD described above represent the quantitative indicators of changes in credit risk encountered in the reporting period. Special thresholds are defined as follows in order to establish whether an increase is considered significant and therefore requires allocation to a different stage:

- if the relative change in lifetime PD observed on a position is below the significance threshold, then the increase in credit risk is deemed not significant and the position is classified in stage 1 with measurement of the expected credit loss over the next 12 months;
- if the relative change in lifetime PD observed on a position is above the significance threshold, then the increase in credit risk is deemed significant and the position is classified in stage 2 with measurement of the expected credit loss over the lifetime of the instrument.

That threshold is determined by using statistical models based on an analysis of the distribution of lifetime changes in PD in the portfolio. The calibration of the threshold is set at a level for which the significant increase in credit risk is set at least equal to the level of the long-term deterioration of the portfolio, which is observed by means of historical migration tables of the ratings.

The thresholds are differentiated by counterparty segment and type of exposure and they are determined by the relevant risk characteristics

- the risk of default for a financial instrument at initial recognition;
- the time the instrument has been in the portfolio;
- the remaining term of the instrument.

Furthermore, the Group has decided to:

- refute the assumption that a position at least 30 days past due should automatically be classified in stage 2, though only with respect to loans pertaining to certain business areas, thereby resulting in maintaining the position in stage 1 in the absence of other indicators;
- exercise, both on first-time adoption and once fully operative, the “low credit risk exemption” on the sovereign bond portfolio only, considering the characteristics of those securities in the portfolio. As a function of this, the instruments of low credit risk, in this case identified as investment grade (i.e. a perimeter characterised by low risk including in light of the default rate statistics published by the External Credit Assessment Institutions, or “ECAIs”) are classified as stage 1. Thereafter, if those securities lost their investment grade rating, they would be transferred to another stage only in the event of a significant increase in credit risk since the initial recognition date.
- use the “first in, first out” (FIFO) method to compare the tranche’s original credit rating to its rating on the reporting date for each single tranche of debt securities acquired.

The Stage Allocation model is a symmetrical model in that it allows for the transition from stage 1 to stage 2 and vice versa. In particular, if a financial instrument had been classified as Stage 2 at the previous balance sheet date, but at the current balance sheet date it no longer meets the requirements for the recognition of a provision equal to the expected losses throughout the lifetime of the instrument, the position is reclassified as stage 1. Therefore, no specific criteria of permanence in stage 2 are applied, except those specific to the quantitative and qualitative parameters that determine the staging (e.g. with reference to forbore exposures).

Based on the above, following the modification of these parameters and the consequent reallocation to stage 1, it is not considered necessary to consider additional time spent in stage 2, since the sustainability of improvement of the customer's creditworthiness is already assessed during the processes governed by applicable laws and regulations for each staging parameter.

For the purpose of allocating exposures to the various stages on first-time adoption of the accounting standard, performing exposures have been classified in stages 1 and 2, whereas non-performing exposures have been allocated to stage 3. For the latter, we specify that the UBI Banca Group has adopted the definition provided in Bank of Italy Circular No. 262/2005, according to which non-performing exposures are the sum of all exposures considered non-performing: past due, unlikely to pay or bad, as defined under supervisory regulations in force.

Estimating the expected credit loss (ECL) and incorporating forward-looking scenarios

The calculation of "expected credit losses" (ECL), which is to say expected losses to be recognised through profit and loss as impairment losses, was carried out on the basis of whether there has been a significant increase in the credit risk of a financial instrument compared with that calculated on the date of its initial recognition. These impairment losses are recognised on the basis of risk parameters estimated for homogeneous clusters differentiated on the basis of the type and risk of the counterparty (risk segment and internal/external rating) and of the characteristics of the individual exposure.

The general approach adopted by the Group for the purpose of quantifying expected credit losses is to ensure compatibility with regulatory risk parameters.

Stages 1 and 2

Expected credit losses are an estimate of losses (i.e. the present value of all potentially lost future cash flows) determined on the basis of the probability of default over the expected lifetime of the financial instrument. More specifically, the estimate is made by applying an estimate of the loss given default (LGD) and the marginal probability of default (Marginal PD) to the remaining debt on each repayment date.

Expected credit losses for the following 12 months are a fraction of the expected losses throughout the lifetime of the loan and represent the losses that will result if a default occurs in the 12 months following the balance sheet date.

Expected credit losses, lifetime or over 12 months are discounted back to the reporting date using the effective interest rate of the financial instrument determined on initial recognition and updated for instruments with variable interest rates. In its absence the contracted rate or an average portfolio interest-rate for residual types of loan is used (mainly relating to off-balance sheet exposures).

As concerns the model for the calculation of expected credit losses for the measurement of expected losses on instruments classified in stages 1 and 2, specific adjustments have been made to the estimated risk parameters for regulatory purposes in order to ensure full consistency, net of the different regulatory provisions, between the accounting and the regulatory treatments. The main adjustments developed are designed to:

- introduce point-in-time (hereinafter "PIT") components estimated using a through-the-cycle approach¹⁸ in accordance with regulatory provisions;
- introduce forward-looking scenarios;
- extend credit risk parameters to cover a long-term horizon.

¹⁸ On the basis of that approach cyclical factors are removed from the estimate of risk parameters, by using the long-term component for the credit ratings of debtors independently of the state of the economy at the time of the measurement. On the other hand, a "point-in-time" approach produces risk parameters sensitive to short-term macroeconomic changes in the business cycle.

The risk indicators (PD, LGD and CCF – Credit Conversion Factor) are assigned to the instruments on the basis of a hierarchy of rules by which priority is given to models calibrated on internal Group data and then to models calibrated on ECAI data for portfolios for which no internal observations are available.

A probability of default curve is associated with each instrument on the basis of the segment to which the counterparty belongs and of the rating according to a rating assignment process, which takes account of the availability of an internal rating at Group level or an ECAI rating. In the absence of these ratings, the benchmark curve of AIRB lifetime PD that best approximates exposure risk is assigned, and only in a few residual cases is the rating of the counterparty's country of origin, downgraded by one notch, assigned.

The starting point for calculating PD is the parameters of the AIRB internal models. These parameters are adjusted, where necessary, in order to make them comply with the requirements of the standard. More specifically, in reference to:

- Multi-period, through-the-cycle PD curves;
- point-in-time adjustment, which is factored by way of the re-calibration to one year of the historical time horizon;
- the integration of macroeconomic and forward-looking variables, which is done with the aid of satellite models developed for the purpose of credit risk stress tests.

Calculation of the expected loss given default – IFRS 9 compliant LGD – is carried out by applying specific corrective factors to regulatory internal LGDs in line with IAS 39 approaches.

The IFRS 9 LGDs are different in the following respects from the regulatory LGDs:

- consideration of guarantees that are inadmissible according to the credit risk mitigation rules contained in the supervisory regulations;
- exclusion of indirect costs because they are already recognised through profit and loss;
- exclusion of the downturn effect.

Where management accounting internal LGD models estimated on internal Group data are not applicable, models are applied starting with the empirical recovery rates of the ECAIs, or the LGD value forecast for senior unsecured positions in the FIRB method in supervisory regulations for marginal portfolios for which neither internal nor external historical time series data is available (e.g. loans and advances to banks).

With particular reference to the accounting standard's guidance to incorporate forward-looking scenarios, including macroeconomic scenarios, in expected loss estimates, the UBI Banca Group has decided to include these, as well as geo-sectoral trend forecasts (in sectors where the counterparty does business), in its internal models, which are already available, having been developed for stress tests on credit risk and adjusted as needed to make them compatible with the rules of the new standard.

In compliance with IFRS 9, for which estimates of ECLs must be the result of a series of the probability-weighted possible forward-looking scenarios, these models consider the use of 'most likely' scenarios combined with best and worst scenarios, each of which is assigned a percentage likelihood. These macroeconomic scenarios are consistent with those adopted for other purposes, such as budgeting and capital allocation. Definition of the probability of the scenarios and the aforementioned weighting affects the level of ECL. In this regard, the Group has associated a probability of 70% to the most likely scenario and 15% to the best and worst-case scenarios.

In order to draw up macroeconomic scenarios that include projections of national and international, macroeconomic and financial indicators, the UBI Banca Group uses an "Integrated Forecast Model", which generates forecasts that are updated periodically. The model is used to construct a baseline scenario (most likely) which is normally based exclusively on the output of its own equations. Following this, both a benchmarking analysis is carried out, which takes its benchmarks from major international institutions (e.g. IMF, ECB and OECD), and checks are made for the presence of external factors, such as international and monetary policies, exogenous to the model and which usually can neither be predicted nor analysed using statistical models, but which can nevertheless have a non-negligible impact on forecasts.

As concerns the main variables (e.g. Italian GDP, Italian inflation, the Italian unemployment rate, residential and other domestic real estate prices, the euro-to-dollar exchange rate, the 3-month Euribor, the yield on 10-year BTPs) and the leading countries in Europe and around the world, alternative (add-on) scenarios are constructed using special calculation software.

These best and worst scenarios are constructed using statistical simulation techniques and then two extreme scenarios with the equal probabilities of occurring are selected. Use is also made of external scenarios which incorporate given assumptions or simulate the impact of shocks. Thresholds for the acceptability of the estimates are normally calculated for all variables contained in the model on the basis of forecasts provided by a benchmark from at least two specialist international institutions. If the value generated by the model is beyond the threshold of acceptability then it is replaced by the benchmark value.

Provided below is information on the main macroeconomic and financial indicators used in the most likely, best and worst-case scenarios relating to the three-year period 2019-2021, which were calculated last December:

- the most likely scenario is characterised by forecasted annual growth in Italian GDP within a range of values between +0.6% and +0.8%. Italian inflation is expected to be in a range between +1.4% and +1.5%. Progressive growth characterises the 3-month Euribor rate, which is expected to be negative until 2020, equal to -0.1% for that year, and to reach +0.2% in 2021. This progressive growth also describes the trend in real estate prices in Italy, which is estimated to be in a range between -0.4% and +0.3% for residential properties and between -0.7% and +0.1% for non-residential properties;
- in the best-case scenario, annual growth in Italy's GDP is expected to be within a range between +1.4% and +1.6%. Italian inflation is estimated to be within a range between +2.8% and +2.9%. Progressive growth also characterises the 3-month Euribor rate, which is estimated over the three years to be in a range between +0.4% and +0.9%. In the case of Italian real estate prices, the best-case scenario includes an expectation of growth over the three-year period in a range between +1.3% and +2% for residential properties and between +1.2% and +2% for non-residential properties;
- in the worst-case scenario, Italy's GDP is estimated to decrease within a range close to zero, in line with Italian inflation. The 3-month Euribor rate is expected to remain stable over the three-year period at -0.3%. The trend in the price of real estate in Italy is expected to be downward, although progressively improving over the three-year period within a range of values between -2.2% and -1.5% for residential properties and between -2.6% and -1.8% for non-residential properties.

Finally, it should be noted that, during financial year 2018, there were a series of updates to the methodological framework of initial impact, and in particular:

- an update of internal and external point-in-time and through-the-cycle risk parameters (ECAI Fitch & Moody's) taking into account the 2018 EBA stress test;
- a recalibration, as a result of the new historical data series, of the parameters used in staging allocation.

Stage 3

With regard to non-performing positions, the determination usually takes place on a case-by-case basis. The method for estimating impairment losses recognised on non-performing loans is based on discounting expected future cash flows, taking account of any guarantees to back the positions and of any advances received. The fundamental elements for determining the present value of cash flows are the identification of the estimated receipts, the relative maturity dates and the discount rate to apply. The amount of the impairment losses is equal to the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the effective interest rate and appropriately updated for instruments with variable interest rates, or, for cases of exposures classified as bad, with the effective interest rate existing as at the date of classification as bad.

Depending on the size of the impairment loss and of the exposure, estimates of the amount recoverable are based either on a going concern approach, which assumes that the counterparty's business will continue to generate operational cash flows or alternatively on a gone concern basis. The latter is based on the assumption that the company's operations will be discontinued and as a consequence the only cash flows available to recover the exposure will be generated by the enforcement of the underlying guarantees. Estimates of the amount of credit recoverable, which

are expressed in a manner consistent with the situation in which the exposures are found, include available forward-looking information. In this regard, and with specific reference to bad loans, the rules of case-by-case determination include forward-looking information:

- for estimating the percentage impairment of real estate pledged as collateral (as estimated via up-to-date appraisals or based on the report of a court-appointed expert);
- by means of the introduction of specific exposure recovery scenarios, considering that the Group intends to sell them within a reasonable timeframe, to a third party, both in order to maximise cash flows in the short-term and to pursue a specific non-performing loan management strategy. Consequently, the expected credit loss estimates for those positions reflect not only the expected recovery amount through ordinary management of the loan, but also the presence of an appropriately calibrated sale scenario that would lead to cash flows from the transaction.

2.4 Techniques for mitigating credit risk

The Group employs standard risk mitigation techniques used in the banking sector by acquiring collateral such as properties and financial instruments as well as personal guarantees from counterparties for some types of loan. Determination of the total amount of credit that can be granted to a given customer and/or group of companies to which the customer belongs takes account of special criteria for assigning weightings to the different categories of risk and to guarantees. Prudent "haircuts" are applied to the estimated value of collateral depending on the type of security.

The main types of security accepted by the Group are as follows:

- real estate mortgage;
- pledge.

In the case of mortgage collateral, a distinction is made between specially regulated "land" mortgage loans and ordinary mortgage loans with regard to the amount of the loan, which in the former case must comply with limits set in relation to the value or the cost of the assets used as collateral.

Pledges represent the second general class of collateral used and different possible types of pledge exist within the Group depending on the instrument which is used as the collateral. They are as follows:

- pledges on dematerialised financial instruments such as for example government securities, bonds and shares in listed companies, customer portfolio managements, bonds of the Group, etc.;
- pledges of material securities, e.g. valuables and/or sums deposited on current accounts or bearer or named savings accounts, certificates of deposit, units in mutual funds, shares and bonds issued by unlisted companies;
- pledges on insurance policies;
- pledges of quotas held in limited liability companies, which by law must take the form of a notarial deed and are subject to registration.

A pledge on the value of financial instruments is performed using defined measurement criteria and special "haircuts" which reflect the variability in the value of the security pledged. In the case of financial instruments denominated in foreign currency, the "haircut" applied for the volatility of the exchange rate must be added to that for the volatility of the security.

As concerns pledges on rights arising from insurance policies, these may only be constituted on life insurance policies for which the regulations expressly allow the possibility of a pledge in favour of the Bank and only if determined conditions are met (e.g. once the time limit for exercising redemption rights has expired, policies which pay only in "case of death" must be excluded, and so forth). Special measurement criteria and "haircuts" are also defined for insurance policies.

In order to ensure that general and specific requirements are met for recognition of collateral, as part of its credit risk mitigation techniques (CRM) in accordance with supervisory regulations, for prudent purposes the UBI Group has performed the following:

- redefined credit processes relating to the acquisition and management of collateral. With particular regard to mortgages, it is compulsory to enter all data on a property needed to

render collateral eligible in account manager software systems. Particular attention was paid to the compulsory nature of expert appraisals and to the prompt recovery of the relative information, including notarial information (details of registrations), essential for guarantees to be accepted;

- retrieved, for existing mortgages, all the information required to ensure that they are admissible, in line with regulations in terms of specific requirements.

3. Non-performing exposures

3.1 Management policies and strategies

The classification of non-performing exposures incorporates the regulatory provisions that, in 2015, introduced the following categories:

- "Non-performing exposures past due and/or in arrears",
- "Unlikely-to-pay loans",
- "Bad loans".

Exposures previously classified as "impaired" and "restructured" are now comprised within the "unlikely-to-pay" class.

In addition to these three categories, there remains a type of problem loan in respect of country risk for unsecured exposures to institutional and ordinary customers belonging to countries considered as at risk as defined by the supervisory authority.

The management of problem loans is performed on the basis of the level of risk and is normally performed by the organisational units responsible for the management of problem loans of the banks (UBI Banca Spa and IW Bank Spa) and the product companies (UBI Leasing Spa, UBI Factor Spa and Prestitalia Spa).

With specific reference to UBI Banca Spa, non-performing exposures in the state of past-due, as well small-sum (less than €1,000) unlikely-to-pay positions, are managed by the commercial network. The management of unlikely-to-pay positions of greater amount (€1,000 and above) is centralised within the Problem Loans Area of UBI Banca Spa.

Non-performing exposures past due are subject to constant monitoring to decide, within a maximum operational period of 180 days, whether to reclassify them as either performing or into another non-performing category. The UBI Banca Spa Problem Loans Area also manages counterparties undergoing restructuring and classified for management purposes as unlikely-to-pay restructured loans, i.e. exposures for which the borrower, due to a deterioration financial standing, is granted changes to the original financing agreement through restructuring measures (normally arrangements with creditors, debt restructuring agreements, or recovery plans). Under a specific mandate, the Problem Loans Area also manages the restructured exposures of UBI Leasing Spa.

UBI Banca Spa's bad loans are, on the other hand, assigned to the UBI Credit Recovery Area, which also manages the bad loans of IW Bank Spa and Prestitalia Spa by mandate. The bad loans of the remaining product companies (i.e. UBI Leasing Spa and UBI Factor Spa) are managed by the appropriate Credit Departments of the companies themselves, with the obligation to request opinions of UBI Banca Spa regarding the compliance of the management proposals with regard to significant exposures.

Specifically with regard to the exposures of UBI Banca Spa classified as bad loans or unlikely to pay, it should be noted that a new approach was introduced in February 2017 that calls for a specialisation by cluster and the selection of dedicated account managers, who work to manage and restore the credit quality of the portfolios assigned to them.

A non-performing customer again become able to regularly meet their financial obligations is the determinant factor in restoring them to performing status. This event is essentially concentrated among non-performing exposures that are past due or unlikely to pay loans.

Assessments of the adequacy of impairment losses recognised are normally done on a case-by-case basis for non-performing positions. The analysis of non-performing exposures is performed continuously by the individual operational units which manage risks and by the Parent.

The annual update of the Strategic Plan for the reduction of non-performing loans (NPLs), as required by the guidelines on NPLs published by the European Central Bank in March 2017, was submitted to the supervisory authority in April 2018.

The New Plan, the first for the perimeter of the Group after the acquisition of the New Banks, confirmed the priority of the strategy for the internal management of credit recovery, but also provides for the disposal of non-performing positions as deemed appropriate and with the goal of substantially accelerating the process with respect to the aims contained in the 2017-2020 Business Plan. In order to achieve the planned results, the following strategic levers have been identified:

- *reinforcing the proactive nature of credit monitoring and management* by strengthening the early warning system, fully implementing the new Loan Arrears Support unit with the timely, centralised management of renegotiations from first irregularities, revising the catalogue of forbearance measures with completion of the solutions available to account managers, and further developing support mechanisms and procedures;
- *fully implementing the NPL management model* by adding new managers of unlikely-to-pay positions, increasing the operational capabilities of the Problem Loans units by expanding the scope of outsourcing, adding new Account Managers for Bad Loans, and creating a centralised task force dedicated to the administrative activities for bad loans;
- *proactive management of collateral* by Kedomus, the UBI Group company specialised in this, which will be able to conduct reposessions, acquire, at auction, the properties used as collateral for the exposures of UBI Banca Spa, and collect on collateral liquidation in the event of auctions at which the collateral of third parties is acquired;
- *extraordinary disposals plan* concerning both bad loans in specific portfolios of lesser strategic interest to the Group and single-name, unlikely-to-pay positions.

Achievement of the NPL-reduction targets is monitored quarterly within the Parent by the Chief Financial Officer, for the financial aspects, and the Chief Lending Officer, for situations of an operational nature and deviations from the targets in order to determine the appropriate corrective measures. In this regard, it should be noted that, as at 31st December 2018, gross NPLs were below the 2018 targets set by the plan as a result of the efficacy of recovery efforts (by way of both disposals and ordinary operations) and a reduction in changes in status for performing loans. See the figures provided in the section “General banking business with customers: lending” of the Consolidated Management Report.

As mentioned, updates to the NPL strategic plan are made annually, and the next release is to be presented to the ECB by March 2019.

3.2 Write-offs

As defined by IFRS 9, a write-off constitutes a full or partial derecognition of a credit exposure event and may or may not result in legal waiving of credit recover rights (debt forgiveness).

The UBI Group, upon authorisation by the competent internal governing bodies, writes off credit exposures when there are valid, objective factors supporting the assessment of the position, the fact that it is not recoverable and/or the fact that it is not financially efficient to recover it. A partial write-off may be justified in cases in which information shows that a borrower is unable to repay the full amount of the debt.

More specifically, the UBI Group, subject to prior approval, writes off exposures in the following circumstances:

- for positions undergoing insolvency proceedings, which may take place prior to completion of the proceedings;
- for positions not undergoing insolvency proceedings in the following cases:
 - when it is not financially efficient to recover the position, i.e. in situations in which the costs to be incurred just to manage the position do not justify taking action to recover it given the value of the exposure;

- when it is not possible to recover the position, i.e. in situations in which multiple attempts have been made to settle the position out of court or legal action has been disregarded by the borrower;

In the event of insolvency proceedings, the Group writes off positions based on the specific proceedings the exposure is subject to and the characteristics of the exposure, while reserving the right to take all possible action to recover the position.

When it is not financially efficient or is not possible to recover a position, the Group, by a resolution of the competent governing body, writes off the position and waives the right to take further action to recover it.

3.3 Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets are those exposures that are found to be non-performing when initially recognised.

The UBI Group classifies exposures as POCI either when purchasing non-performing financial instruments from third parties or when disbursing new financing to non-performing counterparties of the Group when the exposure is of significance in comparison with the original exposure and characterised by pricing conditions that reflect the high level of risk.

As at 31st December 2018, POCI financial assets included the non-performing loans purchases within the scope of the acquisition of the New Banks, which was recognised in 2017 in observance of IFRS 3 – Business Combinations and in application of the purchase-price allocation (PPA) approach.

More specifically, these loans were recognised at fair value as at the date of acquisition and have an internal rate of return that discounts the initial measurement of the expected credit losses throughout the lifetime of the loans. Both the originally recognised fair value and the consequent effective reference rate have been determined for the entire portfolio. As a result, when overall recovery estimates remain unchanged, these exposures contribute to profitability to the extent of the time-value effect implicit in the rate determined at the time of initial recognition.

This portfolio is monitored in order to verify the validity of the assumptions made when preparing the recovery plan. More specifically, potential marked deviations in portfolio risk (e.g. the danger rate) and in collections (e.g. the recovery rate) compared to estimates are periodically verified in order to promote any necessary updates to the forecasts of the plan defined for the purposes of the PPA process.

In particular, the trend in collections on this portfolio in 2018 was greater than the estimates defined for the original collection plan. This has led to a realignment of the carrying amounts in order to take account of this improved performance and to a revision of the plan itself.

4. Financial assets subject to commercial renegotiations and forbore exposures

UBI Group regulations establish clear lines of demarcation between measures of commercial renegotiation and those of forbearance in relation to existing credit positions.

The goal of commercial renegotiations is to consolidate the relationship with borrowers who, after an in-depth verification, prove to be able to fulfil their original financial obligations in a timely manner. Forbearance measures, on the other hand, represent a change in terms and conditions for borrowers who may temporarily not be able to meet their initially established financial obligations.

Therefore, verified financial hardship is a determinant factor in classifying changes in the value or in the repayment schedule as a forbearance. Any objective anomalies in the credit exposure detected by the system support the account manager in the judgemental assessment of the customer. Objective financial hardship is always subjected to a subsequent judgemental assessment, which may or may not confirm the financial hardship of the customer. A judgemental assessment is done independently from the detection of actual objective anomalies.

Situations of financial hardship are considered to be confirmed when the counterparty is classified as non-performing.

For a position to be classified as forbore, the forbearance measure must fall within a specifically defined scope of forbearance in accordance with EU legislation and with company regulations.

Following a request for forbearance by the customer, the most appropriate, sustainable measure is identified based on the current and future characteristics of the counterparty and the financial feasibility of the given solution. When identifying the most appropriate measure, the following factors are also assessed: the nature of the customer's potential financial hardship and related causes; the type of credit position concerned; and the administrative status of the counterparty.

Approval of a forbearance:

- involves completion of structured procedures that call for a rigorous analysis aimed at determining whether the forbearance will be effective at restoring the borrower's autonomous ability to repay the debt without the need for further assistance and bringing the exposure back to a situation of sustainable repayment and, in the case of non-performing exposures, with the key objective of laying the groundwork for a return to performing status. The analysis takes place in various stages based on both objective and subjective information;
- involves classifying the position concerned as forborne. A performing counterparty who receives a forbearance may remain such. However, the counterparty's rating may not be better than "average", and the restriction must be respected throughout the period in which the position concerned by the forbearance remains in the forborne state.

Upon completion of the forbearance, there is an observation period that may be either a probation period (a two-year period for performing forborne exposures) or a cure period (a one-year period for non-performing forborne exposures). At the end of these periods, the possibility of an improvement in the status of the position, or the removal of forborne status for performing positions, may only be considered when the conduct of the borrower has actually returned to normal and the conditions defined by applicable laws and regulations have been met.

However, it should also be noted that the characteristics of "substantial" changes in terms and conditions, based on company policy and whether the changes are of a commercial nature or are forbearance measures, may result in the financial asset being derecognised and in a new asset being recognised (in accordance with the principles of derecognition accounting). In such cases, and with specific regard to those positions that pass the SPPI test, the UBI Group, for the purposes of impairment, considers the date of initial recognition to be the date on which the change in the asset took place. Conversely, in the event of changes to terms and conditions that are "not substantial" and, therefore, not subject to derecognition accounting, the date of initial recognition for the purposes of impairment provisions is the origination date of the asset.

*Quantitative information***A. Credit quality****A.1 Non-performing and performing credit exposures: amounts, impairment losses, changes and economic distribution****A.1.1 Prudential consolidation – Distribution of financial assets by time past due (carrying amounts)**

Portfolios/risk stages	Stage one			Stage two			Stage three		
	1 day to 30 days	Over 30 days to 90 days	Over 90 Days	1 day to 30 days	Over 30 days to 90 days	Over 90 Days	1 day to 30 days	Over 30 days to 90 days	Over 90 Days
1. Financial assets measured at amortised cost	2,791,196	297,426	75,757	1,243,772	278,804	100,628	190,316	205,226	4,711,480
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31.12.2018	2,791,196	297,426	75,757	1,243,772	278,804	100,628	190,316	205,226	4,711,480

This table does not report figures for the previous year because following the modifications introduced by the accounting standards in force as at 1st January 2018, the figures as at 31st December 2017, restated in accordance with the provisions of the 5th update of Bank of Italy Circular No. 262/2005, would not be useful for comparative purposes.

A.1.2 Prudential consolidation – Financial assets, commitments to pay funds and financial guarantees granted: changes in total net impairment losses and total provisions

Description/ risk stages	Total impairment losses													Total provisions on commitments to pay funds and financial guarantees granted			Total
	Assets in stage one				Assets in stage two				Assets in stage three				of which: financial assets purchased or originated credit impaired				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses		Stage one	Stage two	Stage three	
Opening balances	(208,385)	-	-	(208,385)	(442,731)	-	-	(442,731)	(4,965,818)	-	(4,965,818)	-	(133)	(26,222)	(25,694)	(36,431)	(5,705,281)
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions that are not write-offs	-	-	-	-	-	-	-	-	261,644	-	261,644	-	-	-	-	-	261,644
Net impairment losses for credit risk	37,685	(3,154)	-	34,531	59,347	(1,765)	-	57,582	(673,257)	(9,501)	(682,758)	-	(8,118)	1,498	13,784	8,655	(566,708)
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	236	-	-	236	233	-	-	233	1,631,661	-	1,631,661	-	-	-	-	-	1,632,130
Other changes	(1,877)	-	-	(1,877)	228	-	-	228	4,964	-	4,964	-	-	-	-	-	3,315
Final balances	(172,341)	(3,154)	-	(175,495)	(382,923)	(1,765)	-	(384,688)	(3,740,806)	(9,501)	(3,750,307)	-	(8,251)	(24,724)	(11,910)	(27,776)	(4,374,900)
Recoveries from receipt of payment on financial assets subject to write-off	-	-	-	-	-	-	-	-	(8,698)	-	(8,698)	-	-	-	-	-	(8,698)
Write-offs recognised directly through profit or loss	43	-	-	43	1	-	-	1	145,253	-	145,253	-	-	-	-	-	145,297

A.1.3 Prudential consolidation – Financial assets, commitments to pay funds and financial guarantees granted: transfers between different credit stages (gross and nominal amounts)

Portfolios/risk stages	Gross amounts/nominal amounts					
	Transfers between stage one and stage two		Transfers between stage two and stage three		Transfers between stage one and stage three	
	From stage one to stage two	From stage two to stage one	From stage two to stage three	From stage three to stage two	From stage one to stage three	From stage three to stage one
1. Financial assets measured at amortised cost	5,161,440	5,315,134	725,260	390,356	377,002	39,895
2. Financial assets measured at fair value through other comprehensive income	49,636	38,458	-	-	-	-
3. Commitments to pay funds and financial guarantees granted	923,683	3,467,304	53,322	45,273	23,581	16,513
Total 31.12.2018	6,134,759	8,820,896	778,582	435,629	400,583	56,408

A.1.4 Prudential consolidation – On- and off-balance sheet exposures to banks: gross and net amounts

Type of exposure/amounts	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet credit exposures	-	10,380,536	(3,597)	10,376,939	-
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	306,165	(1,444)	304,721	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	10,074,371	(2,153)	10,072,218	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	-	10,380,536	(3,597)	10,376,939	-
B. Off-balance sheet credit exposures	-	977,717	(221)	977,496	-
a) Non-performing	-	X	-	-	-
b) Performing	X	977,717	(221)	977,496	-
Total (B)	-	977,717	(221)	977,496	-
Total (A+B)	-	11,358,253	(3,818)	11,354,435	-

A.1.5 Prudential consolidation – On- and off-balance sheet exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet credit exposures	9,957,709	96,040,202	(4,393,078)	101,604,833	940,795
a) Bad loans	5,438,425	X	(2,667,584)	2,770,841	940,795
- of which: forborne exposures	1,010,144	X	(402,277)	607,867	165,433
b) Unlikely to pay loans	4,447,977	X	(1,161,661)	3,286,316	-
- of which: forborne exposures	2,607,786	X	(638,101)	1,969,685	-
c) Non-performing past-due exposures	71,307	X	(7,248)	64,059	-
- of which: forborne exposures	8,923	X	(842)	8,081	-
d) Performing past-due exposures	X	4,568,651	(84,738)	4,483,913	-
- of which: forborne exposures	X	352,073	(18,152)	333,921	-
e) Other performing exposures	X	91,471,551	(471,847)	90,999,704	-
- of which: forborne exposures	X	1,821,968	(86,793)	1,735,175	-
Total (A)	9,957,709	96,040,202	(4,393,078)	101,604,833	940,795
B. Off-balance sheet credit exposures	508,854	41,007,565	(64,188)	-	-
a) Non-performing	508,854	X	(27,776)	481,078	-
b) Performing	X	41,007,565	(36,412)	40,971,153	-
Total (B)	508,854	41,007,565	(64,188)	41,452,231	-
Total (A+B)	10,466,563	137,047,767	(4,457,266)	143,057,064	940,795

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

No items of this type exist in the UBI Group.

A.1.6.a Prudential consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

No items of this type exist in the UBI Group.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Description/categories	Bad loans	Unlikely-to-pay loans	Non-performing past-due exposures
A. Initial gross exposure	7,343,339	5,053,749	164,941
- of which: exposures transferred not derecognised	-	-	-
B. Increases	1,340,845	1,311,006	59,871
B.1 inflows from performing exposures	278,968	919,946	57,793
B.2 inflows from financial assets purchased or originated credit impaired	7,475	41,475	-
B.3 transfers from other classes of non-performing exposures	810,049	68,266	1,131
B.4 Contractual modifications without derecognition	-	-	-
B.5 other increases	244,353	281,319	947
C. Decreases	(3,245,759)	(1,916,778)	(153,505)
C.1 outflows to performing loans	(5,142)	(359,687)	(34,729)
C.2 write-offs	(707,342)	(75,003)	(44)
C.3 payments received	(434,353)	(457,683)	(24,028)
C.4 from disposals	(710,976)	(130,384)	-
C.5 losses on the disposal	(24,746)	(29,883)	-
C.6 transfers to other classes of non-performing exposure	(8,724)	(776,075)	(94,647)
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	(1,354,476)	(88,063)	(57)
D. Final gross exposure	5,438,425	4,447,977	71,307
- of which: exposures transferred not derecognised	-	-	-

A.1.7.a Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Descriptions/quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	3.714.984	2.381.980
- of which: exposures transferred not derecognised	-	-
B. Increases	986.043	1.007.801
B.1 inflows from performing non-forborne exposures	111.681	802.281
B.2 inflows from performing forborne exposures	298.612	X
B.3 inflows from non-performing forborne exposures	X	180.953
B.4 Other increases	575.750	24.567
C. Decreases	(1.074.174)	(1.215.740)
C.1 outflows to performing non-forborne exposures	X	(776.628)
C.2 outflows to performing forborne exposures	(180.953)	X
C.3 outflows to non-performing forborne exposures	X	(298.612)
C.4 write-offs	(92.666)	-
C.5 payments received	(648.961)	(138.167)
C.6 disposals	(279)	-
C.7 losses on the disposal	(26.906)	-
C.8 other decreases	(124.409)	(2.333)
D. Final gross exposure	3.626.853	2.174.041
- of which: exposures transferred not derecognised	-	-

A.1.8 Prudential consolidation – Non-performing on-balance sheet credit exposures to banks: changes in total impairment losses

No items of this type exist in the UBI Group.

A.1.9 Prudential consolidation – Non-performing on-balance sheet credit exposures to customers: changes in total impairment losses

Description/categories	Bad loans		Unlikely-to-pay loans		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total initial net impairment	(3,821,667)	(335,368)	(1,224,781)	(637,599)	(15,776)	(2,013)
- of which: exposures transferred not derecognised	-	-	-	-	-	-
B. Increases	(1,260,113)	(238,512)	(664,943)	(225,544)	(7,592)	(724)
B.1 impairment losses on financial assets purchase or originated credit impaired	(1,502)	X	(2,149)	X	-	X
B.2 other impairment losses	(865,858)	(178,445)	(537,427)	(215,509)	(5,342)	(682)
B.3 losses on the disposal	(18,284)	(2,005)	(24,902)	(2,791)	-	-
B.4 transfers from other classes of non-performing exposures	(294,554)	(56,811)	(8,789)	(676)	(193)	(3)
B.5 contractual modifications without derecognition	-	X	-	X	-	X
B.6 other increases	(79,915)	(1,251)	(91,676)	(6,568)	(2,057)	(39)
C. Decreases	2,414,196	171,603	728,063	225,042	16,120	1,895
C.1 unrealised reversals of impairment losses	197,802	95,567	90,572	24,350	1,178	16
C.2 realised reversals of impairment losses	96,092	4,354	161,332	69,042	3,004	157
C.3 profits on the disposal	33,209	12	7,152	-	-	-
C.4 write-offs	707,342	21,220	74,225	46,400	5	-
C.2 transfers to other categories of non-performing exposures	1,979	66	289,826	55,702	11,731	1,722
C.6 contractual modifications without derecognition	-	X	-	X	-	X
C.7 other decreases	1,377,772	50,384	104,956	29,548	202	-
D. Total closing net impairment	(2,667,584)	(402,277)	(1,161,661)	(638,101)	(7,248)	(842)
- of which: exposures transferred not derecognised	-	-	-	-	-	-

A.2 Classification of exposures on the basis of external and internal ratings

A.2.1 Prudential consolidation – Distribution of financial assets, commitments to pay funds and financial guarantees granted by external credit rating classes (gross amounts)

Exposures	External rating classes						Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	47,034	1,499,184	5,382,211	1,308,288	222,252	89,313	98,549,665	107,097,947
- Stage one	42,163	1,263,359	5,211,124	813,230	121,427	12,231	77,558,341	85,021,875
- Stage two	4,871	235,825	171,074	480,009	95,234	43,721	11,328,568	12,359,302
- Stage three	-	-	13	15,049	5,591	33,361	9,662,756	9,716,770
B. Financial assets measured at fair value through other comprehensive income	1,709,963	345,878	6,665,133	15,106	-	-	119,697	8,855,777
- Stage one	1,701,897	305,159	6,618,579	15,106	-	-	88,589	8,729,330
- Stage two	8,066	40,719	46,554	-	-	-	21,607	116,946
- Stage three	-	-	-	-	-	-	9,501	9,501
Total (A + B)	1,756,997	1,845,062	12,047,344	1,323,394	222,252	89,313	98,669,362	115,953,724
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	2,063	603,309	605,372
C. commitments to pay funds and financial guarantees granted	58,998	269,770	3,292,370	105,282	3,947	2,371	38,144,382	41,877,120
- Stage one	58,998	202,841	3,263,827	91,921	3,460	2,361	35,341,807	38,965,215
- Stage two	-	66,929	28,532	13,361	452	10	2,293,745	2,403,029
- Stage three	-	-	11	-	35	-	508,830	508,876
Total (C)	58,998	269,770	3,292,370	105,282	3,947	2,371	38,144,382	41,877,120
Total (A + B + C)	1,815,995	2,114,832	15,339,714	1,428,676	226,199	91,684	136,813,744	157,830,844

The following table gives the relationship between external rating classes reported in the table and the classes of Moody's the agency concerned.

Class	Moody's Ratings
1	Aaa,Aa,Aa1,Aa2,Aa3
2	A,A1,A2,A3
3	Baa,Baa1,Baa2,Baa3
4	Ba,Ba1,Ba2,Ba3
5	B,B1,B2,B3
6	Caa,Caa1,Caa2,Caa3,Caa,C,DDD,DD,D

A.2.2 Prudential consolidation – Distribution of financial assets, commitments to pay funds and financial guarantees granted by internal credit rating classes (gross amounts)

Exposures	Internal rating classes														Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6	class 7	class 8	class 9	class 10	class 11	class 12	class 13	class 14		
A. Financial assets measured at amortised cost	2,636,328	12,333,203	12,768,628	8,111,671	13,650,577	1,703,105	6,043,409	6,756,763	1,542,795	2,665,939	1,414,078	600,157	472,599	334,685	24,637,721	95,671,658
- Stage one	2,634,406	12,267,346	12,391,556	7,822,400	12,871,397	1,598,303	5,360,494	4,282,210	971,904	956,840	179,066	19,605	27,296	18,971	16,105,692	77,507,486
- Stage two	1,922	65,857	377,072	289,271	779,180	104,802	682,915	2,474,553	570,891	1,709,099	1,235,012	580,552	445,303	315,714	857,518	10,489,661
- Stage three	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,674,511	7,674,511
B. Financial assets measured at fair value through other comprehensive income	11,654	20,926	-	20,253	3,213	-	-	-	-	-	-	-	-	-	8,799,731	8,855,777
- Stage one	11,654	10,905	-	20,253	3,213	-	-	-	-	-	-	-	-	-	8,683,305	8,729,330
- Stage two	-	10,021	-	-	-	-	-	-	-	-	-	-	-	-	106,925	116,946
- Stage three	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,501	9,501
Total (A + B)	2,647,982	12,354,129	12,768,628	8,131,924	13,653,790	1,703,105	6,043,409	6,756,763	1,542,795	2,665,939	1,414,078	600,157	472,599	334,685	33,437,452	104,527,435
of which: financial assets purchased or originated credit impaired	-	289	2,411	937	2,081	961	2,279	40,136	8,605	18,641	8,622	7,293	8,287	963	440,573	542,078
C. Commitments to pay funds and financial guarantees granted	3,607,555	9,678,818	2,035,499	9,463,996	5,614,088	706,760	2,399,308	1,509,464	407,458	595,090	113,811	19,281	17,640	37,509	4,673,081	40,879,358
- Stage one	3,594,691	9,642,120	2,012,846	9,335,576	5,373,350	673,127	2,132,908	700,780	294,704	275,068	32,599	2,976	3,266	1,889	4,089,029	38,164,929
- Stage two	12,864	36,698	22,653	128,420	240,738	33,633	266,369	808,684	112,754	320,022	81,212	16,305	14,374	35,620	83,291	2,213,637
- Stage three	-	-	-	-	-	-	31	-	-	-	-	-	-	-	500,761	500,761
Total (C)	3,607,555	9,678,818	2,035,499	9,463,996	5,614,088	706,760	2,399,308	1,509,464	407,458	595,090	113,811	19,281	17,640	37,509	4,673,081	40,879,358
Total (A + B + C)	6,255,537	22,032,947	14,804,127	17,595,920	19,267,878	2,409,865	8,442,717	8,266,227	1,950,253	3,261,029	1,527,889	619,438	490,239	372,194	38,110,533	145,406,793

The classes on the “Master Scale” consist of probability of default (PD) intervals within which PDs corresponding to the single classes of the different internal rating models are mapped. The rating classes are presented in decreasing order of creditworthiness: the best creditworthiness in rating class 1; the worst creditworthiness in rating class 14. The distribution shows the aggregates of exposures, net of intercompany eliminations, to the ordinary customers of UBI Banca Spa and IW Bank Spa to which internal credit ratings have been assigned.

A.3 Distribution of guaranteed/secured credit exposures by type of guarantee

A.3.1 Prudential consolidation – Guaranteed/secured on- and off-balance sheet exposures to banks

	Gross exposure	Net exposure	Secured (1)				Personal guarantees (2)								Total (1)+(2)	
							Credit derivatives				Unsecured guarantees					
			Properties - mortgages	Properties – Finance Leases	Securities	Other collateral	N L C	Other derivatives				Public administrations	Banks	Other financial companies		Other
								Central counterparties	Banks	Other financial companies	Other					
1. On-balance sheet secured/guaranteed credit exposures:	19,864	19,860	5,762	3,875	9,897	325	-	-	-	-	-	-	-	-	19,859	
1.1 fully guaranteed/secured	19,864	19,860	5,762	3,875	9,897	325	-	-	-	-	-	-	-	-	19,859	
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1.2 partially guaranteed/secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Off-balance sheet secured/guaranteed credit exposures:	17,551	17,551	-	-	6,153	11,014	-	-	-	-	-	-	-	-	17,167	
2.1 fully guaranteed/secured	11,440	11,440	-	-	6,153	5,287	-	-	-	-	-	-	-	-	11,440	
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2 partially guaranteed/secured	6,111	6,111	-	-	-	5,727	-	-	-	-	-	-	-	-	5,727	
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

A.3.2 Prudential consolidation – Guaranteed/secured on- and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured (1)				Personal guarantees (2)								Total (1)+(2)	
							Credit derivatives				Unsecured guarantees					
			Properties - mortgages	Properties - Finance leases	Securities	Other collateral	N r C	Other derivatives				Public administrations	Banks	Other financial companies		Other
								Central counterparties	Banks	Other financial companies	Other					
1. On-balance sheet																
secured/guaranteed credit exposures:	68,368,811	65,118,731	41,656,382	4,639,614	1,796,717	3,133,343	-	-	-	-	-	1,561,929	38,461	787,759	7,655,141	61,269,346
1.1 fully guaranteed/secured	64,103,054	61,022,820	41,640,818	4,639,614	1,524,211	3,000,538	-	-	-	-	-	1,080,628	23,256	704,160	7,208,113	59,821,338
- of which non-performing	7,951,882	5,297,540	3,691,126	751,182	11,139	261,128	-	-	-	-	-	61,167	1,157	71,287	391,030	5,239,216
1.2 partially guaranteed/secured	4,265,757	4,095,911	15,564	-	272,506	132,805	-	-	-	-	-	481,301	15,205	83,599	447,028	1,448,008
- of which non-performing	282,832	130,585	1,422	-	6,581	1,135	-	-	-	-	-	15,050	870	13,642	54,290	92,990
2. Off-balance sheet																
secured/guaranteed credit exposures:	8,090,712	8,074,549	465,967	-	494,418	253,954	-	-	-	-	-	152,472	9,260	24,339	5,950,050	7,350,460
2.1 fully guaranteed/secured	6,680,062	6,665,435	461,117	-	385,837	211,814	-	-	-	-	-	90,250	8,064	18,343	5,231,633	6,407,058
- of which non-performing	166,466	157,540	22,952	-	2,286	35,528	-	-	-	-	-	2,754	539	541	76,456	141,056
2.2 partially guaranteed/secured	1,410,650	1,409,114	4,850	-	108,581	42,140	-	-	-	-	-	62,222	1,196	5,996	718,417	943,402
- of which non-performing	24,447	23,835	-	-	231	1,245	-	-	-	-	-	304	-	32	13,282	15,094

A.4 Prudential consolidation – financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross amount	Total impairment losses	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	42,068	53,524	(3,093)	50,161	21,389
A.1 For operational use	37,523	40,616	(3,093)	37,253	16,735
A.2 For investment	-	-	-	-	-
A.3 Inventories	4,545	12,908	-	12,908	4,654
B. Equity securities and debt securities	-	-	-	-	-
C. Other assets	-	-	-	-	-
D. Non-current assets and disposal groups held for sale	-	-	-	-	-
D.1 Property, plant and equipment	-	-	-	-	-
D.2 Other assets	-	-	-	-	-
Total 31.12.2018	42,068	53,524	(3,093)	50,161	21,389
Total 31.12.2017 restated	-	-	-	-	-

The difference between the derecognised credit exposure and that of the assets obtained through the enforcement of guarantees received is due mainly to the different timing of the recognition of the assets and the receipt of the payments.

As at 31st December 2018, assets obtained through the enforcement of guarantees received consisted solely of property, plant and equipment, partly for functional use and partly inventories. In this regard see also the information provided in section 9 of Part B – Assets with reference to “Property, plant and equipment”.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Distribution by sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	8,705	(4,876)	48,041	(57,881)	-	-	1,709,839	(1,516,428)	1,004,256	(1,088,399)
- of which: forborne exposures	-	-	11,079	(1,698)	-	-	395,498	(240,975)	201,290	(159,604)
A.2 Unlikely-to-pay loans	4,854	(1,802)	69,392	(26,631)	4	(2)	2,296,312	(903,624)	915,754	(229,602)
- of which: forborne exposures	-	-	49,680	(18,318)	-	-	1,443,350	(531,621)	476,655	(88,162)
A.3 Non-performing past-due exposures	2,637	(3)	395	(38)	-	-	25,129	(3,587)	35,898	(3,620)
- of which: forborne exposures	-	-	50	(4)	-	-	3,405	(491)	4,626	(347)
A.4 Performing loans	12,051,217	(6,364)	5,618,878	(18,021)	168,370	(138)	42,350,553	(331,459)	35,294,599	(200,603)
- of which: forborne exposures	4,956	(48)	6,395	(433)	-	-	1,175,928	(69,790)	881,817	(34,674)
Total (A)	12,067,413	(13,045)	5,736,706	(102,571)	168,374	(140)	46,381,833	(2,755,098)	37,250,507	(1,522,224)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	481	-	914	(21)	-	-	457,833	(26,976)	21,850	(779)
B.2 Performing loans	2,393,757	(686)	2,318,508	(13,428)	121,038	(27)	32,582,045	(15,909)	3,554,063	(6,362)
Total (B)	2,394,238	(686)	2,319,422	(13,449)	121,038	(27)	33,039,878	(42,885)	3,575,913	(7,141)
Total (A + B) 31.12.2018	14,461,651	(13,731)	8,056,128	(116,020)	289,412	(167)	79,421,711	(2,797,983)	40,826,420	(1,529,365)
Total (A + B) 2017 restated	15,895,044	(12,993)	6,191,215	(103,172)	192,266	(182)	58,494,682	(3,478,176)	36,502,883	(1,357,531)

B.2 Prudential consolidation – Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	2,761,983	(2,645,497)	8,856	(22,077)	-	(10)	1	-	1	-
A.2 Unlikely-to-pay loans	3,278,108	(1,160,097)	5,137	(890)	5	(2)	1	-	3,065	(672)
A.3 Non-performing past-due exposures	63,905	(7,237)	153	(11)	1	-	-	-	-	-
A.4 Performing loans	90,312,541	(546,748)	2,934,917	(8,325)	1,910,572	(1,017)	310,711	(468)	14,876	(27)
Total (A)	96,416,537	(4,359,579)	2,949,063	(31,303)	1,910,578	(1,029)	310,713	(468)	17,942	(699)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	480,293	(27,764)	781	(12)	4	-	-	-	-	-
B.2 Performing loans	39,963,258	(35,216)	765,255	(778)	61,052	(81)	171,477	(336)	8,369	(1)
Total (B)	40,443,551	(62,980)	766,036	(790)	61,056	(81)	171,477	(336)	8,369	(1)
Total (A + B) 31.12.2018	136,860,088	(4,422,559)	3,715,099	(32,093)	1,971,634	(1,110)	482,190	(804)	26,311	(700)
Total (A + B) 2017 restated	111,343,223	(4,886,013)	3,693,384	(65,552)	1,770,329	(168)	441,265	(312)	27,889	(9)

B.3 Prudential consolidation – Geographical distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay loans	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	9,394,575	(1,474)	872,696	(1,691)	22,914	(193)	75,721	(213)	11,033	(26)
Total (A)	9,394,575	(1,474)	872,696	(1,691)	22,914	(193)	75,721	(213)	11,033	(26)
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing loans	397,089	(9)	220,647	(74)	6,411	(6)	100,137	(102)	29,752	(30)
Total (B)	397,089	(9)	220,647	(74)	6,411	(6)	100,137	(102)	29,752	(30)
Total (A + B) 31.12.2018	9,791,664	(1,483)	1,093,343	(1,765)	29,325	(199)	175,858	(315)	40,785	(56)
Total (A + B) 2017 restated	6,924,686	-	971,047	(256)	472,475	(3)	170,256	(207)	48,677	(28)

B.4 Large exposures

On the basis of updates to Bank of Italy Circular No. 263 of 27th December 2006 and subsequent regulatory clarifications issued by the supervisory authority, the number of large risks presented in the table was determined by making reference to the non-weighted “exposures”, including those towards Group counterparties, with a nominal value equal to or greater than 10% of the regulatory capital, where “exposures” are defined as the sum of on-balance sheet risk assets and off-balance sheet commitments (excluding those deducted from regulatory capital) to a customer of group of connected customers, without the application of weighting factors.

These exposure criteria result also in the inclusion in the balance sheet table of large risk positions which – although they have a weighting factor of 0% - have a non-weighted exposure of greater than 10% of the capital valid for the purposes of large risks.

	31.12.2018
Number of positions	5
Exposure	26,838,238
Risk position	580,838

“Large exposures” consisted of the following:

- €14,919 million to the Ministry of the Economy and Finance (€77 million considering weighting factors), relating mainly to investments in government securities by the Parent and to a residual extent to current and deferred tax assets;
- €8,304 million to the Bank of Italy (€99 million considering weighting factors), relating to business by the Parent;
- €1,556 million to the United States Treasury (€0 million considering weighting factors), regarding investments in United States treasuries.
- €1,111 million to a major banking counterparty (€404 million considering weighting factors).
- €948 million to the Kingdom of Spain (€0 million considering weighting factors), regarding investments in Spanish treasuries.

The percentage of consolidated regulatory capital is well below the limit of 25% set for banking groups for each of the exposures reported.

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

Underlying objectives strategies and processes of securitisations

Law No. 130/99 “Measures on the securitisation of loans” introduced the possibility into national legislation of performing securitisation transactions using specially formed Italian registered companies (termed special purpose entities), which allow an entity to acquire funding by securitising part of the assets which it owns. This operation involves the transfer of assets (usually loans and receivables) recognised in the balance sheet of an entity (termed the “originator”) to a special purpose entity which in order to fund the purchase issues bonds which it then sells on the market and pays the proceeds back to the transferor. The redemption and return on the notes issued depend on the cash flows generated by the assets transferred.

On the other hand, with “self-retained securitisation” transactions it is the originator itself (banks or companies in the UBI Group) which fully subscribes the various tranches of notes issued by the special purpose entity to fund the purchase of the loans. The senior notes assigned a rating are listed and can be used for refinancing operations with the ECB.

The “own” securitisations of the UBI Group as at the reporting date of these financial statements this report were of both types as follows:

- conventional securitisations with notes sold on the market. These consisted of the Marche Mutui 2, Marche M6 and Mecenate 2007 securitisations resulting from the acquisition of Nuova Banca delle Marche and Nuova Banca dell'Etruria e del Lazio, which had been created by these banks in prior years by transferring their assets to them;
- “self-retained securitisations”: these are securitisations of the assets of companies belonging to UBI Group carried out in 2016 (UBI SPV Group 2016 and UBI SPV Lease 2016) or in prior years (24-7 Finance) and they were formed for the purpose of generating assets eligible for refinancing operations with the European Central Bank, in order to strengthen the Group’s liquidity position in accordance with the provisions of internal policies and to thereby maintain a high counterbalancing capacity. Those same self retained securitisations can also be used for bilateral collateralised funding transactions (e.g. financing repos).

Synthetic securitisations have been added to these two types of conventional securitisations since 2017. They were formed in order to optimise use of capital, by freeing up regulatory capital through the reduction of the credit risk of one or more of the underlying portfolios.

We also report that in the second half of 2018 the Parent, UBI Banca, and its subsidiary, IW Bank, participated, in the capacity of originators, in a bad loan securitisation structured in accordance with the government guarantee scheme pursuant to Decree Law No. 18 of 14th February 2016 (“GACS”) with the aim of the deconsolidating Group assets classified as bad loans. The relative securities issued by SPV Maior Srl were initially subscribed by UBI Banca, which subsequently sold almost all¹⁹ the mezzanine and junior tranches to parties outside the Group.

The sub-sections below provide the required disclosures of a qualitative and quantitative nature for the conventional and synthetic securitisations mentioned above and for the “GACS” (Government guarantee for bad loan securitisations) transaction. As allowed by regulations for “self-retained securitisations”, the relative sections of the notes to the financial statements have not been compiled. For full information the main characteristics of the transactions existing at the time of preparing these notes to the financial statements have nevertheless been reported in these notes.

¹⁹ UBI Banca kept 5% of each tranche in order to comply with the “retention” requirements under the applicable legislation and regulations. Reference is made to the special sub-section in this section for further details

The table below summarises the stakes held in securitisation special purpose entities existing as at 31st December 2018:

Securitisation name/ Special purpose entity	Registered address	Group stakes	Type of securitisation
24-7 Finance	Via XX Settembre, 8 - Brescia	10.00%	Retained securitisation
UBI Finance 2 in Liquidazione	Via XX Settembre, 8 - Brescia	10.00%	Operation closed down
UBI SPV BBS 2012 Srl in Liquidazione	Via Foro Bonaparte, 70 - Milano	10.00%	Operation closed down
UBI SPV BPCI 2012 Srl in Liquidazione	Via Foro Bonaparte, 70 - Milano	10.00%	Operation closed down
UBI SPV BPA 2012 Srl in Liquidazione	Via Foro Bonaparte, 70 - Milano	10.00%	Operation closed down
UBI SPV GROUP 2016 Srl	Via Foro Bonaparte, 70 - Milano	10.00%	Retained securitisation
UBI SPV LEASE 2016 Srl	Via Foro Bonaparte, 70 - Milano	10.00%	Retained securitisation
Marche Mutui 2 Srl	Via Barberini, 47 - Roma	0.00%	Market securitisation
Marche M6 Srl	Via Alfieri, 1 - Conegliano Veneto	0.00%	Market securitisation
Mecenate Srl	Via Calamandrei, 255 - Arezzo	95.00%	Market securitisation

The securitisations UBI Finance 2, UBI SPV BPA 2012, UBI SPV BPCI 2012 and UBI SPV BBS 2012 were closed down in advance in prior years in consideration of the small remaining value of the underlying portfolios: UBI Finance 2 closed down and redeemed its notes in 2014 and the special purpose entity was therefore the put into liquidation in the first quarter of 2015. UBI SPV BPA 2012, UBI SPV BPCI 2012 and UBI SPV BBS 2012 were closed down in advance in 2016, with the redemption of the notes in November 2016, and the winding up procedures are in progress.

To complete the information we report that the special purpose entity Mecenate Srl has been part of the UBI VAT Group since 1st January 2019. Reference is made in this respect to the information provided in the Management Report – Other information - Tax aspects.

Third party securitisation transactions

Following the merger by acquisition of Banca Adriatica, which took place in the third quarter of 2017, the Parent, UBI Banca acquired a floating rate senior class B note with maturity in 2022, a nil carrying amount and a nominal value of €1.5 million.

Securitisations: entities and roles

The entities of the UBI Banca Group involved in the securitisation transactions existing as at the reporting date and the respective roles played are listed below:

24-7 Finance

Originator	UBI Banca Spa
Issuer	24-7 Finance Srl
Servicer	UBI Banca Spa
English Account Bank	The Bank of New York Mellon London Branch
Italian Account Bank	The Bank of New York (Luxembourg) SA Italian Branch
Additional Transaction Bank	UBI Banca Spa
Cash Manager	The Bank of New York Mellon London Branch
Additional Cash Manager	UBI Banca Spa
Paying Agent	The Bank of New York (Luxembourg) SA Italian Branch
Calculation Agent	The Bank of New York Mellon London Branch
Swap Counterparty	JPMorgan Chase Bank, National Association
Representative of the Noteholders	BNY Corporate Trustee Services Limited

UBI SPV Lease 2016

Originator	UBI Leasing Spa
Issuer	UBI SPV Lease 2016 Srl
Servicer	UBI Banca Spa
Sub-Servicer	UBI Leasing Spa

Back-up Servicer Facilitator
Account Bank
Cash Manager
Calculation Agent
Payment Account Bank
Paying Agent
Representative of the Noteholders

Zenith Service Spa
UBI Banca Spa
UBI Banca Spa
UBI Banca Spa
BNP Paribas Securities Services, Milan Branch
BNP Paribas Securities Services, Milan Branch
Zenith Service Spa

UBI SPV Group 2016

Originator²⁰

Issuer
Master Servicer
Back-up Servicer Facilitator
Italian Account Bank
Cash Manager
Paying Agent
Calculation Agent
Representative of the Noteholders

UBI Banca Spa
Banca Carime Spa
Banco di Brescia Spa
Banca Regionale Europea Spa
Banca Popolare di Ancona Spa
Banca Popolare di Bergamo Spa
Banca Popolare Commercio e Industria Spa
UBI SPV Group 2016 Srl
UBI Banca Spa
Zenith Service Spa
UBI Banca Spa
UBI Banca Spa
The Bank of New York (Luxembourg) SA Italian Branch
UBI Banca Spa
Zenith Service Spa

Mecenate

Originator
Issuer
Master Servicer
Italian Account Bank
Paying Agent
Computation Agent
Representative of the Noteholders
Transaction Bank
Arranger and Lead Manager
Swap Counterparty

UBI Banca Spa²¹
Mecenate Srl
UBI Banca Spa
UBI Banca Spa
BNP Paribas Securities Services – Milan Branch
BNP Paribas Securities Services – Milan Branch
BNP Paribas Securities Services – Milan Branch
BNP Paribas Securities Services – London Branch
UBS Ltd
UBS Ltd

Marche Mutui 2

Originator
Issuer
Master Servicer
Italian Account Bank
Paying Agent
Computation Agent
Representative of the Noteholders
Transaction & English Transaction Bank
Swap Counterparty

UBI Banca Spa²²
Marche Mutui 2 Società per la Cartolarizzazione Srl
UBI Banca Spa
UBI Banca Spa
Deutsche Bank AG – London Branch
Deutsche Bank AG – London Branch
Deutsche Trustee Company Limited
BNP Paribas Securities Services – Milan Branch
Société Générale

Marche M6²³

Originator
Issuer
Master Servicer
Italian Account Bank
Paying Agent
English Account Bank
Calculation Agent
Representative of the Noteholders
Swap Counterparty

UBI Banca Spa
Marche M6 Srl
UBI Banca Spa
BNP Paribas Securities Services – Milan Branch
BNP Paribas Securities Services – Milan Branch
BNP Paribas Securities Services – London Branch
Securitisation Services Spa
Securitisation Services Spa
J.P.Morgan Securities PLC

²⁰ The original originator banks are shown (subsequently merged into UBI Banca in November 2016 and in February 2017).

²¹ UBI Banca performed the role of originator following the merger by acquisition of Banca Tirrenica Spa. Reference is made for further details on the roles filled by the different counterparties and the relative changes over the time to the information given in the relative sub-section that follows.

²² UBI Banca performed the role of originator following the merger by acquisition of Banca Tirrenica Spa. Reference is made for further details on the roles filled by the different counterparties and the relative changes over the time to the information given in the relative sub-section that follows.

²³ See note 22.

Securitisations: financial support from the UBI Banca Group

In addition to the roles reported in the paragraphs above, in order to ensure that the management of securitisations functions properly, the companies in the UBI Banca Group also have the duty to provide further financial support to securitisations in order to cover certain specific or generic risks.

A report is given below of the quantification of the financial support given as at 31st December 2018, by UBI Banca or by subsidiaries on the basis of existing contractual agreements and divided on the basis of the type of risk underlying each financing:

SUBORDINATED FINANCING BY UBI GROUP BANKS TO retained securitisation SPEs - Total REMAINING PRINCIPAL DEBT AS AT 31/12/2018							
FINANCING BANK	ENTITY FINANCED	TOTAL AS AT 31/12/2017	TOTAL AS AT 31/12/2018	ITEM IN BALANCE SHEET OF FINANCING BANK	PURPOSE OF FINANCING		
					PURCHASE OF LOANS	TO COVER LIQUIDITY RISKS	TO COVER COMMINGLING RISK
Banc@ 24-7 (then merged into UBI Banca)	24-7 Finance Srl (1)	24,422,348	24,422,348	BS asset item 130 (recognised net of securitisation and CB operations)		24,422,348	
UBI BANCA	24-7 Finance Srl (1)	73,132,224	73,132,224	BS asset item 130 (recognised net of securitisation and CB operations)		73,132,224	
Banca Tirrenica (then merged into UBI Banca)	Mecenate Srl (2)	394,068	0	BS liability item 10b (Liabilities related to assets transferred not derecognised)		0	
Banca Tirrenica (then merged into UBI Banca)	Mecenate Srl (3)	5,732,710	4,402,525	BS liability item 10b (Liabilities related to assets transferred not derecognised)	4,402,525		
Banca Tirrenica (then merged into UBI Banca)	Mecenate Srl (4)	4,968,404	4,642,740	BS asset item 40a			4,642,740
Banca Adriatica (then merged into UBI Banca)	Marche Mutui 2 (5)	8,208,664	8,208,664	BS liability item 10b (Liabilities related to assets transferred not derecognised)		8,208,664	
TOTAL SECURITISATIONS		116,858,418	114,808,501		4,402,525	105,763,236	4,642,740

Notes:

(1) The currently outstanding loan granted by UBI Banca to 24-7 Finance Srl was disbursed in two tranches: an initial tranche paid when the notes were issued by the originator B@nca 24-7 (which was then merged into UBI Banca) and a second tranche paid by UBI Banca when the securitisation was restructured at the time of the merger of B@nca 24-7 into UBI Banca.

(2) A loan granted by Banca Tirrenica (former Banca Etruria) to Mecenate for the Mecenate 2007 securitisation to cover the general liquidity risks of the operation.

(3) Part of the price for the transfer of the original portfolio transferred by (former Banca Etruria) to Mecenate for the Mecenate 2007 securitisation, corresponding to the portion of the interest earned on the portfolio transferred as at the transfer date, not financed by the issue of notes, but by deferment of payment of the amount to a subsequent time when the notes issued are fully redeemed, in accordance with the contractual provisions of the securitisation.

(4) Sums deposited by Banca Tirrenica (former Banca Etruria) with BNP Paribas to cover commingling risk underlying the Mecenate 2007 securitised portfolio.

(5) A loan granted by Banca Adriatica (former Banca delle Marche) to Marche Mutui 2 to cover the general liquidity risks of the operation.

The underlying reasons for the financing reported in the table are given below.

a) To cover liquidity risk

With regard to the 24-7 Finance securitisation, the originator Banca 24-7 also filled the role of subordinated loan provider, having granted a subordinated loan designed to create a debt reserve amount to meet possible shortages of liquidity for the operation. At the time of the merger into UBI Banca in 2012, a subordinated loan of approximately €24.4 million was outstanding, which was subsequently increased in 2013 by a further €73.1 million. The financial support provided by UBI Banca to the securitisation, given that no repayments of the loan had been made since 2012, amounted to €97.5 million.

Also for those securitisations that had been structured by Nuova Banca delle Marche and Nuova Banca dell'Etruria, the originators had in some situations taken the role of subordinated lender, in order to create debt reserve amounts to guarantee noteholders against possible liquidity difficulties. As at 31st December 2018, the subordinated loan granted by Nuova Banca delle Marche to Marche Mutui 2 for €8.2 million was still outstanding. However,

the loan granted by Nuova Banca dell'Etruria e del Lazio to Mecenate 2007 had been extinguished in April 2018.

In order to complete the information we report that as part of the “Maior” bad loan securitisation structured in accordance with the government guarantee scheme pursuant to Decree Law No. 18 of 14th February 2016 (“GACS”), in the second half of 2018 the originator, UBI Banca, granted the transferee, Maior SPV, a loan with limited recourse of approximately €25.1 million, for the purpose of creating a cash reserve available to the SPE to make the interest payments on the senior notes on the basis of the order of the applicable payments. Unlike the subordinated loans granted for other UBI Group securitisations reported in the table, payment of the sums due to UBI Banca as repayment of the subordinated loan will be given priority with respect to repayment of the principal of the senior tranches and payments relating to the other tranches with a higher degree of subordination, according to the provisions of the GACS decree already mentioned and the regulations governing the notes of the securitisation. Reference is made for further details on the “GACS” Maior SPV securitisation to the special sub-section in this section.

b) Purchase of Loans:

Again for Mecenate 2007, the originator also provided another form of financial support to the securitisation by deferred payment of part of the amount for the loans transferred corresponding to the interest accruing on the portfolio (but not yet due) as at the transfer date. Further details are given in the information reported in the sub-sections relating to each securitisation.

c) To cover commingling risk

The risk of commingling relates to the account bank role performed by the Parent or by other Group companies that are depositories of the securitisation's liquidity. It represents the risk that, in the event of a downgrade which rendered the depository bank no longer eligible as a depository for the sums received, it would be unable to make an immediate transfer of the sums received by the servicer to another credit institution. Coverage of that risk by means of a supporting loan is currently only provided for the Mecenate 2007 securitisation. In fact in 2010 Banca dell'Etruria e del Lazio made a deposit (a “commingling reserve”), currently with BNP Paribas Securities Services, for an initial amount of €9.2 million. Following quarterly adjustments, as at 31st December 2018 that deposit amounted to approximately €4.6 million. The new securitisations, UBI SPV Lease 2016 and UBI SPV Group 2016, structured in 2016, did not involve any form of direct financial support provided by the grant of subordinated loans as in the case of those described above. For both these transactions, the subscription of junior notes by the originators had made it possible to create a cash reserve amounting to €31.5 million for UBI SPV Lease 2016 and a total of €83.4 million for UBI SPV Group 2016. These sums have not yet been drawn on and remained entirely available in the two securitisations at the reporting date of this financial report.

To complete the information, we report with regard to the UBI SPV GROUP 2016 securitisation, that, as part of action taken to strengthen the revolving period of the transaction and to strengthen its structure, on 25th January 2019, in accordance with the contracts, financial support from the originator, UBI Banca, was provided by the grant of a subordinated loan for this transaction also. The new loan, amounting to €46.9 million, will increase the cash reserve available to the SPE, bringing it up to €130.3 million.

Internal risk measurement and monitoring systems connected with securitisation transactions including measurement, for those transactions originated by the Group, where risks were transferred to third parties. Illustration of the organisational structure for managing securitisation transactions including systems for reporting to senior management or to a similar body.

To complete the information given in the preceding pages on the management of the securitised portfolios and the parties internal to and external to the Group who fill the various roles, we report the following with regard to the corporate servicing activities of the SPEs:

- it was decided to outsource these activities to TMF Management Italy Srl for the securitisations UBI SPV Lease 2016 and UBI SPV Group 2016 and also, following the

conclusion of the merger of Banca Tirrenica into UBI Banca, for the special purpose entity Mecenate;

- corporate servicing activities were carried out by Zenith Service Spa for the 24-7 Finance securitisation;
- for the Marche Mutui 2 and Marche M6 securitisations, acquired with the acquisition of Nuova Banca delle Marche, the corporate servicing activities are carried out by F2A - FIS Antex and Securitisation Services S.p.A. respectively.

Furthermore, taking a prudential approach, in order to comply with the eligibility requirements even under market stress scenario conditions, a backup service facilitator was also appointed for the 2016 UBI SPV Lease 2016 and UBI SPV Group 2016 securitisations. That role is performed by Zenith Service Spa for both securitisations.

On the other hand, it was decided not to outsource IT and accounting operations related to servicer activities. The management of cash collection activities for the portfolios continues to be performed by the originators, in their capacities as servicers or sub-servicers, who may make use, amongst other things, of the main Group accounting platform. This was also useful for reconstructing movements in the accounts of the securitisation companies and therefore for providing them with the information needed by the corporate servicers for preparing financial statements.

In order to ensure continuity and effectiveness in the performance of their servicer functions, the servicers have created appropriate technical and organisational units to monitor the various phases of the securitisation process. Accounting and reporting systems in particular have been put in place with account taken of the need to be able to reconstruct all transactions at any moment.

At the level of the Parent, UBI Banca, the main organisational units responsible for managing the securitisations were the Finance Area and the units under the Chief Financial Officer and the Chief Risk Officer. The roles and tasks relating to the performance of the various operational phases of servicing and also those relating to monitoring performance data and, where required, those of the calculation agent, were defined in those units. More specifically, a special set of quarterly reports are prepared to monitor each individual securitisation transaction²⁴.

With the merger of Banca Adriatica and Banca Tirrenica into UBI Banca concluded at the end of 2017, the model described above was extended to also cover the securitisations originated by these banks: Marche Mutui 2, Marche M6 and Mecenate 2007.

Description of the hedging policies adopted to mitigate risks connected with securitisations, including the strategies and processes adopted to continuously monitor the effectiveness of these policies.

All the securitisations carried out until the end of 2011 had been hedged by swap derivative contracts where the main objective was to stabilise the flow of interest generated by the securitised portfolio and to protect the special purpose entity from interest rate risk.

Only one of these securitisations existed at the end of 2018, and this was the 24-7 Finance securitisation where the swap contracts were concluded between the SPE and the respective swap counterparty, who then signed contracts identical in form but opposite in their effects ("back-to-back swaps") with UBI Banca (which following the merger of Banca 24-7 in 2012, also filled the role of originator of the securitisation).

As at 31st December 2018 that same approach was in use for the Marche Mutui 2 and Marche M6 securitisations, which had a swap contract structure and mirror back-to-back swaps which for the latter the Parent took the place of the counterparty following the merger of Banca Adriatica into UBI Banca.

For the Mecenate 2007 transaction, the securitisation was backed by swap contracts with an outside counterparty, but no back-to-back swap contracts existed between that counterparty and the originator, as occurred on the other hand in the approach described above.

²⁴ With regard to operational processes, securitisations are regulated by two special Group circulars: Circular No. 168 of 2015 for self-retained securitisations and Circular No. 384 of 2018 for synthetic securitisations.

On the other hand, the last two securitisations created by the UBI Group in 2016, UBI SPV Lease 2016 and UBI SPV Group 2016, were structured without the use of swaps. This method of structuring the securitisations was possible because of the lower ratings assigned at the time of issue (A1 for Moody's and A(low) for DBRS for both of them), compared with AAA ratings required in the past for eligibility for refinancing with the European Central Bank, since the eligibility criteria had been lowered by the ECB itself.

Finally for full information we report that in previous years, in compliance with supervisory regulations, (Circular No. 263/06), the UBI Group had set a specific policy for the management of securitisation risk. With the update of the 2018 Risk Appetite Framework, that policy was added to in 2018 with a specific section of the "Credit risk management policy". In this respect see Parte E - Section 2 – Credit Risk in these Notes to the financial statements.

Further information on Group activities concerning securitisation transactions is given in the Management Report which may be consulted.

Conventional securitisations: details of the individual transactions

Market securitisations originated by Banca Adriatica

Information is reported below on securitisations carried out by Banca delle Marche Spa (Originator). Following the issue of Decree No. 183 of 22/11/2015, which resulted in the formation of bridge institutions (in accordance with Art. 42 of Legislative Decree No. 180 of 16/11/2015,) Nuova Banca delle Marche Spa took the place of Banca delle Marche Spa, with no interruption, in all the roles performed regarding contractual agreements for the securitisation. Similarly, by virtue of the merger of Banca Adriatica Spa (former Nuova Banca delle Marche Spa) into UBI Banca Spa concluded in October 2017, the latter took over all the roles performed in the same securitisations originally performed by Banca delle Marche that were still existing as at the merger date.

Marche Mutui 2 Securitisation

The Marche Mutui 2 securitisation was created in October 2006, with a portfolio of performing loans as the underlying, originated from regulated mortgages with maturity not later than 31st December 2031 backed by first mortgage agreements and with the original amount of the mortgage registration at least twice the amount of the original amount disbursed. This securitisation had been structured by Banca delle Marche for the purpose of broadening the range of its funding with respect to that provided by the conventional issue of both domestic and international bonds.

The securitisation was completed according to the following approach:

- the transfer without recourse of loans to the special purpose entity Marche Mutui 2 Srl amounting to €631.4 million;
- financing of the operation by the issue of five classes of notes (two senior, classes A1 and A2, two mezzanine, classes B and C, and one junior, class D). These senior notes (class A1 for €88.4 million and class A2 for €511.5 million) and the mezzanine notes (class B for €12 million and class C for €15.8 million) were listed on the Irish Stock Exchange and subscribed by institutional investors. The junior note (class D, amounting to €3.8 million) was subscribed by the Bank and was held by UBI Banca as at 31st December 2018;
- the grant to the SPE by Banca delle Marche Spa of a subordinated loan of €8.2 million for the purpose of forming a cash reserve at the service of the securitisation. As at 31st December 2018 that loan is still outstanding and the role of subordinated lender is filled by UBI Banca.

The notes have been assigned ratings by the agencies Moody's and Standard & Poor's. The table below reports the position for the notes as at 31st December 2018 and the relative rating assigned in force at that date.

Marche Mutui 2 Srl	ISIN Number	Nominal amount when issued	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% amortised	Moody's Ratings	S&P Ratings
Class A1	IT0004124944	88,400,000	88,400,000	-	100.00%	-	-
Class A2	IT0004124977	511,450,000	485,731,015	25,718,985	94.97%	Aa3	AA
Class B	IT0004125008	12,000,000	-	12,000,000	0.00%	Aa3	A+
Class C	IT0004125024	15,800,000	-	15,800,000	0.00%	A1	A+
Class D	IT0004125065	3,785,725	-	3,785,725	0.00%	n.a.	n.a.
Total		631,435,725	574,131,015	57,304,710	90.92%		

As at the reporting date, 31st December 2018, the portfolio amounted to €60.7 million (remaining principal debt). As already reported, in compliance with the international accounting standards in force, the securitised assets remained recognised on the balance sheets of the originators as assets transferred not derecognised. The related liabilities associated with the assets transferred not derecognised amounting to €47.4 million were recognised at the same time within amounts due to customers. The related profit and loss item is recognised in item 20 in the income statement. For further information, reference is made to the specific sub-sections in these notes to the financial statements.

The tables below give the distribution of the securitised portfolio by the quality of the loans as at 31st December 2018 on the basis of the classification in the balance sheet of the originator (in terms of the net book amount) and the reporting classification of the transaction (in terms of the remaining principal debt "customer view").

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	52,316
Arrears loans	552
Collateral Portfolio	52,868
Defaulted Loans	7,829
Total Marche Mutui 2 portfolio	60,697

TYPE OF LOAN (Balance sheet classification)	Carrying amount as at 31/12/2018 (thousands of euro)
Performing loans	47,227
Performing past-due exposures	7,484
Non-performing past-due exposures	21
Unlikely-to-pay loans	1,643
Bad loans	1,406
TOTAL assets transferred from UBI Banca to Marche Mutui 2 Srl	57,781
of which Item 40 "Financial assets at amortised cost"	57,770
of which Item 20c "Financial assets mandatorily at fair value"	11

The role of "servicer" for the securitised portfolios performed by Banca delle Marche Spa, is now carried out by the Parent, UBI Banca.

The fees due to UBI Banca Spa for servicing activities carried out in 2018 amounted to approximately €58 thousand. The total amounts received with regard to servicing activity amounted to €14.4 million for 2018.

Marche M6 Securitisation

The Marche M6 securitisation was performed by Banca delle Marche Spa in June 2013 on a portfolio of performing loans consisting of residential mortgages. The portfolio transferred was composed of approximately one third of new grants of residential mortgages and two thirds of loans previously transferred to the SPE Marche Covered Bond Srl for the creation of the cover pool with appropriate characteristics for the new transfer.

The first stage of the operation therefore involved the early redemption of the two series of covered bonds issued by the bank, the repurchase of the loans transferred under the covered bond programme and the repayment at the same time by Marche Covered Bond Srl of the subordinated loan that had been granted for the purchase of the securitised loans. The covered bond programme was closed down by the bank permanently in December 2013.

The securitisation was therefore completed according to the following structure:

- the transfer without recourse of loans to the special purpose entity Marche M6 Srl amounting to €2,128.7 million;
- financing of the operation by the issue of four classes of notes: three senior, classes A1, A2 and A3 and one junior, class J).

The securitisation was initially structured in order to acquire securities eligible for refinancing with central institutions. Consequently, the entire issuance was subscribed by the originator bank. The senior classes were initially used by Banca delle Marche Spa as securities eligible for principal refinancing operations with the European Central Bank and/or repurchase agreement transactions with institutional counterparties. In June 2015 the A1 and A2 classes were sold in the market while the class A3 and the subordinated J classes remained in Banca delle Marche Spa's portfolio and are still held by UBI Banca Spa.

The notes have been assigned ratings by the agencies Fitch and DBRS. The table below reports the position for the notes as at 31st December 2018 and the relative rating assigned in force at that date.

Marche M6 Srl	ISIN Number	Nominal amount when issued	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% amortised	Fitch Ratings	DBRS Ratings
Class A1	IT0004941271	966,000,000	966,000,000	-	100.00%		
Class A2	IT0004941297	300,000,000	148,758,990	151,241,010	49.59%	AA	AAA
Class A3	IT0004941305	434,500,000	-	434,500,000	0.00%	AA	AAA
Class j	IT0004940992	496,566,000	-	496,566,000	0.00%	n.a.	n.a.
TOTAL		2,197,066,000	1,114,758,990	1,082,307,010	50.74%		

As at 31st December 2018 the class A1 notes had been fully amortised and amortisation of the class A2 notes was in progress. To complete the information we report that as at the payment date of 28th January 2019, the class A2 notes had been further redeemed by approximately €57.3 million.

As at the reporting date, the securitised portfolio amounted to €1.08 billion (remaining principal debt). For this securitisation too, the securitised assets remained recognised on the balance sheets of the originators as assets transferred not derecognised, in compliance with the international accounting standards in force. The related liabilities associated with the assets transferred not derecognised amounting to €52.9 million were recognised within amounts due to customers. The related profit and loss item is recognised in item 20 in the income statement. For further information, reference is made to the specific sub-sections in these notes to the financial statements.

The tables below give the distribution of the securitised portfolio by the quality of the loans as at 31st December 2018 on the basis of the classification in the balance sheet of the originator (in terms of the net book amount) and the reporting classification of the transaction (in terms of the remaining principal debt "customer view").

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	1,025,290
Loans in arrears	7,895
Collateral Portfolio	1,033,185
Defaulted loans	51,637
Total Marche M6 portfolio Srl	1,084,822

TYPE OF LOAN (Balance sheet classification)	Carrying amount as at 31/12/2018 (thousands of euro)
Performing loans	883,876
Performing past-due exposures	152,044
Non-performing past-due exposures	296
Unlikely-to-pay loans	23,420
Bad loans	5,798
TOTAL assets transferred to Marche Mutui 6 Srl	1,065,434
of which Item 40 "Financial assets at amortised cost"	1,065,373
"Financial assets mandatorily at fair value"	61

In this case too, the role of “servicer” for the securitised portfolios had been performed by Banca delle Marche Spa and is now carried out by the Parent, UBI Banca.

The fees due to UBI Banca Spa for servicing activities carried out in 2018 amounted to €783 thousand. Total payments received as part of servicing activity for 2018 amounted to €188 million of which approximately €33 million received following repurchase transactions designed to improve management and recovery of the portfolios transferred²⁵.

Securitisations originated by Banca Tirrenica

The securitisations carried out by Banca Tirrenica Spa (former Nuova Banca dell'Etruria e del Lazio Spa) (originator) which was merged into UBI Banca Spa in November 2017 are reported below. Following the issue of Decree No. 183 of 22/11/2015, which resulted in the formation of bridge institutions in accordance with Art. 42 of Legislative Decree No. 180 of 16/11/2015, Nuova Banca dell'Etruria e del Lazio Spa took the place of Banca dell'Etruria e del Lazio Spa, with no interruption, in all the roles performed regarding contractual agreements for the securitisation.

Similarly, by virtue of the merger of Banca Tirrenica Spa (former Nuova Banca dell'Etruria e del Lazio Spa) into UBI Banca Spa concluded in November 2017, the latter took over all the roles performed in the same securitisations originally performed by Banca dell'Etruria e del Lazio (hereinafter Banca Etruria) that were still existing as at the merger date.

Mecenate 2007 Securitisation

Mecenate Srl (“Mecenate”), is the special purpose entity with which Banca Etruria carried out a total of four securitisations of performing residential mortgages one of which is currently still in outstanding (Mecenate 2007) and two of which were closed down in 2017 (Mecenate 2009 and Mecenate 2011). All of the aforementioned securitisations were carried out in accordance with and as a result of the combined provisions of Art. 4 of Law No. 130/1999 and Art. 58 of the Consolidated Banking Law. Each securitised portfolio is managed completely separately with its own regulations for each securitisation and with specific contracts signed between the parties involved.

²⁵ With regard to servicing activity, in specific situations and in order to make management and recovery of transferred portfolios more effective, the originator is permitted to repurchase single securitised assets.

The Mecenate 2007 securitisation, created in May 2007, was implemented to optimise the management of the loan portfolio and to diversify sources of funding. The securitisation was structured as follows:

- on 29th March 2007 Banca Etruria transferred en bloc and without recourse loans, classified as performing, and the relative legal relations attaching to a portfolio of ordinary and regulated mortgage loans, granted to private individual customers for a total amount of €633.1 million;²⁶
- Mecenate SPV then engaged Banca Etruria to fill the role of servicer for the securitisation with a mandate for management, administration and cash receipt services for the portfolio transferred;
- on 11th May 2007 Mecenate issued notes for a total amount of approximately €633 million of which €630.1 million (classes A, B and C) assigned a rating, all at floating rate and with quarterly coupons.

Those notes to which ratings had been assigned were listed on the Dublin stock exchange and when issued they were subscribed by institutional investors. On the other hand the Class D notes, which were unrated, were subscribed by Banca Etruria.

The table below reports the position for the notes as at 31st December 2018 and the relative ratings assigned by the two rating agencies:

MECENATE SERIES 2007	ISIN Number	Nominal amount when issued - 11/05/2007	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% redeemed	Moody's Ratings	Fitch Ratings
A. SENIOR	IT0004224116	577,850,000	577,850,000	-	100.00%	-	-
B. MEZZANINE	IT0004224124	13,600,000	3,736,986	9,863,014	27.48%	Aa3	AA
C. MEZZANINE	IT0004224132	39,750,000	-	39,750,000	0.00%	Aa3	AA
D. JUNIOR	IT0004224173	1,892,000	-	1,892,000	0.00%	n.a.	n.a
TOTAL		633,092,000	581,586,986	51,505,014	91.86%		

and the amounts for the Mecenate notes held in the UBI Banca portfolio as at 31st December 2018:

MECENATE SERIES 2007	ISIN Number	Remaining nominal amount as at 31/12/2018	Notes held by investors as at 31/12/2018	Notes held by UBI Banca as at 31/12/2018	% UBI ownership
A. SENIOR	IT0004224116	-	-	-	-
B. MEZZANINE	IT0004224124	9,863,014	6,019,339	3,843,674	38.97%
C. MEZZANINE	IT0004224132	39,750,000	17,150,000	22,600,000	56.86%
D. JUNIOR	IT0004224173	1,892,000	-	1,892,000	100.00%
TOTAL		51,505,014	23,169,339	28,335,674	55.02%

In accordance with the contractual agreements the class A notes commenced amortisation (redemption) in January 2009.

Over the years the bank repurchased part of the senior and mezzanine notes sold in the market. More specifically, a part of the senior notes were repurchased between July 2008 and August 2014, and a part of the mezzanine tranche was repurchased between March 2010 and November 2013.

To complete the information we report that as at the payment date of 21st January 2019, the class A notes had been further redeemed by a nominal €3.27 million (of which €1.28 million relating to notes held by UBI Banca).

As at the reporting date, 31st December 2018, the Mecenate 2007 securitised portfolio amounted to €67.7 million of remaining principal debt. As already reported, in compliance with the international accounting standards in force, the securitised assets remained

²⁶ This amount of €633.1 million does not include interest accruing on the loans transferred, but not yet due as at the transfer date. That portion of the interest amounting to €5.7 million was financed by the SPE by deferment of the payment of the relative amount to the originator in accordance with the provisions of the transfer contract and with the payment priorities of the securitisation set contractually.

recognised on the balance sheets of the originators as assets transferred not derecognised²⁷. The related liabilities associated with the assets transferred not derecognised amounting to €14.4 million were recognised at the same time within amounts due to customers. The related profit and loss item is recognised in item 20 in the income statement. For further information, reference is made to the specific sub-sections in these notes to the consolidated financial statements.

A description is given below of the composition of the portfolio transferred to Mecenate “2007 portfolio”, on the basis of the classification in the balance sheet of the originator (in terms of the net book amount) and in terms of the remaining principal receivables, according to the classification adopted in the transaction:

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	56,402
Loans in arrears	1,307
COLLATERAL PORTFOLIO	57,709
Defaulted loans	10,015
Total Mecenate 2007 portfolio	67,724

TYPE OF LOAN (Balance sheet classification)	Carrying amount as at 31/12/2018 (thousands of euro)
Performing loans	50,882
Performing past-due exposures	8,355
Non-performing past-due exposures	107
Unlikely-to-pay	2,610
Bad loans	1,754
TOTAL assets transferred to MECENATE SRL	63,708

In order to support the securitisation the bank had granted Mecenate a subordinated loan of approximately €15 million of which €50 thousand was used to create a specific expense fund and the remaining €14.95 million to contribute towards the formation of a cash reserve. The cash reserve, which constitutes a guarantee for the subscribers of Mecenate 2007 portfolio notes, amounted as at the issue date to 2.87% of the amount issued. The current balance stands at approximately €8.9 million, equal to 17.21% of the notes outstanding as at 31st December 2018.

On the other hand, the subordinated loan was progressively amortised, in accordance with the payment priorities for the securitisation and was totally redeemed on the payment date of 20th April 2018.

Furthermore, in compliance with requests from the rating agencies, in order to cover commingling risks for the securitisation, in 2010 Banca Etruria made a deposit (a “commingling reserve”) currently held in BNP Paribas, for an initial amount of €9.2 million. That reserve is subject to quarterly adjustment on the basis of the average amount of the sums received by Mecenate 2007 portfolio, in relation to the repayments on the securitised mortgages: that deposit stood at €4.6 million as at 31st December 2018.

As already mentioned above, the role of servicer for the securitised portfolios, which had been assigned to Banca Etruria, is now performed by the Parent UBI Banca Spa as a result of the merger of Banca Tirrenica into UBI Banca.

The fees due to UBI Banca Spa for servicing activities carried out in 2018, amounted to approximately €30 thousand. Total payments received as part of servicing activity for 2018 amounted to €17 million.

²⁷ As at the reporting date of this financial report, the assets transferred to Mecenate 2007 were recognised in their entirety within asset item 40 “Financial assets measured at amortised cost” in the balance sheet of UBI Banca.

NPL SECURITISATION BACKED BY THE ITALIAN GUARANTEE SCHEME “GACS”

MAIOR Srl Securitisation

In the third quarter of 2018, in line with the Group’s NPL strategy, the UBI Banca Group completed a bad-loan securitisation backed by government guarantee in accordance with Italian law No. 18 of 14th February 2016 (GACS) aimed at deconsolidating Group bad loans for a total gross book value (GBV)²⁸ of 2.7 billion and a gross carrying amount of €1.6 billion²⁹, €4 million of which (in GBV and gross carrying amount) transferred by the subsidiary IW Bank, while the remainder of the portfolio was transferred by UBI Banca.

The portfolio is made up of bad loans related to secured lending agreements in the form of mortgage-backed positions, accounting for 46.6% of the total, and to unsecured positions for the remaining 53.4%.³⁰ The transaction was structured so as to achieve a significant risk transfer (SRT) of the credit risk associated with the securitised loans in accordance with Articles 243 *et seq.* of Regulation (EU) No. 575/2013 (the Capital Requirements Regulation, or “CRR”) and to reach the Group’s related capital targets within the current year in terms of reducing the ratios of gross NPLs to gross lending and net NPLs to net lending to below the 2020 targets of the 2018-2020 business plan.

The tables below report the distribution of the portfolio transferred by type of loans and receivables transferred, geographical distribution and economic sector of the counterparties both overall and for each originator.³¹

Breakdown of transferred assets by originator bank and credit quality (in GBV)

Major Srl Securitisation	Figures in thousands of euro			Percentage amounts		
	Total	UBI Banca	IWBank	Total	UBI Banca	IWBank
Bad loans	2,748,769	2,744,735	4,034	100.00%	99.85%	0.15%
Total	2,748,769	2,744,735	4,034	100.00%	99.85%	0.15%

Percentage distribution of assets transferred by type of financing

Major Srl Securitisation	Portfolio Total	UBI Banca Portfolio	IWBank Portfolio
mortgages	32.10%	32.01%	95.84%
unsecured loans	11.84%	11.85%	4.03%
loans in currency	0.70%	0.70%	0.00%
pooled financing	1.45%	1.45%	0.00%
current account overdrafts	40.89%	40.95%	0.13%
portfolio and other advances	12.32%	12.34%	0.00%
other transactions	0.70%	0.70%	0.00%
Total	100.00%	100.00%	100.00%

Percentage distribution of assets transferred by geographical location

Major Srl Securitisation	Percentage amounts		
	Portfolio Total	UBI Banca Portfolio	IWBank Portfolio
North	64.48%	64.57%	2.80%
Central	19.26%	19.18%	73.97%
South and Islands	16.16%	16.15%	23.23%
Other countries	0.10%	0.10%	0.00%
Total	100.00%	100.00%	100.00%

²⁸ Gross book value (GBV) indicates the value of the rights, i.e. the carrying amount of the gross exposure plus the amount of losses recognised and interest on arrears accrued as at 31st December 2017 (i.e. the date of identification of the loans).

²⁹ Figure as at 1st January 2018, the effective date of the transaction for operating purposes.

³⁰ As a percentage of GBV

³¹ As a percentage of GBV

Percentage distribution of assets transferred by economic sector

Major Srl Securitisation	Percentage amounts		
	Portfolio Total	UBI Banca Portfolio	IWBank Portfolio
Financial companies	1.53%	1.53%	0.00%
Non-financial companies	76.98%	77.09%	0.00%
Other	21.49%	21.38%	100.00%
Total	100.00%	100.00%	100.00%

The operation was structured through a special-purpose vehicle (SPV) specifically established for the securitisation, Maior SPV Srl, in which the UBI Group does not have an interest, and was completed according to the process described below:

- on 20th July 2018, with an effective date for operating and accounting purposes of 1st January 2018, each originator bank completed the without-recourse transfer of their NPL portfolios to the SPV; the purchase price of the loans, a total of €698.2 million, €2.36 million of which for the IW Bank portfolio and €695.84 million for UBI Banca's portfolio, was financed by the SPV by the subsequent issue of securities.

The table below provides the gross book value, the gross carrying amount, and the net carrying amount of the loans transferred, broken down by originator bank (in millions of euro):

Originator Bank	Gross Book Value (figures as at 1/1/2018)	Gross carrying amount (figures as at 1/1/2018)	Impairment losses (figures as at 1/1/2018)	Net carrying amount (figures as at 1/1/2018)	Sales price	Loss on sale
UBI	2,744.74	1,611.35	910.72	700.62	695.84	-4.79
IW	4.03	4.03	1.42	2.62	2.36	-0.26
Group	2,748.77	1,615.38	912.14	703.24	698.20	-5.04

- on 1st August 2018, the SPV issued the securities. This issue was structured into three tranches: Junior, Mezzanine and Senior. The senior securities were given a rating of BBBsf by Scope Ratings GmbH and of BBB (low)(sf) by DBRS Ratings Ltd. The junior and mezzanine securities, on the other hand, are without ratings. The table below shows the main characteristics of the securitised notes issued (*in millions of euro*):

SECURITIES

Class	Type of Notes			Total Notes
	Senior	Mezzanine	Junior	
Rating	BBB(low)(sf)/ BBB(sf)	n.a.	n.a.	
Interest rate	Euribor 6M + 0.5%	Euribor 6M + 6.0%	Variable Return	

- given that both the Parent, UBI Banca, and the subsidiary IW Bank are originators in the transaction and in consideration of the low level of loans disbursed by IW Bank compared to the total portfolio transferred, for the sake of simplicity the securitised notes issued by the SPV were subscribed entirely by UBI Banca alone, which also paid IW Bank's share of the disposal price in cash. For the sake of full disclosure, it should be noted that the subscription of the junior notes by UBI Banca Spa was partially settled in cash in order to provide the SPV with the liquidity needed to establish the recovery-cost accounts and to pay the cap on the derivative contract, as described below.

- also on 1st August 2018, the application for the GACS guarantee scheme was filed;
- on 27th September 2018, the *Corte dei Conti* registered the decree granting the GACS for the senior notes held by UBI, as issued by the Ministry of the Economy and Finance on 5th September.
- on 28th September 2018, UBI Banca Spa completed the disposal of 95% of the mezzanine and junior notes to market investors. In order to fulfil the retention obligation of Art. 405(1) of Regulation (EU) 575/2013 (CRR) and related legislation, the Group decided to maintain a net economic interest of 5% of the nominal value of each junior and mezzanine tranche transferred to third-party investors, as well as to keep 100% of the senior tranche.

As a result of completing the process described above, until the date of settlement of the disposal of 95% of the junior and mezzanine tranches, the operation was, for UBI Banca Spa, equivalent to a “retained securitisation”; therefore, until that date, the loans continued to be recognised on the separate and consolidated accounts of Unione di Banche Italiane Spa.

As a result of settlement of the sale of 95% of the notes on 28th September 2018 as described above, and of the prior finalisation of the ministerial decree granting the GACS, as of that date the conditions were met for the derecognition of the assets transferred in accordance with applicable accounting standards, given that the significant transfer of the risks and benefits of the securitised portfolios was achieved.

As a result, we then:

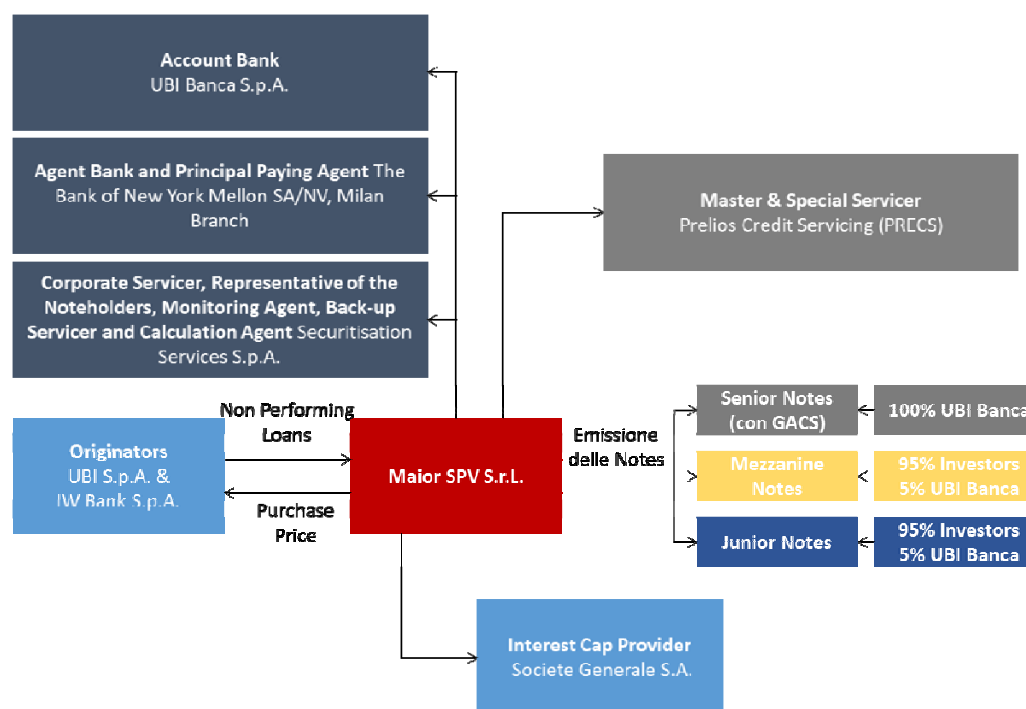
- derecognised the loans transferred from the separate and consolidated accounts of Unione di Banche Italiane Spa ;
- recognised, in accordance with IFRS 9, the notes not sold as financial assets measured at amortised cost (item 40) for the entire senior tranche in the amount of €628.5 million, while the residual portion of the mezzanine and junior subordinated tranches have been recognised as financial assets mandatorily measured at fair value through profit or loss (item 20 c.) for a total of €1.1 million. The sale of the notes and subsequent recognition of those maintained by UBI Banca resulted in a loss of €65.3 million.

At the same time, we recognised the loss resulting from a loss of a disposal or repurchase of financial assets measured at amortised cost (income statement item 100.a) in the amount of €74 million resulting from the transfer of the loans and subsequent sale of the subordinated tranches as described above and taking account of the other costs directly attributable to the operation, in the amount of roughly €3.6 million.

The main information concerning the structure of the operation is provided below, along with an indication of the main parties involved.

1. Flow chart of the securitisation operation

The following flow chart represents how the operation was structured:



2. Parties involved in the operation

In order to manage all the activities necessary to the proper functioning of the operation, the securitisation involved a number of parties external to the Group, as follows:

- Prelios Credit Servicing Spa, as the servicer and special servicer, will oversee all efforts to recover the NPLs transferred beginning on the date of the transfer of the assets (i.e. 20th July 2018);
- Securitisation Services Spa will act as the corporate servicer, calculation agent, back-up servicer, representative of noteholders, and monitoring agent;
- Bank of New York Mellon SA, Milan branch, has been appointed for the activities typical of the agent bank and principal paying agent.

In accordance with GACS legislation, the UBI Group does not and will not have any equity interest or any other relationship in the entities specified above that could equate to forms of control, joint control, or other significant influence (as defined by applicable legislation) over these parties by any entities of the UBI Group.

As such, any potential relations with these parties are solely of a commercial nature and conducted at arm's length in relation to services provided to the UBI Group, such as those of other similar securitisations, in accordance with prevailing Italian Law 130/1999. In this regard, as the account bank, UBI Banca will provide all ordinary banking services to the SPV by opening accounts dedicated to the management of the liquidity resulting from the collections and from the payment of services and of the expenses incurred for the recovery efforts.

Within the context of the operation, the originator UBI Banca has also granted the transferee a limited recourse loan totalling roughly €25.1 million in order to establish a reserve of cash available to the SPV to be used as a portion of the funds available to make payments of the amounts due as interest in relation to the senior notes, based on the applicable order of

payments. Unlike what is generally done for conventional securitisations, for this operation the amounts payable by the SPV to UBI as repayment of the limited recourse loan are to have priority over repayment of the principal of the senior tranche (and of the other subordinated tranches) based on the order of priority established in the “payment chain” in accordance with the provisions of Art. 7 of Law Decree no. 18 of 14th February 2016 (GACS) and with the rules of the operation’s notes. As a result, UBI Banca Spa is not exposed to risks related to the portfolio transferred even with regard to the sums disbursed for the limited recourse loan.

Finally, it should be noted that the agreement for the transfer of the loans to the SPV establishes no commitment for the originator banks to repurchase the loans, nor are there call options in their favour on the loans transferred.³² The operation also does not envisage any forms of credit enhancement by the originator banks, as there are no guarantees of over-collateralisation³³ nor any types of contracts, insurance policies, or other guarantees given by the originators on the mezzanine or junior tranches.

For the sake of full disclosure, it should be noted that the SPV has entered into a cap derivative contract with Société Générale aimed at hedging the risk of an increase in interest rates. In exchange for payment of a premium by the SPV, this contract calls for Société Générale to make periodic payments, based on a predetermined notional, of the positive difference between (a) the base rate (6M Euribor) payable on the notes up to maximum strike-sell levels that increase over time and (b) a predetermined strike-buy level.

The SPV made a lump-sum payment for the cost of the cap (roughly €17 million) on the issue date of the notes using funds resulting from UBI’s subscription of the junior notes.³⁴

With regard to the use of derivatives in this operation, it should be also be noted that no entity of the UBI Group is a direct or indirect counterparty in back-to-back derivative instruments aimed at reducing a portion of the risks associated with hedging interest rates by any of the originator banks.

SELF-RETAINED SECURITISATIONS

Securitisations with underlying portfolios originated by UBI Banca Spa and companies in the Group UBI are not reported in this section, because all the securitised notes were fully subscribed by each originator at the time of issue. As allowed by regulations the relative sections of the notes to the financial statements have therefore not been compiled. For full information the main characteristics of the transactions existing at the time of preparing these notes to the financial statements have nevertheless been reported.

24-7 Finance Securitisation

The securitisation 24-7 Finance Srl was performed in 2008 with the underlying assets held by Banca 24-7 Spa, a company which, as is known, was merged into UBI Banca in 2012.

The assets types which were securitised by transfer to a single special purpose entity, 24-7 Finance srl³⁵, consisted of three different portfolios:

- 1) mortgages: performing loans resulting from mortgages granted to private individuals resident in Italy, secured by a prime grade mortgages on residential properties located in Italy all fully built;
- 2) salary backed loans: performing loans resulting from salary backed loans to private individuals resident in Italy, secured by a “deducted for non-payment” clause and by a loss of employment insurance policy;
- 3) consumer loans: performing loans resulting from personal loans and dedicated loans to private individuals resident in Italy;

³² There are special cases in which – in specific situations and for the purpose of making management and recovery of the portfolios more effective – the originators are allowed to repurchase individual securitised loans.

³³ Over-collateralisation occurs when the aggregate value of the assets transferred exceeds the price paid by the SPV or the value of the notes sold on the market to third parties.

³⁴ A cap is an options-based financial derivative instrument. In exchange for payment of a premium calculated as a percentage of the underlying notional, the buyer receives the right to payment, in periods in which the Euribor rate is greater than a given strike price (the “cap”), for the difference between the Euribor rate and this strike price. Nothing is paid to the buyer of the cap in periods in which the Euribor rate is lower than the strike price.

³⁵ The company is subject to a line by line consolidation by the Parent, UBI Banca according to the accounting standards in force.

Three different issuances of securitised notes were structured by the special purpose entity 24-7 Finance Srl on those assets.

The securitisation transaction for salary backed loans was wound up in advance in 2011. Similarly the securitisation transaction with consumer loans for the underlying portfolio was also closed down in advance in 2012.

Therefore as at 31st December 2018 only the mortgages securitisation was still in existence for which the portfolio amounted on that date to €954.7 million (remaining principal debt). As already reported, in compliance with the international accounting standards in force, the securitised assets remained recognised on the balance sheets of the originators³⁶.

The tables below give the distribution of the securitised portfolio by the quality of the loans as at 31st December 2018 on the basis of the classification in the balance sheet of the originator (in terms of the net carrying amount) and the reporting classification of the transaction (in terms of the remaining principal debt “customer view”).

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	741,349
Loans in arrears	32,085
Collateral Portfolio	773,434
Defaulted loans	181,288
TOTAL 24-7 FINANCE PORTFOLIO	954,722

TYPE OF LOAN (Balance sheet classification)	Carrying amount as at 31/12/2018 (thousands of euro)
Performing loans	731,481
Performing past-due exposures	30,208
Non-performing past-due exposures	927
Unlikely-to-pay loans	62,225
Bad loans	56,266
TOTAL assets transferred to 24-7 FINANCE	881,107

We report that in July 2018, the originator, UBI Banca, repurchased bad loans present in the securitised portfolio amounting to approximately €27.6 million of remaining debt. UBI Banca subsequently sold the positions it had repurchased as part of the Maior securitisation backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these notes to the financial statements for details.

The characteristics of the notes issued were as follows:

- class A notes (senior notes): nominal amount €2,279,250,000 at floating rate, initially assigned a rating of Aaa by Moody's; in order to comply with eligibility requirements a second rating was added in 2011 by DBRS which initially stood at A (high); the current rating level is Aa3 for Moody's and Ah(high) for DBRS.
- class B notes (junior notes): nominal amount €225,416,196, maturity 2055, unrated and with a yield equal to the additional return on the underlying portfolio.

The securitised notes are wholly owned by UBI Banca which uses the senior tranches as collateral eligible for the refinancing operations with central institutions.

The amortisation of the class A notes began from February 2010. The table below reports total amortisation and the remaining value of the notes as at 31st December 2018:

24/7 FINANCE SRL – SECURITISED NOTES	ISIN Number	Nominal amount when issued	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% redeemed
Class A	IT0004376437	2,279,250,000	1,729,323,227	549,926,773	75.9%
Class B	IT0004376445	225,416,196	-	225,416,196	0.0%
Total		2,504,666,196	1,729,323,227	775,342,969	69.0%

The roles of cash manager, calculation agent and paying agent for the securitisation are performed by The Bank of New York Mellon which also acts as the account bank. In 2017 UBI

³⁶ As at the reporting date of this financial report, the assets transferred to 24-7 Finance were recognised in their entirety within asset item 40 “Financial assets measured at amortised cost” in the balance sheet of UBI Banca.

Banca joined The Bank of New York Mellon in the roles of “Additional Transaction Bank” and “Additional Cash Manager”, as depositary bank for the liquidity generated by the portfolio.

With regard to the securitisation, in addition to the role of originator, Banca 24-7 also functioned as the servicer for the transaction, a role that is now carried out by UBI Banca following the merger of the two entities.

The fee due to UBI Banca for servicing activities carried out in 2018 totalled €377 thousand, while total payments received as part of servicing activity amounted to €121.2 million for 2018.

For full information we report that Banca 24-7 Finance also filled the role of subordinated loan provider, having granted a subordinated loan designed to create an initial cash reserve to meet possible shortages of liquidity for the operation. At the time of the merger into UBI Banca Spa in 2012, a subordinated loan of approximately €24.4 million was outstanding, which was subsequently increased in 2013 by a further €73 million.

The financial support provided by UBI Banca Spa to the securitisation, given that no repayments of the loan had been made since 2012, amounted to €97.6 million.

UBI SPV Lease 2016 Securitisation

Following the close down in 2016 of the UBI Lease Finance 5 transaction described above, this was immediately followed by the structuring of a new securitisation transaction with lease financing disbursed by UBI Leasing Spa as the underlying. This transaction was also created for the purpose of generating notes eligible for refinancing with central banks.

A new SPE³⁷, named UBI SPV Lease 2016 Srl, was therefore formed to which the performing receivables and the relative lease contracts were transferred amounting to €3,065 billion (in terms of principal receivables). The transfer was concluded on 23rd June 2016 with effect for accounting and operating purposes backdated to 31st May.

As at 31st December 2018 the securitised portfolio, which in this case too remains recognised among the assets of the originator, amounted to €2.94 billion of remaining principal debt.

A description is given below of the composition of the portfolio transferred to UBI SPV Lease 2016, on the basis of the classification in the balance sheet of the originator (in terms of the net book amount)³⁸ and in terms of the remaining principal receivables, according to the classification adopted in the transaction:

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	2,855,402
Loans in arrears	46,304
COLLATERAL PORTFOLIO	2,901,706
Defaulted loans	41,977
TOTAL UBI SPV LEASE 2016 PORTFOLIO	2,943,683

TYPE OF LOAN (Balance sheet classification)	Amount as at 31/12/2018 (thousands of euro)
Performing loans	2,838,497
Doubtful loans	61,002
of which:	
Non-performing past-due exposures	854
Unlikely-to-pay loans	42,755
Bad loans	17,393
Total assets transferred from UBI leasing to UBI SPV LEASE 2016	2,899,499

At the time when the financing was transferred a servicing contract was also signed by which UBI Banca, along the same lines as the model described above, filled the role of servicer and UBI Leasing that of sub-servicer for the management and collection of payments relating to the securitised financing, inclusive of positions classified as bad debt.

³⁷ The company is subject to a line by line consolidation by the Parent, UBI Banca according to the accounting standards in force.

³⁸ As at the reporting date of this financial report, the assets transferred to UBI SPV Lease 2016 were recognised in their entirety within asset item 40 “Financial assets measured at amortised cost” in the balance sheet.

The fees due to UBI Banca for servicing activity carried out in 2018, amounted to €113 thousand, while the total payments received by the servicer and sub-servicers for the activities for which they are responsible amounted to €613.9 million in 2018.

UBI Banca Spa, in its capacity as the Parent, also fills the role of cash manager, Italian account bank and calculation agent while the role of paying agent and payment account bank is carried out by BNP Paribas Securities Services. Furthermore, taking a prudential approach in order to comply with the eligibility requirements even under adverse market stress scenario conditions, a backup servicer facilitator has been appointed. This function is carried out by the company Zenith Service Spa, which also fills the role of noteholder representative for the operation.

The notes were issued on 28th July 2016. The characteristics of the securities issued are as follows:

- class A notes (senior tranches): nominal amount €2,100,000,000, at floating rate, maturity in 2050, assigned an A1 rating by Moody's and A (low) by DBRS;
- class B notes (junior tranches): nominal amount €1,000,900,000, maturity 2050, unrated and with a yield equal to the additional return on the transaction.

The subscription of the junior notes also made it possible to form, as part of the securitisation, a cash reserve of €31.5 million, still fully available at the reporting date of these notes to the financial statements.

Amortisation of the notes has not yet begun and therefore the situation of these as at 31st December 2018 is as follows:

UBI SPV LEASE 2016 - SECURITISED NOTES	ISIN Number	Nominal amount when issued	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% redeemed
Class A	IT0005204463	2,100,000,000	-	2,100,000,000	0.0%
Class B	IT0005204471	1,000,900,000	-	1,000,900,000	0.0%
Total		3,100,900,000	-	3,100,900,000	0.0%

The UBI Lease 2016 securitisation is a “revolving” operation. The “revolving” period will last at the latest until November 2019, during which the originator, UBI Leasing Spa, is able to transfer additional receivables to the special purpose entity, which will finance their purchase using the amounts received from the portfolio securitised previously.

The first “revolving” transfer was completed in the first quarter of 2017 (effective for legal purposes as of 24th January 2017 and for operating and accounting purposes from 1st January 2017). The transfer was comprised of a portfolio totalling €260 million (in terms of remaining principal debt). A second “revolving” transfer was completed in July 2017 (effective for legal purposes as of 21st July 2017 and for operating and accounting purposes from 1st July 2017). The transfer was comprised of a portfolio totalling €223 million (in terms of remaining principal debt).

In 2018 three further revolving transfers were carried out on 23rd January 2018 amounting to €187 million, on 23rd April amounting to €179.4 million and on 23rd October 2018 amounting to €266.8 million of the remaining principal debt.

UBI SPV GROUP 2016 Securitisation

The structuring of a new securitisation was also launched in the second quarter of 2016 with residential mortgages classified as performing. This is also designed to issue notes eligible for refinancing with central banks, along the same lines as the other securitisations currently in existence in the UBI Group, as described above.

This transaction, named UBI SPV Group 2016, is a multi-originator securitisation in which the following participated as transferors: the Parent UBI Banca and the six network banks of the Group (subsequently merged into UBI Banca), Banco di Brescia, Banca Popolare di Bergamo, Banca Popolare di Ancona, Banca CARIME, Banca Regionale Europea and Banca Popolare

Commercio e Industria. The transferee company is a new special purpose entity, UBI SPV Group 2016 Srl, that has been specially formed³⁹.

The operation was concluded in two stages as follows:

- 1) the transfer of mortgages to the special purpose entity UBI SPV Group 2016 S.r.l. by the originators, which took place on 30th June 2016 (but with effect for operating and accounting purposes backdated to 13th June), for a total amount of approximately €2.7 billion.
In accordance with the accounting standards currently in force, that portfolio remained recognised among the assets of each of the transferor banks.
- 2) the issue of notes by UBI SPV Group 2016 Srl, concluded on 11th August 2016 and the subscription at the same time of those notes by each originator, in proportion to the size of the relative portfolio transferred.

Details of the notes subscribed and the relative characteristics are as follows:

- class A notes (senior tranches): nominal amount €2,085,600,000, at floating rate, maturity in 2070, assigned on issuance an A1 rating by Moody's and A (low) by DBRS, subscribed on a pro rata basis by all the originator banks participating in the securitisation. The class A notes subscribed by the network banks were then made available to the Parent by means of repurchase operations for the purpose of being used in refinancing operations with central banks; Following the merger of the network banks into UBI Banca, all the class A notes are now held directly by UBI Banca.
- class B notes (junior tranches) with maturity in 2070, unrated and with a yield equal to the additional return on the transaction, distributed among the seven originator banks as follows:
 - class B1 subscribed by UBI Banca for €113,800,000;
 - class B2 subscribed by Banca Popolare di Ancona for €62,700,000 nominal;
 - class B3 subscribed by Banca Popolare Commercio e Industria for €133,900,000 nominal;
 - class B4 subscribed by Banco di Brescia for €95,400,000 nominal;
 - class B5 subscribed by Banca Popolare di Bergamo for €244,400,000 nominal;
 - class B6 subscribed by Banca Carime for €51,000,000 nominal;
 - class B7 subscribed by Banca Regionale Europea for €59,100,000 nominal.

Following the merger of all the network banks into UBI Banca, the B2 and B7 notes were unified within the B1 class, which as at 31st December 2018 amounted to €760.3 million and were held entirely by UBI Banca.

Subscription of the junior notes by the originators also made it possible to form a cash reserve totalling €83.4 million. This sum has not yet been drawn on and is fully available to the securitisation at the reporting date of these notes to the financial statements.

As already mentioned previously, we report that, as part of actions taken to strengthen the structure and life of the securitisation, on 25th January 2019 the cash reserve was increased for a total of €130.3 million in accordance with the contracts. The increase of a further €46.9 million will be financed by the grant of a subordinated loan by the originator, UBI Banca.

³⁹ The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force.

The table below reports the situation for the notes issued as at 31st December 2018:

UBI SPV GROUP 2016 SRL - SECURITISED NOTES	SUBSCRIBED BY	ISIN Number	Nominal amount when issued	Amount redeemed as at 31/12/2018	Remaining nominal amount as at 31/12/2018	% redeemed
Class A	Originator pro rata	IT0005209967	2,085,600,000.00	0.00	2,085,600,000.00	0.0%
Class B1	UBI	IT0005209983	760,300,000.00	0.00	760,300,000.00	0.0%
TOTAL			2,845,900,000.00	0.00	2,845,900,000.00	0.0%

As at 31st December 2018 the rating assigned to the class A notes was unchanged compared to that assigned on the issue date.

At the time when the mortgages were transferred, a general servicing and sub-servicing contracts were also signed by which UBI Banca Spa, in its capacity as the Parent, fills the master servicer role, while activity for the collection of payments and the management of relations with customers was delegated to the various originators in their capacities as sub-servicers for the respective portfolios transferred. Following the merger of all the network banks, completed in February 2017, the fees for sub-servicing activities were paid entirely to UBI Banca in its capacity as servicer.

The total fees earned by UBI Banca Spa for servicing activity in 2018, amounted to €905 thousand, while for that of master servicer activity and also for credit recovery activities for bad loans the total was €196 thousand.

The total payments received with regard to servicing activity for 2018 amounted to €288.8 million.

At the time when the notes were issued, the remaining contracts for the securitisation were also concluded, on the basis of which UBI Banca Spa in its capacity as Parent fills the role of Italian account bank and calculation agent, while the role of paying agent is filled by The Bank of New York Mellon. Also for this operation, in order to comply with eligibility requirements even under adverse market stress scenario conditions, the company Zenith Service S.p.A. has been assigned the role of backup service facilitator. For full information we report that Zenith Service Spa also fills the role of noteholder representative.

The UBI SPV Group 2016 securitisation is a “revolving” operation. A maximum period of 36 months following the issue date of the notes has been set during which the originator may transfer additional loans to the special purpose entity. The special purpose entity will purchase those loans and finance the purchase from the amounts received generated by the portfolio securitised previously.

In 2018 a revolving transfer amounting to €380 million of remaining principal debt was carried out with operating effect from 19th March.

On the other hand in the first quarter of 2017 loans were repurchased regarding financing classified as bad loans, unlikely-to-pay or in arrears for a total of €44.3 million of the remaining principal debt.

For full information we report that a further repurchase of loans was concluded in January 2019 (with operating effect from 21st January 2019) and it involved performing loans eligible for the covered bond programmes totalling €638.6 million of remaining principal debt.

With account taken of the natural amortisation of the loans, the total portfolio transferred amounted to €2.5 billion of remaining principal debt as at 31st December 2018.

The table below reports, as at 31st December 2018, the composition of the total portfolio transferred to UBI SPV Group 2016, by type of credit quality on the basis of the reporting classification of the securitisation (in terms of the remaining principal debt):

TYPE OF LOAN (Classification for the purposes of the transaction)	Remaining principal debt as at 31/12/2018 (thousands of euro)
Performing loans	2,442,760
Loans in arrears	9,929
Collateral Portfolio	2,452,689
Defaulted loans	44,169
Total UBI SPV Group 2016 portfolio	2,496,857

The table below, on the other hand, shows the distribution of the portfolio transferred according to the amount recognised under the asset item “40. Financial assets measured at amortised cost” in the balance sheet by type of credit quality on the basis of the balance sheet classification of the originator.

TYPE OF LOAN (Balance sheet classification)	Amount as at 31/12/2018 (thousands of euro)
Performing exposures	2,337,189
Performing past-due exposures	124,534
Non-performing past-due exposures	1,604
Unlikely-to-pay	26,415
Bad loans	8,494
Total assets transferred to UBI SPV Group 2016	2,498,236

SYNTHETIC SECURITISATIONS

The main purpose of a synthetic securitisation is to create value and optimise the use of capital by freeing up regulatory and economic capital as a consequence of reducing the level of credit risk in the underlying portfolio (“significant risk transfer”).

Generally a synthetic securitisation involves the purchase of protection for the credit risk underlying a loan portfolio for which the originator retains full ownership by signing guarantee contracts.

Synthetic securitisations are therefore designed to transfer credit risk from the originator to an external counterparty. The transfer does not involve the derecognition of the assets and therefore the assets are maintained on the balance sheet of the originator.

The legislation applicable to these transactions is Regulation EU 575/2013 (Capital Requirements Regulation, “CRR”). Article 245 of this regulation lays down the conditions on the basis of which the significant risk transfer (SRT) criterion is satisfied, which is to say the transfer of significant risk to third parties by means of either collateralised or unsecured credit protection. More specifically, the SRT must be constantly monitored even during the life of the transaction in order to verify that the criteria set by the regulations are met.

Again in compliance with the regulations (article 405 of CRR), the originator must retain a portion of the net economic interest amounting to at least 5% of the nominal amount of the securitised portfolio. This means, in the structure of the securitisations chosen by the Group, that at least 5% of each securitised loan is considered unsecured (vertical slice or vertical retention).

The structure of the securitisation is based on tranching (normally Junior-J, Mezzanine-M, Senior-S) according to the risk of the portfolio.

In 2018 the UBI Group carried out a synthetic securitisation concluded in November 2018 named “UBI2018 - RegCap 2”. This new securitisation is in addition to two carried out in 2017 under a multi-year synthetic securitisation plan designed to optimise capital and create value.

UBI2017 - SME FEI Securitisation

The “UBI2017 - SME FEI” securitisation implemented in 2017 consists of a portfolio of medium to long-term loans to performing counterparties consisting of SMEs (over 80%) and small mid cap companies, mainly located in southern Italy.

This securitisation is the result of a positive evaluation made by the Group in 2017 of adhering to “SME Initiative Italy”. The tender documents were published on 21st October 2016 by the European Investment Fund (EIF). The EIF initiative is very innovative with a specific focus on southern Italy and it is financed with structural funds, European resources, national resources and resources of the EIB Group to cover the junior and mezzanine risk of the securitised portfolio at competitive pricing conditions.

The securitisation involves the grant by the UBI Group within the following three-year period of a portfolio of loans that are in addition to those covered under subsidised conditions reserved to SMEs located in southern Italy at the same time as the risk is covered on the securitised portfolios.

Three tranches of guarantees have been issued for this securitisation: a senior tranche subscribed by UBI Banca, a mezzanine tranche divided into three sub tranches and a junior tranche. As stated the mezzanine and junior tranches have been subscribed by the EIF.

UBI2017 - RegCap-1 Securitisation

The “UBI2017 - RegCap-1” securitisation, also implemented at the end of 2017, is the first market securitisation carried out by the Group.

The underlying portfolio is composed of medium to long-term loans granted to performing counterparties consisting of corporates and corporate SMEs located mainly in northern Italy.

Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed by a market counterparty.

As opposed to the preceding securitisation, this transaction is funded and it involves the deposit by the subscriber of the junior tranche of the entire amount of the guarantee.

UBI2018 - RegCap-2 Securitisation

The “UBI2018 - RegCap-2” securitisation, implemented at the end of 2018, is the second market securitisation carried out by the Group.

The underlying portfolio is composed of medium to long-term loans granted to performing counterparties consisting of corporates and corporate SMEs and retail SMEs located mainly in northern Italy.

Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca Spa, and a junior tranche subscribed by a market counterparty.

In line with the 2017 market securitisation, this too is a funded transaction and involves the deposit by the subscriber of the junior tranche of the entire amount of the guarantee.

A table is given below which, for both the new 2018 transaction and those of previous years, describes the main qualitative and quantitative characteristics to which reference may be made for further details.

Name of Securitisation	UBI2017 - SME FEI					UBI2017 - RegCap-1		UBI2018 - RegCap-2	
Type of transaction	synthetic securitisation					synthetic securitisation		synthetic securitisation	
Originator	UBI BANCA Spa					UBI BANCA Spa		UBI BANCA Spa	
Depository Bank	n.a.					UBI BANCA Spa		UBI BANCA Spa	
Servicer	UBI BANCA Spa					UBI BANCA Spa		UBI BANCA Spa	
Calculation Agent	UBI BANCA Spa					UBI BANCA Spa		UBI BANCA Spa	
Guarantee Provider	European Investment Fund "EIF"					Protection seller		Protection seller	
Objectives of the transaction	to hedge credit risk					to hedge credit risk		to hedge credit risk	
Type of assets securitised	loans to SMEs and Corporate customers					loans to SMEs and Corporate customers		loans to SMEs and Corporate customers	
Quality of the securitised assets	performing					performing		performing	
Closing date	18/12/2017					18/12/2017		21/11/2018	
Nominal amount of the portfolio	1.122.607.166					1.996.773.687		2.240.867.368	
Percentage of the economic interest retained (retention)	50%					5%		5%	
Portfolio Guaranteed	561.303.583					1.896.935.002		2.128.823.998	
Guarantees issued by third parties	personal unfunded guarantee					guarantee in the form of a pledge on a term deposit		guarantee in the form of a pledge on a term deposit	
Early termination clauses	Regulatory Event, Time Call, Clean-Up Call, Tax Event					Regulatory Event, Time Call, Clean-Up Call, Tax Event		Regulatory Event, Time Call, Clean-Up Call, Tax Event	
Time Call	30/09/2020					30/06/2020		31/03/2022	
Rating agencies	none (*)					none (*)		none (*)	
Tranching amount and conditions:									
- type	Senior	Upper Mezzanine	Middle Mezzanine	Low Mezzanine	Junior	Senior	Junior	Senior	Junior
- legal maturity	n.a.	dic-32				n.a.	dic-37	n.a.	dic-40
- Amount at closing date	524.257.547	2.806.518	561.304	16.839.107	16.839.107	1.794.435.002	102.500.000	2.028.823.998	100.000.000
- % of Guaranteed Portfolio	93,40%	0,50%	0,10%	3%	3%	94,60%	5,40%	95,30%	4,70%
- Subscriber	UBI BANCA Spa	Guarantee Provider				UBI BANCA Spa	Guarantee Provider	UBI BANCA Spa	Guarantee Provider
- Guarantee Amount	not guaranteed	37.046.036				not guaranteed	102.500.000	not guaranteed	100.000.000
Breakdown of securitised portfolio by geographical area:									
- North Italy	39,39%					77,43%		74,65%	
- Central	9%					17,00%		17,87%	
- South and Islands	51,61%					5,57%		7,49%	
Breakdown of securitised portfolio by type of customer:									
- Corporate	19,00%					59,88%		58,79%	
- SME Corporate	81,00%					40,12%		33,88%	
- SME Retail								7,33%	

(*) In the absence of an external rating, the CRR (Art. 259) states that the calculation of the capital requirements for the various tranches of the retained securitisations should be carried out using the "Supervisory Formula Approach - SFA"

Internal risk measurement and monitoring systems connected with securitisation transactions including measurement, for those transactions originated by the Group, where risks were transferred to third parties. Illustration of the organisational structure for managing securitisation transactions including systems for reporting to senior management or to a similar body.

To complete the information given in the preceding pages, we report in relation to the organisational aspects and to internal control systems, that the UBI Banca Group has made a positive assessment of the structuring of the synthetic securitisations described above as initiatives to optimise capital and create value.

As already occurred in 2017, again for the new securitisation carried out the end of 2018, the preparatory activities carried out by the competent units in the Group allowed the feasibility, the economic advantages and the expected benefits in terms of capital to be assessed.

The main organisational units responsible for managing the securitisations are the units under the Chief Financial Officer (CFO) and under the Chief Risk Officer (CRO). The roles and the responsibilities relating to the implementation of the various steps involved in structuring activity and those involved in ongoing monitoring and management of the securitisations have been defined in those units, as set out in a dedicated circular.

The significant risk transfer (SRT) must be constantly monitored during the life of the transaction in order to verify that the criteria set by the CRR Regulation on the effective transfer of credit risk are satisfied.

Each securitisation will also be monitored by the competent units with regard to the economic advantages for the Bank. Senior Management will be informed if difficulties or significant changes with respect to forecasts are encountered. It is underlined in this respect that the contracts contain early close-down clauses (“time calls” and “clean up calls”) and early termination clauses (which may be applied in the event of significant changes in the regulatory and/or legislative framework).

Securitisations: accounting policies

The loans subject to synthetic securitisation are not derecognised assets and therefore they remain recognised in the balance sheet of the originator bank which maintains full ownership. The premium paid by the Bank to the investor for the protection of credit risk is recognised within fee and commission expense in the income statement. The enforcement of the financial guarantee received from the investor if the conditions laid down in the contracts manifest (i.e. a “Credit Event”), will contribute to the recognition of impairment losses or reversals of them on the securitised loans.

Quantitative information

C.1 Prudential consolidation – Exposures resulting from the principal “own” securitisation transactions by type of securitised assets and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures						Financial guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Net exposure	Impairment losses/reversals	Net exposure	Impairment losses/reversals	Net exposure	Impairment losses/reversals	Net exposure	Impairment losses/reversals	Net exposure	Impairment losses/reversals	Net exposure	Impairment losses/reversals
A. Subject to full derecognition	628.543	(572)	1.152	-	-	-	-	-	-	-	-	-	24.914	(292)	-	-	-	-
A.1 Major - "GACS" securitisation	628.543	(572)	1.152	-	-	-	-	-	-	-	-	-	24.914	(292)	-	-	-	-
- Bad loans	628.543	(572)	1.152	-	-	-	-	-	-	-	-	-	24.914	(292)	-	-	-	-
B. Subject to partial derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Asset type ...	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	3.291.038	-	20.407	-	24.290	-	-	-	-	-	-	-	-	-	-	-	4.597	-
C.1 Mecenate 2007 securitisation	-	-	20.407	-	24.290	-	-	-	-	-	-	-	-	-	-	-	4.597	-
- Residential mortgages	-	-	20.407	-	24.290	-	-	-	-	-	-	-	-	-	-	-	4.597	-
C.2 Synthetic securitisation - Transaction UBI2017 - FEI	309.141	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to SMEs	309.141	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Synthetic securitisation - Transaction UBI2017 - RegCap 1	1.052.976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to Corporates and SME Corporates	1.052.976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4 Synthetic securitisation - Transaction UBI2018 - RegCap 2	1.928.921	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to Corporates and SME Corporates	1.928.921	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The table above shows the amount of retained risk (line items C.2, C.3 and C.4) for the synthetic securitisations structured.

C.2 Prudential consolidation – Exposures resulting from the principal “third party” securitisation transactions by type of securitised assets and by type of exposure

No items of this type exist for the UBI Group.

C.3 Prudential consolidation – Interests held in securitisation special purpose entities

Name of securitisation / Name of special purpose entity	Registered address	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Mecenate 2007 SPV Srl	Via Calamandrei, 255 - Arezzo	Line by line	66.615	-	14.424	-	49.721	31.318

C.4 Prudential consolidation - Interests held in securitisation special purpose entities not included in the consolidation

No items of this type exist for the UBI Group.

C.5 Prudential consolidation – own securitisations: payments received on securitised loans and redemptions of securities issued by the special purpose entity

Servicer	Special purpose entity	Securitised assets (end of period figure)		Loan repayments received during the year		Percentage of securities redeemed (end of period figure)					
		Non-performing	Performing	Non-performing	Performing	Senior		Mezzanine		Junior	
						Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
UBI Banca S.p.a.	Mecenate 2007 - Mecenate Srl	7,268	59,347	1,224	14,648	2.84%	97.16%	0.00%	7.00%	0.00%	0.00%

The amounts shown relate to the sums collected as part of servicing activity and do not include the amounts received by the SPE for the return of loans to the originator.

C.6 Prudential consolidation - Consolidated securitisation special purpose entities

No items of this type exist for the UBI Group.

D. Transfers

A. Financial assets transferred and not fully derecognised

Quantitative information

D.1. Prudential consolidation – Fully recognised transferred financial assets and associated financial liabilities: carrying amounts

	Fully recognised transferred financial assets				Associated financial liabilities		
	Carrying amount	of which: securitised	of which: subject to sale and repurchase contract	of which non-performing	Carrying amount	of which: securitised	of which: subject to sale and repurchase contract
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	72	72	-	-	19	19	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Financing	72	72	-	-	19	19	-
C. Financial assets designated as at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	2,172,558	-	2,172,558	-	2,123,312	-	2,123,312
1. Debt securities	2,172,558	-	2,172,558	-	2,123,312	-	2,123,312
2. Equity securities	-	-	-	X	-	-	-
3. Financing	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	1,622,398	1,186,852	435,546	37,054	604,229	227,910	376,319
1. Debt securities	435,546	-	435,546	-	376,319	-	376,319
2. Financing	1,186,852	1,186,852	-	37,054	227,910	227,910	-
Total 31.12.2018	3,795,028	1,186,924	2,608,104	37,054	2,727,560	227,929	2,499,631
Total 31.12.2017 restated	3,092,142	1,382,161	1,709,981	37,083	2,022,390	312,669	1,709,721

D.2. Prudential consolidation – Partially recognised transferred financial assets and associated financial liabilities: carrying amounts

No items of this type exist for the UBI Group.

D.3. Prudential consolidation – Transfers with liabilities backed exclusively by the assets transferred and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31.12.2018	2017 restated
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Financing	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	72	-	72	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Financing	72	-	72	-
C. Financial assets designated as at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Financing	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	2,172,558	-	2,172,558	1,698,132
1. Debt securities	2,172,558	-	2,172,558	1,698,132
2. Equity securities	-	-	-	-
3. Financing	-	-	-	-
E. Financial assets measured at amortised cost	1,643,557	-	1,643,557	1,435,373
1. Debt securities	428,285	-	428,285	-
2. Financing	1,215,272	-	1,215,272	1,435,373
Total financial assets	3,816,187	-	3,816,187	3,133,505
Total associated financial liabilities	2,727,560	-	X	X
Net carrying amount 31.12.2018	1,088,627	-	3,816,187	X
Net carrying amount 31.12.2017 restated	271	-	X	271

B. Financial assets transferred and fully derecognised with recognition of the continuous involvement

There are no financial assets transferred and fully derecognised with recognition of the continuous involvement to report.

D.4 Prudential consolidation – covered bond operations

Covered bond programme for €15 billion – “Residential Programme”

The objectives

In 2008 the Management Board of UBI Banca passed a resolution to proceed to implement a structured programme for the issuance of covered bonds designed to produce benefits in terms of funding while containing the cost at the same time.

In detail, the Management Board performed the following:

- it identified the objectives of the programme;
- it identified the basic structure of an operation to issue covered bonds in the light of the legislation and explained and examined the main elements, including the portfolio of loans, the criteria for selecting them, the structure of the financial transaction and the relative tests;

- it assessed and approved the impacts and the implied adjustments regarding the organisational, IT and accounting. These adjustments were performed to ensure proper risk management by the Parent and also by the single banks participating. In preparing the related procedures, the requirements established by the regulations issued by the Bank of Italy were also taken into account;
- assessed the risks connected with the operation to issue covered bonds;
- it assessed the organisational and operating structure of the special purpose entity concerned in order to ensure that the contracts involved in the operation contained clauses that would guarantee the proper and efficient performance of the functions of the special purpose entity itself;
- it assessed the legal aspects through an in-depth examination of the parties and contract documents used, with particular attention paid to the nature of the guarantees given by the special purpose entity and the relations between the issuing bank, the originator banks and the special purpose entity.

The primary objective of the programme is to allow the UBI Group to facilitate medium to long-term funding both in terms of lengthening the maturities and containing the cost paid. The issue of covered bonds does in fact allow the following:

- the acquisition of funding at more competitive costs than funding acquired using alternative medium to long-term instruments, such as the EMTN programmes or securitisation transactions;
- access to specialist investors who currently do not invest in the funding instruments used and which may be used by the UBI Banca Group.

The structure

The basic structure of the operation to issue covered bonds involved the performance of the following activities:

- one bank (the originator) transfers a set of assets with determined characteristics to a special purpose entity to form a separate set of assets termed a “cover pool”. However, in compliance with international accounting standards in force, those assets are not derecognised from the financial statements of the originator bank;
- that same originator bank (acting here as a financing bank) grants a subordinated loan to the special purpose entity designed to fund the purchase of the assets by the entity;
- the bank (the issuing bank) issues covered bonds backed by a primary, unconditional and irrevocable guarantee given by the special purpose entity to the sole benefit of the holders of the covered bonds and the hedging counterparties involved in the transaction. The guarantee is backed by all the assets transferred to the special purpose entity and which form part of the cover pool.

In the context of the procedures described above, the UBI Banca Group launched a covered bond programme (hereinafter the “CBP”) with a ceiling on issuances of €10 billion which was increased in 2014 to €15 billion. The structure that was adopted also allows the transfer of the portfolios which constitute the segregated assets of the special purpose entity from more than one originator bank.

To achieve this, a special purpose entity, UBI Finance Srl was formed, in accordance with Law No. 130/1999, 60% held by UBI Banca⁴⁰, which as the guarantor of the issue performed by UBI Banca acquired a portfolio of residential mortgages⁴¹ transferred to it from network banks of the Group, which participated in the programme both as originator banks and as financing banks.

⁴⁰ The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force.

To complete the information we report that the special purpose entity UBI Finance Srl has been part of the UBI VAT Group since 1st January 2019. Reference is made in this respect to the information provided in the Management Report – Other information - Tax aspects.

⁴¹ The main criteria for identifying the mortgages transferred to the cover pool by the originator banks are as follows:

- performing residential mortgages for which the remaining debt does not exceed 80% of the value of the mortgaged property in accordance with the provisions of the MEF decree;
- backed by a first mortgage;
- not subsidised;
- granted to natural persons or jointly to natural persons.

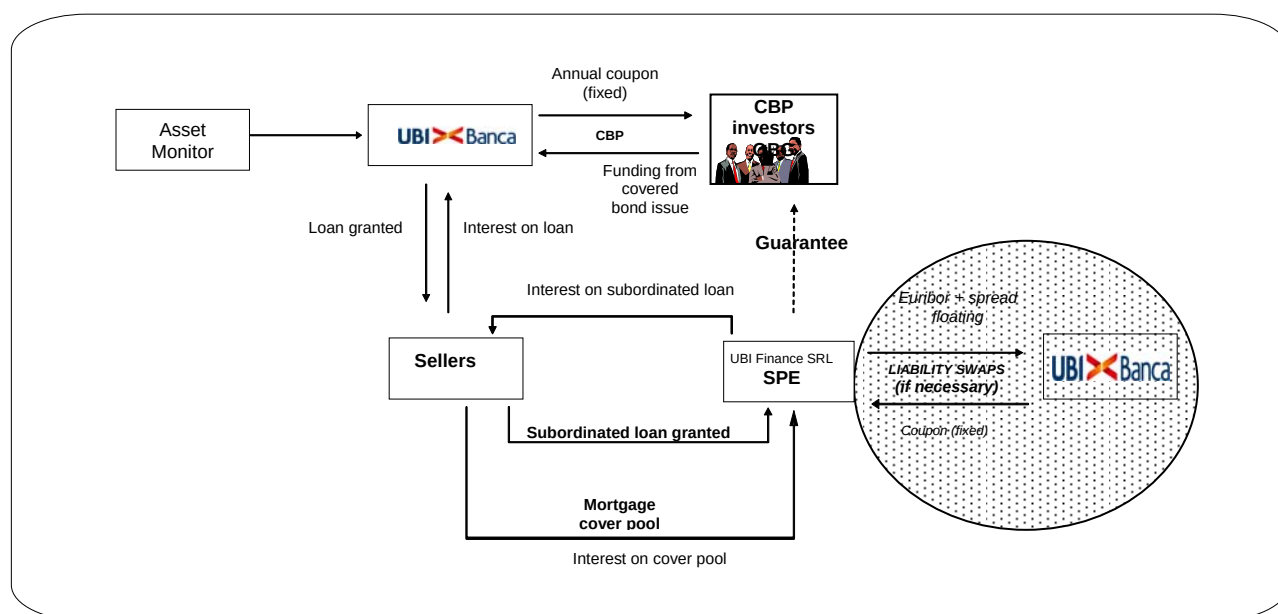
These were added to in 2013 with UBI Banca as an originator and financing bank, which as the Parent, also fills the role of master servicer, calculation agent and cash manager for the operation. UBI Banca then delegated responsibility for servicing activity, consisting of collecting payments and managing relations with customers for the portfolio transferred by each originator (except for positions reclassified as bad loans, handled by the Problem Loans and Credit Recovery Area of the Parent), to the originator banks as sub-servicers.

Furthermore, in May 2018 UBI Banca Spa took the place of The Bank of New York Mellon in the role of Account Bank for the operation. The Bank of New York Mellon (Luxembourg) SA now fills the roles of Back-up Account Bank and Paying Agent, while the representative of the bondholders is BNY Mellon Corporate Trustee Services Limited.

The role of Asset Monitor, explicitly required by regulations for this type of transaction, is carried out by BDO Italia Spa.

This €15 billion programme is also assigned ratings by two agencies: Moody's, used since the first issuance under the programme, and DBRS, which replaced Fitch in the last quarter of 2015.

A summary of the main features of the structure of UBI Banca Spa's covered bond programme is given below.



A). *Covered bonds.* UBI Banca Spa issues covered bonds under the programme.

B). *Bond Loan.* In order to allow the funding acquired on institutional markets from the issue of covered bonds to flow back to the originator banks, these banks may issue bonds and the right to require subscription of them by UBI Banca Spa, within the limits of their quota of participation in the programme. These bonds shall have the same maturity as the covered bonds and a yield established on the basis of the Bank's funding policies.

C). *Subordinated Loan.* In order to fund the purchase of mortgages by the special purpose entity, the originator banks grant subordinated loans to it. The yield on these loans is calculated as a "premium" or "extra spread" equal to the amount of the interest received, which remains in the accounts of the special purpose entities once priority amounts in the chain of payments have been deducted, relating to items such as the expenses incurred by the entity, payments to swap counterparties and allocations to the "reserve account".

D). *Swaps to hedge interest rate risk.* If the covered bonds are issued at a fixed rate, UBI Banca Spa may hedge the interest rate risk by entering into swap contracts with market counterparties, thereby transforming the exposure to a variable rate. These swaps lie outside the perimeter of the

covered bond programme and the decision to use them if made is made with a view to interest rate risk management as part of the Parent's ALM.

E). *Asset and liability swaps*. To complete the information we mention that the programme was initially backed by asset swap and liability swap contracts. The former were cancelled in 2013, while the latter were cancelled in December 2017.

F). *Current accounts*. The programme involves a complex system of current accounts to pay and receive the cash flows involved in the operation. In this respect, a series of accounts were opened in the name of the special purpose entity for each originator bank. By virtue of this, the current accounts currently open are as follows:

- Transitory Account at UBI Banca linked to each originator bank into which sums received are paid daily consisting of interest and principal on the portfolios of each originator, and, where applicable, other assets transferred to the special purpose entity under the programme (e.g. eligible assets and top-up assets).
- Interest Collection Account at UBI Banca Spa linked to each originator bank into which all interest paid into the transitory accounts are paid on a daily basis and also all amounts paid to the special purpose entity by the counterparties of the swap contracts.
- Principal account at UBI Banca Spa linked to each originator bank, into which all the principal repayment amounts paid into the transitory account are paid on a daily basis.
- a Reserve Fund Account at UBI Banca Spa into which interest accruing on the covered bonds issued is set aside monthly in order to guarantee the payment of current coupons.
- an Expense Account, into which the amounts required to meet the expenses of the special purposes entity are paid, drawn from interest accounts, in proportion to the quota of participation in the programme of each originator bank.

Effectiveness tests

"Effectiveness tests" are performed monthly on the whole cover pool and separately on the portfolios transferred by each originator, in order to determine the financial integrity of each bank's portfolio. As required by the regulations, because it is a multi-originator programme, with cross-collateralisation of the originator banks' portfolios, the only valid test for investors is that performed on the whole cover pool, while the tests performed on the individual portfolios are used to determine the integrity of each originator's portfolio for the purposes of cross-collateralisation between the different originator banks.

In detail:

- the *Nominal Value Test* verifies whether the nominal value of the loans in the transferred portfolio is greater than the nominal value of the covered bonds issued. In order to ensure an adequate degree of over collateralisation in the portfolio, while the covered bonds are considered at their nominal value, the loans in the portfolio are weighted on the basis of the relative collateral backing them and the total amount is further reduced by an asset percentage. The calculation of the nominal value test may also take account, according to the situation, of potential additional risks, such as for example "set-off" risk or "commingling risk"⁴²;
- the *Net Present Value Test* verifies whether the present value of the loans remaining in the portfolio is greater than the present value of the covered bonds issued⁴³;

⁴² The calculation of commingling risk may be requested in determined situations on the basis of the methodologies applied by the rating agencies that assess the programme. It is a type of risk related to the account bank role filled by the Parent and represents the risk that if a downgrade which resulted in the transfer of the SPE's current accounts from the UBI Group to a third-party company, the immediate transfer to the new accounts of sums received by the servicer might not occur. At present, commingling risk together with the set-off risk already mentioned are not included in the calculation of the nominal value test required contractually, but they are considered in specific tests (e.g. asset coverage test) calculated for the purpose of rating agencies' assessments.

⁴³ For full information we report that the competent units at UBI Banca carry out a further internal test on at least a half-yearly basis, designed to verify that the interest due on the cover pool is sufficient to cover the senior expenses and the payment of interest on the bonds outstanding from the relative calculation date until the most distant legal maturity date of the bond.

- the *Interest Cover Test* verifies over a twelve month time frame whether the interest received and held in accounts and the cash flows from interest to be received net of the entity's expense is greater than the interest to be paid to the holders of the covered bonds;
- the *Amortisation test* (similar to the nominal value test, but only performed if UBI Banca Spa is downgraded by rating agencies or if one of the specified default events occurs);
- the *Top-Up Assets* test verifies whether, before UBI Banca defaults, the total amount of additional assets and liquidity is not 15% greater than the nominal value of the loans remaining in the portfolio transferred, in compliance with the Ministry of the Economy and Finance and Bank of Italy instructions.

If all the tests⁴⁴ are passed simultaneously then the special purpose entity may proceed to pay all the parties involved in the programme, including the originator banks as the lenders of the subordinated loan, in the order of priority indicated in the "payment chain".

However, if the results of the tests are negative, then the contract states that the UBI Banca Group must increase the collateral of the portfolio by transferring suitable assets to it and that is "top up" with extra assets. In order to ensure greater efficiency in the process of topping up assets in cover pools, steps were taken in 2017 to set rules by contract within the programme to make it possible to also transfer, from among suitable assets, securities issued by public authorities or backed by them held in the portfolios of the originators, which meet the eligibility requirements set by the applicable regulations⁴⁵. Failure to pass the tests, once the time limit allowed for the Group to add assets has passed, results in an "issuer event of default" with a consequent enforcement of the guarantee issued by UBI Finance. In this event the originator banks would only receive the repayments of the subordinated loans granted after the redemption of the covered bonds by the special purpose entity and within the limits of the remaining funds.

In accordance with the relative regulations, on a quarterly basis the asset monitor checks the accuracy and precision of the calculations carried out by the calculation agent, UBI Banca, in order to carry out the effectiveness tests.

Organisational action and control procedures

Summary information is given below on the new organisational structure and operational processes for the covered bond programme approved in 2013. This information was prepared on the basis of that contained in the Programme Report submitted to the Management Board on 15/1/2013, 28/1/2014 and 24/2/2015 and also that given in Group Circular No. 415/2013 "Review of processes related to the first covered bond programme".

The organisational system currently adopted in the UBI Group for the structuring and management of covered bond programmes is the result of a general organisation revision carried out in 2013, following the development of management and issuance processes experimented with in the first years of the life of the programme.

A distinction is made in that system between two areas of activity:

- 1) the first area concerns the activity needed to set up a programme, carried out once only in the period preparatory to the issuance of bonds, which can be described briefly as follows: proposals for the structuring of a new programme are assessed by the competent internal committees of UBI Banca and the underlying general policies are approved by the Supervisory Board. This is followed by the identification of external parties who must assist the Parent in the structuring and issuance of the programme (legal firms, arrangers, asset monitors, rating agencies). The assets which will form part of the portfolio are then defined together with the contracts relating to the operation for units internal and external to the Bank; Subsequently, the following is carried out:
 - form the special purpose entity and carry out the activities needed to transfer assets to that entity and segregate the assets of the cover pool appropriately;
 - assign a rating to the programme, inclusive of the site visit by the rating agency;

The calculation of the first three tests mentioned above is consistent with the requirements contained in supervisory regulations (Bank of Italy Circular No. 285/2013) on the question of the partial weighting of collateral positions which should exceed the loan to value ratio set (80% for residential mortgages and 60% for commercial mortgages). See below Property Risk guarantees.

⁴⁵ The covered bond programmes do in fact allow for the transfer, amongst other things, of (i) loans granted to specific government institutions or loans guaranteed by them, valid for the purposes of mitigating credit risk ("Loans to Public Institutions") and (ii) securities issued or backed by public institutions ("Securities issued by Public Institutions").

- present a compliance report for the programme.
- 2) the second area, on the other hand, regards recurring activities for management, monitoring and control, which are organised in four macro processes described as follows:
- A. *annual planning*: a plan for the issuance of covered bonds to be carried out during the year is drawn up by the competent units at UBI Banca Spa as part of a more general definition of the procedures to cover liquidity requirements on the basis of strategic policies and in accordance with the growth and risk objectives set by the competent corporate bodies. The annual planning of issuances is followed by an annual analysis stage designed to set the amount of the collateral that the Group must be able to post in the future in order to back existing and planned future issuances. After internal committees have carried out verifications, the Management Board of the Parent is then called upon, annually, to decide on:
 - transfers of new mortgages by originator banks participating in the programme and possible repurchases;
 - new covered bond issuances.
 - B. *periodic transfers of assets to the special purpose entity*. Portfolios of assets to be transferred are identified in detail on the basis of the guidelines defined in the previous point. With the support of legal firms and arrangers – where necessary – the competent units at the Parent prepare the contracts, carry out prior controls and proceed to comply with the technical requirements needed for the segregation and proper management of the portfolios by the servicers and sub-servicers. The originator banks also top up the subordinated financing as necessary in relation to the amount of the new portfolios transferred;
 - C. *issuance of new covered bonds*: as part of the issuance planned in accordance with the previous points, the competent units of UBI Banca Spa decide on the characteristics of the issuance syndicated by the dealer banks participating in the issue. The issuance then commences with the acquisition of orders from institutional investors, which concludes with the official announcement of quantities and issue prices. This is followed by the preparation of the legal documentation with the support of legal advisors and arrangers and it will be signed by the parties involved before the value date of the issuance.
 - D. *ongoing management of the issuance programme*: this general process governs the activities needed for the daily management of the portfolios transferred to the SPE, the settlement of the cash flows, implementation of the controls required by regulations and the preparation of compulsory disclosures and other reports to markets⁴⁶. The main sub-processes, carried out by the competent units of the Parent (which acts as the master servicer, calculation agent and cash manager for the programme) or of the network banks (as subservicers), are as follows:
 - daily settlement of cash flows from the cover pool;
 - monthly performance of effectiveness tests;
 - calculation of the sequence of monthly payments and liquidity management;
 - preparation of periodic reports to the various counterparties, investors and rating agencies (in compliance with disclosure requirements requested by supervisory regulations for the prudential treatment of the CBPs);
 - settlement of coupons on outstanding issues (on an annual or interim basis depending on the issue);
 - determination (half yearly) of the controls set by regulations to monitor requirements to ensure the quality and integrity of the cover assets transferred and assessment of any need to repurchase assets no longer eligible.

Internal Group rules and regulations specify the persons involved in the individual activities and the processes outlined above in detail.

⁴⁶ In this respect, as already reported recent amendments to supervisory regulations (Bank of Italy Circular No. 285/2013 already mentioned) extended control duties not only to include the competent internal risk control units of the issuer but also to the asset monitor for controls of the completeness, accuracy and appropriateness of the information made available to investors and also to ensure compliance with the loan to value ratio limits at the time of transfer and when property values are updated (see Property Guarantee Risks below).

The risks connected with the operation

In 2012 and 2013 the Bank revised its analysis of the risks identified with the programme when it was approved in June 2008 and it prepared a new map of those risks. Subsequently, on an annual basis, the Bank reviewed and updated the risk analysis in consideration, amongst other things, of regulatory developments in this area. The risks identified, listed below, are derived from the current regulatory framework (EU and Italian) and they are based on the current methodologies used by rating agencies.

The different types of risk are attributable to the following four general categories:

1. UBI Banca downgrade risk, which includes the risk relating to the account bank activities performed by UBI Banca Spa and the risk relating to swap contracts to which UBI Banca is a counterparty (if these exist), because in both cases a downgrade could result in UBI Banca losing its status as an “eligible” counterparty in the roles just mentioned. More specifically, with regard to the account bank role, if a downgrade involved the transfer of the SPE’s current accounts to a third-party company, the failure to immediately transfer sums received onto those accounts would represent a “commingling risk”, account of which is taken, according to that which is indicated in the ratings assigned by agencies and, under certain conditions, when calculations for regulatory tests are carried out⁴⁷.

2. Risk relating to the underlying mortgages (collateral). The issuance of covered bonds bases its rating on the credit enhancement provided by the portfolio of mortgages transferred to back the special purpose entity. The criteria used by the rating agencies require the amount of the mortgage portfolio that provides the guarantee to be maintained at levels higher than the value of the bonds issued (known as over-collateralisation). The level of over collateralisation may be affected, amongst other things, by the possible deterioration in the quality of the underlying loans, by amortisation that is faster than was expected when the securitisation was structured (“prepayment risk”) and by the ability of the originators to transfer the necessary quantity of new assets of similar quality to replace the amortised quota of the portfolio (“substitution risk”). A decrease in the level of over-collateralization would lead primarily to a downgrade of the operation and, in the most serious cases, to a default of the issuer, if the minimum level provided for in the contracts were not guaranteed and/or the regulatory tests were not passed. Various mechanisms are provided within the programme to address these risk. They include the following: a nominal value test and various degrees of over-collateralization, designed to ensure that the special purpose entity is able to fully guarantee the covered bonds issued even in the event of some defaults on the underlying assets; the ability to inject liquidity in order to guarantee the issues (within the limits of 15% of the total amount of the assets held by the special purpose entity); the ability to also insert assets in the portfolio that are not mortgages, such as securities issued or backed by government entities. Finally, with regard to redemption by the special purpose entity (or by UBI Banca in the event of its default) the maturity of the covered bonds may be extended by one year (termed a “soft bullet maturity”).

In any event, the units responsible at UBI Banca periodically verify the adequate availability of mortgages among the assets of Group banks in order to ensure the necessary over-collateralization for covered bonds already issued and for those to be issued in the coming year.

3. Risks connected with continuous management of the programme: the programme involves various third parties (asset monitors, bank account providers, trustees, possible swaps providers), for each of which there is a risk of default. Counterparty replacement rules have been put in place to limit that risk if determined events occur.

The programme also requires continuous management of matters which include servicing activities, investment activities, the management of possible swap contracts, the calculation of regulatory tests and the production of reports. The adoption of the organisational model reported in the preceding pages led to a further improvement in the management of processes and the related operating risks. This increased the oversight and control points as a result of a more detailed official assignment of responsibilities to the competent units of the Parent.

⁴⁷ See above the sub-section entitled “Effectiveness tests”.

4. Legal risks, which, due to the particular multi-originator structure of the UBI Banca programme, include the risk of cross-collateralisation. The participation of a number of originator banks in the programme mean that all the transferor banks are subordinated creditors on an equal basis of the special purpose entity and above all, they assume the obligation to top up the portfolio to the levels specified by the tests if these are failed, even if the failure is not caused by the assets for which they are responsible. To mitigate that risk, the contract documents state that if the transferor bank required to top up assets does not meet that obligation, in the first instance the Parent will be required to top up the cover pool in its place until the required level of over-collateralization is reached, while the transferor banks (at the moment therefore only IW Bank) will only be required to top up the cover pool if the Parent fails to do so.

In order to take account, amongst other things, of regulatory developments that had occurred, when the 2015 Programme Report was drawn up two further risk categories were formally introduced as follows:

5. Tax Risks: tax impacts on the transfer of assets: the law which introduced covered bonds (Law No. 130/1999, Art. 7 *bis*) stated that transfers of assets to special purpose entities are considered as not taking place from a tax viewpoint where, amongst other things, the purchase price and the last amount recognised for the transferred assets in the financial statements of the transferor bank are identical. Since transfers of assets generally take place at a time subsequent to the reporting date of the last approved financial statements of the transferor banks, the prevalent interpretation adopted was that in order to determine the transfer price, reference has to be made to the carrying amount, reduced by the capital repayments received in the meantime and increased by the interest accruing as at the date of transfer in order to take account of the natural financial changes in the assets transferred⁴⁸.

6. Property Guarantee Risk: in accordance with legislation and regulations the bank updates the values of the properties that back the assets transferred on a half yearly basis. The risk in question lies in the possible decrease in the value of the guarantees which can lead to total or partial exclusion of the loan from the calculation of tests. The updated value of the guarantees is in fact used to calculate the current loan to value ratio (the remaining debt as a ratio of the current value of the guarantee) and if that indicator is greater than the 80% limit, then the part of the loan above that limit cannot be used in the calculation of the tests. Furthermore, if the ratio of the updated value of the guarantee to that of the most recent property appraisal is lower than 70%, and at the same time the current loan to value ratio is higher than 100%, the loan must be totally excluded from the calculation tests unless a new appraisal is carried out within three months. In this respect we also report that in addition to the periodic controls carried out in accordance with regulations by the asset monitor, Risk Control Units in the UBI Group check the loan to value ratios monthly and organisational processes result in prompt reporting of problem situations to the competent units for the necessary corrective action to be taken.

History of the UBI Banca Residential Covered Bond Programme

In the context of the procedures described above, the UBI Banca Group launched a ten-billion euro programme for the issue of covered bonds in July 2008, with the first transfers of mortgages performed by two banks in the Group, Banco di Brescia and Banca Regionale Europea, for a total amount, as at that time, of approximately €2 billion. Subsequently, in the years 2008 – 2010, all the Group's network banks joined the programme progressively transferring portions of their assets. Further transfers of assets were then concluded in each of the following years.

More specifically, we report, with regard to the financial year 2018, that two new loan transfers were concluded: the first on 30th April 2018 with effect for accounting and operating purposes from the following 1st May, amounting to €2.2 billion; the second on 30th November 2018 with effect for accounting and operating purposes from 1st December, which involved €1.293 billion of assets and included loans originated by the banks merged into UBI Banca at the end of 2017.

We also report that in May 2018 a repurchase of bad loans was carried out by the originators, of which 13 positions for €1.38 million were repurchased by IW Bank and 1,585 positions for €116.9

⁴⁸ See Supervisory Regulations for banks – Circular No. 285/2013 – Part Three – Chapter 3

million were repurchased by UBI Banca. The positions repurchased by the two originators were subsequently transferred by them to the Maior securitisation, backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these notes to the financial statements for details.

The tables below give details of the amounts transferred and of those returned in 2018.

TRANSFER OF ASSETS TO UBI FINANCE – 2018 (figures in thousands of euro)	TOTAL TRANSFERRED	DI CUI UBI BANCA	DI CUI IW BANK
transfer on 01/05/2018	2,241,191	2,241,191	-
transfer on 01/12/2018	1,292,856	1,292,856	-
total transfers in 2018	3,534,046	3,534,047	-

RETURN OF ASSETS TO ORIGINATOR BANKS – 2018 (figures in thousands of euro)	TOTAL RETURNS	ORIGINATED BY UBI BANCA	ORIGINATED BY UBI BANCA PRIVATE
returned on 28/05/2018	118,265	116,885	1,380
total returns in 2018	118,265	116,885	1,380

As at 31st December 2018 the cover pool of mortgages for the issues, which for accounting purposes is recognised within the assets of each originator bank, amounted to a total of €15.7 billion in terms of the remaining principal debt.

The table below gives the distribution of the portfolio (remaining principal debt) by class of credit quality as at 31st December 2018, according to the classification used in the documentation for the CBP:

TYPE OF LOAN - figures as at 31/12/2018 (Remaining principal debt - in thousands of euro)	TOTAL PORTFOLIO	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Performing loans	14,148,782	14,022,381	126,401
Loans in arrears	906,777	889,650	17,127
Collateral Portfolio	15,055,559	14,912,031	143,528
Defaulted loans	617,338	607,708	9,630
Total UBI Finance portfolio	15,672,897	15,519,739	153,158

In 2018 this portfolio generated total payments received of approximately €2.1 billion, distributed as follows between UBI Banca and IW Bank:

PAYMENTS RECEIVED (figures in thousands of euro)	TOTAL PORTFOLIO	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
payments received in 2018	2,070,882	2,045,505	25,377

Within the ceiling on the issues set under the programme, which as already mentioned was raised from an initial €10 billion to €15 billion, UBI Banca has issued covered bonds for a total of €13.1 billion (bonds in issue as at 31st December 2018). The table below gives details of the individual issues:

Number in order (*)	ISIN Number	Name	Issue date	Expiration date	Principal (**)	Market
2	IT0004558794	UBI BANCA 4,000% CB due 16/12/2019	16/12/2009	16/12/2019	1,000,000,000	Institutional investors
3	IT0004599491	UBI BANCA TV CB due 30/04/2022	30/04/2010	30/04/2022	79,545,460	Private - EIB
6	IT0004682305	UBI BANCA 5,250% CB due 28/01/2021	28/01/2011	28/01/2021	1,000,000,000	Institutional investors
12	IT0004966195	UBI BANCA 3,125% CB due 14/10/2020	14/10/2013	14/10/2020	1,500,000,000	Institutional investors
14	IT0004992878	UBI BANCA 3,125% CB due 05/02/2024	05/02/2014	05/02/2024	1,000,000,000	Institutional investors
17	IT0005067076	UBI BANCA 1,25% CB due 07/02/2025	07/11/2014	07/02/2025	1,000,000,000	Institutional investors
18	IT0005140030	UBI BANCA 1% CB due 27/01/2023	27/10/2015	27/01/2023	1,250,000,000	Institutional investors
19	IT0005155673	UBI BANCA TV CB due 14/12/2022	14/12/2015	14/12/2022	500,000,000	Retained
22	IT0005215147	UBI BANCA 0,375% CB due 14/09/2026	14/09/2016	14/09/2026	1,000,000,000	Institutional investors
23	IT0005283491	UBI BANCA 1,125% CB due 04/10/2027	04/10/2017	04/10/2027	1,250,000,000	Institutional investors
24	IT0005320673	UBI BANCA 0,50% CB due 15/07/2024	15/01/2018	15/07/2024	750,000,000	Institutional investors
25	IT0005320665	UBI BANCA 1,25% CB due 15/01/2030	15/01/2018	15/01/2030	500,000,000	Institutional investors
26	IT0005325151	UBI BANCA 1,780% CB due 23/02/2033	23/02/2018	23/02/2033	90,000,000	Institutional investors
27	IT0005325334	UBI BANCA 1,750% CB due 25/02/2033	26/02/2018	25/02/2033	160,000,000	Institutional investors
28	IT0005347973	UBI BANCA TV CB due 16/10/2028	16/10/2018	16/10/2028	700,000,000	Retained
29	IT0005355539	UBI BANCA TV CB due 10/12/2022	10/12/2018	10/12/2022	800,000,000	Retained
30	IT0005355547	UBI BANCA TV CB due 11/12/2023	10/12/2018	11/12/2023	500,000,000	Retained
Total issues outstanding as at 31/12/2018					13,079,545,460.00	

Notes: (*) Only issues outstanding at the reporting date are shown. The issues which as at that date had been extinguished have therefore been omitted from the table.

(**) For bonds subject to amortisation, the remaining nominal value is given as at the reporting date.

As at 31st December 2018, all the bonds listed above had received an Aa2 rating from Moody's and AA from DBRS.

Relations with the special purpose entity UBI Finance

As already reported above, in compliance with IFRS international accounting standards the accounting treatment employed requires non-derecognition of the loans transferred to the special purpose entity in the balance sheets of the originator banks. Similarly, the income statement and valuation entries relating to the loans transferred but not derecognised continued to appear in the specific items of expense and income in the income statement as if the transfer operation had not been carried out.

Consistent with that accounting treatment, other asset and liability and income statement items relating to the bank and the special purpose entity are stated as balancing entries in the "residual" items of the balance sheet and income statement ("120 other assets" in the balance sheet and "200 other operating income/expense" in the income statement) and the relative balance is shown among the net asset/liability and expense/income items of the bank in relation to the special purpose entity in addition to those already recognised in relation to the loans transferred but not derecognised stated in a separate item.

Reference may be made to the relative sections of the notes on financial statements for the amounts of the items mentioned above, recognised within other assets and other operating income/expense. In compliance with regulations the pages that follow report detailed information on the main stakes held by the bank in the special purpose entity UBI Finance in relation to the €15 billion covered bond programme.

Assets transferred – carrying amount

The table below shows the amount for the securitised portfolio transferred to UBI Finance by the originator banks, according to the amount shown under the relevant asset items in the balance

sheet. The classification follows the distribution of the transferred portfolio on the basis of the balance sheet classification of each originator.

TYPE OF LOAN Carrying amount as at 31/12/2018 (thousands of euro)	TOTAL	UBI BANCA	IW BANK
Performing exposures	14,178,786	14,050,183	128,603
Performing past-due exposures	901,128	883,530	17,598
Non-performing past-due exposures	8,237	8,059	178
Unlikely-to-pay loans	284,543	280,885	3,658
Bad loans	177,702	175,334	2,368
TOTAL assets transferred to UBI Finance	15,550,396	15,397,991	152,405
of which Item 40 "Financial assets at amortised cost"	15,550,240	15,397,835	152,405
of which item 20c "Financial assets mandatorily at fair value"	156	156	-

See the preceding sub-sections for the amount of the assets transferred during the year.

Subordinated Loan

As already indicated earlier, at the time of each transfer of assets, each transferor bank, in its capacity as a financing bank, grants to the special purpose entity, a portion of the subordinated loan designed to finance the payment by the SPE itself of the purchase price of the assets transferred in its capacity as originator bank.

The table below shows the amounts of the loans granted by the originator banks to UBI Finance against the transfers for the year 2018:

Subordinated loans granted in 2018 (figures in thousands of euro)	TOTAL TRANSFERRED	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Loans granted for transfer on 01/05/2018	2.233.739	2.233.739	-
Loans granted for transfer on 01/12/2018	1.290.979	1.290.979	-
Total loans granted in 2018	3.524.718	3.524.718	-

The total amount of the subordinated loans granted as at 31st December 2018 by each originator to UBI Finance was €16.1 billion (in terms of the remaining principal debt):

Amount of subordinated loans as at 31/12/2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Remaining principal debt	16,075,745	15,910,284	165,461

The carrying amount of the subordinated loans as at 31st December 2018 forms part of the net balance of the amounts recognised within item "130 Other assets" in the balance sheet, and represents the maximum exposure to loss resulting from participation by the banks (originators and financiers) in the covered bond programme in the event that the guarantee given by the special purpose entity and the cash flows from the portfolios transferred as collateral were used to reimburse investors and would not therefore be available, wholly or in part, to return the subordinated loans to the originators. The ability to repay that loan depends on the receipt of repayments on the loans in the segregated portfolio transferred to the special purpose entity by each bank. Consistent with the accounting treatment adopted, in the balance sheets of the originator banks, the underlying portfolio was measured directly and recognised under a separate asset item in the balance sheet, as indicated above.

In consideration of the performance of repayments by the issuer UBI Banca, no risk in this respect currently exists.

The interest for 2018 on those subordinated loans totalled €239.3 million, while the amount of the loans repaid in the year, drawn from the principal repayments available to the special purpose entity was €1.64 billion.

The following tables show the aforementioned sums by lending bank:

Subordinated loans - interest paid and matured in 2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
TOTAL interest in 2018	239,338	236,637	2,701

Subordinated loans - sums redeemed in 2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
TOTAL Redemptions in 2018	1,642,500	1,626,500	16,000

Servicing activities – Sub-servicing

The Parent received fees totalling €6.6 million from the special purpose entity UBI Finance for servicing activities performed in 2018 relating to the management of payments received and relations with customers with regard to the portfolio transferred and the management of accounts classified as bad loans, while fees received in its capacity as master servicer and calculation agent amounted to €687 thousand.

At the same time IW Bank received fees totalling €62 thousand from the special purpose entity UBI Finance for sub-servicing activities performed in 2018 relating to the management of payments received and relations with customers with regard to the portfolios transferred.

Five-billion euro covered bond programme – “Retained programme”

In the first half of 2012, a new covered bond programme was structured, with the aim of using the assets present in the UBI Group’s balance sheet not yet used for securitisations and for the residential programme, for the issue of new bonds to be retained, and that is to be subscribed by UBI Banca itself, which will be used as collateral for posting with the European Central Bank in order to strengthen the pool of assets eligible for refinancing available to the Group.

To achieve this, a specific new special purpose entity, named UBI Finance CB2 Srl was formed, in which UBI Banca⁴⁹ also holds a 60% stake, to function as the guarantor of the issues of the new series of covered bonds. Mainly commercial mortgages and, in addition, residential mortgages eligible according to national legislation and regulations, but not covered by the rating agency methodologies for the first programme⁵⁰, are transferred by Group banks to UBI Finance CB2 Srl. In fact, as opposed to the residential programme, the retained programme was initially structured without assessment by the rating agencies and therefore it benefited only from the senior rating of the Parent UBI Banca.

At the end of 2013 the agency Fitch also assigned a rating to the five-billion euro programme. The rating assigned was BBB+.

In 2015 the agency Fitch was replaced by the agency DBRS, which assigned a rating of “A (low)”, which was then raised in 2016 to “A”.

UBI Banca will be able to issue covered bonds under that programme for a total amount, from time to time, of not greater than €5 billion.

⁴⁹ The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force. To complete the information we report that the special purpose entity UBI Finance CB2 Srl has been part of the UBI VAT Group since 1st January 2019. Reference is made in this respect to the information provided in the Management Report – Other information - Tax aspects.

⁵⁰ The main criteria for identifying the mortgages transferred to UBI Finance CB2 by the originator banks to back the securitisation are as follows:

- performing mortgages for which the remaining debt does not exceed 60% of the value of the mortgaged commercial property and/or 80% of the value of the mortgaged residential property, in accordance with the provisions of the MEF decree;
- backed by a first mortgage;
- granted to a natural person (including natural persons who are or were, on the date of the grant, employees of companies belonging to the banking Group), or to a legal entity (but not public sector entities, local authorities and central government administrations and central banks), or granted jointly to more than one natural person or legal entity;
- not subsidised;

Again, for this second programme, the Management Board has:

- identified the objectives of the programme and of the first issuance;
- identified the basic structure of the operation, examining the initial loan portfolio and the criteria used to select it as well as the financial structure of the transaction and the tests;
- assessed and approved the impacts and the organisational, IT and accounting changes that would be required, considering that those actions had already been carried out to ensure proper risk management for the first programme;
- assessed the risks connected with the operation to issue covered bonds;
- assessed the organisational and operating structure of the special purpose entity;
- assessed the legal aspects of the programme.

Reference is made to what has already been reported above concerning the residential programme for that which regards the structural, organisational and risk aspects of the operation⁵¹, while here we report only those points where the five-billion euro programme differs from that which has already been reported:

- A. Liability swaps: at present no fixed rate issuances have been made and therefore liability swap contracts have never been entered into between the special purpose entity and third party counterparties;
- B. Current Accounts: interest and principal collection accounts for the second programme were initially opened with UBI Banca International, but they were transferred in August 2015 to BNP Paribas Securities Services – London Branch. As for the first programme, in June 2018 UBI Banca took over the role of account bank for the securitisation in place of BNP Paribas Securities Services.
- C. the liquidity generated by the programme. In consideration of the type of operation performed by the Group with the retained programme, designed to increase the quantity of assets available for refinancing operations with the Eurosystem, no issuance of bonds has been put in place, in this case, to channel funds back to the originator banks.

History of the UBI Banca Retained Covered Bond Programme

The initial cover pool to back the issues of the retained programme was transferred in two tranches in the first half of 2012 and it consisted of assets totalling €3 billion. The following banks transferred assets: Banca Regionale Europea, Banca Popolare di Ancona, Banca Popolare Commercio ed Industria, Banca di Valle Camonica Banca Popolare di Bergamo, Banco di Brescia, Banco di San Giorgio (which was then merged into Banca Regionale Europea) and Banca Carime, while UBI Banca and IW Bank made the first transfer of assets in December 2015.

A new transfer of portfolios took place in 2018 concluded at the end of May (with effect for accounting purposes from 1st June). That transfer involved assets totalling €323.1 million, transferred exclusively by UBI Banca.

Furthermore, two repurchases of loans were carried out, again in the first half of 2018: the first regarded 1,520 non-performing loans eligible for the residential programme for a total amount of €93.8 million; the second regarded 401 bad loans for a total amount of €53.1 million; as already performed for the residential programme, the bad loan positions repurchased were subsequently transferred by UBI Banca as part of the Maior securitisation, backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these notes to the financial statements for details.

Additionally, in September 2018 some loans totalling €54.3 million, transferred in June, which did not comply with the criteria for eligibility in the cover pool for the securitisation were returned by UBI Finance CB2 to UBI Banca. The portfolio transferred by IW Bank was not involved in this operation.

⁵¹ For full information we report that the loan to value ratio limit for the eligibility of the guarantees is 60% for commercial mortgages.

The tables below give details of the amounts transferred and of those returned in 2018.

TRANSFERS OF ASSETS TO UBI FINANCE CB2 – 2018 (figures in thousands of euro)	TOTAL TRANSFERRED	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
<i>transfer on 01/06/2018</i>	323,112	323,112	-
total transfers in 2018	323,112	323,112	-

RETURN OF ASSETS TO ORIGINATOR BANKS – 2018 (figures in thousands of euro)	TOTAL RETURNS	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
<i>returned on 28/03/2018</i>	93,805	93,805	-
<i>returned on 21/05/2018</i>	53,087	53,087	-
<i>returned on 10/09/2018</i>	54,247	54,247	-
total returns in 2018	201,139	201,139	-

The total portfolio transferred, which as already was the case for the first programme, continued to be recognised among the assets of the balance sheets of the originator banks, totalled €2.6 billion as at 31st December 2018.

The table below gives the distribution of the portfolio (remaining principal debt) for each originator bank and the total by class of credit quality as at 31st December 2018:

TYPE OF LOAN - figures as at 31/12/2018 (Remaining principal debt - in thousands of euro)	TOTAL PORTFOLIO	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Performing loans	2,153,097	2,136,673	16,424
Loans in arrears	126,297	125,885	412
Collateral Portfolio	2,279,394	2,262,558	16,836
Defaulted loans	303,038	303,033	05
Total UBI Finance CB2 portfolio	2,582,432	2,565,591	16,841

Also for the portfolio transferred to UBI Finance CB2, the master servicer, UBI Banca, delegated responsibility for servicing activity to the originator banks as sub-servicers. This consisted of collecting payments and managing relations with customers for the portfolio transferred by each originator except for loans from UBI Banca's own portfolio and positions reclassified as bad loans (previously termed "non-performing"), handled by the Credit Recovery Area of the Parent.

In 2018, this portfolio generated total payments received of €470.6 million, distributed as follows between UBI Banca and IW Bank:

PAYMENTS RECEIVED (figures in thousands of euro)	TOTAL PORTFOLIO	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
<i>payments received in 2018</i>	470,608	467,914	2,694

Two covered bond issuances were made under the programme in 2012 and one in 2014, which was added to by a fourth issuance in the second half of 2015. A fifth issuance was made in 2016, concluded in June, while in 2017 a sixth issuance was made in December. An additional bond was issued in the last quarter of 2018 and therefore as at the reporting date of these notes to the financial statements, the total notes issued amounted to €2.05 billion (the remaining nominal amount as at 31st December 2018). No public issues have been made to date and therefore all the issues outstanding at present are self-retained held in portfolio by UBI Banca.

Details are given below of the individual issues:

Number in order (*)	ISIN Number	Name	Issue date	Expiration date	Principal (**)	Market
2	IT0004864663	UBI BANCA TV CB2 due 29/10/2022	29/10/2012	29/10/2022	400,000,000	Retained
3	IT0005002842	UBI BANCA TV CB2 due 05/03/2019	05/03/2014	05/03/2019	200,000,000	Retained
4	IT0005122418	UBI BANCA TV CB2 due 14/07/2021	14/07/2015	14/07/2021	650,000,000	Retained
5	IT0005202400	UBI BANCA TV CB2 due 24/06/2022	24/06/2016	24/06/2022	300,000,000	Retained
6	IT0005318560	UBI BANCA TV CB2 due 21/12/2023	21/12/2017	21/12/2023	300,000,000	Retained
7	IT0005355554	UBI BANCA TV CB2 due 10/12/2024	10/12/2018	10/12/2024	200,000,000	Retained
Total issues outstanding as at 31/12/2018					2,050,000,000	

Notes: (*) Only issues outstanding at the reporting date are shown. The issues which as at that date had been extinguished have therefore been omitted from the table.

(**) For bonds subject to amortisation, the remaining nominal value is given as at the reporting date.

As at 31st December 2018, all the bonds listed above had received an A rating from DBRS.

Relations with the special purpose entity UBI Finance CB2

As occurred for the first covered bond programme, this section has been prepared, insofar as the information has not already been given in the previous sub-sections, in relation to the SPE UBI Finance CB2 Srl, in compliance with the requirements of IFRS 12 for disclosures on relations with unconsolidated structured companies, considering that the relative consolidation is carried out as part of the Parent's consolidated financial statements.

Assets transferred – carrying amount

The table below shows the amount for the securitised portfolio transferred by the originator banks to the special purpose entity UBI Finance CB2, according to the amount shown under a separate item in the relevant asset items in the balance sheets of each originator. The classification follows the distribution of the transferred portfolio on the basis of the balance sheet classification of the originator.

TYPE OF LOAN Carrying amount as at 31/12/2018 (thousands of euro)	TOTAL	UBI BANCA	IWBANK
Performing exposures	2,145,869	2,129,370	16,499
Performing past-due exposures	123,559	123,154	405
Non-performing past-due exposures	3,293	3,293	00
Unlikely-to-pay loans	129,741	129,737	04
Bad loans	117,793	117,793	00
TOTAL UBI Finance CB2 securitised portfolio	2,520,255	2,503,347	16,908
of which Item 40 "Financial assets at amortised cost"	2,519,076	2,502,168	16,908
of which item 20c "Financial assets mandatorily at fair value"	1,179	1,179	00

See above for the amount of the assets transferred during the year.

Subordinated Loan

The table below shows the amounts of the loans granted by the originator banks to UBI Finance CB2 against the transfers for the year 2018:

Subordinated loans granted in 2018 (figures in thousands of euro)	TOTAL TRANSFERRED	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
transfer on 01/06/2018	323,274	323,274	-
Total loans granted in 2018	323,274	323,274	-

The total amount of the subordinated loans granted as at 31st December 2018 by each originator to UBI Finance CB2 was as shown below (in terms of the remaining principal debt):

Amount of subordinated loans as at 31/12/2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Remaining principal debt	2,722,139	2,703,407	18,732

As for the fifteen-billion programme, the carrying amount of the subordinated loans as at 31st December 2018 forms part of the net balance of the amounts recognised within item “130 Other assets” in the balance sheet, and represents the maximum exposure to loss resulting from participation by the banks (originators and financiers) in the covered bond programme in the event that the guarantee given by the special purpose entity and the cash flows from the portfolios transferred as collateral were used to the reimburse investors and would not therefore be available, wholly or in part, to return the subordinated loans to the originators. The ability to repay that loan depends on the receipt of repayments on the loans in the segregated portfolio transferred to the special purpose entity by each bank. Consistent with the accounting treatment adopted, in the balance sheets of the originator banks, the underlying portfolio was measured directly and recognised under a separate asset item in the balance sheet, as indicated above. For the “retained” programme also, in consideration of the performance of repayments by the issuer UBI Banca, no risk in this respect currently exists.

The interest for 2018 on those subordinated loans totalled €41.1 million for all the Group banks participating in the programme, while the amount of the loans repaid in the year drawn from the capital repayments available to the special purpose entity totalled €554 million. The following tables show the aforementioned sums by single originator bank:

Subordinated loans - interest paid and matured in 2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
total interest in 2018	41,122	40,902	220

Subordinated loans - sums redeemed in 2018 (figures in thousands of euro)	TOTAL	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
TOTAL redemptions in 2018	554,000	552,000	2,000

Servicing activities – Sub-servicing

The Parent received fees totalling €1.42 million from the special purpose entity UBI Finance CB2 for servicing activities performed in 2018 relating to the management of payments received and relations with customers with regard to the portfolio transferred and the management of accounts classified as bad loans, while fees received in its capacity as master servicer and calculation agent amounted to €452 thousand. At the same time IW Bank received fees totalling €7 thousand from the special purpose entity UBI Finance CB2 for sub-servicing activities performed in 2018 relating to the management of payments received and relations with customers with regard to the portfolios transferred.

1.2. MARKET RISK

1.2.1 Interest rate risk and price risk - supervisory trading book

Qualitative information

A. General aspects

The considerations that follow relate exclusively to the “trading book”, as defined by supervisory regulations. Transactions designed to affect sensitivity at Group level and equity investments in other companies classified as for trading according to the accounting standards.

B. Processes for the management and methods of measurement of interest rate risk and price risk

The guidelines for the assumption and monitoring of financial risk in the UBI Banca Group are defined in the *Policy to Manage Financial Risks of the UBI Banca Group* and in the relative documents to implement it (*Regulations and document setting operational limits*) with particular reference to market risk on the trading book and to interest rate, currency and liquidity risks on the banking book.

More specifically the policy defines the capital allocated (maximum acceptable loss) to trading book activities and it sets an early warning threshold on the expected shortfall.

Within the trading book, the monitoring of the consistency of the risk profiles of Group portfolios with respect to risk-return objectives is based on a system of limits which involves the combined use of various indicators. In particular, the following are defined:

- maximum acceptable loss limit
- VaR limit
- possible limits on the type of financial instruments permitted
- possible limits on composition.

Consistent with the limits set by the Policy, the Document setting operational limits defines operational limits for the trading book of the UBI Group in 2018, both at general level and for counterparties and single portfolios.

The main operational limits for 2018 are as follows:

• maximum acceptable loss for the UBI Group trading book	€50 million
• One day ES limit for the UBI Group trading book	€10 million

Observance of the limits set for each portfolio is monitored daily.

The summary measurement used to assess the exposure of the Bank to financial risks is the expected shortfall (ES). It is a statistical measurement used to estimate the loss that might occur following adverse changes in risk factors.

The ES of the UBI Banca Group is measured using a confidence interval of 99% and a holding period of one day. This value is defined in terms of limits consistent with the time horizon for the possible disinvestment of the portfolios. The ES is the daily loss that exceeds the VaR. The latter in turn gives the “threshold” of the daily loss which, on the basis of probability hypotheses could only be exceeded in 1% of cases.

The method used for calculating the ES is that of historical simulation. With this approach the portfolio is revalued by applying all the changes in risk factors recorded in the two previous years (500 observations). The values thus obtained are compared with the present value of the portfolio to give a hypothetical series of gains or losses. The ES corresponds to the average of 1% of the worst results (confidence interval of 99%) of those obtained.

The Group employs a stress testing programme to identify events or factors which could have a significant effect on positions to supplement the risk indicators obtained from the use of the ES.

Stress tests are by nature both quantitative and qualitative and they consider not just market risks but also the effects on liquidity generated by market turbulence. They are based on both specially created theoretical shocks and market shocks actually observed in a predetermined historical period.

The predictive power of the model adopted for risk measurement is currently monitored using daily backtesting analysis, which uses an actual P&L calculated by the front office systems of the Group.

Retrospective tests consider changes in the value of the portfolio resulting from the front office systems of the Group, determined on day t with respect to positions present at $t-1$. The actual P&L is generated from all the transactions opposite in sign to the initial position for a total amount less than or equal to the total of the position $t-1$ without considering transactions of the same sign as the initial position that may have arisen during the day.

The risk of losses caused by unfavourable changes in the price of traded financial instruments due to factors related to the issuer can be the result of daily trading activity (idiosyncratic risk) or of a sudden change in price with respect to general market trends (event risk, such as the risk of default by the issuer caused by a change in the market's expectation that an issuer itself will default).

The UBI model for monitoring specific risk for debt securities is capable of detecting the first of the two components (idiosyncratic risk) because it considers spread curves by economic sector and rating as risk factors.

Total risk on equity instruments (and UCITS) is measured by considering single shares as risk factors and it includes both the generic risk component (i.e. the risk of losses caused by unfavourable trends in the prices of the financial instruments traded in general) and a specific component relating to the situation of the issuer.

Quantitative information

1.1 Supervisory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives: Euro

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	134	2	145	1	6	4	355	-
1.1 Debt securities	134	2	145	1	6	4	355	-
- with early redemption option	-	-	-	-	1	-	-	-
- other	134	2	145	1	5	4	355	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	(146,339)	(324,256)	(36,974)	1,186,689	(100,021)	416,663	61,354	-
3.1 With underlying security	-	1,195	(539)	188	148	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	1,195	(539)	188	148	-	-	-
+ Long positions	-	56,464	5,374	188	148	-	-	-
+ Short positions	-	55,269	5,913	-	-	-	-	-
3.2 Without underlying security	(146,339)	(325,451)	(36,435)	1,186,501	(100,169)	416,663	61,354	-
- Options	-	84,834	50,093	15,717	(144,111)	4,985	(9,061)	-
+ Long positions	-	340,423	155,855	130,495	85,144	142,076	20,371	-
+ Short positions	-	255,589	105,762	114,778	229,255	137,091	29,432	-
- Other derivatives	(146,339)	(410,285)	(86,528)	1,170,784	43,942	411,678	70,415	-
+ Long positions	46,879	11,551,620	5,132,596	2,735,980	9,157,887	2,870,279	597,750	-
+ Short positions	193,218	11,961,905	5,219,124	1,565,196	9,113,945	2,458,601	527,335	-

1.2 Supervisory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – other currencies

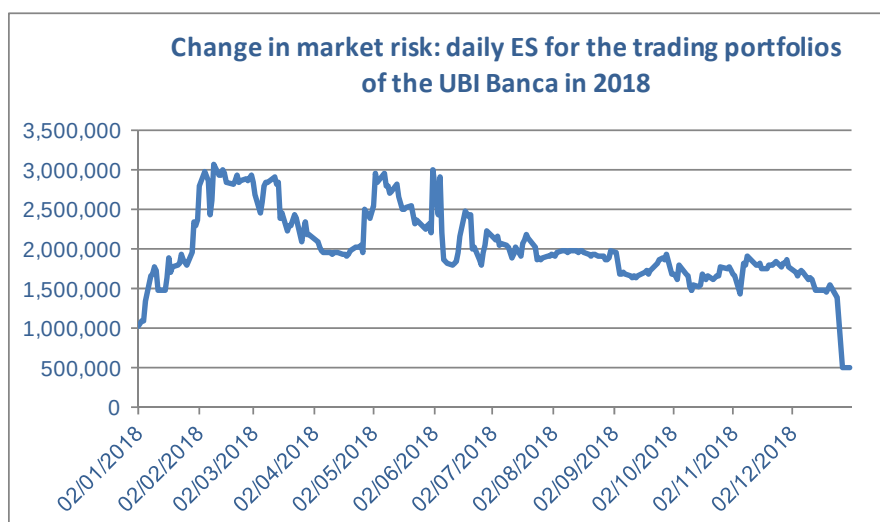
Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	-	-	-	-	2	-	-	-
1.1 Debt securities	-	-	-	-	2	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	(1,007,233)	8,663	(38,911)	(15,121)	908	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
+ Long positions	-	47,248	-	-	-	-	-	-
+ Short positions	-	47,248	-	-	-	-	-	-
3.2 Without underlying security	-	(1,007,233)	8,663	(38,911)	(15,121)	908	-	-
- Options	-	7,385	6,401	(10,960)	(3,921)	-	-	-
+ Long positions	-	89,522	81,004	110,655	31,723	-	-	-
+ Short positions	-	82,137	74,603	121,615	35,644	-	-	-
- Other derivatives	-	(1,014,618)	2,262	(27,951)	(11,200)	908	-	-
+ Long positions	-	1,989,495	285,414	50,234	291,929	57,677	-	-
+ Short positions	-	3,004,113	283,152	78,185	303,129	56,769	-	-

2. Supervisory trading portfolio: distribution of exposures in equities and share indices by the principal markets in which they are listed

Type of operation/Where listed	Listed				Unlisted
	Italy	United States of America	Germany	Other	
A. Equity securities	4,299	4	2	1	26
- long positions	4,299	4	2	1	26
- short positions	-	-	-	-	-
B. Trades in equity instruments not yet settled	(18)	-	-	-	-
- long positions	19	-	-	-	-
- short positions	37	-	-	-	-
C. Other derivatives on equity securities	-	-	-	1,023	1
- long positions	-	-	-	-	1
- short positions	-	-	-	1,023	-
D. Derivatives on share indices	-	-	-	23,100	-
- long positions	-	-	-	23,100	-
- short positions	-	-	-	-	-

3. Supervisory trading portfolio: internal models and other methods of sensitivity analysis

The graph below shows the changes in expected shortfall that occurred in 2018 for the UBI Group trading portfolios.



Changes in the trend shown in the chart were 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 31st December 2018 is reported below.

Trading book	31.12.2018	Average	Minimum	Maximum	30.06.2018	31.12.2017
Currency risk	91,382	1,289,788	32,356	2,002,173	1,249,703	289,380
Interest rate risk	426,279	571,445	400,105	871,786	525,754	724,507
Equity risk	150,509	238,592	143,821	624,445	204,658	441,458
Credit risk	317,561	314,979	13,547	1,411,319	656,066	444,282
Volatility risk	78,844	201,139	59,490	994,303	549,968	75,267
Diversification effect (1)	(553,564)				(955,972)	(672,652)
Total (2)	511,011		498,789	3,071,028	2,230,177	1,302,242

(1) The diversification effect is due to the imperfect correlation between the different risk factors present in the Group's portfolio.

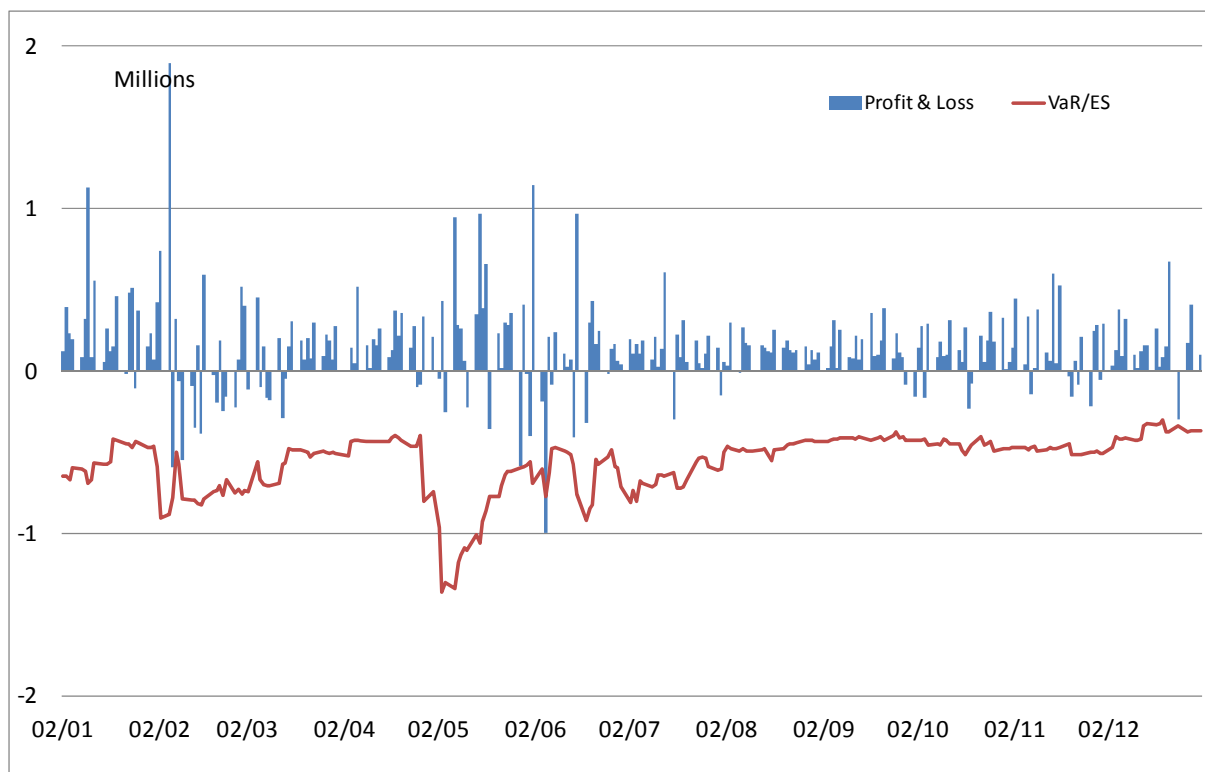
(2) The maximum ES was recorded on **9th February**, the minimum ES on **28th December**.

Backtesting analyses

Backtesting analysis is designed to test the predictive power of the VaR model adopted. It uses an actual profit and loss calculated on the basis of returns on positions in the portfolio on the previous day.

The backtesting analysis for the trading book of the UBI Group is given below for 2018.

UBI Group Trading Book: Backtesting 2018



Actual backtesting analysis of the supervisory portfolios of the Group found one day when the P&L was worse than the ES calculated by the risk management system.

Theoretical stress tests

The Group has a stress testing programme designed to analyse the reaction of portfolios to risk factor shocks with the objective of verifying the ability of the regulatory capital to absorb very large potential losses and to identify possible measures needed to reduce risks and conserve the capital itself.

Stress tests based on theoretical shocks consist of specially created extreme shifts in interest rate (short, medium and long-term), credit spread, exchange rate, equity price and volatility curves. A brief description of the most significant stress tests is given below.

- **Bull/Bear Steepening:** a shock on the yield curve where the decrease/increase in short term interest rates is greater/smaller than that for long term rates.
- **Bull/Bear Flattening:** a shock on the yield curve where the decrease/increase in short term interest rates is smaller/greater than that for long term rates.
- **Credit Spread Shock:** a widening in the credit spread of 100 basis point for corporate and government securities with a rating of less than AAA.
- **Flight to quality:** this simulates a shift from investment in high risk to low risk assets. The shock applied is a decrease of 100bp in the interest rates for AAA government securities, an increase of 100bp in interest rates on other government securities, an increase of 100 bp in the credit spread on corporate and banking securities and a depreciation in equity instruments of 10%.

The table below gives the results of the theoretical stress tests performed on the portfolios of the UBI Group.

The effect of theoretical shocks on the trading book and banking book of the UBI Group

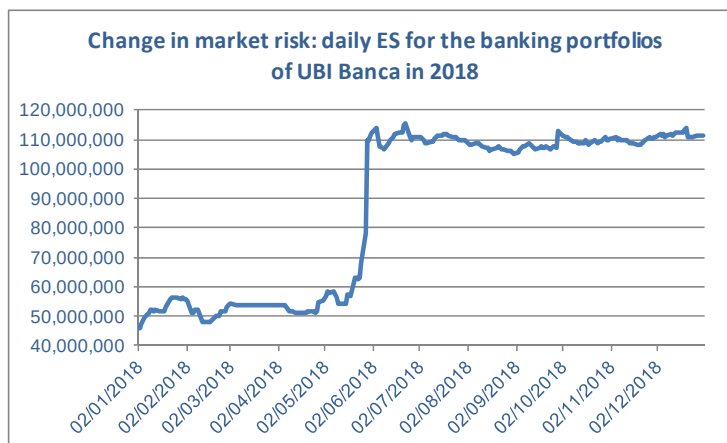
Data as at 31st December 2018 in whole euro		UBI BANCA GROUP Supervisory Trading Book 31st December 2018		UBI BANCA GROUP Banking Book 31st December 2018		TOTAL UBI BANCA GROUP 31st December 2018	
		Change in NAV		Change in NAV		Change in NAV	
Risk Factors	IR						
Shock	Shock +1bp	-4,763	-0.06%	-576,870	-0.01%	-581,633	-0.01%
Risk Factors	IR						
Shock	Shock -1bp	4,487	0.06%	577,075	0.01%	581,562	0.01%
Risk Factors	IR						
Shock	Bear Steepening	-2,752,276	-34.72%	-61,090,350	-0.70%	-63,842,626	-0.73%
Risk Factors	IR						
Shock	Bull Steepening	-946,711	-11.94%	40,008,967	0.46%	39,062,257	0.44%
Risk Factors	IR						
Shock	Bear Flattening	45,363	0.57%	-37,157,032	-0.42%	-37,111,669	-0.42%
Risk Factors	IR						
Shock	Bull Flattening	3,991,991	50.36%	64,453,629	0.73%	68,445,620	0.78%
Risk Factors	Equity						
Shock	-10%	-408,903	-5.16%	-6,240,764	-0.07%	-6,649,666	-0.08%
Risk Factors	Credit Spread						
Shock		-4,205	-0.05%	-4,447,003	-0.05%	-4,451,209	-0.05%
Flight to quality scenario		1,679,440	21.19%	-362,900,281	-4.14%	-361,220,841	-4.11%

The analysis shows a heightened sensitivity of the portfolios to credit spread shocks (consistent with the presence of Italian government securities) and to interest rate shocks (consistent with the presence of bonds and interest rate derivatives in Group portfolios).

The limits set for the trading book are also used for the portfolios in the banking book, which contain assets classified for IFRS 9 purposes as HTC&S and “other”. The main operational limits for the banking book of the UBI Group decided for 2018, including the reallocations and the new limits set in the second half of the year, are as follows:

- UBI Banca Group Banking Book Capital Allocated €815 million
- Early Warning Threshold on UBI Banca Group Banking Book Capital Allocated €728 million
- Early Warning Threshold on UBI Banca Group Banking Book 1-day Expected Shortfall (ES) €100 million

The graph below shows the changes in ES that occurred in 2018 for the UBI Group banking book portfolios.



The market ES does not include the ES on securities classified in the accounts as hold to collect. Changes in the trend shown in the chart were related to movements in the portfolio and to exogenous shocks that occurred in the period (widening of the spread on Italian government securities).

The expected shortfall by risk factor calculated on the banking book of the UBI Group as at 31st December 2018 is reported below.

Banking book	31.12.2018	Average	Minimum	Maximum	30.06.2018	31.12.2017
Currency risk	55,990	153,695	54,748	360,546	142,224	244,866
Interest rate risk	3,869,040	5,323,245	3,869,040	14,305,946	5,465,482	5,623,488
Equity risk	734,585	1,060,179	557,014	6,727,002	619,723	2,648,987
Credit risk	110,707,095	85,602,158	45,682,669	113,794,103	109,454,438	62,111,816
Volatility risk	-	-	-	-	-	-
Diversification effect (1)	(4,110,224)				(5,133,046)	(6,352,209)
Total (2)	111,256,486	87,008,490	45,755,514	115,243,814	110,548,821	64,276,948

(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 **22nd June**, the minimum ES on **2nd January**.

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management procedures and methods of measurement of interest rate risk and price risk

Interest rate risk consists of changes in interest rates which have the following effects:

- on net interest income and consequently on the profits of the bank (cash flow risk);
- on the net present value of assets and liabilities, which has an impact on the present value of future cash flows (fair value risk).

The control and management of structural interest rate risk - fair value and cash flow – is performed in a centralised manner by the Parent within the framework, defined annually, of the Policy to Manage Financial Risks of the UBI Banca Group, which identifies measurement methods and models and limits or early warning thresholds in relation to net interest income and the economic value of the Group.

Measurement, monitoring and reporting of interest rate risk exposure is performed at consolidated and individual level by the Capital & Liquidity Risk Management Area of the Parent, which performs the following on a monthly basis:

- a sensitivity analysis designed to measure changes in the value of assets
- a simulation of the impact on net interest income for the current year by means of a static gap analysis (i.e. assuming that the positions remain constant during the period).

On the basis of the periodic reports produced, the ALM service of the Parent Bank takes appropriate action to prevent the limits and early warning thresholds from being exceeded.

Exposure to interest rate risk is measured by using gap analysis and sensitivity analysis models on all those financial instruments, assets and liabilities, not included in the trading book, in accordance with supervisory regulations.

Sensitivity analysis of economic value includes an estimate of the impacts resulting from the early repayment of mortgages and long-term loans, regardless of whether early repayment options are contained in the contracts.

This is accompanied by an estimate of the change in net interest income. The analysis of the impact on net interest income is over a time horizon of twelve months, with account taken of both the variation in the profit on demand items (inclusive of viscosity phenomena) and that variation for items held to maturity. This analysis also includes an estimate of the impact of reinvesting/refinancing maturing interest flows.

At consolidated level, the 2018 Policy to Manage the Financial Risks of the UBI Banca Group defines a system of early warning thresholds on exposure to interest rate risk based on indicators measured in various scenarios of changes in yield curves, both deterministic and historical, and parallel and non-parallel, assuming rises and falls in interest rates.

More specifically, a limit of €180 million is set on sensitivity and an early warning threshold of €200 million is set on changes in net interest income. The Management Board has also set an

early warning threshold on sensitivity of €150 million. The amounts to compare with the early warning thresholds are the absolute figure for the greater negative exposure in terms of sensitivity and the absolute figure for the greater negative exposure in terms of the change in the profit margin resulting from the application of interest rate scenarios. A negative interest constraint of -75 bps has been set for downward interest rate shift scenarios.

Furthermore, that same policy also sets a limit on the total exposure, measured in the standard scenario set by the supervisory regulations in force from time to time. The current standard scenario is one of an instantaneous and parallel shock of +/- 200 bps on all items in the banking book, assuming a non-negative constraint on interest rates. If the economic value of a bank falls by over 20% of its own funds, then the European Central Bank and the Bank of Italy will examine the results and they may decide to take appropriate action.

At individual company level the 2018 Policy to Manage Financial Risks of the UBI Banca Group establishes an early warning threshold of 10% of total individual own funds for the sensitivity of term and sight items represented by the behaviour model. The amount to compare with the early warning threshold is the absolute figure for the negative sensitivity resulting from the application of the two different interest rate scenarios (parallel shock of +/-100 bps of the yield curve). A negative interest constraint of -75 bps has been set for the downward interest rate shift scenario.

Furthermore, a limit on the total exposure is also set for individual legal entities, described above, measured in the standard scenario set by the supervisory regulations in force from time to time.

Compliance with individual limits is pursued by Group member companies by means of hedging derivative contracts entered into with the Parent. UBI Banca may then close the position with counterparties outside the Group, acting in accordance with strategic policies and within the consolidated limits set by the governing bodies.

B. Fair value hedging

In order to reduce exposure to adverse changes in fair value (fair value hedges) due to interest rate risk, hedges had been taken out as at 31st December 2018 in the UBI Group using financial derivative instruments. In detail outstanding hedges were as follows:

- specific hedges on fixed rate HTC&S and HTC securities amounting to approximately €8.42 billion nominal;
- specific hedges on fixed rate loans amounting to approximately €0.14 billion nominal;
- macro hedges on fixed interest rate loans amounting to approximately €5.67 billion nominal;
- macro hedges on financing of the multimix/prefix type (type of financing that sets a cap on the rate paid by the customer) amounting to approximately €1.10 billion nominal;
- specific hedges on fixed rate liabilities amounting to approximately €20.93 billion notional;
- macro hedges on fixed interest rate liabilities amounting to approximately €4.00 billion notional.

The derivative contracts used are of the interest rate swap and cap type.

Activity to test the effectiveness of hedges is performed by the Capital & Liquidity Risk Management Area of the Parent. Tests for effectiveness are performed, in compliance with international accounting standards, prospectively when a hedge is first implemented followed by monthly prospective and retrospective tests.

C. Cash flow hedging

As at 31st December 2018, the Parent had an outstanding cash flow hedge for approximately €24 million nominal.

Quantitative information

1.1 Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities: euro

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	21,346,083	50,464,317	6,232,363	2,243,568	9,962,109	11,946,860	6,423,731	-
1.1 Debt securities	80,993	881,526	51,555	57,414	2,328,079	5,474,729	1,822,507	-
- with early redemption option	1,691	13,326	3,949	14,195	89,587	79,924	-	-
- other	79,302	868,200	47,606	43,219	2,238,492	5,394,805	1,822,507	-
1.2 Financing to banks	1,017,395	8,760,699	48,933	31,046	33,407	38	-	-
1.3 Customer finance	20,247,695	40,822,092	6,131,875	2,155,108	7,600,623	6,472,093	4,601,224	-
- current accounts	7,312,672	-	20,654	-	-	246,056	-	-
- other financing	12,935,023	40,822,092	6,111,221	2,155,108	7,600,623	6,226,037	4,601,224	-
- with early redemption option	922,134	34,747,554	2,932,670	1,878,218	6,776,772	3,418,808	4,358,529	-
- other	12,012,889	6,074,538	3,178,551	276,890	823,851	2,807,229	242,695	-
2. On-balance sheet liabilities	67,168,374	6,311,887	3,180,083	2,751,418	20,688,721	5,674,323	794,666	-
2.1 Due to customers	66,210,596	652,776	273,470	259,593	132,261	124,289	47,921	-
- current accounts	63,706,644	-	-	-	-	-	-	-
- other payables	2,503,952	652,776	273,470	259,593	132,261	124,289	47,921	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,503,952	652,776	273,470	259,593	132,261	124,289	47,921	-
2.2 Due to banks	725,379	1,226,927	885,293	16,180	12,399,558	7,450	2,349	-
- current accounts	541,956	-	-	-	-	-	-	-
- other payables	183,423	1,226,927	885,293	16,180	12,399,558	7,450	2,349	-
2.3 Debt instruments	232,367	4,432,184	2,021,320	2,475,645	8,156,902	5,542,584	744,396	-
- with early redemption option	27,749	155,160	749,385	396	15,562	499,598	1,530	-
- other	204,618	4,277,024	1,271,935	2,475,249	8,141,340	5,042,986	742,866	-
2.4 Other liabilities	32	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	32	-	-	-	-	-	-	-
3. Financial derivatives	1,048,510	(19,460,066)	1,931,705	7,778,230	12,309,301	887,210	(3,833,980)	-
3.1 With underlying security	-	-	-	-	371,570	289,476	(137)	-
- Options	-	-	-	-	371,570	289,476	(137)	-
+ Long positions	-	-	-	-	322	-	137	-
+ Short positions	-	-	-	-	371,892	289,476	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	1,048,510	(19,460,066)	1,931,705	7,778,230	11,937,731	597,734	(3,833,843)	-
- Options	(95,998)	40,035	(10,386)	34,210	61,027	(891)	(27,997)	-
+ Long positions	132,499	134,383	22,940	38,903	61,131	-	-	-
+ Short positions	228,497	94,348	33,326	4,693	104	891	27,997	-
- Other derivatives	1,144,508	(19,500,101)	1,942,091	7,744,020	11,876,704	598,625	(3,805,846)	-
+ Long positions	1,144,508	5,531,670	1,977,954	7,972,299	15,642,002	6,888,003	750,000	-
+ Short positions	-	25,031,771	35,863	228,279	3,765,298	6,289,378	4,555,846	-
4. Other off-balance sheet items	(633,246)	164,820	197,602	14,922	97,586	16,863	136,889	-
+ Long positions	4,315,648	164,820	197,602	14,922	97,586	16,863	136,889	-
+ Short positions	4,948,894	-	-	-	-	-	-	-

1.2 Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities: other currencies

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	410,781	853,418	173,649	3,115	1,633,274	285,389	8	-
1.1 Debt securities	9,688	16,060	826	-	1,630,943	285,365	-	-
- with early redemption option	960	8,545	826	-	22,317	59,588	-	-
- other	8,728	7,515	-	-	1,608,626	225,777	-	-
1.2 Financing to banks	141,324	31,475	9,555	2,301	-	-	-	-
1.3 Customer finance	259,769	805,883	163,268	814	2,331	24	8	-
- current accounts	5,806	-	-	-	-	-	-	-
- other financing	253,963	805,883	163,268	814	2,331	24	8	-
- with early redemption option	2,679	28	3	1	-	-	-	-
- other	251,284	805,855	163,265	813	2,331	24	8	-
2. On-balance sheet liabilities	523,517	1,913,486	-	-	-	-	-	-
2.1 Due to customers	464,917	90	-	-	-	-	-	-
- current accounts	449,973	-	-	-	-	-	-	-
- other payables	14,944	90	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	14,944	90	-	-	-	-	-	-
2.2 Due to banks	58,293	1,913,396	-	-	-	-	-	-
- current accounts	3,875	-	-	-	-	-	-	-
- other payables	54,418	1,913,396	-	-	-	-	-	-
2.3 Debt instruments	307	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	307	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	142,358	393,013	87,336	(670,103)	-	-	-
3.1 With underlying security	-	-	-	-	2,247	-	-	-
- Options	-	-	-	-	2,247	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	2,247	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	142,358	393,013	87,336	(672,350)	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	142,358	393,013	87,336	(672,350)	-	-	-
+ Long positions	-	142,358	524,017	87,336	-	-	-	-
+ Short positions	-	-	131,004	-	672,350	-	-	-
4. Other off-balance sheet items	(67,821)	4,671	63,150	-	-	-	-	-
+ Long positions	3,971	4,671	63,150	-	-	-	-	-
+ Short positions	71,792	-	-	-	-	-	-	-

2. Banking portfolio: internal models and other methods of sensitivity analysis.

The exposure of the UBI Group to interest rate risk as at 31st December 2018, measured in terms of core sensitivity⁵² was approximately -€41.28 million, thereby remaining within the limits set by the Policy to Manage Financial Risks. In detail the sensitivity generated by the Product Companies and by IW Bank was approximately +€55.33 million, while the Parent contributed a total of -€96.61 million.

In compliance with the Policy to Manage Financial Risks, the exposure includes an estimate of the impact of early repayments, modelling of sight items and bad loan positions on the basis of the internal models developed.

On the basis of the standard scenario set by supervisory regulations, the end of period measurements as at 31st December 2018 and 30th September 2018 showed positive exposures for economic value in both the scenarios considered (+/-200 bps). Data recorded as at 31st March 2018 and 30th June 2018 showed negative exposure to the +200 bps scenario of -€253 million and -€292 million respectively. The exposure recorded in the -200 bps scenario 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 31st December 2018, estimated in terms of an impact on net interest income of a reduction in reference interest rates of -100 bp, was -€140.32 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.

1.2.3 Currency risk

Qualitative information

A. General aspects, management processes and methods of measuring currency risk

Currency risk is calculated on the basis of mismatches existing between assets and liabilities in foreign currency (spot and forward), relating to each currency other than euro. The main sources of risk are as follows:

- lending and funding in foreign currency with corporate and retail customers;
- holding financial instruments denominated in foreign currency;
- holding units in UCITS for which, even if they are denominated in euro, it is not possible to determine the composition in foreign currency of the underlying investments and/or for which the maximum limit on investment in foreign currency is not known and binding;
- dealing in foreign bank notes.

Foreign currency risk in the UBI Group regards banking book exposures originated by commercial action and by positions relating to trading in foreign currency.

Trading on foreign exchange markets is performed by the Group Treasury Function which operates by using instruments such as forward trades, forex swaps, domestic currency swaps and currency options.

Exposure to currency risk is calculated starting from the net foreign currency position using a method based on supervisory regulations. Equity investments and tangible assets are not included in the calculation of the net foreign currency position.

⁵² The component relating to the HTC&S portfolio is excluded from the calculation.

B. Currency risk hedging

Foreign currency risk arising from exposures in the banking book is mitigated by systematically hedging them with funding and lending transactions in the same currency as the original transaction. This activity to contain risk is also performed by the product companies for their own banking book positions. The remaining exposures and trading portfolio exposures are fully and precisely hedged with spot forex positions.

Quantitative information

1. Distribution of assets, liabilities and derivatives by foreign currency in which they are denominated

Items	Currencies					
	US Dollars	UK sterling	Yen	Canadian dollars	Swiss Francs	Other currencies
A. Financial assets	2,821,440	9,317	5,869	3,788	486,109	79,216
A.1 Debt securities	1,942,883	-	-	-	-	-
A.2 Equity securities	46,105	-	-	-	-	-
A.3 Financing to banks	156,357	1,534	1,734	1,394	6,731	16,904
A.4 Financing to customers	676,095	7,783	4,135	2,394	479,378	62,312
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	41,249	4,584	491	705	6,628	1,571
C. Financial liabilities	2,336,007	32,904	2,959	3,391	40,908	20,835
C.1 Due to banks	1,948,063	8,944	182	134	887	13,479
C.2 Due to customers	387,637	23,960	2,777	3,257	40,021	7,356
C.3 Debt securities	307	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	251	2	-	-	-	1,120
E. Financial Derivatives	(580,917)	18,803	(4,142)	(878)	(453,085)	(56,295)
- Options	18,241	16,543	1,255	95	(8,353)	(28,876)
+ Long positions	143,548	17,434	1,255	95	7,368	6,450
+ Short positions	125,307	891	-	-	15,721	35,326
- Other derivatives	(599,158)	2,260	(5,397)	(973)	(444,732)	(27,419)
+ Long positions	1,562,085	263,455	144,362	5,523	30,528	101,766
+ Short positions	2,161,243	261,195	149,759	6,496	475,260	129,185
Total assets	4,568,322	294,790	151,977	10,111	530,633	189,003
Total liabilities	4,622,808	294,992	152,718	9,887	531,889	186,466
Balance (+/-)	(54,486)	(202)	(741)	224	(1,256)	2,537

2. Internal models and other methods of sensitivity analysis.

Exposure to foreign currency risk amounted to €18 million as at 31st December 2018.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: end-of-period notional amounts

Underlying assets/type of derivative	Total 31.12.2018				Total 31.12.2017 restated			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	19,088,987	4,292,715	8,673,608	96,453	16,057,405	6,779,755	7,968,022	130,696
a) Options	-	2,411,224	2,021,758	-	-	2,046,681	2,072,556	-
b) Swaps	19,088,987	1,881,491	6,651,850	-	16,057,405	4,733,074	5,895,466	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	96,453	-	-	-	130,696
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	-	101	977,439	34,289	-	-	972,521	10,463
a) Options	-	-	977,439	33,300	-	-	972,521	-
b) Swaps	-	101	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	989	-	-	-	10,463
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	3,297,051	2,640,917	-	-	3,010,790	3,052,217	-
a) Options	-	84,142	698,731	-	-	449,695	924,605	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	3,212,909	1,942,186	-	-	2,561,095	2,127,612	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	38,085	38,219	-	-	-	51,847	-
5. Other	-	-	-	-	-	-	-	-
Total	19,088,987	7,627,952	12,330,183	130,742	16,057,405	9,790,545	12,044,607	141,159

A.2 Financial derivatives held for trading: gross positive and negative fair values - by type of product

Type of derivative	Total 31.12.2018				Total 31.12.2017 restated				
	Over the counter			Organised markets	Over the counter			Organised markets	
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties			
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements		
1. Positive fair value									
a) Options	-	11,994	85,798	14	-	10,819	90,938	-	
b) Interest rate swaps	142,933	20,742	239,645	-	142,873	20,856	248,131	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	
d) Equity swaps	-	3	-	-	-	-	-	-	
e) Forwards	-	31,601	5,617	-	-	17,354	6,209	-	
f) Futures	-	-	-	598	-	-	-	79	
g) Other	-	2,672	1,014	-	-	-	1,959	-	
Total	142,933	67,012	332,074	612	142,873	49,029	347,237	79	
2. Negative fair value									
a) Options	-	2,155	5,166	-	-	-	-	-	
b) Interest rate swaps	299,102	271,740	326	-	-	8,038	4,304	-	
c) Cross currency swaps	-	-	-	-	288,832	312,695	3,594	-	
d) Equity swaps	-	-	-	-	-	-	-	-	
e) Forwards	-	15,257	17,656	-	-	13,892	7,997	-	
f) Futures	-	-	-	124	-	-	-	81	
g) Other	-	900	2,614	-	-	-	1,785	-	
Total	299,102	290,052	25,762	124	288,832	334,625	17,680	81	

A.3 OTC financial derivatives held for trading: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	615,037	8,058,572
- positive fair value	X	-	9,015	238,920
- negative fair value	X	-	221	2,048
2) Equity securities and share indices				
- notional amount	X	-	513,798	463,640
- positive fair value	X	-	72,089	411
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	1,106,502	504,271	1,030,144
- positive fair value	X	1,872	1,260	7,491
- negative fair value	X	8,572	3,910	8,398
4) Commodities				
- notional amount	X	-	-	38,219
- positive fair value	X	-	-	1,014
- negative fair value	X	-	-	2,614
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	19,088,987	3,894,179	398,536	-
- positive fair value	142,933	32,188	379	-
- negative fair value	299,102	197,440	75,923	-
2) Equity securities and share indices				
- notional amount	-	-	101	-
- positive fair value	-	-	3	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	2,915,473	381,579	-
- positive fair value	-	25,064	6,706	-
- negative fair value	-	14,455	1,333	-
4) Commodities				
- notional amount	-	10,955	27,130	-
- positive fair value	-	1,207	1,465	-
- negative fair value	-	180	719	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	4,895,496	19,200,999	7,958,816	32,055,311
A.2 Financial derivatives on equity securities and share indices	29,644	493,518	454,377	977,539
A.3 Financial derivatives on currencies and gold	5,878,404	59,564	-	5,937,968
A.4 Financial derivatives on commodities	66,693	9,611	-	76,304
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	10,870,237	19,763,692	8,413,193	39,047,122
Total 31.12.2017 restated	9,135,607	16,213,904	11,711,688	37,061,199

B. Credit derivatives

B.1 Credit derivatives held for trading: end of period notional amounts

No items of this type exist in the UBI Banca Group.

B.2 Credit derivatives held for trading: gross positive and negative fair values - by type of product

No items of this type exist in the UBI Banca Group.

B.3 OTC credit derivatives held for trading: notional amounts, gross positive and negative fair values by counterparty

No items of this type exist in the UBI Banca Group.

B.4 Residual maturity of OTC credit derivatives held for trading: notional amounts

No items of this type exist in the UBI Banca Group.

B.5 Credit derivatives connected with the fair value option: annual changes

No items of this type exist in the UBI Banca Group.

1.3.2 Hedge accounting***Qualitative information***

Hedging transactions are one of the instruments that the UBI Banca Group uses to manage risk in situations where mismatches exist between lending and funding, which are items that are generally remunerated differently (e.g. fixed-rate/floating rate) and/or may be disbursed/issued in currencies other than the euro.

Hedges are designed to neutralise losses that may be recognised on a determined item (the hedged item) and which are attributable to a specific risk by means of the gains resulting from a different item (hedging instrument) if that specific risk should actually manifest.

The UBI Banca Group has decided to take advantage of the option provided for by IFRS 9 which allows it to continue to apply IAS 39 for the recognition of hedging transactions. Paragraph 86 of IAS 39 allows the following three types of hedging relationships to be designated:

- fair value hedges
- cash flow hedges
- foreign investment hedges

Designation of the type of relationship is performed on its inception on the basis, amongst other things, of the specific objectives of the underlying that is hedged. For accounting purposes fair value hedges (FVH) and cash flow hedges (CFH) have the same impact on profit and loss, but with different timing. That difference in timing takes concrete form by anticipating the recognition through profit or loss of gains and losses on the hedged instrument (FVH) or by delaying recognition of gains and losses on the hedging instrument (CFH).

The accounting rules for hedging transactions contain exceptions to standard accounting criteria in order to allow simultaneous recognition of the impacts on profit and loss and on the balance sheet attributable to the hedged instrument and the hedging instrument. These exceptions are permitted by international accounting standards if supported by documentation and only after specific effectiveness tests have been carried out.

A. Fair value hedging

Fair value hedges (FVH) are entered into in order to reduce the Group's exposure to fluctuations in market interest rates.

This activity consists of transforming fixed interest rate positions and/or positions with options on the market parameter into indexed interest rate positions. It is carried out on both asset and liability items by using both specific and macro hedges.

Examples of fair value hedging relationships entered into by the Group are as follows:

- interest rate hedges on a fixed interest rate asset or liability;
- a hedge on a firm commitment to purchase an asset or to incur a liability;
- a hedge against interest rate risk on a portfolio.

The accounting procedures for fair value hedges require that the hedging instrument (the derivative) is measured at fair value with changes recognised through profit or loss. The value of the instrument hedged, which continues to be recognised at amortised cost, is adjusted for changes in fair value on the basis of the risk that is hedged. Each change made to the fair value of the carrying amount of the instrument hedged, relating to the risk that is hedged, is recognised through profit or loss even if the instrument hedged is recognised at fair value through other comprehensive income for which the measurement rules require recognition of the difference in fair value through other comprehensive income.

As specifically concerns firm commitments, these are not normally recognised in the accounts when they are made. Where fair value hedges are applied to these, the change in the fair value of the firm commitment is calculated and it is recognised as either an asset or liability (balance sheet item "Other assets/liabilities") for the life of the hedge. When the firm commitment is settled and the relative asset or liability is then recognised, the amount of the changes in fair value recognised over time as an asset or liability is reversed and included in the initial amount recognised for the asset or liability in the balance sheet with the consequence that it forms part of the initial value at which the asset or liability is recognised.

It should be considered that by its application, measurement of a hedged item results in a value that is neither the exact fair value nor the exact amortised cost because the adjustment of the fair value:

- is calculated only for changes in the value attributable to the risk that is hedged;
- is calculated only during the life of the hedging relationship;
- is limited to the portion of the instrument that is hedged.

In a fair value hedging relationship all the changes in fair value are recognised immediately through profit or loss inclusive of the relative ineffective portions. In fact as a result of the accounting treatment adopted, within the effective range (i.e. from 80% to 125%) all changes in fair value attributable to the risk hedged are recognised through profit or loss, both on the derivative and on the hedged item.

The instruments used to hedge fair value are generally interest rate swaps, unlisted derivatives, on which a fixed interest rate is paid or received (depending on whether the hedge is on an asset or a liability) and the Euribor rate is either received or paid (with maturities of 1, 3 or 6 months). Other instruments used by the Group as fair value hedges are CAP options, unlisted, which are traded to hedge loans/issues at floating interest rates with a CAP option on the overall interest rate (parameter+spread) paid/received by the customer.

As at 31st December 2018 UBI Group had numerous existing fair value hedging relationships both of the specific and macro hedge type. Specific hedges were on securities held in portfolio and on some loans granted, bonds issued or currently being placed and on deposits with the ECB (hedges on fixed interest rate positions), while macro hedges were mainly on homogenous loan portfolios (hedges on fixed interest rate loans and floating interest rate loans with CAP) and on the core component of sight items.

B. Cash flow hedging

Fair value hedges (FVH) are entered into in order to stabilise profit and loss and render it immune to changes in the relevant market parameters.

This activity is normally carried out to transform funding and lending from indexed interest rate positions (in order to maintain the relative overall cash flows constant over time) or to mitigate the impacts that assets and liabilities denominated in foreign currency generate on profit and loss as a result of fluctuations in exchange rates.

Examples of cash flow hedging relationships entered into by the Group are as follows:

- hedges on instruments denominated at a floating interest rate by means of an IRS, by means of a CAP or COLLAR;
- hedges on instruments denominated in a foreign currency;
- hedges of highly probable transactions;

The accounting procedures for cash flow hedges require that, for a hedging derivative, it is measured at fair value, with recognition of changes in the effective portion in a special reserve in other comprehensive income (OCI). The ineffective portion is recognised immediately through profit or loss.

More specifically, the gain or loss associated with the hedging derivative which is equal, in absolute amounts, to the change in the fair value of the expected cash flows must be recognised in equity. Any portion of the gain or loss associated with the hedging derivative which is greater, in absolute amount, than the change in the fair value of the expected cash flows must be recognised immediately through profit or loss. If the extra amount is on the side of the hedged instrument then the entire change in fair value recognised for the derivative must be recognised in a reserve in equity (OCI).

The change in the fair value of the hedging instrument, recognised in a special reserve within OCI, is reclassified to profit or loss when the hedged instrument affects profit or loss itself. As a consequence, if the impact of the risk hedged on profit and loss is deferred over time, then the amount recognised in the cash flow hedge reserve remains recognised within other comprehensive income until an impact is generated on the risk hedged.

As concerns the instrument hedged, this continues to be measured according to the procedures used for the category to which it belongs.

For assets and liabilities with indexed interest rates, the instruments used for cash flow hedges are interest rate swaps by which the Euribor (with maturities of 1, 3 or 6 months) is paid or received (depending on whether the hedges are on an asset or liability) and a fixed interest rate is received or paid.

For assets and liabilities denominated in foreign currency, the instruments used to hedge cash flows are currency swaps (DCS or CCS), with which cash flows in foreign currency are exchanged with cash flows in euro.

As at 31st December 2018, the UBI Group had only one existing cash flow hedge, to hedge exchange rate risk attaching to a loan denominated in foreign currency.

C. Foreign investment hedging

A foreign investment hedging relationship (NIH) consists of hedging a net investment in a foreign operation by using a derivative or a non-derivative instrument as the hedging instrument.

The risk hedged is the exposure in foreign currency that results from a net investment in a foreign operation when the net assets of the foreign operation are recognised in the balance sheet.

The UBI Group has no net foreign investment hedges.

D. Hedging instruments

Activity to test the effectiveness of hedges is performed by the Capital & Liquidity Risk Management Area of the Parent. Tests for effectiveness are performed, in compliance with international accounting standards, prospectively on inception of a hedge followed by monthly prospective and retrospective tests.

TYPES OF RISK

UBI Banca uses derivatives to manage the following types of risk: interest rate risk and exchange rate risk.

Interest rate risk

Interest rate risk is managed by entering into “interest rate swap” (IRS) contracts on the market to hedge fixed interest rate exposures and “CAP options” to hedge similar options sold to customers. UBI Banca uses “IRSs” to hedge fixed interest rate exposures both on assets (specific hedges of securities and individual loans and macro hedges of loan portfolios) and liabilities (specific hedges of bonds issued and deposits with the ECB and macro hedges of the core component of sight items).

UBI Banca also uses “CAP options” for macro hedges for portfolios of loans at a floating interest rate with CAP.

More specifically, IRS contracts existing as at 31st December 2018 amounted in notional terms and by destination to:

- Securities: €8.42 billion;
- Loans (specific hedges): €0.14 billion;
- Loans (macro hedges): €5.67 billion;
- Bonds: €17.67 billion;
- TLTROs: €3.26 billion;
- Sight items: €4.00 billion.

CAP options to hedge loans amounted to: €1.10 billion.

Foreign currency risk

Foreign currency risk is managed by entering into “currency swap” contracts (DCS and CCS) on the market to hedge grants or issues denominated in foreign currency. Only one hedge of this type existed at UBI Banca as at 31st December 2018: a specific hedge on a loan granted in AED (notional of AED 104 million, equivalent to €25 million).

SOURCES OF INEFFECTIVENESS

Sources of the ineffectiveness of a hedging relationship are attributable to the following:

Interest rate risk

- negotiation of the derivative on the basis of non-market parameters;
- notional value appreciably out of alignment with the nominal value of the instrument hedged;
- errors in the estimate of the percentage hedged;
- maturity different from the maturity of the risk hedged;
- amortisation schedule for the notional amount appreciably out of alignment with that recognised on the hedged instrument;
- tenor of the cash flows different from the frequency of the cash flows of the instrument hedged.

Negotiation of a derivative on the basis of non-market parameters may lead to a misalignment between the fair value of the derivative and the fair value adjustment of the instrument hedged. Even though both effectiveness tests and impacts on profit or loss are both determined not by the absolute fair value amount of the instruments, but only by changes in it over time, the cumulative changes in fair value of the two instruments may diverge appreciably, thereby generating ineffectiveness.

As concerns the relative notional amount and its possible amortisation over time (inclusive of the final maturity), its misalignment with respect to the profile of the instrument hedged may also generate ineffectiveness over time (independently of events which may occur affecting the hedged instrument itself).

Finally with regard to the tenor of the two legs of the derivative, the more the frequency of the cash flows of the derivative coincide with the frequency of the instrument hedged, the greater its effectiveness will be.

Foreign currency risk

- negotiation of the derivative on the basis of non-market parameters;
- notional value out of alignment with the nominal value of instrument hedged;
- amortisation schedule for the notional amount appreciably out of alignment with that recognised on the hedged instrument.

Also for currency risk, the negotiation of a derivative on the basis of non-market parameters may lead to a misalignment between the value of the derivative and that of the instrument hedged.

As concerns the relative notional amount and its possible amortisation over time (inclusive of the final maturity), its misalignment with respect to the profile of the instrument hedged may also generate ineffectiveness over time and also appreciable impacts on profit or loss.

E. Items hedged

Generally UBI Banca tends to hedge all asset and liability balance sheet item, with fixed interest rates or with options (fair value hedges). Additionally it seeks to normalise cash flows generated by loans denominated in foreign currency, converting them into euro (cash flow hedges).

FAIR VALUE HEDGES

The items hedged as part of fair value hedging activity are as follows:

Assets: a total of €15.11 billion of hedges as follows:

- government securities, specific hedges on securities (HTC and HTCS);
- securities at fixed interest rate amounting to €8.22 billion nominal;
- securities on European inflation amounting to €200 million nominal;
- loans at fixed interest rate amounting to approximately €135 million nominal (specific hedges);
- macro hedges:
 - on loans at fixed interest rate amounting to approximately €5.59 billion;
 - on loans with CAP on total interest rate amounting to approximately €0.97 billion;

Except for hedges on loans with a CAP on the interest rate paid by the customer, the hedge relates to the entire asset for all other types of item.

The interest rate used is an interest rate swap with which the entity pays the cash flows at a fixed interest rate and receives cash flows at an indexed interest rate. The cash flows are calculated on the original notional amount equal to that of the item or a portion of the item hedged.

For the purposes of measuring effectiveness, a comparison is made between changes in the cumulative fair values of the two instruments, with the fair values calculated by discounting the respective cash flows using specially designed curves.

The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.

The main source of ineffectiveness (partial or total) is attributable to the absence of a part of one of the two instruments. More specifically, considering the hedged item, sources of ineffectiveness for hedged loans result from renegotiations from fixed interest to floating interest, extinguishing loans even only partially, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

With regard to hedges on loans with a floating interest rate with a CAP on the interest rate paid by the customer, the hedge is not on the entire instrument but only on the option sold to the client.

The hedging instrument used is a CAP purchased against payment of a rolling premium.

For the purposes of measuring effectiveness, a comparison is made between changes in the cumulative fair values of the two components (CAP and premium). The premium relating to the CAP sold to the customer is extracted from the spread paid by the customer.

The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.

As with fixed interest rate hedges, the main sources of ineffectiveness (partial or total) result from phenomena such as renegotiations, extinguishing loans, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

Liabilities: a total of €24.02 billion of hedges of which:

- TLTRO specific hedges on €3.26 billion of financing received (liabilities) from the European Central Bank (TLTRO programme);
- bonds with specific hedges on bonds amounting to approximately €16.76 billion notional;
- sight items with macro hedges on the core components of current accounts amounting to €4.00 billion.

The hedge is on the entire liability for all three types of item.

With regard to fixed interest bonds, hedges are generally taken out at the start of the placement, on the basis of the nominal target of the issue and is then adjusted when the issue is settled on the basis of the actual nominal amount placed.

The interest rate used is an interest rate swap with which the entity receives the cash flows at a fixed interest rate and cash flows at an indexed interest rate. The cash flows are calculated on the original notional amount equal to that of the item or a portion of the item hedged.

For the purposes of measuring effectiveness, a comparison is made between changes in the cumulative fair values of the two instruments, with the fair values calculated by discounting the respective cash flows using specially designed curves.

The two changes are used to generate a hedging ratio which measures the effectiveness of the relationship.

The main source of ineffectiveness (partial or total) is attributable to the absence of a part of the hedged instrument.

More specifically, with regard to the securities issued, a partial re-purchase would generate an over hedge and therefore partial ineffectiveness. Similarly, with regard to sight items, any reduction in the core component of current accounts could have an impact on the effectiveness indicators.

CASH FLOW HEDGES

The items hedged as part of cash flow hedging activity are as follows:

Loans granted in foreign currency: a total of 111 million of Arab Emirates Dirham (AED) granted in November 2011 with maturity in December 2020 and ongoing amortisation. To date AED €104 million remain (equivalent to approximately €25 million).

The risk hedged is exchange rate risk.

The hedging instrument used is a cross currency swap with which, on a half-yearly basis, the entity exchanges cash flows in AED from the loan with cash flows in EUR with a counterparty external to the Group.

For the purposes of measuring effectiveness, a comparison is made between expected changes (spot and forward exchange rates) in the two instruments, by applying those changes to the respective notional amounts.

The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.

The main source of ineffectiveness is attributable to a possible reduction in one of the two notional amounts. More specifically, as described in relation to fair value hedges, the sources of ineffectiveness are attributable, with regard to the hedged item, to phenomena such as renegotiations, extinguishing loans, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

Amounts involved in hedging transactions

HEDGE ACCOUNTING: AMOUNTS OUTSTANDING	Notional Item	Notional Instrument	FV Adjustment Accounting Item	FV Instrument Accounts	BALANCE SHEET IMPACT
HTCS Asset Securities (specific)	6,955,808,825.39	6,955,808,790.39	131,676,815.99	- 132,949,630.53	- 1,272,814.54
HTCS Asset Securities (specific)	1,465,000,000.00	1,465,000,000.00	85,124,427.79	- 84,217,113.47	907,314.32
Fixed rate financing (specific)	134,932,662.75	136,373,423.50	4,089,688.88	- 4,114,488.33	- 24,799.45
Floating rate financing (macro hedge)	968,658,609.78	1,104,210,000.00	37,600,678.12	- 40,476,070.13	- 2,875,392.01
Fixed rate financing (macro hedge)	5,588,035,620.02	5,671,410,926.05	59,828,004.47	- 56,745,422.40	3,082,582.07
TOTAL ASSETS	15,112,435,717.94	15,332,803,139.94	318,319,615.25	- 318,502,724.86	- 183,109.61
TLTRO loan (specific)	- 3,260,000,000.00	3,260,000,000.00	250,056.11	- 355,433.78	- 105,377.67
Bonds (specific)	- 14,643,177,000.00	14,649,336,000.00	- 168,706,975.10	169,256,701.68	549,726.58
Bonds over-hedged (specific)	- 2,120,763,680.00	3,016,095,040.00	- 14,490,455.91	19,018,397.15	4,527,941.24
Sight items (macro hedge)	- 4,000,000,000.00	4,000,000,000.00	- 74,297,420.61	74,592,194.95	294,774.34
TOTAL LIABILITIES	- 24,023,940,680.00	24,925,431,040.00	- 257,244,795.51	262,511,860.00	5,267,064.49
TOTAL IMPACT (+asset increase/liability reduction)					5,083,954.88

Quantitative information

A. Financial derivatives hedges

A.1 Financial derivatives held for hedging: end-of-period notional amounts

Underlying assets/type of derivative	Total 31.12.2018				Total 31.12.2017 restated			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	37,028,777	4,869,512	-	-	24,787,203	6,113,893	-	-
a) Options	-	1,238,142	-	-	-	1,702,608	-	-
b) Swaps	37,028,777	3,631,370	-	-	24,787,203	4,411,285	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	24,821	-	-	-	41,409	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	24,821	-	-	-	41,409	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	37,028,777	4,869,512	24,821	-	24,787,203	6,113,893	41,409	-

A.2 Financial derivatives held for hedging: gross positive and negative fair values - by type of product

Type of derivative	Positive and negative fair value								Change in value used to recognise hedge ineffectiveness	
	Total 31.12.2018				Total 31.12.2017 restated				Total 31.12.2018	Total 31.12.2017 restated
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	349,921	40,425	-	-	280,904	109,332	-	-	-	-
c) Cross currency swaps	-	-	1,605	-	-	-	2,879	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	349,921	40,425	1,605	-	280,904	109,332	2,879	-	-	-
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	300,898	96,022	-	-	111,748	99,464	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	1,126	-	-	-
Total	300,898	96,022	-	-	111,748	99,464	1,126	-	-	-

A.3 OTC financial derivatives held for hedging: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and share indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	24,821	-	-
- positive fair value	X	1,605	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	37,028,777	4,633,308	236,204	-
- positive fair value	349,921	27,304	13,121	-
- negative fair value	300,898	94,681	1,341	-
2) Equity securities and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives held for hedging: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	8,054,586	14,266,376	19,577,327	41,898,289
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	24,821	-	24,821
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	8,054,586	14,291,197	19,577,327	41,923,110
Total 31.12.2017 restated	3,303,644	13,359,183	15,252,195	31,915,022

B. Credit derivative hedges***B.1 Credit derivative hedges: end of period notional amounts***

No items of this type exist in the UBI Banca Group.

B.2 Hedging credit derivatives: gross positive and negative fair values - by type of product

No items of this type exist in the UBI Banca Group.

B.3 OTC hedging credit derivatives: notional amounts, gross positive and negative fair values by counterparty

No items of this type exist in the UBI Banca Group.

B.4 Residual maturity of OTC credit derivative hedges: notional amounts

No items of this type exist in the UBI Banca Group.

C. Non-derivative hedging instruments***C.1 Hedging instruments that are not derivatives: by accounting portfolio and type of hedge***

No items of this type exist in the UBI Group.

D. Instruments hedged***D.1 Fair value hedges***

No items of this type exist in the UBI Group.

D.2 Cash flow and foreign investment hedges

No items of this type exist in the UBI Group.

E. Effects of operations to hedge equity

E.1. Reconciliation of components of equity

No items of this type exist in the UBI Group.

1.3.3 Other information on derivative instruments (for trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	56,117,764	8,569,744	1,292,034	8,058,572
- net positive fair value	2,672	59,493	24,220	238,920
- net negative fair value	109,818	294,003	77,485	2,048
2) Equity securities and share indices				
- notional amount	-	-	513,899	463,640
- net positive fair value	-	-	72,093	411
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	4,046,796	885,850	1,030,144
- net positive fair value	-	28,542	7,967	7,491
- net negative fair value	-	23,027	5,244	8,398
4) Commodities				
- notional amount	-	10,955	27,130	38,219
- net positive fair value	-	1,207	1,465	1,014
- net negative fair value	-	180	719	2,614
5) Other				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B) Credit derivatives				
1) Protection purchase				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Protection sale				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

Qualitative information

A. General aspects, processes for the management and methods for the measurement of liquidity risk

Liquidity risk is defined in the UBI Group as the risk of the failure to meet payment obligations, which can be caused either by an inability to raise funds, by raising them at higher than market costs (funding liquidity risk), or by the presence of restrictions on the ability to sell assets (market liquidity risk) with losses incurred on capital account.

Structural liquidity risk is defined as the risk resulting from a mismatch between the sources of funding and lending.

The primary objective of the liquidity risk management system is to enable the Group to meet its payment obligations and to raise additional funding at a minimum cost and without prejudice to potential future income.

The general principles on which liquidity management within the Group is based are as follows:

- the adoption of a centralised management framework for Group Treasury;
- diversification of the sources of funding and limits on exposure to institutional counterparties;
- protection of Group capital in liquidity crisis situations;
- a proper financial balance between assets and liabilities;
- a proper level of eligible and/or liquid assets, sufficient to meet liquidity requirements even under stress conditions.

The reference framework for the measurement, monitoring and management of exposure to liquidity risk is defined annually as part of the *Policy to Manage Financial Risks of the UBI Banca Group* and the relative *Implementation Regulation* and the *Document setting operational limits* approved by the corporate governance bodies. From 2017 the contingency funding plan (CFP) was merged into the Group's Recovery Plan, which regulates measures and processes designed to recover its financial situation following a significant deterioration in it.

These documents set out rules for the pursuit and maintenance of an adequate degree of diversification in the sources of funding and a proper structural balance between the sources and uses of funds for Group companies, through the pursuit of co-ordinated and efficient funding and lending policies.

The following are responsible for liquidity risk management:

- the units that report to the Chief Wealth and Welfare Officer (1st level control), which monitor liquidity daily and manage risk on the basis of defined limits;
- the Capital & Liquidity Risk Management Area (2nd level control), responsible for periodically verifying that limits are observed and overall compliance of liquidity risk management with the "Risk Appetite Framework" defined by the governing bodies of the Bank.

The system for the management of short-term liquidity risk defined by the Policy to Manage Financial Risks of the UBI Banca Group is based on a system of early warning thresholds and limits consistent with the general principles on which liquidity management within the Group is based.

More specifically, liquidity risk is managed by means of the measurement, monitoring and management of the expected liquidity requirement, 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 net liquidity balance is obtained from the daily liquidity ladder by comparing expected cash flow projections with counterbalancing capacity over a time horizon of up to three months. The cumulative sum of expected cash flows and of the counterbalancing capacity, for each time bucket, quantifies liquidity risk measured under different stress scenarios. The UBI Banca Group reports that indicator to the Bank of Italy on a weekly basis, following standard procedures set by that supervisory authority. The liquidity position reported to the Bank of Italy also contains the following information:

- the principal maturities, forecast over a time horizon of twelve months, both on the institutional and the retail market, with details according to the type of funding instrument (e.g. bond issues, repurchase agreements, commercial paper);
- details of assets available for refinancing transactions with the central bank and of liquid assets;
- the main providers of funds on the interbank market (largest ten counterparties);
- details of securities eligible for refinancing with the ECB resulting from retained securitisations, retained covered bonds and government-backed UBI securities.

The objectives of stress tests are to measure the vulnerability of the Group to exceptional but plausible events and they provide a better assessment of exposure to liquidity risk, the systems for mitigating and monitoring them and the length of the survival period under hypotheses of adverse scenarios. The following risk factors that can affect the cumulative imbalance of cash inflows and outflows or the liquidity reserve are considered in the definition of stress scenarios, divided into base stress and internal scenarios:

- wholesale funding risk: unavailability of unsecured and secured funding on the wholesale market;
- retail funding risk: volatility of sight liabilities relating to ordinary customers and repurchases of own securities;
- off-balance sheet liquidity risk: use of margins available on irrevocable credit lines granted;
- market liquidity risk: fall in the value of securities which constitute a liquidity reserve and an increase in the margins requested for positions in financial derivative instruments.

Monitoring the level of cover to meet expected liquidity requirements through an adequate reserve of liquidity is accompanied by daily monitoring of exposure on the interbank market.

Liquidity risk is measured and monitored also at the level of intraday risk, which is the risk that may arise from the daily settlement of debit or credit positions on both a net and a gross basis. More specifically, that risk arises mainly from size and timing mismatches between incoming and outgoing payments. With regard to that risk, first level management is accompanied by monitoring of summary indicators based on monitoring tools defined by the Basel Committee⁵³, observed both in an ordinary and a stressed context.

In compliance with supervisory regulations the liquidity risk management system adopted by the Group also involves monitoring the sources of funding both at consolidated and individual level by means of a specific system of indicators and thresholds set both for the maximum level of funding from institutional markets, considered more volatile under stress conditions, and the minimum levels of cover for lending activity with funding from ordinary customers or with medium to long-term funding from institutional customers.

Finally, the management of structural balance is performed by using models which measure the degree of stability of liabilities and the degree of liquidity of assets in order to mitigate risk associated with the transformation of maturities within a tolerance threshold considered acceptable by the Group. The model employed by the Group to monitor structural balance is designed to incorporate the general lines currently being defined in the process to revise supervisory regulations for liquidity risk with specific reference to medium to long-term indicators. Measurement of the degree of stability of liabilities and the degree of liquidity of assets is based principally on criteria of residual life and on the classification of the counterparties which contribute to the definition of the weightings of assets and liabilities.

Further information on Group activities on the interbank market and details of the liquidity reserves are given in the Management Report which may be consulted.

⁵³ Cf. "Monitoring tools for intraday liquidity management", Basel Committee, April 2013.

Quantitative information

1. 1 Distribution over time by residual contractual maturity of financial assets and liabilities: euro

Items/ Time brackets	on sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	over 5 years	Indeterminate maturity
On-balance sheet assets	11,915,043	811,364	989,794	2,551,485	4,807,369	4,701,734	6,847,511	30,732,009	38,030,088	8,478,223
A.1 Government securities	175	-	-	-	3,049	37,360	137,494	1,756,354	6,727,908	-
A.2 Other debt securities	7,578	44	-	-	4,970	2,981	17,207	454,255	942,297	45,945
A.3 Shares of UCITS	233,426	-	-	-	-	-	-	-	-	289
A.4 Financing	11,673,864	811,320	989,794	2,551,485	4,799,350	4,661,393	6,692,810	28,521,400	30,359,883	8,431,989
- Banks	1,012,390	5,252	2,254	121,580	51,078	88,026	32,804	348,285	41	8,232,983
- Customers	10,661,474	806,068	987,540	2,429,905	4,748,272	4,573,367	6,660,006	28,173,115	30,359,842	199,006
On-balance sheet liabilities	67,266,079	655,967	55,664	652,418	2,480,194	1,656,811	3,386,070	22,820,113	8,120,713	-
B.1 Deposits and current accounts	66,197,915	1,197	2,710	104,744	236,266	225,627	255,746	67,199	4,593	-
- Banks	665,437	-	-	-	5,845	-	-	-	-	-
- Customers	65,532,478	1,197	2,710	104,744	230,421	225,627	255,746	67,199	4,593	-
B.2 Debt securities	154,221	238,706	52,243	271,558	1,984,159	1,255,859	2,931,471	9,433,589	7,537,435	-
B.3 Other liabilities	913,943	416,064	711	276,116	259,769	175,325	198,853	13,319,325	578,685	-
Off-balance sheet transactions	(3,754,403)	37,499	363,035	373,989	573,592	311,270	460,633	1,509,261	524,312	-
C.1 Financial derivatives with exchange of principal	-	35,139	208,948	340,829	440,260	(7,360)	45,575	(356,041)	(289,339)	-
- Long positions	-	107,026	325,577	1,942,640	712,709	161,779	192,623	58,783	137	-
- Short positions	-	71,887	116,629	1,601,811	272,449	169,139	147,048	414,824	289,476	-
C. 2 Financial derivatives without exchange of principal	(154,114)	(199)	2,519	13,215	35,365	10,534	48,056	-	-	-
- Long positions	420,844	1,016	7,082	13,673	54,337	26,795	104,890	-	-	-
- Short positions	574,958	1,215	4,563	458	18,972	16,261	56,834	-	-	-
C. 3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable commitments to disburse funds	(3,619,268)	2,559	150,494	19,685	97,966	307,879	366,876	1,859,537	809,698	-
- Long positions	10,059,096	2,559	150,494	19,843	98,371	308,497	367,929	1,870,989	823,972	-
- Short positions	13,678,364	-	-	158	405	618	1,053	11,452	14,274	-
C.5 Financial guarantees issued	18,979	-	1,074	260	1	217	126	5,765	3,953	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.2 Distribution over time by residual contractual maturity of financial assets and liabilities: other currencies

Items/ Time brackets	on sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	over 5 years	Indeterminate maturity
On-balance sheet assets	223.932	175.942	16.319	73.600	183.747	69.183	70.936	1.970.153	659.801	711
A.1 Government securities	309	-	-	-	2.559	9.201	16.903	1.584.716	238.044	-
A.2 Other debt securities	34	-	-	-	360	624	1.871	78.997	48.472	-
A.3 Shares of UCITS	39.101	-	-	-	-	-	-	-	-	-
A.4 Financing	184.488	175.942	16.319	73.600	180.828	59.358	52.162	306.440	373.285	711
- Banks	140.155	3.308	3.086	2.556	16.809	12.175	6.685	-	-	-
- Customers	44.333	172.634	13.233	71.044	164.019	47.183	45.477	306.440	373.285	711
On-balance sheet liabilities	523.452	164.708	505.771	520.095	722.944	-	40	-	-	-
B.1 Deposits and current accounts	500.362	78.736	-	-	-	-	-	-	-	-
- Banks	50.389	78.736	-	-	-	-	-	-	-	-
- Customers	449.973	-	-	-	-	-	-	-	-	-
B.2 Debt securities	266	-	-	-	-	-	40	-	-	-
B.3 Other liabilities	22.824	85.972	505.771	520.095	722.944	-	-	-	-	-
Off-balance sheet transactions	(60.796)	(31.971)	(207.340)	(343.038)	(434.043)	9.991	(45.860)	(39.226)	55.293	-
C.1 Financial derivatives with exchange of principal	-	(35.760)	(207.597)	(343.464)	(434.199)	9.414	(46.326)	(43.403)	(4)	-
- Long positions	-	66.146	121.006	1.598.768	280.378	168.921	152.253	44.883	-	-
- Short positions	-	101.906	328.603	1.942.232	714.577	159.507	198.579	88.286	4	-
C. 2 Financial derivatives without exchange of principal	(201)	-	16	-	(1)	248	466	-	-	-
- Long positions	4.754	-	16	-	18	1.343	501	-	-	-
- Short positions	4.955	-	-	-	19	1.095	35	-	-	-
C. 3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable commitments to disburse funds	(62.563)	3.789	241	426	157	99	-	2.552	55.297	-
- Long positions	11.492	3.789	241	426	157	99	-	2.552	55.297	-
- Short positions	74.055	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	1.968	-	-	-	-	230	-	1.625	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 OPERATIONAL RISKS

Qualitative information

A. General aspects, procedures for the management and methods for the measurement of operational risk

Operational risk is defined as the risk of incurring losses resulting from inadequate or failed processes, human resources and internal systems or from exogenous events. These risks include for example losses resulting from fraud⁵⁴, human error, business disruption, system failure, non-performance of contracts and natural disasters. With regard to their financial manifestation this definition includes legal risk⁵⁵, model risk⁵⁶, operational risks that overlap with market risk⁵⁷ and operational risks that overlap with credit risk⁵⁸. The definition of operational risk does not include reputational risk⁵⁹ and strategic risk⁶⁰.

In order to guarantee a risk profile consistent with the risk appetite defined by the Strategic Supervisory Body, the Group has defined an organisational model based on the combination of various components identified according to the role filled and by the responsibility assigned in the organisation chart. The different components are identified centrally at the Parent and locally in the individual legal entities.

The model involves centralisation at the Parent of policy-setting functions and of second and third level internal controls.

Various levels of responsibility have been identified in each legal entity, listed below, assigned on the basis of the operating area:

Operational Risks Officer (ORO): this is the Chief Executive Officer for the Parent. In other legal entities it is the Managing Director, or the General Manager, or an equivalent role in the company depending on their corporate regulations. The Operational Risk Officer is responsible, within his/her legal entity for implementing the entire operational risk management system as defined by Group policy;

Local Operational Risk Support Officer (LORSO): this role is the figure responsible for the unit in charge of risk control (or the equivalent person in the company according to its own internal regulations). Within his/her legal entity, this officer supports the Operational Risk Officer in the implementation and co-ordination of the operational risk management system as defined by Group policy. In consideration of its organisational complexity, for the Parent only, this role is divided into two figures:

- **Territorial Operational Risk Support (TORS):** this role is filled by the Head of the Support and Control Service on the staff of the Head of the Macro Geographical Area, the Head of the Top Private and Commercial Co-ordination Department on the staff of the Head of Top Private Banking and the Head of the Corporate & Investment Banking

⁵⁴ At the stage where facts and responsibilities are investigated presumed frauds must be considered on a par with proven frauds.

⁵⁵ Defined as the risk of incurring losses and/or additional costs as a result of violations of laws and regulations, legal proceedings or voluntary actions taken to prevent legal risk from arising (the definition of legal risk also includes losses arising from money laundering risks, misconduct events and compliance risks). The following are excluded from the definition of legal risk: refunds and/or payments made for business reasons in the absence of infringements of regulations and/or failure to perform contracts and/or non-contractual obligations; all external legal costs incurred for reasons not attributable to operational risk.

⁵⁶ Defined as the risk of incurring losses and/or additional costs as a result of models used in decision-making processes (e.g. pricing models, models used to measure financial and/or hedging instruments, models used to monitor controls on risk limits, etc.). The definition of model risk does not include losses incurred due to underestimates of capital requirements calculated using internal models submitted to supervisory authorities for approval.

⁵⁷ Defined as losses and/or additional costs connected with financial transactions including those relating to the management of market risk caused by inadequate and/or failures in processes, operational and or data entry errors, shortcomings in internal control systems, inadequacies of data quality processes, the unavailability of IT systems, unauthorised conduct and negligent and/or gross misconduct of persons and/or by other external events.

⁵⁸ Defined as financial losses generated when a credit product is sold and/or as part of a credit process caused mainly by an operational risk.

⁵⁹ Defined as the present or future risk of incurring loss of profits or capital resulting from a negative perception of the image of the Bank/Company by customers, counterparties, shareholders, investors or supervisory authorities.

⁶⁰ Defined as the risk attaching to errors in decision-making concerning business strategies or bad timing in decisions relating to markets.

Support and Control Function on the staff of the Head of Corporate & Investment Banking;

- **Central Operational Risk Support (CORS):** this role is the manager of the units that report to the Chief Lending Officer, Chief Commercial Officer, Chief of Wealth and Welfare Officer and Chief Operating Officer and the manager of units to which specialist activities are assigned.⁶¹

Risk Champion (RC): this role is assigned to managers of units that report directly to the heads of Macro Geographical Areas and of Top Private Banking and Corporate & Investment Banking and to the managers of departments and managers of units that report directly to Central Operational Risk Support; for other companies to the Managing Director, General Management and Department Managers⁶².

The role of Risk Champion is also assigned, even in the absence of a specific organisational unit, to those with responsibility for specialist activities⁶³.

Risk Champions report directly to Operational Risk Officers (OROs) through the Local Operational Risk Support Officers (LORSOs), Territorial Operational Risk Support (TORS) or Central Operational Risk Support (CORS). They are assigned responsibility for operational supervision of the proper performance of the operational risk management process in relation to the activity for which they are responsible and for co-ordinating the Risk Owners that report to them;

Risk Owner (RO): this role is that of the managers of the units which report hierarchically to a Risk Champion. Their task is to recognise and report loss events, actual and also potential, attributable to operational risk factors which occur in the course of everyday operations;

Accounting Assistant: this role is assigned to specific persons identified within the units responsible for operational accounting activities. Their task is to ensure full and accurate accounting of operational losses;

Insurance Function: this role is assigned to specific persons identified within the units responsible for the management of claims for which insurance cover is provided. Their task is to ensure accurate and full records are kept of insurance compensation and all relative support information.

The measurement system

The measurement system takes account of internal and external operational loss data, operational context factors and the system of internal controls, in a manner whereby it detects the main determinants of risk (especially those which impact on the distribution tail) and incorporates changes that occur in the risk profile.

Further details on the functioning of the calculation model are given in the sub-section on the capital requirement which may be consulted.

The reporting system

Monitoring of operational risks is carried out by means of a standard reporting system organised on the basis of the same levels of responsibility present in the organisational model. Management reporting activities are carried out in-house by the operational risk control function of the Parent which periodically prepares the following:

⁶¹ As an example but not limited to this, activities for the management of: prevention and protection at work as defined by the legislation 81/2008; anti-money laundering and anti-terrorism activities; claims; accounting controls as defined by Circular No. 262/2005 (administrative liability); legal and tax proceedings, etc.

⁶² In consideration of the operational complexity underlying the areas of activity for which these are responsible, in order to facilitate their activity of recording and updating the Loss Data Collection system, Joint General Managers and the Deputy General Managers (where they exist) are excluded from the role of Risk Champion. These receive periodic reports from the Risk Champions that report to them hierarchically.

⁶³ For example but not limited to this, activity for the management of the following: securities brokering; logical and physical security; disaster recovery and business continuity, etc.

- an analysis of changes in operating losses detected by the loss data collection system and of the relative recoveries obtained;
- benchmark analyses with sector-wide data;
- a summary of assessments of exposure to potential risks;
- details of areas of vulnerability identified and the mitigation action undertaken.

As a consequence of the functions attributed by General Corporate Regulations, responsibility for monitoring the risk profile assumed by each company in the Group, its consistency with risk targets and compliance with operational limits lies with the Parent's risk control units. On conclusion of risk profile monitoring, appropriate corrective action is identified which will form part of the annual projects programmed.

Legal risk

The companies in the Group are party to a number of legal proceedings arising from the ordinary performance of their business. In order to meet the claims received, the companies have made appropriate provisions on the basis of 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 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, taken singly or as a whole, would not have a significant effect on the financial and operating position of the UBI Banca Group.

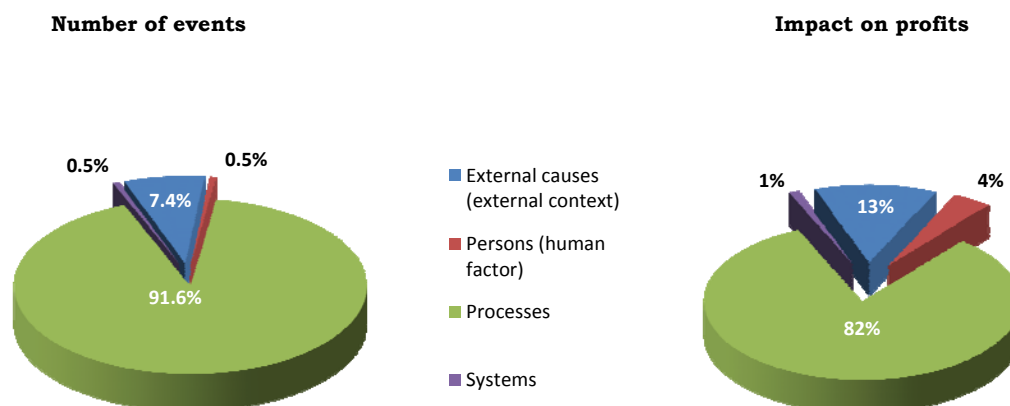
Specific sections of this financial report may be consulted for information on litigation.

Quantitative information

From 1st January 2014 until 31st December 2018 the main sources of operational risk for the Group were “processes” (92% of frequencies and 82% of the total impacts detected) and “external causes” (7% of frequencies and 13% 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 01/01/2014 – 31/12/ 2018)



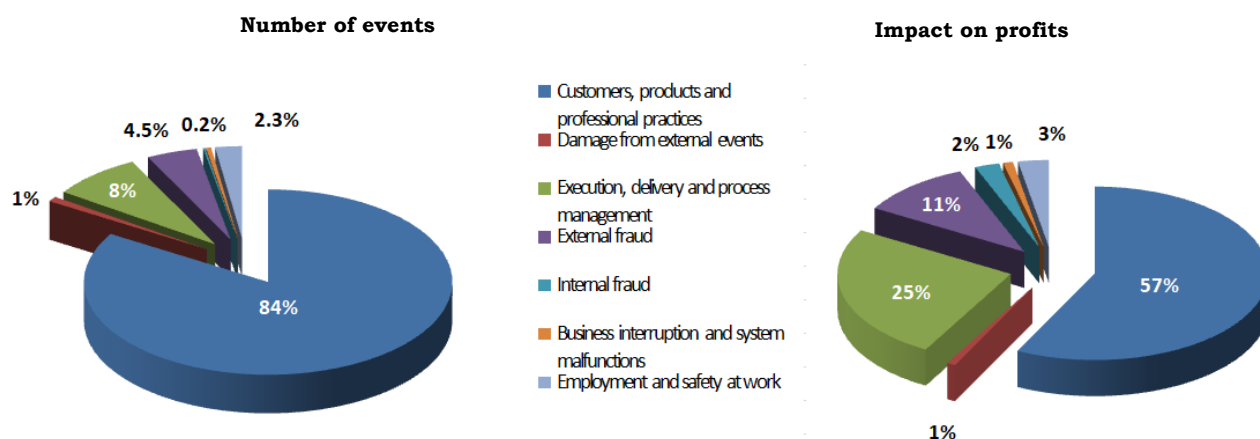
The types of event⁶⁴ which recorded the greatest concentration of operational losses during the period examined were “customers, products and professional practices” (84% of frequencies and

⁶⁴ 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;

57% of the total impacts detected), “execution, delivery and process management” (8% of frequencies and 25% of the total impacts detected) and “external fraud” (4.5% of frequencies and 11% of the total impacts detected).

Percentage of operational losses by type of event (detection 01/01/2014 – 31/12/ 2018)



Operational losses during the year were again concentrated on the following risk factors: “processes” (96.1% of frequencies and 81% of the total impacts detected) and “external causes” (3.4% of frequencies and 15.8% of the total impacts detected).

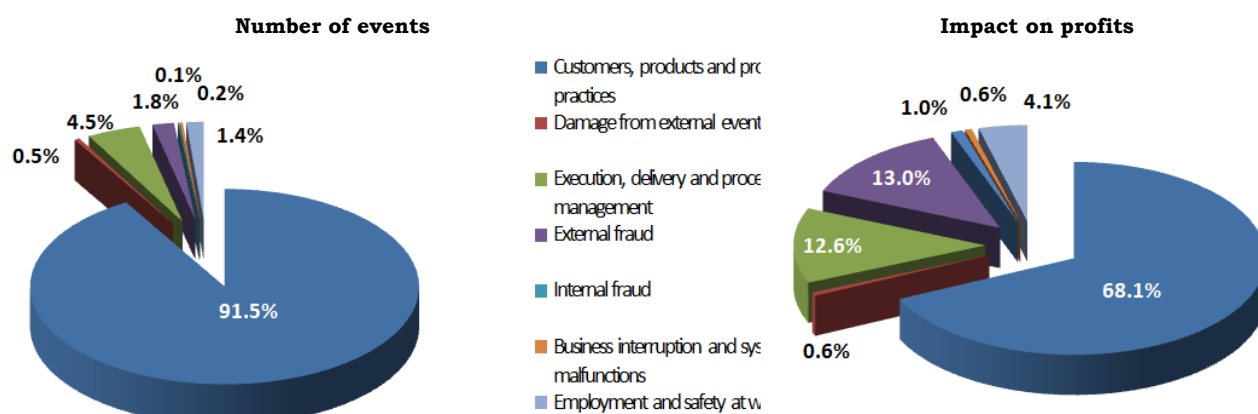
Percentage of operational losses by risk driver (detection 01/01/2018 – 31/12/ 2018)



Last year operational losses were concentrated mainly in the following types of event: “customers, products and professional practices” (91.5% of frequencies and 68.1% of the total impacts detected), “execution, delivery and process management” (4.5% of frequencies and 13% of the total impacts detected) and “external fraud” (1.8% of frequencies and 13% of the total impacts detected).

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 malfunctions 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 01/01/2018 – 31/12/ 2018)



Capital requirement

A provision issued by the Bank of Italy authorised the UBI Banca Group to use the advanced internal model (advanced measurement approach – AMA) in combined use with the standardised approach (TSA) and the basic indicator approach (BIA) from the supervisory report as at 30th June 2012. In 2017 the UBI Group completed the acquisition of Nuova Banca Marche, Nuova Banca Etruria and Nuova CariChieti,⁶⁵ thereby resulting in a combination of methodologies not envisaged by regulation EU No. 575/2013, which is to say the presence of three different methodologies (BIA, TSA and AMA). The Group therefore agreed with the supervisory authority to update the progressive roll-out of the internal AMA model to include the new areas of activity and procedures for calculating the relative capital requirements up to the completion of the validation process. In detail:

Advanced Measurement Approach (AMA): approach which covers the perimeter of the validated activities of the Parent, UBIS and IW Bank. For these banks, the measurement of operational risk is performed using an extreme value theory (EVT) approach, based on operational losses measured internally (loss data collection – LDC), empirical data acquired from outside the Group (IDOL - “Italian database of operational losses”) and potential losses evaluated using self risk assessment (SRA) scenarios. The first two information sources represent the quantitative component of the measurement model and furnish a historical view of the internal risk profile and of the Italian banking sector. On the other hand, the scenario analyses constitute a qualitative and quantitative information component, because they are derived from risk assessments provided as part of the internal self-risk assessment process, where the purpose is to provide a forward looking view of the internal risk profile, operational context factors and the system of internal controls.

The model developed follows the loss distribution approach and it involves estimating severity distributions for each class of risk on two distinct components: a generalised pareto distribution (GPD) for the tail and an empirical distribution for the body. The estimates of severity obtained on the tails are subsequently integrated with risk information evaluated by means of a self risk assessment (SRA) process and with those of the done in the banking sector as a whole (“Italian database of operational losses”). The probabilities of events occurring are described by using Poisson curves. The estimate of capital at risk is calculated to the 99.9th percentile of the annual loss curve resulting from a convolution between the curve of the probabilities of events occurring and the integrated severity curve. The consolidated capital requirement is calculated as the sum of the capital at risk estimated on each risk class. The robustness of the model and of the underlying assumptions is tested by employing a stress testing process, which provides an estimate of the impacts on measurements of expected loss and of VaR when particular stress conditions occur.

⁶⁵ Subsequently renamed Banca Adriatica, Banca Tirrenica and Banca Teatina respectively.

Traditional Standardised Approach (TSA): approach employed for the activities of Adriatica and Banca Tirrenica (merged into the Parent on 23rd October 2017 and 27th November 2017 respectively) and for the companies UBI Leasing, UBI Factor, Pramerica, Prestitalia and UBI International. The capital requirement for the TSA component is calculated as the average over the last three years of the basic indicator, divided into supervisory lines of business, weighted with specific regulatory coefficients defined in the supervisory regulations. As concerns those areas of activity originating from the former Banca Adriatica and the Banca Tirrenica, because these were merged into the Parent, calculation of the capital requirement is carried out by applying the percentage recorded for each bank for the period ended 31st December 2017⁶⁶ to the basic indicator for UBI Banca for the period ended 31st December 2018.

Basic Indicator Approach (BIA): approach employed for the activities of Banca Teatina and of the other banking, financial and service companies. The capital requirement for this component is calculated as the average over the last three years of the basic indicator, weighted with an “alpha” coefficient (15%) defined in the supervisory regulations. As concerns those areas of activity originating from the former Banca Teatina, because this was merged into the Parent, calculation of the capital requirement is carried out by applying the percentage recorded for the bank for the period ended 31st December 2017 to the basic indicator for UBI Banca for the period ended 31st December 2018⁶⁷.

The risk capital calculated on a consolidated basis for each risk class is allocated to the various legal entities on the basis of a summary indicator determined by the historical and future risk measured and by the amount of the capital requirement calculated using the standardised methodology.

The capital requirement - net of expected losses for which provisions for risks and charges had been made - was €350 million (-0.3% compared with €351 million in the previous half-year). This very small reduction was caused by a fall of €3.7 million in the estimates of the AMA component, which was caused in turn almost completely by an update of the self-risk assessment component. However, this fall was partly offset by an increase of €2.6 million in the TSA component as result of a rise in the average basic indicator over the last three years.

As a form of risk mitigation, the UBI Banca Group has taken out adequate insurance policies to cover the principal transferable operational risks with due account taken of the requirements of supervisory regulations. The UBI Banca Group has not taken up the option available under the regulations in force to deduct the effects of insurance policies and other risk transfer mechanisms from the capital requirement.

⁶⁶ This approximation was made necessary because the last value for the basic indicator calculated for the former Banca Adriatica and the former Banca Tirrenica was updated to 31st December 2017, in consideration of the respective mergers into the Parent carried out in October 2017 and November 2017 and will be applied until the validation process of the roll-out of advanced models (AMA) is completed.

⁶⁷ This approximation was made necessary because the last value for the basic indicator calculated for the Banca Teatina was updated to 31st December 2017, in consideration of its merger into the Parent carried out in February 2018 and will be applied until the validation process of the roll-out of advanced models (AMA) is completed.

SECTION 3 - Risks for insurance companies

3.1 Insurance risks

Qualitative information

As part of their internal control systems the life insurance company (BancAssurance Popolari Spa – BAP Vita) and the non-life insurance company (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 and subsequently with Regulation No. 38 of 3rd July 2018 on risk management and with Regulation No. 24 of 6th June 2016 concerning guidelines on investments and assets to cover technical reserves.

In 2018 the activities of the risk management function addressed the identification, measurement, monitoring and reporting of the most significant company risks, with the aim of continuously verifying that these are consistent with the target risk appetite.

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.

The risk identification methodology, with which it is possible to map, measure and classify all potential risks to which the insurance companies are exposed, is validated by the Risk Committee. It is based on a process which involves interaction across companies between the Risk Committee, the control functions and the various risk owners and in addition to quantitative elements it also involves a qualitative assessment. The objective is to consider all factors, both external and internal, that can be used to identify possible sources of current or future risk to which the companies may become exposed on the basis of strategic decisions taken.

As part of risk assessment, in compliance with the provisions of the European regulation Solvency II, appropriate measurements were carried out of the current and future capital requirement and of the assets in its possession using standard formulas. The risk profile is analysed on the basis of strategy, market scenarios and the development of business. This is conducted at least annually 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 strengthen the process to detect changes in risks. Stress tests are developed consistent with the nature, dimensions and complexity of the risks attaching to the company’s activities. In addition to these stress tests, specific stress tests required by the supervisory authority are also carried out periodically.

The risk management system includes a definition of situations which require an escalation process to be triggered with regard in particular to breaching the risk appetite or the operating limits which, according to the size of the infringement detected, necessarily involves reporting to and the timely involvement of the Risk Committee and/or the management bodies.

Finally, the risk reporting system involves the preparation of specific reports in relation to the information needs of the various recipients. The Risk Management Function is responsible for the preparation of reports to be submitted to management and supervisory bodies of the insurance companies (Board of Directors, Senior Management and the Risk Committee) and the Group regarding risk developments and monitoring of operational limits.

SECTION 4 - Risks for other companies

No significant risks are reported for the remaining companies included in the consolidation that are not part of the banking Group and are not insurance companies.

PART F – Information on consolidated equity

SECTION 1 – Consolidated equity¹

A. Qualitative information

Equity is defined by international financial reporting standards in a residual manner as “what remains of an entity’s assets after all the liabilities have been deducted”. The aggregate (the amounts of which are given in the tables that follow) is used to manage all the risks to which the Group is exposed, as specified below. The policies and processes employed in the management of equity concern the decisions made designed to define the size and optimum combination of the different capital instruments to ensure that the Group’s equity is consistent with the targets set for the Group’s risk appetite, in compliance with supervisory requirements. The following analysis metrics are used from the viewpoint of capital management to cover risks:

- *own funds*, defined as a measure of regulatory capital – specified in supervisory regulations – to be held to cover capital requirements (Pillar 1 risks);
- *Available Financial Resources* (AFR), or alternatively total capital, defined as the sum of capital items that the Group considers can be used to cover internal capital and total internal capital requirements for single types of risk² (other risks).

Capital adequacy management is designed to govern the current and future capital strength of the Group both by verifying compliance with the supervisory requirements of Pillar 1 and by continuously monitoring the adequacy of the total capital to meet “other risks” (Pillar 2). This activity regards above all an analysis of capital requirements in relation to budget and business plan objectives and it is carried out at both consolidated and single legal entity level. Furthermore, following recent regulatory developments (CRR and CRD), capital adequacy is measured increasingly more in relation to the ability of the bank to resist severe shocks generated by hypothetical stress events occurring under particularly adverse conditions. The stress tests are carried out as part of planning processes to support work to formulate budgets and/or business plans, as part of periodic risk monitoring, annually in relation to the ICAAP Report and in response to specific exercises or requests coming from the supervisory authority.

As the Parent, UBI Banca Spa performs supervision and co-ordination activities for the companies in the Group and, without prejudice to their business and articles of association independence, lays down appropriate policies for them. The Parent assesses capitalisation requirements in both the strict sense and also through the issue of subordinated liabilities by subsidiaries. The Senior Management of the Parent submits proposals to its governing bodies which decide accordingly. The proposals, once approved by the governing bodies of the Parent, are then submitted to the competent bodies of the subsidiaries. In compliance with regulatory constraints and internal objectives, the Parent analyses and co-ordinates capital requirements on the basis of the Budget and/or the Business Plan and the related risk profiles and it acts as a privileged counterparty in gaining access to capital markets applying an integrated approach to optimising capital strength.

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 at the beginning of 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the *Basel 3 framework*) into European Union regulations. The regulatory framework is completed with implementation measures contained in technical and implementation regulations (“*Regulatory Technical Standard*” – RTS and “*Implementing Technical Standard*” – ITS) adopted by the European Commission on the basis of a proposal by the European supervisory authorities. The CRR came into force directly in member countries, while

¹ Further information on equity is given in the section “Shareholders’ equity and capital adequacy” of the consolidated management report.

² “Total internal capital” is defined as internal capital required for all significant risks assumed by the bank, including possible internal capital requirements due to considerations of a strategic character. “Internal capital” is defined as risk capital, the capital requirement for a determined risk that the bank considers necessary to cover losses above a given expected level.

the provisions of CRD IV were implemented in national regulations by the Bank of Italy on 17th December 2013 with the publication of Circular No. 285 “*Regulations for the prudential supervision of banks*” (subsequently updated several times), which implemented 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*”). With specific reference to financial intermediaries, the registration on a single register in accordance with Circular No. 288 of 3/4/2015 entitled “*Supervisory Regulations for Financial Intermediaries*” was completed in 2016. This implemented the application of CRD IV in the national regulatory framework also for operators in the financial sector (pursuant to financial intermediaries Art. 107 or Art. 106 for those subject to consolidated banking supervision).

That framework introduced various changes to the current supervisory regulations as follows: a change in the composition of regulatory capital which privileges ordinary shares and retained earnings (common equity), in order to improve the quality; the adoption of more stringent criteria for the inclusion of other equity instruments in capital (the current innovative equity instruments and callable subordinated liabilities); greater standardisation of items to be deducted (with regard to some categories of deferred tax assets³ and to significant equity investments in banks and finance and insurance companies); the partial inclusion of non-controlling interests in common equity.

The introduction of Basel 3 rules is subject to a transitional (phased-in) regime during which the new rules will be applied to an increasing degree, generally over a five-year period of time (2014-2018), when they will reach full application. At the same time, capital instruments that no longer qualify are being gradually excluded from total capital for regulatory purposes by 2021. We therefore report in particular that the rules relating to the inclusion of capital items in own funds subject to the transitional treatment until 31st December 2017 will apply fully from 1st January 2018 (amongst others these include the shortfall on IRB positions, which is to say negative amounts resulting from the calculation of expected losses, DTAs on future profits, minority interests and valuation reserves).

Furthermore, the financial reporting standard IFRS 9 “Financial Instruments” replaces the provisions of IAS 39 “Financial Instruments: Recognition and Measurement” as from 1st January 2018. IFRS 9 was published by the IASB on 24th July 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union of Regulation (EU) No. 2016/2067 of 22nd November 2016. More specifically, with regard to the impacts on regulatory own funds, the Group has opted for adhesion to the transitional regime provided for by Regulation EU 2017/2395, which amends Regulation 575/2013 (“CRR”). These measures allow the negative impacts of the adoption of the standard in question to be applied gradually, with the benefit allowed on the basis of decreasing quotas over a five-year period (95% in the 2018, 85% in the 2019, 70% in the 2020, 50% in the 2021, 25% in 2022).

³ Deferred tax assets that depend on future profitability and arise from temporary differences (except for those transformed or which may be transformed into tax credits).

B. Quantitative information

Please refer to the information given in Part B of these Notes to the financial statements in Liabilities Section 15 – Equity attributable to the Parent.

B.1 Consolidated equity by type of company

Equity items	Prudential consolidation	Insurance companies	Other corporates	Consolidation eliminations and adjustments	31.12.2018
1. Share capital	4,040,569	66,581	11,084	(1,265,663)	2,852,571
2. Share premiums	3,313,238	-	38	(18,572)	3,294,704
3. Reserves	2,572,072	51,016	46	315,934	2,939,068
4. Equity instruments	-	500	-	(500)	-
5. (Treasury shares)	(25,074)	-	-	-	(25,074)
a) Parent	(25,074)	-	-	-	(25,074)
b) subsidiaries	-	-	-	-	-
6. Valuation reserves:	(312,747)	973	-	13,075	(298,699)
- Equity securities designated as at fair value through other comprehensive income	(16,738)	-	-	-	(16,738)
- Hedges of equity securities designated as at fair value other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(231,742)	(937)	-	-	(232,679)
- Property, plant and equipment	17,789	-	-	12,774	30,563
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	(22)	-	-	-	(22)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Foreign currency differences	-	-	-	-	-
- Non-current assets and disposal groups held for sale	(243)	-	-	-	(243)
- Financial liabilities designated as at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(110,876)	-	-	(115)	(110,991)
- Share of fair value reserves of equity accounted investees	-	1,910	-	-	1,910
- Special revaluation laws	29,085	-	-	416	29,501
7. Profit (loss) for the year attributable to the Parent and to minority interests	512,846	24,570	(1,241)	(84,673)	451,502
Total	10,100,904	143,640	9,927	(1,040,399)	9,214,072

For greater clarity and comprehension of the amounts relating to consolidated equity by type of company, we have included the following reconciliation between total equity and minority interests and the equity attributable to the Parent.

Reconciliation schedule	Group	Minority interests	Total
Share capital	2,843,177	9,394	2,852,571
Share premiums	3,294,604	100	3,294,704
Reserves	2,923,589	15,479	2,939,068
Equity instruments	-	-	-
(Treasury shares)	(25,074)	-	(25,074)
Valuation reserves	(298,616)	(83)	(298,699)
Profit (loss) for the year (+/-) attributable to the Parent and to minority interests	425,608	25,894	451,502
Equity	9,163,288	50,784	9,214,072

B.2 Fair value reserves of financial assets measured at fair value through other comprehensive income: composition

Assets/amounts	Prudential consolidation		Insurance companies		Other corporates		Consolidation eliminations and adjustments		Total 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	3,709	(235,451)	3,112	(2,294)	-	-	-	-	6,821	(237,745)
2. Equity securities	1,506	(18,244)	173	(18)	-	-	-	-	1,679	(18,262)
4. Financing	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2018	5,215	(253,695)	3,285	(2,312)	-	-	-	-	8,500	(256,007)
Total as at 2017 restated	20,154	(29,563)	112,275	(106,868)	-	-	(110,616)	106,807	21,813	(29,624)

B.3 Fair value reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Debt securities	Equity securities	Financing
1. Opening balances	31,725	(14,550)	-
2. Positive changes	88,886	10,273	-
2.1 Increases in fair value	74,109	8,088	-
2.2 Impairment losses for credit risk	1,881	X	-
2.3 Transfer to the income statement of negative reserves from disposal	12,770	X	-
2.4 Transfers to other equity items (equity securities)	-	491	-
2.5 Other changes	126	1,694	-
3. Negative changes	(351,535)	(12,306)	-
3.1 Decrease in fair value	(323,588)	(9,564)	-
3.2 Impairment losses for credit risk	(3,494)	-	-
2.2 Transfer to income statement of positive reserves: from disposal	(20,568)	X	-
3.4 Transfers to other equity items (equity securities)	-	-	-
3.4 Other changes	(3,885)	(2,742)	-
4. Closing balances	(230,924)	(16,583)	-

B.4 Valuation reserves for defined benefit plans: annual changes

	Total 31.12.2018
1. Opening balances 01.01.2018	(112,537)
2. Positive changes	2,427
Other changes	2,427
3. Negative changes	(881)
Other changes	(881)
4. Closing balances 31.12.2018	(110,991)

SECTION 2 – Own funds and capital ratios for banks

Reference is made to information on own funds and capital adequacy reported in the Pillar 3 disclosures.

Part G – Business combination transactions concerning companies or lines of business

SECTION 1 – Business combinations performed during the year

No business combinations were recorded in 2018 which led to the acquisition of control within the meaning of IFRS 3. “Under common control” transactions were performed to streamline the corporate ownership structure which had no impact on the consolidated financial statements. These transactions are recognised, in compliance with UBI Group practice for the recognition of these types of transaction, on the basis of the principle of continuity in the amounts and they regarded:

- the merger of Banca Teatina Spa into UBI Banca Spa;
- the merger of Etruria Informatica Srl into UBI Sistemi e Servizi Scpa.

Further details are given in section “The consolidation scope” of the Consolidated Management Report.

SECTION 2 - Transactions performed after the end of the year

No business combinations were performed after the end of the year.

SECTION 3 - Retrospective adjustments

No retrospective adjustments to report for the UBI Banca Group.

PART H – Transactions with related parties

1. Information on the remuneration of key management personnel

Information is provided in the notes to the separate company financial statements of UBI Banca Spa in Part H – Related-Party Transactions.

2. Information on transactions with related parties

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 other 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 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 year included those to implement the policy to centralise activities in the governance and business areas of the Parent, which involve the Parent and all the main Group companies, 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 intragroup contracts which implement the centralisation in UBI Sistemi e Servizi of support activities for the principal companies in the UBI 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 minority shareholders.

Further information is given in the "Report on corporate governance and the ownership structure of UBI Banca Spa" (Section 12 – Related and Connected Parties Committee) contained in an attachment to this document.

Principal transactions with related parties in the balance sheet

	Financial assets designated as at fair value through profit or loss			Financial assets designated as at fair value through other comprehensive income	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted
	Financial assets held for trading	Financial assets designated as at fair value	Other financial assets mandatorily measured at fair value		Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued		
Figures in thousands of euro											
Associates	-	-	26,661	-	-	98,273	-	93,621	-	-	50
Senior managers (1)	-	-	-	-	-	3,676	-	11,398	566	-	-
Other related parties	-	-	-	-	-	52,019	-	183,091	2,182	-	108,965
Total	-	-	26,661	-	-	153,968	-	288,110	2,748	-	109,015

(1) A "senior manager" is defined as "a manager with key management responsibilities of the entity or of its parent, where a manager with key management responsibility is defined as 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

	Financial assets designated as at fair value through profit or loss			Financial assets designated as at fair value through other comprehensive income	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted
	Financial assets held for trading	Financial assets designated as at fair value	Other financial assets mandatorily measured at fair value		Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued		
Figures in thousands of euro											
With related-parties (a)	-	-	26,661	-	-	153,968	-	288,110	2,748	-	109,015
Total (b)	405,716	11,028	1,046,785	10,726,179	10,065,881	92,732,706	17,234,579	68,421,387	23,789,698	410,977	5,903,847
Percentage (a/b*100)	0.000%	0.000%	2.547%	0.000%	0.000%	0.166%	0.000%	0.421%	0.012%	0.000%	1.847%

Principal transactions with related parties in the income statement

	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
Figures in thousands of euro						
Associates	250	-	177,391	(10)	1,097	(2,579)
Senior managers (1)	16	-	212	(14,297)	2	(81)
Other related parties	1,377	-	2,974	(524)	25	(11,913)
Total	1,643	-	180,577	(14,831)	1,124	(14,573)

(1) A "senior manager" is defined as "a manager with key management responsibilities of the entity or of its parent, where a manager with key management responsibility is defined as 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)	1,643	-	180,577	(14,831)	1,124	(14,573)
Total (b)	1,873,285	24,779	1,580,917	(1,545,909)	293,471	(1,024,648)
Percentage (a/b*100)	0.088%	0.000%	11.422%	0.959%	0.383%	1.422%

Principal balance sheet items with associate companies subject to significant influence

Figures in thousands of euro	Other financial assets mandatorily measured at fair value	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted	Commitments
		Loans and advances to customers	Due to banks	Due to customers	Debt securities issued			
Aviva Vita Spa	-	64,137	-	79,777	-	-	-	-
Lombarda Vita Spa	-	33,108	-	7,083	-	-	-	25,000
Polis Fondi SGR Spa	26,661	2	-	606	-	-	-	-
SF Consulting Srl	-	1,026	-	6,144	-	-	-	750
UFI Servizi Srl	-	-	-	-	-	-	-	-
Montefeltro Sviluppo	-	-	-	11	-	-	50	-
Total	-	26,661	98,273	93,621	-	-	50	25,750

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	249	-	115,257	(10)	14	-
Lombarda Vita Spa	-	-	61,315	-	1,037	(2,569)
Polis Fondi SGR Spa	-	-	1	-	-	-
SF Consulting Srl	1	-	817	-	46	(10)
UFI Servizi Srl	-	-	-	-	-	-
Montefeltro Sviluppo	-	-	1	-	-	-
Total	250	-	177,391	(10)	1,097	(2,579)

Part I – Share-based payments

A. Qualitative information

1. Description of payment agreements based on own balance sheet instruments

In implementation of Supervisory Regulations for Banks, since 2011 a Shareholders' Meeting of UBI Banca has approved the payment of a portion of bonuses earned under short- and long-term incentive schemes in the form of financial instruments and more specifically in ordinary shares of UBI Banca, for staff included in the "Identified Staff" perimeter, except for board members.

The incentive schemes described from time to time in the Remuneration Report are subject to trigger conditions ("entry gates") set at Group level defined in the document "UBI Banca Group RAF - Risk appetite - 2018 Risk Appetite Statement". More specifically the indicators identified for 2018 are as follows:

- Common Equity Tier 1 Ratio ("CET 1") > 11%;
- Net Stable Funding Ratio ("NSFR") ≥ 100%;
- Liquidity Coverage ratio ("LCR") ≥ 120%;
- Leverage Ratio ("LR") > 3.75%.

The indicators are verified at the end of the relative measurement period, as at 31/12 of each year for the short-term incentive scheme and at the end of the reference period for long-term incentive schemes, consistent with the "Risk Appetite Framework".

Short-term incentive scheme

The budgeted amount ("bonus pool") at the service of incentives schemes may be increased, without prejudice to the correct remuneration of capital and liquidity, up to a predetermined maximum, or reduced as far as zero ("malus"), both at the overall level and at the level of each legal entity, in accordance with pre-established limits on the basis of the performance in relation to the budget approved each year by the Management and Supervisory Boards, calculated at Group level using RORAC and at the level of the individual legal entity using "normalised net profit adjusted for the 'delta cost' between allocated and absorbed capital"¹. If the available budget allocation is overrun, criteria have been set for the bonuses to be redistributed, down to the level of the budget allocated.

In line with the principles laid down in the legislation and regulations, the structure of the bonus payout for "Identified Staff" involves the following²:

- 50% of the bonus is converted into ordinary shares of UBI Banca, subject to retention clauses that align the incentives with the Bank's long-term interests;
- 50%/40% of the bonus is deferred for three years (for the Chief Executive Officer of UBI Banca 60% is deferred for five years from 2015³).

As a consequence of the above, the first portion of share-based bonuses should be assigned in the third year following the year of the scheme, while the second portion should be assigned in the fifth year following the year of the scheme, except for the Chief Executive Officer for whom, the second portion will be paid in the seventh year following the year of the scheme.

In order to ensure capital and liquidity stability over time, consistent with long-term strategic objectives, the deferred portion is paid on condition that adequate levels of capital stability (Common Equity Tier 1 Ratio) and liquidity stability (Net Stable Funding Ratio) are maintained at the end of the relative period, consistent with the "Risk Appetite Framework" defined in internal

¹ For the asset management company with a low capital absorption and the insurance companies, the indicator used is normalised net profit.

² For the 2015 incentive scheme, for those staff belonging to the "Other Identified Staff" the payment rules involve the deferral of 30% of the bonus for two years, excluding the use of the financial instruments.

³ Except for 2017, for which the deferral is three years in consideration of the reduction of the short-term variable component, due to the effect of the start of the new 2017-2019/20 long-term incentive scheme.

policies. The deferred portion of the bonus shall be reduced to zero if these conditions are not met (a “malus”).

From 2015, if the bonus earned is below €50,000 gross and if the bonus earned individually is less than 15% of fixed remuneration, the payment is made entirely upfront, 50% being paid in cash at the time when the conditions are met and the remaining 50% as ordinary shares of UBI Banca with a two-year retention period⁴. In previous years the treatment just described was applied but did not consider the percentage of the remuneration. It only considered whether the bonus earned was lower than €50,000.

Long-term incentive schemes

A new long-term incentive scheme for the period 2017-2019/2020 was introduced in 2017 to support the Business Plan with the objective of bringing the interests of management into line with those of stakeholders, not only in the short term, but with a view to creating long-term value.

This scheme is intended, amongst other things, to make remuneration target levels more competitive, attributing greater value to the variable component and directing the pay mix towards performance, amongst other things by encouraging the loyalty of key personnel.

The beneficiaries of this plan are “Identified Staff”, with the exception of Directors and Financial Advisors not bound by ordinary employee contracts, Control Functions and certain specific positions, taking account of the related pay mix and levels of responsibility.

In 2018, newly named members of “Identified Staff” were also involved, with the exceptions mentioned above.

The bonuses are paid in UBI shares (performance shares), which are considered the most appropriate instruments for aligning the interests of stakeholders with those of management.

While the preliminary trigger conditions (“entry gates”) remain in place, specific value creation objectives are set for each scheme, reported in the Remuneration Report, which may be consulted for further details.

The structure of the bonus payout provides for the following payments:

- 60% is paid up-front in shares at the end of the performance measurement period (accrual), with a two-year retention period;
- 40% is paid in shares, deferred by two years and with a one-year retention period. This quota is accrued before the end of the deferral period, but subject to a further year of retention to verify that the conditions for the payment effectively exist.

In order to ensure capital and liquidity stability over time, consistent with long-term strategic objectives, the deferred portion is paid on condition that adequate levels of capital stability (Common Equity Tier 1 Ratio) and liquidity stability (Net Stable Funding Ratio) are maintained at the end of the relative period, consistent with the “Risk Appetite Framework” defined in internal policies. The deferred portion of the bonus shall be reduced to zero if these conditions are not met (a “malus”).

⁴ In consideration of the specific markets involved and the composition of the current remuneration package, for asset management positions, payment is made up front in cash if the individual bonus earned is less than €80,000, and for financial advisors of IWBanck, payment is made up front in cash if it is less than €50,000 and less than 33% of recurring remuneration.

The timetable for the grant of portions of bonuses to be paid in financial instruments in relation to incentive schemes

For the above, the timetable for portions of bonus payments made in financial instruments is as follows:

- in 2018 the second portion of the shares relating to bonuses earned for the 2013 short-term incentive scheme and the first portion of the shares relating to the 2015 short-term incentive scheme was granted;
- in 2019 the second portion of shares relating to bonuses earned for the 2014 short-term incentive scheme and the first portion of the shares relating to bonuses earned for the 2016 short-term incentive scheme will be granted;
- in 2020 the second portion of the shares relating to bonuses earned for the 2015 short-term incentive scheme and the first portion of the shares relating to the 2017 short-term incentive scheme will be granted;
- in 2021 the second portion of the shares relating to bonuses earned for the 2016 short-term incentive scheme and the first portion of the shares relating to the 2018 short-term incentive scheme will be granted;
- in 2022 the second portion of the shares relating to bonuses earned by the Chief Executive Officer for the 2015 short-term incentive scheme, the second portion of shares relating to bonuses earned for the 2017 short-term incentive scheme and the first portion of shares relating to bonuses earned for the 2017-2019 long-term incentive schemes will be granted;
- in 2023 the second portion of the shares relating to bonuses earned for the 2018 short-term incentive scheme, the second portion of shares relating to bonuses earned for the 2017-2019 long-term incentive scheme and the first portion of shares relating to bonuses earned for the 2017-2020 long-term incentive scheme will be granted;
- in 2024 the second portion of shares relating to bonuses earned for the 2017-2020 long-term incentive schemes will be granted;
- in 2025 the second portion of the shares relating to bonuses earned by the Chief Executive Officer for the 2018 short-term incentive scheme will be granted.

2. Quantitative information

Short- and long term incentive schemes

According to IFRS 2 “share-based payments”, the schemes in question constitute an “equity settled” operation where payment is based on shares and made using equity instruments. On this basis, because the objective of IFRS 2 is to recognise the impact on profit and loss of the remuneration paid by means of equity instruments in the income statement in the form of personnel expense, UBI Banca and the subsidiaries involved in the schemes recognised the cost for the year within the item 150a “Administrative expenses: personnel expense” against an increase in equity made by posting the amount to a separate reserve in equity because the obligation of the company will be extinguished by the delivery of equity instruments and that obligation will be settled in any event by the Parent.

As concerns in particular the quantification of the cost of the schemes, since it is impossible to measure the value of the services provided to employees with precision, in compliance with IFRS 2, it is calculated on the basis of the fair value of the UBI share on the grant date multiplied by the number of shares that it is estimated will be vested.

More specifically, the fair value of the equity instruments granted is calculated with account taken of the circumstance that the grant of the instruments will take place over a period starting in 2018 and continuing until 2025. Those estimates are based on the market price of the shares, less the present value of dividends distributable by the UBI Group in the period immediately prior to the grant of the shares, and, in general they adequately weight the terms and conditions governing the grant of the instruments.

The total estimated cost of the short-term incentive schemes for shares that will be granted from 2018 is €6,744 thousand, and is composed as follows:

- up-front portions as follows:
 - 128,042 shares granted in the 2018, equivalent to €898 thousand;
 - 71,327 shares to be granted in 2019, equivalent to €205 thousand;
 - 283,406 shares to be granted in 2020, equivalent to €766 thousand;
 - 639,917 shares to be granted in 2021, equivalent to €2,087 thousand.
- deferred portions (if the conditions to which the deferment is subject are met) as follows:
 - 12,989 shares granted in the 2018, equivalent to €56 thousand;
 - 86,457 shares to be granted in 2019, equivalent to €451 thousand;
 - 70,485 shares to be granted in 2020, equivalent to €467 thousand;
 - 12,087 shares to be granted in 2021, equivalent to €31 thousand;
 - 121,230 shares to be granted in 2022, equivalent to €363 thousand;
 - 411,517 shares to be granted in 2023, equivalent to €1,216 thousand;
 - 75,412 shares to be granted in 2025, equivalent to €204 thousand.

In accordance with the vesting conditions hypothesised, the cost of the scheme is spread over the whole of its vesting period, with the portion for the year recognised in the income statement, which for the reporting year amounted to €1,489 thousand. Furthermore, any change in the cost will only occur if the vesting requirements are not met and the shares are not delivered as a consequence, either because the result conditions set by the plan are not satisfied or the person is no longer employed and not also as a result of changes in the fair value of UBI shares.

The total estimated cost of the long-term incentive scheme introduced in 2017 is €11,466 thousand and it is distributed throughout the whole of the vesting period set for it with recognition in the income statement of the portion for the year, which for the current year amounts to €1,862 thousand, composed as follows:

- 1,283,442 shares to be granted in 2022, equivalent to €3,643 thousand;
- 2,139,070 shares to be granted in 2023, equivalent to €5,688 thousand;
- 855,628 shares to be granted in 2024, equivalent to €2,135 thousand.

Remuneration to be agreed in the event of the early termination of an employment relationship

For one member of staff belonging to the “Identified Staff” perimeter with an employee contract working in a network bank of the Group, on leaving the position occupied and consequently ending the employment relationship as a result of the merger of the network banks into UBI Banca which occurred in February 2017, it was decided to grant the person an amount equal to 6 months salary in UBI Banca shares in application of the provisions of the job security agreement in place and in compliance with Supervisory Regulations in force on the matter.

A provision was made for the total cost in 2016 and involves the grant of:

- 33,959 shares to be granted upfront in 2019, equivalent to €97 thousand;
- 33,959 shares deferred to be granted in 2021, equivalent to €86 thousand.

For one member of staff belonging to the “Identified Staff” category, as a result of early termination of the employment relationship which took place in 2018 it was decided to grant the person an amount equal to 6 months salary in UBI Banca shares, in application of the criteria and limits decided by the 2018 Annual General Meeting and in compliance with the supervisory regulations in force on the matter.

A provision was made for the total cost in 2018 and involves the grant of:

- 32,588 shares to be granted up-front in 2021, equivalent to €106 thousand;
- 2,588 deferred shares to be granted in 2023, equivalent to €92 thousand.

Part L – Segment Reporting

The merger of the New Banks was concluded during the year with that of Banca Teatina into UBI Banca, with effect for accounting and tax purposes from 1st January 2018. The UBI Banca Group did not modify its operating segments (pursuant to IFRS 8) for the purposes of the consolidated financial statements: banking, non-banking financial (consisting of the Group's product companies), corporate centre and insurance. The banking segment comprises the banking line of business consisting as at 31st December 2018 of UBI Banca Spa, inclusive of the former Banca Teatina Spa, in addition to IW Bank Spa.

The non-banking financial segment mainly comprises UBI Leasing Spa, UBI Factor Spa, Pramerica SGR Spa and Prestitalia Spa.

The insurance segment comprises Bancassurance Popolari Spa and Bancassurance Popolari Danni Spa, in addition to Lombarda Vita Spa and Aviva Vita Spa, with the latter consolidated using the equity method.

The corporate centre segment comprises UBI Banca Spa (net of its banking business, as specified above), UBI Sistemi e Servizi Scpa, BPB Immobiliare Srl, Kedomus Srl, UBI Academy Srl, Oro Italia Trading Spa in liquidation, Focus Impresa and Assieme Srl in liquidation.

That segment also includes all the consolidation entries with the exception of entries relating to the purchase price allocation and those relating to goodwill, allocated to the individual sectors to which they belong

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 31st December 2018.

Distribution by operating segment: income statement

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + intercompany + consolidation entries except for PPA)	Total 2018
Net interest income	1,135,558	239,109	45,405	453,213	1,873,285
Net fee and commission income	1,574,116	143,221	(990)	(135,430)	1,580,917
Net income from trading, hedging and disposal/repurchase of assets/liabilities designated at fair value through profit or loss	40,609	-	9,219	(46,013)	3,815
Dividends	-	86	1,848	22,845	24,779
Gross income	2,750,284	382,416	55,482	294,614	3,482,796
Net impairment losses for credit risk	(448,548)	(194,243)	(32)	4,546	(638,277)
Profits (losses) from contractual modifications without derecognition	-	140	-	(37,523)	(37,383)
Net financial income (loss)	2,301,736	188,313	55,450	261,637	2,807,136
Net income from insurance operations	-	-	(37,608)	15,288	(22,320)
Net income from banking and insurance operations	2,301,736	188,313	17,842	276,925	2,784,816
Administrative expenses	(2,051,872)	(136,458)	(7,734)	(374,493)	(2,570,557)
Net provisions for risks and charges	39,410	(20,206)	-	228	19,432
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(347)	(5,003)	(729)	(160,368)	(166,447)
Other net operating income/expense	281,084	16,888	187	(4,688)	293,471
Operating expenses	(1,731,725)	(144,779)	(8,276)	(539,321)	(2,424,101)
Profits (losses) of equity investments	-	-	(483)	25,085	24,602
Profits (losses) on disposal of investments	-	(97)	-	5,441	5,344
Pre-tax profit (loss) from continuing operations	570,011	43,437	9,083	(231,870)	390,661
Taxes on income for the year from continuing operations	(184,660)	(15,340)	(2,266)	263,107	60,841
Profit (loss) for the year attributable to minority interests	-	(25,614)	-	(280)	(25,894)
Profit (loss) for the year	385,351	2,483	6,817	30,957	425,608

Net fee and commission income of the Group is attributable almost entirely to the banking segment (over 99%) and more specifically it relates to the following activities: (i) placement of securities, (ii) distribution of third party services, (iii) collection and payment services and (iv) current account administration. The non-financial segment also earns fees and commissions, but to a lesser extent, relating to portfolio management and the placement of securities, which is mainly intragroup business with the preceding banking segment. Further details are given in the tables reported in Parte C, Section 2 "Fees and commissions".

Other operating income and expense consists almost totally of income (€361.2 million) relating primarily to the banking segment (91% approx.) and more specifically it consists of (i) recovery of taxes, (ii) fast credit processing fees and (iii) charging third parties for deposit and current account

expenses. Income earned by the non-banking financial segment, which is markedly less, relates to expense recoveries on lease contracts and tax recoveries. See the table "16.2 Other operating income: composition" reported in Part C Section 16 "Other net operating income and expenses" for further details.

It is underlined that the impact resulting from the changes made by Law No. 145 of 30th December 2018 (the 2019 budget law) to the deductibility rules for the IFRS 9 First Time Adoption (FTA) reserve for expected losses recognised on loans and advances to customers is reported in the corporate centre segment since it is a non-recurring item.

Distribution by operating segment: balance sheet

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + intercompany + consolidation entries except for PPA)	Total 31.12.2018
Financial assets measured at amortised cost - loans and advances to banks	-	-	7,894	3,137,788	3,145,682
Financial liabilities measured at amortised cost - due to banks	-	10,314,380	-	-	10,314,380
Other net financial assets	288,316	28,412	1,966,151	9,346,431	11,629,310
Financial assets measured at amortised cost - loans and advances to customers	78,480,837	10,508,077	1,046	3,742,746	92,732,706
Financial liabilities measured at amortised cost - due to customers	68,030,905	175,157	-	215,325	68,421,387
Financial liabilities measured at amortised cost - debt securities issued	20,053,023	50,025	10,020	3,676,630	23,789,698
Technical reserves	-	-	1,877,449	-	1,877,449
Equity-accounted investees	-	44	220,963	33,121	254,128
Minority interests (+/-)	23	36,506	-	14,256	50,784

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + intercompany + consolidation entries except for PPA)	Total 31.12.2017 restated
Financial assets measured at amortised cost - loans and advances to banks	-	-	20,072	1,513,572	1,533,644
Financial liabilities measured at amortised cost - due to banks	-	10,445,518	-	-	10,445,518
Other net financial assets	-	24,106	1,873,004	12,137,666	14,034,776
Financial assets measured at amortised cost - loans and advances to customers	81,549,871	10,787,702	510	2,489,660	94,827,743
Financial liabilities measured at amortised cost - due to customers	68,227,951	206,876	-	-	68,434,827
Financial liabilities measured at amortised cost - debt securities issued	21,629,132	110,081	10,020	4,265,710	26,014,943
Technical reserves	-	-	1,780,701	-	1,780,701
Equity-accounted investees	-	35	214,139	28,991	243,165
Minority interests (+/-)	35	55,617	9,415	14,621	79,688

The items "Financial assets measured at amortised cost - Loans and advances to banks" and "Financial liabilities measured at amortised cost - Due to banks" have been stated in the four segments on the basis of the prevailing balance and as at the 31st December 2018 showed an overall net interbank balance of -€7,169 million.

The items "Financial assets measured at amortised cost - Loans and advances to banks" and "Financial liabilities measured at amortised cost - Due to banks" relating to the banking segment have been included, together with the relative consolidation entries, in the corporate centre segment.

The item "Financial assets measured at amortised cost - Loans and advances to customers" includes securities measured at amortised cost attributed to the corporate centre segment, along the same lines as other financial assets.

The item "Net financial assets" includes loans and receivables mandatorily measured at fair value (i.e. loans and receivables that have failed the SPPI test set by IFRS 9) and have been attributed to the banking segment along the same lines as other loans and receivables.

The item "Minority interests" in the "banking" and "non-banking financial" segments is the only portion of equity and of the profit for the period of the companies not wholly owned. It does not include minority interests and the part of consolidated items attributable to minority interests which have been attributed to the "corporate centre".

Absolute amounts are reported for liability items.

Disclosures concerning the fees of the independent auditors and services other than auditing in compliance with Art. 149 *duodecies* of Consob Issuers' Regulations

Information pursuant to letters a), b) and c) of Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17th December 2013

Attachments to the Consolidated Financial Statements

Disclosures concerning the fees of the independent auditors and services other than auditing in compliance with Art. 149 duodecies of Consob Issuers' Regulations

In accordance with Art. 149 *duodecies* of Consob Issuers' Regulations, information concerning payments made to the independent auditors Deloitte & Touche Spa and companies belonging to the same network for the following services is given in the table below.

1) Auditing services which include:

- audit of the annual accounts for the purposes of expressing a professional opinion;
- review of the interim accounts.

2) Certification services which include appointments where the auditor assesses a specific element, the determination of which is performed by another who is responsible for it, by employing appropriate criteria in order to furnish a conclusion which gives the recipient a measure of the reliability of that specific element.

3) Tax consultancy services.

4) Other services.

The fees presented in the table relating to the financial year 2018, are those contractually agreed, inclusive of any indexing (but not of out-of-pocket expenses, nor of supervisory authority contributions and VAT).

Type of service	Firm that provided the service	Recipient of the service	Fees
Figures in thousands of euro			
Audit services	Deloitte & Touche Spa, Deloitte S.L., Deloitte GmbH, Deloitte Audit Sarl, Deloitte Polska Sp.K	(*)	4,189
Certification services	Deloitte & Touche Spa	(**)	614
Other services			-
Total			4,803

(*) UBI Banca Spa, BPB Immobiliare Srl, Centrobanca Sviluppo Impresa Spa, Kedomus Srl, UBI Academy Scrl, UBI Factor Spa, UBI Leasing Spa, Pramerica Management Company Sa, Pramerica SGR Spa, UBI Sistemi e Servizi Scpa, UBI Trustee Sa, UBI Banca International Sa, UBI Finance Srl, UBI Finance CB 2 Srl, UBI SPV Group 2016 Srl, UBI SPV LEASE Srl, 24-7 Finance Srl, Bancassurance Popolare Spa, Bancassurance Popolare Danni Spa, Prestitalia Spa, IW Private Investment Bank Spa, Mecenate SPV Srl, Marche Mutui 2 Srl, Marche M6 Srl, Oro Trading Italia Srl..

(**) UBI Banca Spa, UBI Leasing Spa, Pramerica SGR Spa, Centrobanca Sviluppo e Impresa Spa, UBI Factor Spa, Prestitalia Spa, IW Private Investment Bank Spa, UBI Sistemi e Servizi Scpa, Oro Italia Trading Srl, Mecenate SPV Srl.

Information pursuant to letters a), b) and c) of Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17th December 2013

Situation as at 31st December 2018

	Italy	France	Luxembourg	Spain	Germany	Poland	
Banks							
UBI Banca Spa (Parent)	x	x					Deposit-taking and lending through a branch network, trading on behalf of others, receipt and transmission of orders, placement of financial instruments, payments and settlements, custody and administration.
IW Bank Spa	x						Deposit-taking and lending through a branch network and a network of financial advisors, trading on behalf of others, receipt and transmission of orders, placement of financial instruments, payments and settlements, custody and administration.
Banca Teatina Spa *	x						Deposit-taking and lending through a branch network, trading on behalf of others, receipt and transmission of orders, placement of financial instruments, payments and settlements, custody and administration.
Financial companies							
UBI Factor Spa	x				x		Factoring business
UBI Leasing Spa	x						Leasing business
Prestitalia Spa	x						Salary-backed and deducted-from-salary lending
UBI Finance Srl	x						Covered bond collateral pursuant to Law No. 130/1999
UBI Finance CB 2 Srl	x						Covered bond collateral pursuant to Law No. 130/1999
24/7 Finance Srl	x						Securitisation of loans pursuant to Law No. 130/1999
UBI Finance 2 Srl in liquidation	x						Securitisation of loans pursuant to Law No. 130/1999
UBI SPV BBS 2012 Srl in liquidation	x						Securitisation of loans pursuant to Law No. 130/1999
UBI SPV BPA 2012 Srl in liquidation	x						Securitisation of loans pursuant to Law No. 130/1999
UBI SPV BPCI 2012 Srl in liquidation	x						Securitisation of loans pursuant to Law No. 130/1999
UBI SPV GROUP 2016 Srl	x						Securitisation of loans pursuant to Law No. 130/1999
UBI SPV LEASE 2016 Srl	x						Securitisation of loans pursuant to Law No. 130/1999
Mecenat SPV Srl	x						Securitisation of loans pursuant to Law No. 130/1999
Marche Mutui 2 SPV Srl	x						Securitisation of loans pursuant to Law No. 130/1999
Marche Mutui 6 SPV Srl	x						Securitisation of loans pursuant to Law No. 130/1999
Asset management and trust companies							
Pramerica SGR Spa	x						Management of open-ended mutual investment funds
Pramerica Management Company SA			x				Asset management advisory service
UBI Trustee SA			x				Trustee activities
Other companies							
UBI Sistemi e Servizi Scpa	x						Provision of the following: IT services, property management and purchasing, back office and logistics services to support the Group's activities
BPB Immobiliare Srl	x						Sale, purchase and management of the Group's operating properties
UBI Academy Srl	x						Staff training services
KEDOMUS Srl	x						Sale and purchase of real estate properties not used in the Group's operations
Centrobanca Sviluppo Impresa Spa	x						Acquisition and holding of equity investments
Oro Italy Trading Srl in liquidation	x						Wholesale trading in gold and jewellery
Etruria Informatica Srl **	x						Provision of the following: IT services, property management and purchasing, back office and logistics services to support the Group's activities
Assieme Srl in liquidation	x						Insurance brokerage
Focus Impresa	x						Investment fund
Bancassurance Popolari Spa	x						Provision of life insurance services
Bancassurance Popolari Danni Spa	x						Provision of non-life insurance services

* Bank was merged into UBI Banca Spa with effect from 1st January 2018

** Company was merged into UBI Sistemi e Servizi Scpa with effect from 1st January 2018

Letter b) - UBI Banca Group revenues by country of location and type of business (gross income as recognised in item 120 of the mandatory income statement, in thousands of euro)

	State in which they are located						Adjustments and eliminations	TOTAL
	Italy	France	Luxembourg	Spain	Germany	Poland		
Banks	3,150,928	(2,171)	-	4,200	(1,786)	-	-	3,151,171
Financial companies	235,501	-	-	-	-	2,294	-	237,795
Asset management and trust companies	141,727	-	3,052	-	-	-	-	144,779
Other companies	55,529	-	-	-	-	-	-	55,529
Adjustment and elimination entries	-	-	-	-	-	-	(106,478)	(106,478)
TOTAL	3,583,685	(2,171)	3,052	4,200	(1,786)	2,294	(106,478)	3,482,796

Letter c) - Number of employees on a full-time equivalent basis

	State in which they are located						TOTAL
	Italy	France	Luxembourg	Spain	Germany	Poland	
Number of employees	19,676		14	9	6	10	19,720

Letter d) - Pre-tax profit or loss

	State in which they are located						Adjustments and eliminations	TOTAL
	Italy	France	Luxembourg	Spain	Germany	Poland		
Banks	395,134	(228)	-	9,404	81	-	-	404,391
Financial companies	(60,525)	-	-	-	-	1,985	-	(58,540)
Asset management and trust companies	102,863	-	1,125	-	-	-	-	103,988
Other companies	4,721	-	-	-	-	-	-	4,721
Adjustment and elimination entries	-	-	-	-	-	-	(63,899)	(63,899)
TOTAL	442,193	(228)	1,125	9,404	81	1,985	(63,899)	390,661

Letter e) - Taxes on profit or loss

	State in which they are located						Adjustments and eliminations	TOTAL
	Italy	France	Luxembourg	Spain	Germany	Poland		
Banks	67,573	-	-	-	-	-	-	67,573
Financial companies	29,169	-	-	-	-	(548)	-	28,621
Asset management and trust companies	(30,572)	-	(236)	-	-	-	-	(30,808)
Other companies	(492)	-	-	-	-	-	-	(492)
Adjustment and elimination entries	-	-	-	-	-	-	(4,053)	(4,053)
TOTAL	65,678	-	(236)	-	-	(548)	(4,053)	60,841

Letter f) – Government grants received

In this respect we report that in accordance, amongst other things, with the provisions of the “Annual law for the market and competition” (Law No. 124/2017), the Group has received no government grants in 2018 or in previous years. We also report that, in compliance with the instructions for compiling this disclosure, this does not include operations with central banks for financial stability purposes, nor operations carried out with the objective of facilitating the transmission of monetary policy.