Interim Financial report

as at and for the period ended 31st March 2017

Translation from the Italian original which remains the definitive version

UBI Banca
UNIONE DI BANCHE ITALIANE

Legislative Decree No. 25 of 15th February 2016 implemented Directive 2013/50/EU (the "Transparency II" Directive) which, amongst other things, repealed the obligation to publish "Resoconti intermedi di gestione" (quarterly interim financial reports, the accounting documents introduced in 2007 to replace the "Relazioni trimestrali", also quarterly reports by the "Transparency" Directive 2004/109/EC which harmonised transparency obligations concerning information on issuers with shares admitted for trading on regulated markets).
This decree, in force since 18th March 2016, amended the Consolidated Finance Act (Legislative Decree No. 58/1998), with reference in particular to "Financial reports" pursuant to Art. 154-ter, eliminating the obligation to publish interim financial reports for the first and third quarters.
In view of the option provided by the directive for member states of the EU to reintroduce periodic reports that are additional to the annual and half yearly reports, although only under determined conditions and subject to prior impact analyses of costs and benefits, before the Consob (Italian securities market authority) took steps to amend the relative regulations, it carried out two consultations with the financial market, the last of which was concluded in September 2016.
Therefore, with account taken of the observations made by the market, the Consob finally made amendments to the Issuers' Regulations, with resolution No. 19770 of 26th October 2016, which introduced Art. 82-ter (additional periodic financial reports), which came into force from 2nd January 2017.
On the basis of this provision, listed companies have the option to choose whether or not to publish additional periodic financial reports. If they choose on a voluntary basis to publish these, they must disclose this to market, specifying the items of information they intend to provide in order for the decisions taken to be clear and stable over time. Any decision taken to interrupt the publication must be accompanied by the reasons and disclosed publicly; this will take effect starting from the subsequent financial year.

The Management Board of UBI Banca resolved to continue with the format currently in use for its quarterly financial reports, with possible simplifications of the contents not strictly indispensable for an understanding of performance in the period, until possible alternative decisions are taken, considering also the establishment of different practices in the sector.
The dates for the approval of financial reports for the first and third quarters have been disclosed in the Financial Calendar.

Joint Stock Company
Head Office and General Management: Piazza Vittorio Veneto 8, Bergamo (Italy)
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 31st March 2017: Euro 2,443,094,485.00 fully paid up
www.ubibanca.it

Contents

Key

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

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

UBI Banca: company officers

Honorary Chairmen (*)	Gino Trombi Emilio Zanetti

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

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

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

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

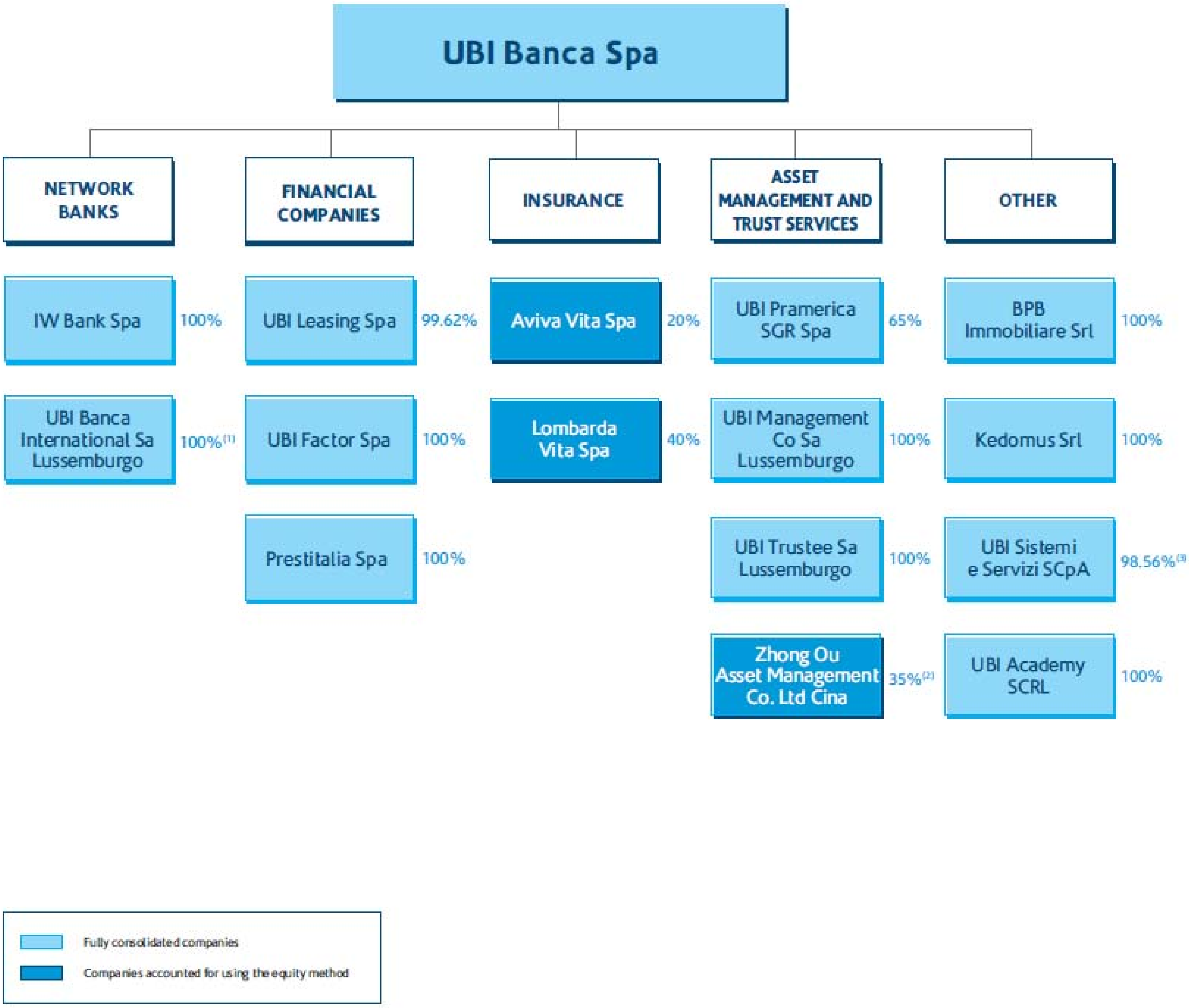
General Management

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

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

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

UBI Banca Group: the main investments as at 31st March 2017



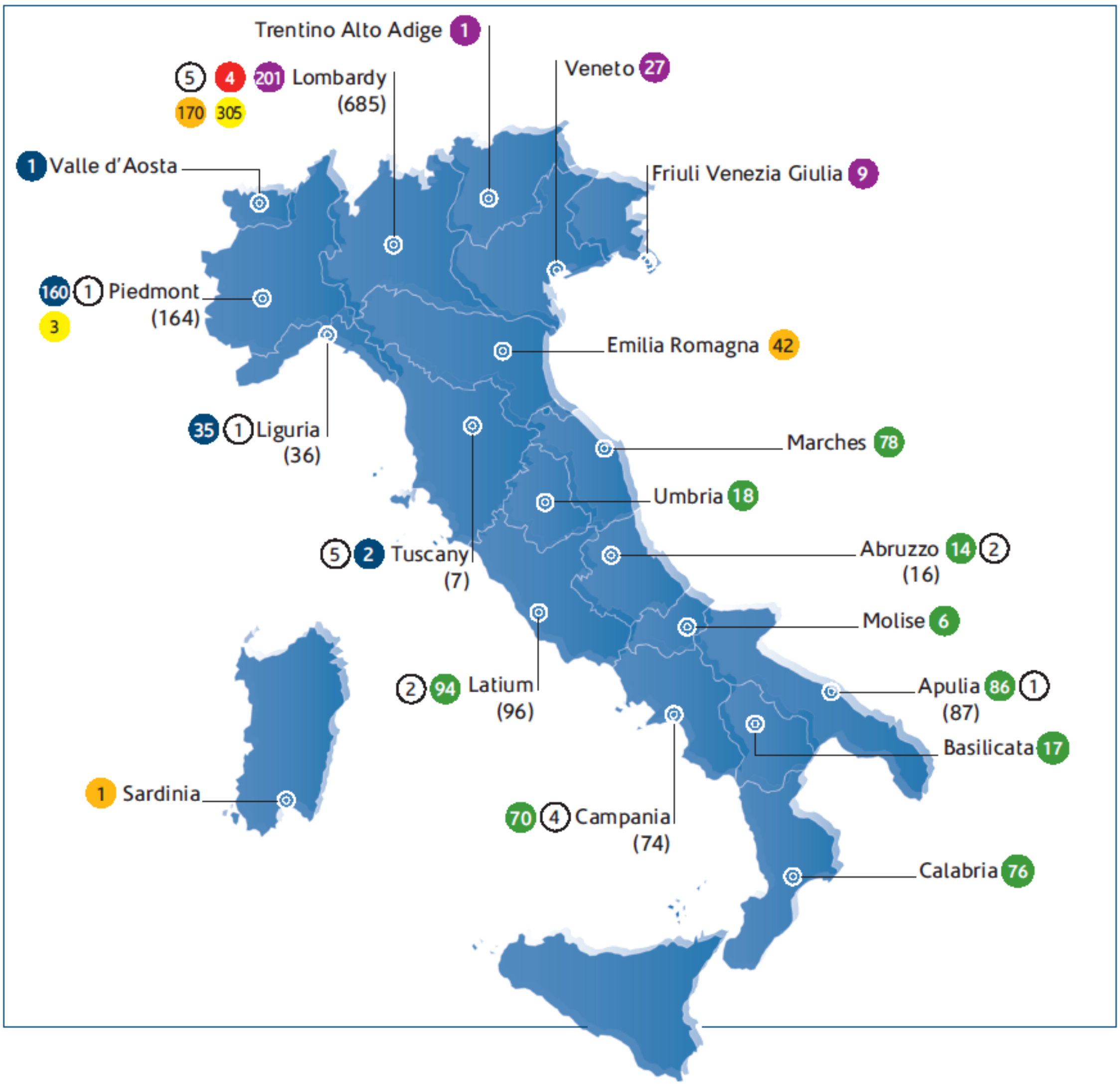
(1) On the basis of the agreement signed on 28th April 2016, the disposal is expected to be concluded once the preparatory activities for the disposal are completed and therefore not before the end of the second quarter 2017.

(2) In June 2015 one third of the stake held was classified within assets held for disposal in accordance with IFRS 5.

(3) The remaining 1.44% is held by Cargeas Assicurazioni Spa (the former UBI Assicurazioni Spa).

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

UBI Banca Group: branch network as at 1st April 2017



Branches in Italy	1,441
UBI Banca Spa	4
UBI Banca Macro Area Territoriale Nord Ovest *(North West Commercial Macro Area)*	198
UBI Banca Macro Area Territoriale Milano Emilia Romagna *(Milan and Emilia Romagna Commercial Macro Area)*	213
UBI Banca Macro Area Territoriale Bergamo e Lombardia Ovest *(Bergamo and West Lombardy Commercial Macro Area)*	308
UBI Banca Macro Area Territoriale Brescia e Nord Est *(Brescia and North East Commercial Macro Area)*	238
UBI Banca Macro Area Territoriale Centro Sud *(Central and Southern Commercial Macro Area)*	459
IW Bank Spa	21

Branches abroad 6

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

UBI Banca International Sa (Luxembourg)
Luxembourg

International presences

UBI Factor Spa
Krakow (Poland)

UBI Management Co. Sa
Luxembourg

Zhong Ou Asset Management Co. Ltd
Shanghai (China)

UBI Trustee Sa
Luxembourg

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

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

	31.3.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
STRUCTURAL INDICATORS										
Net loans and advances to customers/total assets	73.9%	72.8%	72.2%	70.3%	71.2%	70.1%	76.8%	78.0%	80.1%	79.0%
Direct funding from customers/total liabilities	73.5%	75.8%	78.1%	76.5%	74.5%	74.6%	79.2%	81.8%	79.5%	80.0%
Net loans and advances to customers/direct funding from customers	100.6%	96.1%	92.4%	91.9%	95.5%	94.0%	97.0%	95.4%	100.8%	98.7%
Equity *(inclusive of profit/loss)* /total liabilities	7.8%	8.0%	8.5%	8.1%	8.3%	7.4%	6.9%	8.4%	9.3%	9.1%
Assets under management/indirect funding from individual customers	65.2%	66.5%	61.1%	57.1%	55.2%	54.3%	51.2%	54.6%	53.2%	53.1%
Financial leverage ratio *(total assets - intangible assets)/(equity inclusive of profit/loss + equity attributable to non-controlling interests - intangible assets)*	15.4	15.0	13.2	14.0	14.7	17.0	18.5	19.3	17.1	17.3
PROFIT INDICATORS										
ROE *(net profit)/(equity inclusive of profit/loss)*	3.0%	n.s.	1.2%	2.4%	2.4%	0.8%	3.9%	1.6%	2.4%	0.6%
ROTE *[net profit/tangible equity (equity inclusive of profit/loss - intangible assets)]*	3.7%	n.s.	1.4%	2.9%	3.4%	1.2%	5.9%	3.1%	4.6%	1.2%
ROA *(net profit/total assets)*	0.23%	n.s.	0.10%	0.19%	0.20%	0.06%	0.27%	0.13%	0.22%	0.06%
The cost/income ratio *(operating expenses/operating income)*	65.4%	69.0%	64.5%	61.8%	62.3%	64.3%	69.5%	70.6%	64.4%	63.9%
Staff costs/operating income	40.2%	40.9%	38.4%	38.2%	37.9%	39.0%	41.4%	41.5%	37.5%	38.8%
Net impairment losses on loans/net loans to customers *(loan losses ratio)*	0.64%	1.91%	0.95%	1.08%	1.07%	0.91%	0.61%	0.69%	0.88%	0.59%
Net interest income/operating income	43.5%	48.0%	48.4%	53.3%	50.9%	52.8%	61.7%	61.3%	61.5%	68.7%
Net fee and commission income/operating income	44.0%	42.8%	38.6%	36.0%	34.5%	33.5%	34.7%	33.9%	31.1%	33.3%
Net result on financial activities/operating income	8.2%	4.9%	8.6%	5.9%	9.4%	7.3%	0.2%	1.0%	3.2%	-5.9%
RISK INDICATORS										
Net bad loans/net loans to customers	4.69%	4.87%	5.07%	4.70%	3.89%	3.18%	2.49%	1.91%	1.36%	0.88%
Net impairment losses on non-performing loans / gross non-performing loans *(coverage for non performing loans)*	45.15%	45.08%	38.64%	38.56%	41.60%	42.60%	43.31%	48.69%	51.57%	54.58%
Coverage for bad loans, gross of write-offs of positions subject to bankruptcy proceedings and the relative impairment losses[2]	58.57%	58.48%	52.25%	53.36%	56.05%	57.63%	59.06%	63.62%	66.10%	
Net non-performing loans/net loans and advances to customers	9.42%	9.84%	11.45%	11.10%	10.53%	8.73%	6.30%	5.17%	4.62%	2.40%
CAPITAL RATIOS Basel 3 from 31 3 2014[3]										
Tier 1 ratio *(Tier 1 capital after filters and deductions/RWAs)*	11.44%	11.48%	12.08%	12.33%	13.23%	10.79%	9.09%	7.47%	7.96%	7.73%
Common Equity Tier 1 ratio *(CET1 capital after filters and deductions/RWAs)*	11.44%	11.48%	12.08%	12.33%	12.60%	10.29%	8.56%	6.95%	7.43%	7.09%
Total capital ratios (total own funds/RWAs)	14.71%	14.10%	13.93%	15.29%	18.91%	16.01%	13.50%	11.17%	11.91%	11.08%
Total own funds (figures in thousands of euro)	8,710,084	8,389,105	8,545,017	9,441,598	11,546,144	12,203,619	12,282,153	10,536,200	10,202,555	9,960,812
of which: Tier 1 capital after filters and deductions	6,773,075	6,829,283	7,408,894	7,615,265	8,075,247	8,263,720	8,276,278	7,047,888	6,816,876	6,944,723
Risk weighted assets (RWAs)	59,206,839	59,483,864	61,344,866	61,762,588	61,045,600	76,589,350	91,010,213	94,360,909	85,677,000	89,891,825
INCOME STATEMENT, BALANCE SHEET FIGURES (in thousands of euro), **STRUCTURAL DATA** (numbers)										
Profit (loss) for the period/year attributable to the shareholders of the Parent	67,037	(830,150)	116,765	(725,767)	250,830	82,708	(1,841,488)	172,121	270,099	69,001
Profit (loss) for the period/year attributable to the shareholders of the Parent before the impact of the Business Plan (previously redundancy expenses and impairment)	72,756	(565,812)	182,774	233,230	314,550	184,581	349,373	177,293	289,022	88,810
(Profit) loss for the year/period attributable to the shareholders of the Parent normalised	86,287	(474,357)	195,132	146,537	100,220	97,324	111,562	105,116	173,380	425,327
Operating income	798,151	3,119,499	3,370,864	3,409,630	3,437,292	3,526,311	3,438,339	3,496,061	3,906,247	4,089,739
Operating expenses	(522,019)	(2,153,466)	(2,175,181)	(2,108,222)	(2,141,798)	(2,266,660)	(2,389,626)	(2,468,564)	(2,514,347)	(2,611,348)
Net loans and advances to customers	84,521,597	81,854,280	84,586,200	85,644,223	88,421,467	92,887,969	99,689,770	101,814,829	98,007,252	96,368,452
of which: net bad loans	*3,963,363*	*3,987,303*	*4,287,929*	*4,025,079*	*3,437,125*	*2,951,939*	*2,481,417*	*1,939,916*	*1,332,576*	*848,671*
net non-performing loans	*7,960,659*	*8,055,608*	*9,688,549*	*9,508,105*	*9,312,273*	*8,105,174*	*6,279,884*	*5,261,129*	*4,532,234*	*2,315,913*
Direct funding from customers	84,005,846	85,166,013	91,512,399	93,207,269	92,603,936	98,817,560	102,808,654	106,760,045	97,214,405	97,591,237
Indirect funding from customers	86,869,436	82,116,612	79,547,957	75,892,408	71,651,786	70,164,384	72,067,569	78,078,869	78,791,834	74,288,053
of which: assets under management	*56,607,185*	*54,631,219*	*48,567,539*	*43,353,237*	*39,553,848*	*38,106,037*	*36,892,042*	*42,629,553*	*41,924,931*	*39,430,745*
Total funding from customers	170,875,282	167,282,625	171,060,356	169,099,677	164,255,722	168,981,944	174,876,223	184,838,914	176,006,239	171,879,290
Equity attributable to the shareholders of the Parent (inclusive of profit/loss)	8,973,612	8,989,578	9,981,862	9,804,048	10,339,392	9,737,882	8,939,023	10,979,019	11,411,248	11,140,207
Intangible assets	1,686,920	1,695,973	1,757,468	1,776,925	2,918,509	2,964,882	2,987,669	5,475,385	5,523,401	5,531,633
Total assets	114,343,137	112,383,917	117,200,765	121,786,704	124,241,837	132,433,702	129,803,692	130,558,569	122,313,223	121,955,685
Branches in Italy	1,441	1,524	1,554	1,668	1,725	1,727	1,875	1,892	1,955	1,944
Total staff at the end of the period *(actual employees in service + workers on agency leasing contracts)*	17,151	17,560	17,716	18,132	18,337	19,090	19,407	19,699	20,285	20,680
Average total staff[4] *(actual employees in service + workers on agency leasing contracts)*	16,335	16,494	16,756	17,462	17,625	18,490	18,828	19,384	20,185	20,606
Financial advisors	780	787	824	713	671	672	713	786	880	924

1 The indicators have been calculated using the reclassified figures contained in the section "Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules" in the Interim Consolidated Management Report.
In consideration of the loss recorded, profit indicators have not been given for 2016 because they hold little significance.
The profit indicators for 2014 and 2011 were calculated on profit for the year before redundancy expenses and impairment losses.
Account has been taken with regard to the Alternative Performance Measures reported in this financial report and in particular in the Interim Consolidated Management Report of the ESMA guidelines issued on 5th October 2015, which the Consob incorporated in its supervisory practices (Communication No. 0092543 of 3rd December 2015). Those guidelines became applicable from 3rd July 2016.
Furthermore, on 18th August 2016, the Management Board approved the new UBI Banca Group guidelines on the identification of non-recurring items.
Information on the share is summarised in the pages that follow.

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

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

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

The rating

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

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

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

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

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

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

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

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

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

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

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

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

On 20th February 2017, **Fitch Ratings** downgraded its long-term rating (Long-term Issuer Default Rating) by one notch from "BBB" to "BBB-", and it's Viability Rating from "bbb" to "bbb-". It's Negative Outlook remained unchanged, as a reflection of the weak economic context in Italy.
According to Fitch, the reason for this downgrade was the impact of non-performing loans on capital, considered high from a forward-looking viewpoint because, in the opinion of this agency, the targets set in the 2019/2020 Business plan to reduce them were not sufficiently ambitious.
Notwithstanding this, the Group is continuing to implement the plan well ahead of the original schedule and it has already achieved significant reductions in its non-performing assets (in both gross and net terms), also because of the significant reductions in new entrances from performing status.

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

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

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

In consideration of the increased probability that under the BRRD regime (Directive for the recovery and resolution of banks) all subordinated debts are used, together with capital, to absorb losses, on 13th January 2017 **DBRS** placed the subordinated securities issued by 27 European banking groups (including UBI Banca) with a rating of one notch below the intrinsic assessment under review with possible negative implications. The review, which was extended on 29th March 2017, should be concluded in the first weeks of May.
Again on 13th January 2017 this agency revised its Italian sovereign debt rating, downgrading it from "A (low)" to "BBB (high)" with a Stable Trend.

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

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

(I) The issuer rating is not a rating on issues but on the issuer, because it is an assessment of its creditworthiness. The rating is generally assigned on a long-term basis using the long-term rating scale. In the banking sector, the Issuer Rating represents the final rating on the credit worthiness of a bank which incorporates both the Intrinsic Assessment and possible considerations regarding external support.
(II) The ability to repay long-term debt (maturing in more than one year)
(AAA: highest credit quality – C: very highly speculative)
(III) The ability to repay short-term debt (maturing in less than one year)
[R-1 (high): highest credit quality - R-5: very highly speculative]
(IV) The Intrinsic Assessment (IA) is a rating of the intrinsic financial strength of a bank in the absence of external support. It assesses a bank's intrinsic fundamentals in five areas: commercial network, earnings capacity, liquidity and funding, risk profile and capitalisation.
(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]

The UBI Banca share

Share performance

The UBI Banca share is traded on the *Mercato Telematico Azionario* (electronic stock exchange) of Borsa Italiana in the blue chip segment and forms part of the 40 shares in the FTSE/Mib Index.

Performance comparisons for the Unione di Banche Italiane share

Amounts in euro	31.3.2017 A	30.12.2016 B	% change A/B	30.9.2016 C	30.6.2016 D	31.3.2016 E	% change A/E	30.12.2015 F
Unione di Banche Italiane shares								
- official price	3.570	2.607	36.9%	1.978	2.432	3.263	9.4%	6.246
- reference price	3.598	2.612	37.7%	2.050	2.474	3.252	10.6%	6.200
FTSE Italia All-Share index	22,568	20,936	7.8%	18,033	17,775	19,787	14.1%	23,236
FTSE Italia Banks index	10,174	9,511	7.0%	7,653	7,178	10,471	-2.8%	15,388

Source: Datastream

The first quarter of 2017 saw a significant rally on world stock exchanges which, with the sole exception of Tokyo, all increased their value since the beginning year. The American presidential elections triggered a bull market in the wake of the plans for expansionary tax policies and for investments in infrastructures.

The Italian stock exchange was one of the best performers, benefiting from a recovery by the banking sector. It was heavily undervalued by investors at the end of 2016, due to uncertainty following the result of the constitutional referendum and the difficulties of certain national banks. However the sector returned to growth as the fear of general elections died down in the first months of this year and solutions were found or are currently being defined with the European Central Bank for banks in difficulty, together with an expected rise in interest rates.

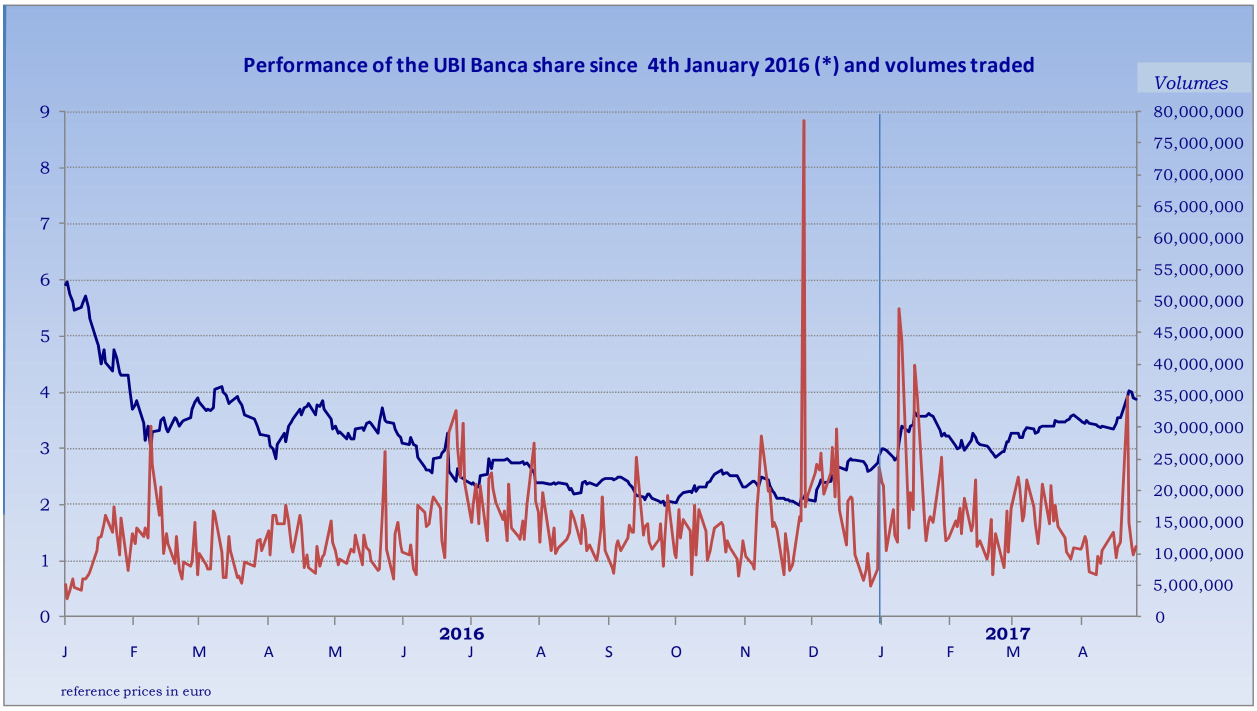
It was in fact the more solid institutions, including UBI Banca, which benefited from the recovery. The share performed with a 37% rise in the price (official price) in the period thanks also to the favourable outcome of the negotiations for the purchase of the three Bridge Banks. This compares with +7% recorded for the FTSE Italia Banks index, which was affected by the negative performance of banks in crisis and +7.8% by the FTSE Italia All-Share index, partly influenced by shares in the energy sector.

In the period January-March 2017, trading in the UBI Banca share involved approximately 1.1 billion shares for a value of €3.5 billion (approximately 662 million shares were traded in the same period of 2016 for a value of €2.6 billion).

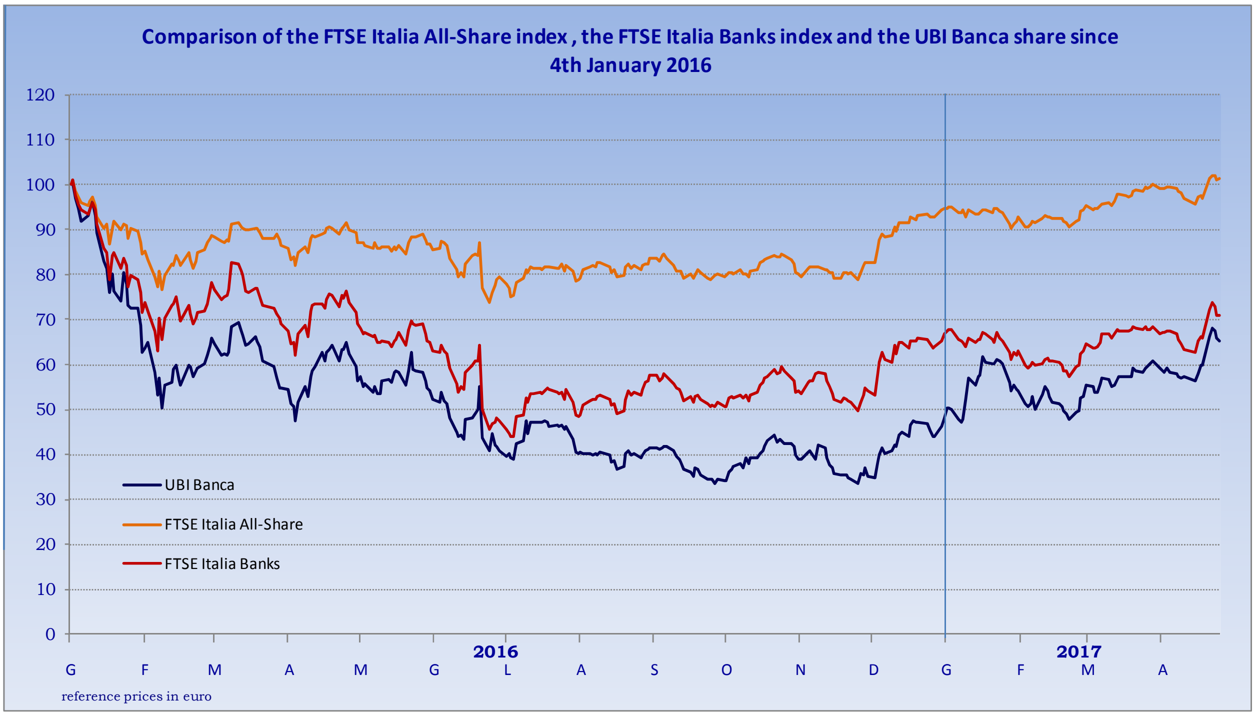
Following the recoveries reported, the stock market capitalisation (calculated on the official price) rose to €3.5 billion compared with €2.5 billion in the 2016, which positioned the bank in fourth place among listed Italian commercial groups[1].

After the end of the first quarter, markets first experienced a period of instability (dictated by geopolitical uncertainties and the elections called in Great Britain for the beginning of June), but they then started to rise again towards the end of April, driven by the encouraging result of the first round of the French elections and renewed expectations of Trump's policies (especially with regard to corporate taxes). In this context, favoured, amongst other things, by positive judgements from the market, the UBI Banca share ended the month at €3.895 (official price), after having reached a high of €4.094 on 25th April reaching the same levels as in March 2016.

1 The Group is positioned in the sixth place if all listed banking groups are considered.



The peak recorded in the volume of trades on 30th November 2016 occurred in the closing auction.



The main information concerning the UBI Banca share is summarised below, along with the principal stock market indicators, which have been calculated using consolidated figures.

The UBI Banca share and the main stock market indicators

	1st Quarter 2017	FY 2016
Number of shares outstanding at the end of period/year	977,237,794	976,300,395
Average price of the UBI share *(average of the official prices quoted daily by Borsa Italiana Spa)* - in euro	3.230	3.029
Minimum price (recorded during trading) - in euro	2.572	1.903
Maximum price (recorded during trading) - in euro	3.830	6.150
Dividend per share - in euro	n.a.	0.11
Dividend yield *(dividend per share/average price)*	n.a.	3.63%
Total dividends - in euro (*)	n.a.	107,162,640
Book Value *[Consolidated equity attributable to the shareholders of the Parent (inclusive of loss/excluding profit for the period/year)/No. shares]* - in euro	9.11	9.21
Book value calculated by deducting intangible assets attributable to the shareholders of the Parent from consolidated equity - in euro	7.40	7.48
Stock market capitalisation at the end of period/year (official prices) - in millions of euro	3,489	2,545
Price / book value *[Stock market capitalisation at the end of period / (consolidated equity attributable to shareholders of the Parent excluding profit for the period/year)]*	0.39	0.28
Price / book value calculated by deducting intangible assets attributable to the shareholders of the Parent from consolidated equity	0.48	0.35

(*) The dividend payout for 2016 was calculated on the 974,205,820 shares outstanding on 28th February 2017 (the date on which the new share capital was officially filed following the share exchanges of the shares of Banca Popolare di Ancona Spa, Banca Carime Spa and Banca di Valle Camonica Spa for UBI Banca shares. This figure does not include the 3,031,974 Treasury shares held in portfolio on that same date.

INTERIM CONSOLDATED MANAGEMENT REPORT

AS AT AND FOR THE PERIOD ENDED 31ST MARCH 2017

Gruppo UBI Banca

Significant events in the first quarter of 2017

The acquisition of Target Bridge Institutions

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

The offer, which was valid until 18th January 2017 inclusive, was accepted by the Directors of the Bank of Italy, who on that same day approved the signing of the contract for the sale of the three Bridge Banks to UBI Banca, which occurred at the same time.

The sales contract involved the purchase being subject to a series of suspensive conditions, including the following:
(i) obtaining the required authorisations from the competent authorities in accordance with their respective areas of responsibility (more specifically, the Bank of Italy/European Central Bank, the Italian Competition Authority and the Institute for the Supervision of Insurance);
(ii) the disposal without recourse, to be completed before the closing date, of approximately €2.2 billion of gross non-performing loans;
(iii) the approval by a Shareholders' meeting of UBI Banca of an increase in the share capital for up to a maximum of €400 million;
(iv) implementation and completion of the recapitalisation of the Target Bridge Institutions by the Seller for an estimated amount of €450 million.

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

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

On 7th April 2017, a Shareholders' Meeting of UBI Banca, held in extraordinary session, approved a proposal with the vote in favour of 99.8% of the share capital present, to confer an authorisation pursuant to Article 2443 of the Italian Civil Code on the Management Board to increase the share capital by payment, in one or more tranches by and not later than 31st July 2018 (subject to prior authorisation from the Supervisory Board) by a total maximum amount of €400 million (inclusive of any share premiums), through the issue of ordinary shares with no nominal value and having the same characteristics as those already outstanding. The effect of the resolution and therefore of the authorisation is subject to the acquisition of the three banks by the final deadline of 31st July 2018, while the necessary prior authorisation from the Bank of Italy/ECB would nevertheless have to be obtained.

An application was submitted on 14th April 2017 to the Consob (Italian securities market authority) for authorisation to publish the Registration Document.

In view of the closing of the deal, on 5th May 2017 the Management Board and the Supervisory Board of UBI Banca approved an update of the 2019/2020 Business Plan, details of which are given in the section "Events subsequent to the end of the first quarter and the business outlook for consolidated operations" in which the main steps involved for the conclusion of the acquisition of the Target Bridge Institutions are also illustrated.

Implementation of the 2019/2020 Business Plan

▪ The Single Bank

The complex Single Bank project was completed in the first quarter well ahead of the original schedule.
As already reported in the Annual Report, the merger of the seven network banks into UBI Banca took place in two stages:

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

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

  Details of the changes involving UBI Banca's share capital are given in the subsequent section entitled "Changes in the consolidation scope", to which reference may be made.

Changes to the organisational structure

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

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

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

- the completion of the distribution structure divided into Macro Geographical Areas (MGAs), with the creation of three new MGAs: Bergamo and West Lombardy, Brescia and the North East, Central and Southern Italy (the latter receiving the distribution network units of Rome, initially belonging to the Milan and Emilia Romagna MGA);
- in the Remote Channels Area, the organisational revision of the former Contact Centre, into which all the activities already performed by other units, not only at UBI Banca but also at UBI Sistemi e Servizi were incorporated, on the basis of an approach involving the full integration of the customer contact channels;
- a change in the configuration of the previously existing "Private & Corporate Unity" units, which have become Corporate Centres for the management of the corporate clients of the Macro Geographical Areas;
- the creation of new Top Private Banking Centres into which staff who covered those clients within the former Private & Corporate Unity units were transferred;
- the transfer of authorities' treasury activities, previously managed by UBI.S to the Commercial Operations Service;
- with a view to further strengthening credit management by units reporting to Chief Lending Officer[2]:
  - completion of the centralisation of units managing problem loans (unlikely-to-pay loans) existing in the former network banks, with the reorganisation of these on a geographical basis at the same time and the breakdown of the exposures into portfolios for specialist account managers;
  - the transfer of Loan Arrears Support activities, originally the responsibility of UBI Sistemi e Servizi, to the newly formed Loan Regularisation Service.
- The transfer of personnel administration, previously carried out by UBI.S, to the Human Resources Area in order to ensure direct supervision of these activities.

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

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

Regulation for the management of UBI Banca's charitable donations

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

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

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

- for the more far-ranging interventions (inter-regional), mainly by the Supervisory Board;
- for those of a more specifically local nature, by the individual MGAs concerned, or by the "historical" foundations supported for many years by the former network banks[3], through their endowments, which may be added to by donations from the Group.

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

▪ The presentation of UBI Welfare

UBI Banca is launching itself on the national market through its newly formed Wealth and Welfare Division (in accordance with the Business plan with the mission to create a single centre for a range of asset management, insurance, pension and health and welfare services) as the leading banking player to offer an integrated solution for company welfare programmes.
During a meeting with the press held in Milan on 22nd March 2017, Letizia Moratti, the Chairwoman of the Management Board, and Rossella Leidi, the Chief Wealth and Welfare Officer, illustrated the UBI Welfare platform. It is dedicated to people, businesses and local communities and its purpose is to assist businesses that undertake company welfare programmes[4] which offer their employees solutions to meet the growing demand for services for prevention, care, assistance, education and leisure time.

UBI Banca entered this market with an innovative strategic vision, that is more far-reaching than that of the existing players. The Group's aims are as follows:

- to promote the creation of local community welfare ecosystems to provide protection that is supplementary to that of the state which is in decline;
- to form "proximity" networks in which companies and third sector operators in the community can become suppliers of welfare services.

UBI Welfare offers specialist advisory services ranging from labour to tax law in order to create a plan that is calibrated to meet a company's requirements by employing an advisory methodology which starts from an analysis of needs. The purpose is to build a partnership, using a full outsourcing solution, to assist companies, including the less structured SMEs, throughout all the stages of the introduction and management of a welfare plan, ranging from enabling factors to educational and advisory services for companies and employees right through to the implementation and management of the platform.
To date the project has potentially 300 thousand companies that are already clients of the Group which currently constitute the relative corporate target.

UBI Banca intends to play a role of bringing together and integrating the best professional expertise available by developing a series of collaboration agreements primarily with local Confindustria (confederation of industry) organisations, but also with professional associations such as labour consultants and accountants as well as with companies that provide advisory services on subsidised finance and remuneration strategies.
The Group has also decided to invest in research. The UBI Welfare Observatory has been formed in co-operation with ADAPT, a postgraduate school specialising in industrial and labour relations, founded in 2000 by Professor Marco Biagi. It is an analysis and research initiative aimed at processing reliable and key indicators specially designed to interpret welfare in companies.

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3 Fondazione Banca Popolare di Bergamo ONLUS, Fondazione UBI per Varese ONLUS, Fondazione Banca San Paolo, Fondazione CAB - Istituto di Cultura Giovanni Folonari and Fondazione Banca Popolare Commercio e Industria ONLUS.

4 In order to increase the competitiveness of Italian companies, the 2016 *Legge di Stabilità* ("stability law" – annual finance law) and the 2017 *Legge di Bilancio* ("Budget Law" – law to approve government accounts) introduced significant tax benefits on bonuses linked to results (i.e. for increases in productivity, profitability, quality, efficiency and innovation) that are paid by companies in the private sector and also on workers' profit-sharing schemes as follows:
- the application of a 10% flat rate tax to replace IRPEF (personal income tax) and the relative additional personal income taxes;
- complete elimination of the tax wedge if employees choose to receive their productivity bonuses or share of profits not in cash, but in the form of company welfare services, with advantages both for the companies and for the employees.

▪ The Other Projects

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

The Non-Performing Loan Strategic Plan

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

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

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

- a management approach that anticipates the presumable deterioration of credit, by strengthening the early warning system and introducing management on an industrial scale of the renegotiation processes at the first signs of arrears by means of a specialist team for these activities[5];
- the introduction of a dedicated business unit – separate from ordinary lending processes – to manage unlikely-to-pay loans (drawing on the experience and expertise acquired with managing bad loans), with direct monitoring by customer segment by specialist staff[5] and by recourse to outsourcing for "small amounts";
- the proactive management of real estate collateral to benefit from the direct and induced effects[6] of Re.O.Co.'s activities, the Group's newly formed property company;
- the introduction of the selected disposal of NPLs in "small amount" portfolios (e.g. consumer and POE [small economic operator] loans) and selected disposals (e.g. "single name") on positions backed by "commercial real estate" collateral, also in consideration of the expected improvement in the property market.

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

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

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

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

ECB Sensitivity Analysis

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

Changes in the scope of consolidation

The scope of consolidation underwent the changes reported below compared with 31st December 2016.

Completion of the Single Bank Project

With the "second wave" of the project the mergers of Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare di Ancona, Banca Carime and Banca di Valle Camonica into UBI Banca took effect in accordance with and within meaning of articles 2501 *et seq* of the Italian Civil Code on 20th February 2017. As a consequence the last five network banks were eliminated from the consolidation with effect for accounting and tax purposes from 1st January 2017.

A summary is given below of the main steps involved, but it should be considered that as a result of the merger, the shareholders of the merged banks other than the Parent were allotted newly issued UBI Banca shares on the basis of the share exchange ratios set, while the shares of the merged banks held by the Parent were cancelled with no share exchange and no cash settlement was provided for:

- Banco di Brescia – Banca Popolare di Bergamo: as these were fully owned by the Parent, no share exchange ratio was set. The mergers by incorporation were approved by the respective Boards of Directors in accordance with Article 2505 of the Italian Civil Code and with the Articles of Association on 29th September and 7th October 2016 respectively;
- as concerns the other network banks, the mergers of which into the Parent were approved by the relative Extraordinary Shareholders' Meetings held on 11th, 13th and 14th October 2016, exchange ratios were set which gave rise to the issue of new UBI Banca shares to non-controlling shareholders, as indicated below:
  - for BPA, 6.0815 UBI Banca shares for every single BPA share, amounting to 618,315 new shares of the merging bank;
  - for Carime, 0.1651 UBI Banca shares for every single Carime share, amounting to 24,050 new shares of the merging bank;
  - for BVC, 7.2848 UBI Banca shares for every single BVC share, amounting to 295.034[7] new shares of the merging bank.

  The new share capital of UBI Banca resulting from the mergers, amounting to €2,443,094,485.00 for a total of 977,237,794 shares with no nominal amount, was filed with the Bergamo Company Registrar on 28th February 2017[8].

As of 20th February 2017 the equity investments and shareholdings of the former network banks transferred to the Parent were as follows:

- the percentages of shares held in UBI.S by BPB, BBS, BPA and Carime (2.8769% each) and by BVC (1.4385%), which brought the controlling interest held up to 92,0080% (79,0619% as at 31st December 2016);
- the ownership stakes held in UBI Academy by BPB, BBS, BPA and Carime of 3% each and by BVC of 1.5%, which brought UBI Banca's controlling interest up to 88% (from 74.5% at the end of 2016);
- the UBI Banca International shares held by BBS and BPB, amounting to 5.4825% and 3.1598% respectively of this Luxembourg bank's share capital, which gave UBI Banca total ownership (up from 91.3577% in December 2016);
- 500 shares held by Carime in the share capital of the Bank of Italy.

Special purpose entities for securitisations

- UBI Lease Finance 5 Srl – in liquidation: a Shareholders' Meeting was held on 24th January 2017 to approve the final liquidation financial statements as the last administrative action taken before cancelling the entity from the Register of Companies, which took place on 6th March 2017. The company no longer appeared within the consolidation as at 31st March 2017;
- UBI Finance 3 Srl – in liquidation: a Shareholders' Meeting was held on 6th March 2017 to approve the final liquidation financial statements (reconvened) as the last administrative action taken before cancelling the entity from the Register of Companies, which took place on 19th April 2017.

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7 Banca di Valle Camonica had been 89.8867% controlled by the Parent and BBS held 8.8387%. All the relative shares were cancelled and therefore the new UBI Banca shares issued related only to the portion held by non-controlling interests.

8 On 20th February 2017, 936,467 new UBI Banca shares were issued in conjunction with the mergers, further increased by 932 following the application of rounding-off procedures on 28th February 2017.

The branch network

At the end of March the UBI Banca Group's branch network consisted of 1,447 branches, of which 1,441 operating in Italy, down by 83 branches compared with the end of 2016, almost totally attributable to rationalisation action taken on the distribution network following the completion of the second stage of the Single Bank Project, which took place with effect from 20th February 2017, as already reported in the annual financial report which therefore may be consulted[9].

We also report that the transfer to UBI Banca of two foreign branches in Munich (Germany) and Madrid (Spain) belonging to UBI Banca International Sa (with headquarters in Luxembourg) took effect on the 1st April, in preparation for its disposal by the end of the first half of 2017.

At the date of this report the number of branches had fallen to 1,443 (1,437 in Italy), following the closure of a mini-branch at Succivo in April and those at Jesi (New Holland), Offagna and Pozzuoli (Accademia Aereonautica) in May.

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

- the branches were divided in five Macro Geographical Areas: North West, Milan Emilia Romagna, Bergamo and West Lombardy, Brescia and the North East, Central and Southern Italy;
- the new Top Private Banking (TPB) Division (a specialist point of reference for "Top Private Banking" clients[10]) has become fully operational together with the new Corporate & Investment Banking (CIB) Division which operates as:
  - the exclusive manager for Large Corporate Groups by means of an innovative team of experts, the Global Relationship Managers (GRM), single points of client contact for complex, ordinary and extraordinary operations[11];
  - a supplier of evolved products and services for Mid Corporate clients[12] for which the CIB plays a product design role for extraordinary operations: mergers and acquisitions, access to capital markets and structured finance;
- the 123 centres, consisting of 46 Private and Corporate Banking Units (PCUs) and 77 "Corners", which at the end of 2016 formed the "UBI Banca Private & Corporate Unity" division, fell to 104 facilities (38 PCUs and 66 "Corners")[13]. Staff responsible for assisting "Top Private Banking" customers were transferred into 22 newly formed "Top Private Centres" and 40 Corners, already operational as at 31st March 2017, reporting to the Top Private Banking Manager. With the transfer of the remaining Private Bankers into branches, from 3rd April 2017 the PCUs and the relative "Corners"[14] were converted into Corporate Centres belonging to the Macro Geographical Areas.

Finally, geographical market coverage continues to be provided by a network of 780 financial advisors belonging to IW Bank Spa (787 at the end of 2016), currently undergoing a process to rationalise the associated portfolios managed.

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9 See the section "The distribution network and market positioning" in the Consolidated Management Report. We also report that a mini-branch at the air and naval base at Frosinone ceased operations in January.

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

11 As at 31st March 2017 the total GRM Department was composed of a team of 30 Global Relationship Managers.

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

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

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

14 The figure does not include three UBI Banca units operational since 6th May 2013 and dedicated to corporate customers only.

Market positioning

The table summarises the market positioning of the UBI Group in terms of branches, conventional funding and loans both at national level and in regions and provinces where Group banks have a more significant presence. The figures are based on the latest available data from the Bank of Italy: 31st December 2016 for both branches and balance sheet items.

National market share in terms of branches stood at 5.3%, slightly up on December 2015 (5.1%), with levels equal to or greater than 10% confirmed in 14 Italian provinces together with a substantial presence in Milan (8.9%) and in Rome (over 4%).

National market share of conventional funding – which does not include bonds – stood at 3.5%, while the share for loans was 5.1%.

As a result of the characteristics of the two original 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(*)

	31.12.2016		
	Branches	Deposits (**) (***)	Lending (***)
North Italy	**6.1%**	**5.1%**	**6.1%**
Lombardy	**12.9%**	**8.5%**	**8.7%**
Prov. of Bergamo	*23.5%*	*30.7%*	*37.1%*
Prov. of Brescia	*22.2%*	*27.8%*	*29.5%*
Prov. of Como	*5.7%*	*5.7%*	*8.1%*
Prov. of Lecco	*5.9%*	*5.2%*	*9.3%*
Prov. of Mantua	*4.7%*	*3.8%*	*3.6%*
Prov. of Milan	*8.9%*	*3.9%*	*4.3%*
Prov. of Monza Brianza	*8.8%*	*7.8%*	*10.2%*
Prov. of Pavia	*13.0%*	*13.6%*	*11.5%*
Prov. of Sondrio	*5.8%*	*1.5%*	*4.5%*
Prov. of Varese	*24.1%*	*28.2%*	*21.3%*
Piedmont	**6.9%**	**4.9%**	**4.4%**
Prov. of Turin	*2.7%*	*1.9%*	*2.0%*
Prov. of Alessandria	*10.8%*	*7.2%*	*9.3%*
Prov. of Cuneo	*20.0%*	*18.3%*	*15.1%*
Prov. of Novara	*2.7%*	*3.2%*	*5.5%*
Liguria	**4.4%**	**3.8%**	**6.6%**
Prov. of Genoa	*3.9%*	*3.1%*	*5.9%*
Prov. of Imperia	*4.9%*	*2.8%*	*8.1%*
Prov. of La Spezia	*6.5%*	*10.0%*	*6.5%*
Prov. of Savona	*3.8%*	*2.8%*	*8.8%*
Central Italy	**3.4%**	**1.1%**	**2.9%**
Marches	**7.7%**	**7.4%**	**9.2%**
Prov. of Ancona	*10.2%*	*11.5%*	*11.6%*
Prov. of Fermo	*10.2%*	*9.6%*	*15.1%*
Prov. of Macerata	*8.3%*	*7.8%*	*10.8%*
Prov. of Pesaro and Urbino	*5.4%*	*3.3%*	*5.1%*
Latium	**4.2%**	**0.8%**	**3.3%**
Prov. of Rome	*4.1%*	*0.7%*	*3.3%*
Prov. of Viterbo	*13.5%*	*12.1%*	*10.4%*
South Italy	**7.1%**	**6.1%**	**5.4%**
Campania	**5.3%**	**3.9%**	**4.6%**
Prov. of Naples	*5.0%*	*3.5%*	*4.0%*
Prov. of Caserta	*7.9%*	*6.5%*	*9.0%*
Prov. of Salerno	*6.2%*	*4.9%*	*5.1%*
Calabria	**18.1%**	**19.8%**	**13.1%**
Prov. of Catanzaro	*11.1%*	*14.2%*	*9.0%*
Prov. of Cosenza	*22.2%*	*26.9%*	*17.2%*
Prov. of Crotone	*14.7%*	*10.9%*	*8.0%*
Prov. of Reggio Calabria	*20.2%*	*15.7%*	*10.9%*
Prov. of Vibo Valentia	*12.5%*	*24.6%*	*17.6%*
Basilicata	**8.3%**	**10.3%**	**7.5%**
Prov. of Potenza	*8.4%*	*11.2%*	*8.2%*
Prov. of Matera	*8.1%*	*9.0%*	*6.4%*
Apulia	**7.4%**	**6.4%**	**4.7%**
Prov. of Bari	*9.4%*	*7.6%*	*5.0%*
Prov. of Brindisi	*9.8%*	*7.5%*	*6.0%*
Prov. of Barletta Andria Trani	*5.4%*	*6.2%*	*4.6%*
Prov. of Taranto	*8.8%*	*7.1%*	*5.2%*
Total Italy	**5.3%**	**3.5%**	**5.1%**

(*) Source Bank of Italy: Statistics Database for share of branches; "matrix reports" for the balance sheet items.

(**) Current accounts, certificates of deposit, savings deposits. Bonds are excluded.

(***) Market share by location of the branch. The matrix report for lending refers to item 58335 02 relating to total loans for the private sector and it includes gross bad loans.

Changes in staff numbers

Group staff

Number	Employees actually in service 31.3.2017 A	31.12.2016 B	Changes A-B	31.3.2016 C	Employees on the payroll 31.3.2017 D	31.12.2016 E	Changes D-E
UBI Banca Spa*	14,082	14,415	-333	14,468	15,388	15,778	-390
IW Bank Spa	300	305	-5	301	292	293	-1
UBI Banca International Sa	87	88	-1	85	84	84	-
TOTAL FOR BANKS	**14,469**	**14,808**	**-339**	**14,854**	**15,764**	**16,155**	**-391**
UBI Sistemi e Servizi SCpA	1,980	2,044	-64	1,953	850	862	-12
UBI Leasing Spa	203	207	-4	209	206	208	-2
Prestitalia Spa	170	170	-	177	87	89	-2
UBI Pramerica SGR Spa	153	154	-1	154	120	120	-
UBI Factor Spa	142	144	-2	137	122	124	-2
UBI Academy SCRL	14	15	-1	14	-	-	-
UBI Trustee Sa	6	6	-	5	5	5	-
UBI Management Company Sa	5	5	-	4	4	4	-
Kedomus Srl**	5	3	2	-	-	-	-
BPB Immobiliare Srl	4	4	-	4	4	4	-
Centrobanca Sviluppo Impresa SGR Spa***	-	-	-	-	-	-	-
TOTAL	**17,151**	**17,560**	**-409**	**17,511**	**17,162**	**17,571**	**-409**
Workers on staff leasing contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL STAFF	**17,151**	**17,560**	**-409**	**17,511**			
TOTAL FTE STAFF	*16,608.0*	*17,013.5*	*-405.5*	*16,969.2*			
On secondment outside the Group							
- out	*18*	*18*	-	*23*			
- in					*7*	*7*	-
TOTAL WORKFORCE	**17,169**	**17,578**	**-409**	**17,534**	**17,169**	**17,578**	**-409**

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

** Kedomus Srl is a Real Estate Owned Company (Re.O.Co.) of the UBI Banca Group formed on 5th August 2016: it has five Group employees on secondment.

*** As at 31st March 2017, as also on the comparative reporting dates, two persons were working at the company, who were on partial secondment from other Group companies and were therefore not counted among employees actually in service.

The table above gives details for each company of the actual distribution of employees (workers on permanent and temporary contracts and on apprenticeship contracts) as at 31st March 2017, 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 2016 (column B) and the position as at 31st March 2016 (column C), both restated on a consistent basis. Column D, on the other hand, gives details for each company of the number of employees on the payroll as at 31st March 2017 compared with the end of 2016, also restated on a consistent basis (column E).

We report the following compared with the information published in previous reports:

- *for Banca Popolare Commercio e Industria Spa, Banca Regionale Europea Spa, Banca Popolare di Bergamo Spa, Banco di Brescia Spa, Banca di Valle Camonica Spa, Banca Popolare di Ancona Spa and Banca Carime Spa, which were merged in November 2016 and in February 2017, the relative staff numbers have been included in the figures for the Parent for both the comparative dates;*
- *for UBI Fiduciaria Spa and S.B.I.M. Spa the staff numbers as at 31st March 2016 (four staff in service at UBI Fiduciaria) have been included in the figure for UBI Banca because the mergers of both companies into the Parent became effective on 28th September 2016.*

As at 31st March 2017 the total staff of the UBI Banca Group numbered 17,151 compared with 17,560 in December 2016, a reduction of 409 in the period.

In terms of full time equivalents (FTEs), on the other hand, and that is with account taken of the part-time worker effect, the reduction in Group staff numbers was 405.5 (down from 17,013.5 to 16,608.0).

The reduction that occurred is attributable to 486 voluntary redundancies under the "Trade Union Memorandum of Intent – 2019/2020 Business Plan" agreement signed on 11th December 2016 which involved approximately 78% of the 622[15] staff redundancies planned in the first stage of the reorganisation related to the implementation of the Single Bank Project. The remaining 136 staff will leave gradually during the course of the year.

These redundancies were partially offset by new appointments made with a view to generation turnover and support for youth employment, in line with commitments undertaken by the Group in recent years.

15 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.

As shown in the table giving figures for type of contract relating to staff with permanent employee contracts, in the first three months of the year net staff on permanent contracts leaving were partially offset by an increase in staff on temporary contracts.

In detail the aggregate reduction, numbering 409, was the result of the following:

Employees on the payroll

Number		31.3.2017	31.12.2016	Change
Total employees		**17,162**	**17,571**	**-409**
of which:	permanent	16,987	17,478	-491
	on temporary contracts	107	93	14
	apprentices (*)	68	-	68

(*) 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.

- 537 staff leaving (of which 530 on permanent contracts, partly due to the impact of those applying for use of the sector fund, and seven staff on temporary contracts);
- 128 new recruits (39 on permanent contracts and 89 on temporary contracts).

It is underlined with regard to new recruits that the Group has taken on approximately 300 new staff since the presentation of the Business Plan (June 2016) until 31st March 2017.

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		31.3.2017 A	31.12.2016 B	Changes A-B	% changes A/B	31.3.2016 C	Changes A-C	% changes A/C
	ASSETS							
10.	Cash and cash equivalents	476,835	519,357	-42,522	-8.2%	506,194	-29,359	-5.8%
20.	Financial assets held for trading	627,034	729,616	-102,582	-14.1%	966,772	-339,738	-35.1%
30.	Financial assets designated at fair value	190,448	188,449	1,999	1.1%	194,738	-4,290	-2.2%
40.	Available-for-sale financial assets	8,475,803	9,613,833	-1,138,030	-11.8%	15,699,461	-7,223,658	-46.0%
50.	Held-to-maturity investments	7,274,195	7,327,544	-53,349	-0.7%	3,445,469	3,828,726	111.1%
60.	Loans and advances to banks	4,850,605	3,719,548	1,131,057	30.4%	3,591,309	1,259,296	35.1%
70.	Loans and advances to customers	84,521,597	81,854,280	2,667,317	3.3%	84,072,553	449,044	0.5%
80.	Hedging derivatives	424,061	461,767	-37,706	-8.2%	714,946	-290,885	-40.7%
90.	Fair value change in hedged financial assets (+/-)	10,591	23,963	-13,372	-55.8%	61,469	-50,878	-82.8%
100.	Equity investments	254,842	254,364	478	0.2%	259,545	-4,703	-1.8%
120.	Property, plant and equipment	1,637,718	1,648,347	-10,629	-0.6%	1,673,882	-36,164	-2.2%
130.	Intangible assets	1,686,920	1,695,973	-9,053	-0.5%	1,747,089	-60,169	-3.4%
	of which: goodwill	*1,465,260*	*1,465,260*	-	-	*1,465,260*	-	-
140.	Tax assets	2,982,254	3,044,044	-61,790	-2.0%	2,790,272	191,982	6.9%
150.	Non-current assets and disposal groups held for sale	5,811	5,681	130	2.3%	70,283	-64,472	-91.7%
160.	Other assets	924,423	1,297,151	-372,728	-28.7%	895,255	29,168	3.3%
	Total assets	**114,343,137**	**112,383,917**	**1,959,220**	**1.7%**	**116,689,237**	**-2,346,100**	**-2.0%**
	LIABILITIES AND EQUITY							
10.	Due to banks	16,665,755	14,131,928	2,533,827	17.9%	11,495,105	5,170,650	45.0%
20.	Due to customers	56,443,308	56,226,416	216,892	0.4%	56,527,759	-84,451	-0.1%
30.	Debt securities issued	27,562,538	28,939,597	-1,377,059	-4.8%	33,124,613	-5,562,075	-16.8%
40.	Financial liabilities held for trading	722,633	800,038	-77,405	-9.7%	610,468	112,165	18.4%
60.	Hedging derivatives	195,586	239,529	-43,943	-18.3%	1,000,034	-804,448	-80.4%
80.	Tax liabilities	229,327	232,866	-3,539	-1.5%	427,460	-198,133	-46.4%
100.	Other liabilities	2,726,147	1,962,806	763,341	38.9%	2,476,949	249,198	10.1%
110.	Post-employment benefits	306,523	332,006	-25,483	-7.7%	337,289	-30,766	-9.1%
120.	Provisions for risks and charges:	466,939	457,126	9,813	2.1%	255,392	211,547	82.8%
	a) pension and similar obligations	69,230	70,361	-1,131	-1.6%	68,981	249	0.4%
	b) other provisions	397,709	386,765	10,944	2.8%	186,411	211,298	113.4%
140.+170. +180.+190.+ 200.	Share capital, share premiums, reserves, valuation reserves and treasury shares	8,906,575	9,819,728	-913,153	-9.3%	9,877,656	-971,081	-9.8%
210.	Non-controlling interests	50,769	72,027	-21,258	-29.5%	514,451	-463,682	-90.1%
220.	Profit (loss) for the period/year	67,037	-830,150	n.s.	n.s.	42,061	24,976	59.4%
	Total liabilities and equity	**114,343,137**	**112,383,917**	**1,959,220**	**1.7%**	**116,689,237**	**-2,346,100**	**-2.0%**

Reclassified consolidated quarterly balance sheets

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

Reclassified consolidated income statement

Figures in thousands of euro		1Q 2017 A	1Q 2016 B	Changes A-B	% changes A/B	FY 2016 C
10.-20.	Net interest income	347,187	387,600	(40,413)	(10.4%)	1,497,891
	of which: effects of the purchase price allocation	*(3,370)*	*(5,616)*	*(2,246)*	*(40.0%)*	*(19,707)*
	Net interest income excluding the effects of the PPA	*350,557*	*393,216*	*(42,659)*	*(10.8%)*	*1,517,598*
70.	Dividends and similar income	2,045	523	1,522	291.0%	9,678
	Profits of equity-accounted investees	3,809	5,252	(1,443)	(27.5%)	24,136
40.-50.	Net fee and commission income	350,861	337,146	13,715	4.1%	1,335,033
	of which performance fees	*3,223*	*2,311*	*912*	39.5%	*26,349*
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	65,360	15,714	49,646	315.9%	153,711
220.	Other net operating income/expense	28,889	26,705	2,184	8.2%	99,050
	Operating income	**798,151**	**772,940**	**25,211**	**3.3%**	**3,119,499**
	Operating income excluding the effects of the PPA	***801,521***	***778,556***	***22,965***	***2.9%***	***3,139,206***
180.a	Staff costs	(320,579)	(319,787)	792	0.2%	(1,275,306)
180.b	Other administrative expenses	(166,345)	(171,800)	(5,455)	(3.2%)	(734,654)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(35,095)	(36,042)	(947)	(2.6%)	(143,506)
	of which: effects of the purchase price allocation	*(1,943)*	*(3,289)*	*(1,346)*	*(40.9%)*	*(10,624)*
	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets excluding the effects of the PPA	*(33,152)*	*(32,753)*	*399*	*1.2%*	*(132,882)*
	Operating expenses	**(522,019)**	**(527,629)**	**(5,610)**	**(1.1%)**	**(2,153,466)**
	Operating expenses excluding the effects of the PPA	***(520,076)***	***(524,340)***	***(4,264)***	***(0.8%)***	***(2,142,842)***
	Net operating income	**276,132**	**245,311**	**30,821**	**12.6%**	**966,033**
	Net operating income excluding the effects of the PPA	***281,445***	***254,216***	***27,229***	***10.7%***	***996,364***
130.a	Net impairment losses on loans	(134,802)	(155,339)	(20,537)	(13.2%)	(1,565,527)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(16,142)	252	16,394	n.s.	(130,057)
190.	Net provisions for risks and charges	(7,460)	(6,368)	1,092	17.1%	(42,885)
240.+270.	Profits from the disposal of equity investments	116	402	(286)	(71.1%)	22,969
	Pre-tax profit (loss) from continuing operations	**117,844**	**84,258**	**33,586**	**39.9%**	**(749,467)**
	Pre-tax profit (loss) from continuing operations excluding the effects of the PPA	***123,157***	***93,163***	***29,994***	***32.2%***	***(719,136)***
290.	Taxes on income for the period/year from continuing operations	(39,006)	(34,352)	4,654	13.5%	182,388
	of which: effects of the purchase price allocation	*1,758*	*2,952*	*(1,194)*	*(40.4%)*	*10,048*
330.	(Profit) loss for the period/year attributable to non-controlling interests	(6,082)	(7,400)	(1,318)	(17.8%)	1,267
	of which: effects of the purchase price allocation	*95*	*521*	*(426)*	*(81.8%)*	*1,696*
	Profit (loss) for the period/year attributable to the shareholders of the Parent before the Business Plan and other impacts excluding the effects of the PPA	*76,216*	*47,938*	*28,278*	*59.0%*	*(547,225)*
	Profit (loss) for the period/year attributable to the shareholders of the Parent before the Business Plan and other impacts	**72,756**	**42,506**	**30,250**	**71.2%**	**(565,812)**
180.a	Redundancy expenses net of taxes and non-controlling interests	-	(445)	(445)	(100.0%)	(207,783)
210.	Impairment losses on brands net of taxes and non-controlling interests	-	-	-	-	(37,936)
180.b	Single Bank project expenses net of taxes and non-controlling interests	(4,617)	-	4,617	-	(15,541)
200.	Impairment losses on property, plant and equipment net of taxes and non-controlling interests	-	-	-	-	(3,078)
180.b	Bridge bank project expenses net of taxes and non-controlling interests	(1,102)	-	1,102	-	-
340.	**Profit (loss) for the period/year attributable to the shareholders of the Parent**	**67,037**	**42,061**	**24,976**	**59.4%**	**(830,150)**
	Total impact of the purchase price allocation on the income statement	*(3,460)*	*(5,432)*	*(1,972)*	*(36.3%)*	*(18,587)*

Reclassified consolidated quarterly income statements

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

	Total impact of the purchase price allocation on the income statement	*(3,460)*	*(3,311)*	*(4,843)*	*(5,001)*	*(5,432)*

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

Figures in thousands of euro	1Q 2017 *net of non-recurring items*	1Q 2016 *net of non-recurring items*	Changes	% changes
Net interest income (including the effects of the PPA)	347,187	387,600	(40,413)	(10.4%)
Dividends and similar income	2,045	523	1,522	291.0%
Profits of equity-accounted investees	3,809	5,252	(1,443)	(27.5%)
Net fee and commission income	350,861	337,146	13,715	4.1%
of which performance fees	*3,223*	*2,311*	*912*	*39.5%*
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	65,360	15,714	49,646	315.9%
Other net operating income/expense	28,889	26,705	2,184	8.2%
Operating income (including the effects of the PPA)	**798,151**	**772,940**	**25,211**	**3.3%**
Staff costs	(320,579)	(319,787)	792	0.2%
Other administrative expenses	(166,345)	(171,800)	(5,455)	(3.2%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (including the effects of PPA)	(35,095)	(36,042)	(947)	(2.6%)
Operating expenses (including the effects of the PPA)	**(522,019)**	**(527,629)**	**(5,610)**	**(1.1%)**
Net operating income (including the effects of the PPA)	**276,132**	**245,311**	**30,821**	**12.6%**
Net impairment losses on loans	(134,802)	(155,339)	(20,537)	(13.2%)
Net impairment losses on other financial assets and liabilities	2,521	252	2,269	n.s.
Net provisions for risks and charges	(7,460)	(6,368)	1,092	17.1%
Profits from the disposal of equity investments	116	402	(286)	(71.1%)
Pre-tax profit from continuing operations (including the effects of the PPA)	**136,507**	**84,258**	**52,249**	**62.0%**
Taxes on income for the period from continuing operations	(44,138)	(34,352)	9,786	28.5%
Profit for the period attributable to non-controlling interests	(6,082)	(7,400)	(1,318)	(17.8%)
Profit for the period attributable to the shareholders of the Parent	**86,287**	**42,506**	**43,781**	**103.0%**

Following the approval of the new UBI Banca Group guidelines for the identification of non-recurring items, which occurred on 18th October 2016, the summary statement has been revised with regard to the figures for the comparative period and these therefore differ from the information published in the interim financial report for the period ended 31st March 2016.

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

Figures in thousands of euro	1Q 2017	2019/2020 Business Plan Single Bank Project expenses	Other non-recurring items Impairment losses on the Atlante Fund	Other non-recurring items Bridge bank project expenses	1Q 2017 *net of non-recurring items*	1Q 2016	Non-recurring items Adjustments to redundancy expenses (purs. Trade union agreement of 23 12 2015)	1Q 2016 *net of non-recurring items*
Net interest income (including the effects of the PPA)	347,187				347,187	387,600		387,600
Dividends and similar income	2,045				2,045	523		523
Profits of equity-accounted investees	3,809				3,809	5,252		5,252
Net fee and commission income	350,861				350,861	337,146		337,146
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	65,360				65,360	15,714		15,714
Other net operating income/expense	28,889				28,889	26,705		26,705
Operating income (including the effects of the PPA)	**798,151**	**-**	**-**	**-**	**798,151**	**772,940**	**-**	**772,940**
Staff costs	(320,579)				(320,579)	(319,787)		(319,787)
Other administrative expenses	(166,345)				(166,345)	(171,800)		(171,800)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (including the effects of PPA)	(35,095)				(35,095)	(36,042)		(36,042)
Operating expenses (including the effects of the PPA)	**(522,019)**	**-**	**-**	**-**	**(522,019)**	**(527,629)**	**-**	**(527,629)**
Net operating income (including the effects of the PPA)	**276,132**	**-**	**-**	**-**	**276,132**	**245,311**	**-**	**245,311**
Net impairment losses on loans	(134,802)				(134,802)	(155,339)		(155,339)
Net impairment losses on other financial assets and liabilities	(16,142)		18,663		2,521	252		252
Net provisions for risks and charges	(7,460)				(7,460)	(6,368)		(6,368)
Profits from the disposal of equity investments	116				116	402		402
Pre-tax profit from continuing operations (including the effects of the PPA)	**117,844**	**-**	**18,663**	**-**	**136,507**	**84,258**	**-**	**84,258**
Taxes on income for the period from continuing operations	(39,006)		(5,132)		(44,138)	(34,352)		(34,352)
Profit for the period attributable to non-controlling interests	(6,082)				(6,082)	(7,400)		(7,400)
Profit for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**72,756**	**-**	**13,531**	**-**	**86,287**	**42,506**	**-**	**42,506**
Redundancy expenses net of taxes and non-controlling interests	-				-	(445)	445	-
Single Bank project expenses net of taxes and non-controlling interests	(4,617)	4,617			-	-		-
Bridge bank project expenses net of taxes and non-controlling interests	(1,102)			1,102	-	-		-
Profit for the period attributable to the shareholders of the Parent	**67,037**	**4,617**	**13,531**	**1,102**	**86,287**	**42,061**	**445**	**42,506**

	1Q 2017				1Q 2017 *net of non-recurring items*	1Q 2016		1Q 2016 *net of non-recurring items*
ROE (Profit / (Equity + Profit for the period))	3.0%				3.8%	1.7%		1.7%
Cost:income ratio (including the effects of PPA)	65.4%				65.4%	68.3%		68.3%
Cost:income ratio (excluding the effects of PPA)	64.9%				64.9%	67.3%		67.3%

Following the approval of the new UBI Banca Group guidelines for the identification of non-recurring items, which occurred on 18th October 2016, the detailed statement has been revised with regard to the section relating to the the comparative period and this therefore differs from the information published in the interim financial report for the period ended 31st March 2016.

Reconciliation schedule for the period ended 31st March 2017

Items	RECLASSIFIED INCOME STATEMENT Figures in thousands of euro	1Q 2017 Mandatory consolidated financial statements	Reclassifications Tax recoveries	Profit of equity-accounted investees	Depreciation for improvements to leased assets	Single Bank Project expenses (2019/2020 Business Plan)	Bridge bank project expenses	1Q 2017 Reclassified consolidated financial statements
10.-20.	Net interest income	347,187						347,187
70.	Dividends and similar income	2,045						2,045
	Profits of equity-accounted investees			3,809				3,809
40.-50.	Net fee and commission income	350,861						350,861
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	65,360						65,360
220.	Other net operating income/expense	82,170	(53,992)		711			28,889
	Operating income	**847,623**	**(53,992)**	**3,809**	**711**	**-**	**-**	**798,151**
180.a	Staff costs	(320,579)						(320,579)
180.b	Other administrative expenses	(228,853)	53,992			6,883	1,633	(166,345)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(34,384)			(711)			(35,095)
	Operating expenses	**(583,816)**	**53,992**	**-**	**(711)**	**6,883**	**1,633**	**(522,019)**
	Net operating income	**263,807**	**-**	**3,809**	**-**	**6,883**	**1,633**	**276,132**
130.a	Net impairment losses on loans	(134,802)						(134,802)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(16,142)						(16,142)
190.	Net provisions for risks and charges	(7,460)						(7,460)
240.+270.	Profits from the disposal of equity investments	3,925		(3,809)				116
	Pre-tax profit from continuing operations	**109,328**	**-**	**-**	**-**	**6,883**	**1,633**	**117,844**
290.	Taxes on income for the period from continuing operations	(36,237)				(2,238)	(531)	(39,006)
330.	Profit for the period attributable to non-controlling interests	(6,054)				(28)		(6,082)
	Profit for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**67,037**	**-**	**-**	**-**	**4,617**	**1,102**	**72,756**
180.b	Single Bank project expenses net of taxes and non-controlling interests	-				(4,617)		(4,617)
180.b	Bridge bank project expenses net of taxes and non-controlling interests	-					(1,102)	(1,102)
340.	**Profit for the period attributable to the shareholders of the Parent**	**67,037**	**-**	**-**	**-**	**-**	**-**	**67,037**

Reconciliation schedule for the period ended 31st March 2016

Items	RECLASSIFIED INCOME STATEMENT Figures in thousands of euro	1Q 2016 Mandatory consolidated financial statements	Reclassifications Tax recoveries	Reclassifications Profit of equity-accounted investees	Reclassifications Depreciation for improvements to leased assets	Reclassifications Adjustments to redundancy expenses (purs. Agreement of 23 12 2015)	1Q 2016 Reclassified consolidated financial statements
10.-20.	Net interest income	387,600					387,600
70.	Dividends and similar income	523					523
	Profits of equity-accounted investees			5,252			5,252
40.-50.	Net fee and commission income	337,146					337,146
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	15,714					15,714
220.	Other net operating income/expense	81,059	(55,185)		831		26,705
	Operating income	**822,042**	**(55,185)**	**5,252**	**831**	**-**	**772,940**
180.a	Staff costs	(320,554)				767	(319,787)
180.b	Other administrative expenses	(226,985)	55,185				(171,800)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(35,211)			(831)		(36,042)
	Operating expenses	**(582,750)**	**55,185**	**-**	**(831)**	**767**	**(527,629)**
	Net operating income	**239,292**	**-**	**5,252**	**-**	**767**	**245,311**
130.a	Net impairment losses on loans	(155,339)					(155,339)
130. b+c+d	Net impairment losses on other financial assets and liabilities	252					252
190.	Net provisions for risks and charges	(6,368)					(6,368)
240.+270.	Profits from the disposal of equity investments	5,654		(5,252)			402
	Pre-tax profit from continuing operations	**83,491**	**-**	**-**	**-**	**767**	**84,258**
290.	Taxes on income for the period from continuing operations	(34,098)				(254)	(34,352)
330.	Profit for the period attributable to non-controlling interests	(7,332)				(68)	(7,400)
	Profit for the year attributable to the shareholders of the Parent before redundancy expenses	**42,061**	**-**	**-**	**-**	**445**	**42,506**
180.a	Adjustments to redundancy expenses net of taxes and non-controlling interests	-				(445)	(445)
340.	**Profit for the period attributable to the shareholders of the Parent**	**42,061**	**-**	**-**	**-**	**-**	**42,061**

Reconciliation schedule for the year ended 31st December 2016

Items	RECLASSIFIED INCOME STATEMENT Figures in thousands of euro	31.12.2016 Mandatory consolidated financial statements	Reclassifications Tax recoveries	Reclassifications Profit of equity-accounted investees	Reclassifications Depreciation for improvements to leased assets	Reclassifications Redundancy expenses (purs. to 11 12 2016 Agreement and adjustments purs. to 23 12 2015 Agreement)	Reclassifications Brand impairment (2019/2020 Business Plan)	Reclassifications Single Bank Project expenses (2019/2020 Business Plan)	Reclassifications Real estate property impairment	31.12.2016 Reclassified consolidated financial statements
10.-20.	Net interest income	1,497,891								1,497,891
70.	Dividends and similar income	9,678								9,678
	Profits of equity-accounted investees			24,136						24,136
40.-50.	Net fee and commission income	1,335,033								1,335,033
80.+90.+ 100.+110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	153,711								153,711
220.	Other net operating income/expense	306,541	(212,416)		4,925					99,050
	Operating income	**3,302,854**	**(212,416)**	**24,136**	**4,925**	**-**	**-**	**-**	**-**	**3,119,499**
180.a	Staff costs	(1,599,717)				324,411				(1,275,306)
180.b	Other administrative expenses	(970,465)	212,416					23,395		(734,654)
200.+210.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(206,020)			(4,925)		62,854		4,585	(143,506)
	Operating expenses	**(2,776,202)**	**212,416**	**-**	**(4,925)**	**324,411**	**62,854**	**23,395**	**4,585**	**(2,153,466)**
	Net operating income	**526,652**	**-**	**24,136**	**-**	**324,411**	**62,854**	**23,395**	**4,585**	**966,033**
130.a	Net impairment losses on loans	(1,565,527)								(1,565,527)
130. b+c+d	Net impairment losses on other financial assets and liabilities	(130,057)								(130,057)
190.	Net provisions for risks and charges	(42,885)								(42,885)
240.+270.	Profits from the disposal of equity investments	47,105		(24,136)						22,969
	Pre-tax loss from continuing operations	**(1,164,712)**	**-**	**-**	**-**	**324,411**	**62,854**	**23,395**	**4,585**	**(749,467)**
290.	Taxes on income for the year from continuing operations	319,619				(107,283)	(20,836)	(7,606)	(1,506)	182,388
330.	Loss for the year attributable to non-controlling interests	14,943				(9,345)	(4,082)	(248)	(1)	1,267
	Loss for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**(830,150)**	**-**	**-**	**-**	**207,783**	**37,936**	**15,541**	**3,078**	**(565,812)**
180.a	Redundancy expenses net of taxes and non-controlling interests	-				(207,783)				(207,783)
210.	Impairment losses on brands net of taxes and non-controlling interests	-					(37,936)			(37,936)
180.b	Single Bank project expenses net of taxes and non-controlling interests	-						(15,541)		(15,541)
200.	Impairment losses on property, plant and equipment net of taxes and non-controlling interests	-							(3,078)	(3,078)
340.	**Loss for the year attributable to the shareholders of the Parent**	**(830,150)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(830,150)**

Notes to the reclassified consolidated financial statements

The mandatory financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22nd December 2005 and subsequent updates. Therefore, for the purposes of the preparation of these financial statements, the provisions of the fourth update of that document issued on 15th December 2015 have been observed.

The following rules are applied to the reclassified financial statements to allow a vision that is more consistent with a management accounting style:

- the item profits (losses) of equity-accounted investees includes the profits (losses) of equity-accounted investees included within item 240 in the mandatory financial statements;
- the item other net operating income/expense includes item 220, net of the reclassifications mentioned under other points;
- the tax recoveries recognised within item 220 of the mandatory financial statements (other net operating income/expenses) were reclassified as a reduction in indirect taxes included within other administrative expenses;
- the item net impairment losses on property plant and equipment and intangible assets includes items 200 and 210 in the mandatory financial statements and also the instalments relating to the depreciation of leasehold improvements classified within item 220;
- the item profits (losses) from the disposal of equity investments includes the item 240, net of profits (losses) of equity-accounted investees and also item 270 in the mandatory financial statements;

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- expenses resulting from the approval of the new 2019/2020 Business Plan have been separated and stated on single lines (net of taxes and non-controlling interests) at the foot of the statements (the expenses were recognised in the income statement in the second quarter of 2016, with slight adjustments in subsequent periods) as follows:
  - redundancy expenses include part of item 180a in the mandatory financial statements;
  - expenses incurred for the Single Bank Project contain part of item 180b in the mandatory financial statements;
  - impairment of brands includes part of item 210;
- redundancy expenses (net of taxes and non-controlling interests), present in the first, third and fourth quarters of 2016, partially include item 180a in the mandatory financial statements;
- net impairment losses on property, plant and equipment (net of taxes and non-controlling interests), present in the fourth quarter of 2016, partially include item 200 in the mandatory financial statements;
- the expenses incurred in relation to the acquisition of the Bridge Banks (net of taxes and non-controlling interests), present in the first quarter of 2017, partially include item 180b.

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

The comments on the performance of the main balance sheet and income statement items are made on the basis of the reclassified statements and the reclassified statements for the comparative periods and the tables providing details included in the subsequent sections of this 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 2006[1], two special schedules have been included, the first a brief summary (which provides a comparison of the normalised results for the period) and the second more detailed, which shows the impact on earnings of the principal non-recurring events and items – since the relative effects on capital and cash flow, being closely linked, are not significant – which are summarised as follows:

1st Quarter 2017:
- expenses connected with the approval of the new 2019/2020 Business Plan (connected with the completion of the Single Bank Project);
- impairment losses on investment in the Atlante Fund;
- the expenses incurred in relation to the project to acquire the Bridge Banks.

1st Quarter 2016:
- adjustments to redundancy expenses pursuant to Trade Union agreement of 23rd December 2015.

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

The consolidated income statement

-The income statement figures commented on are based on the reclassified consolidated financial statements (the income statement, the quarterly income statements and the income statement net of the more significant principal non-recurring items – in brief and detailed versions) contained in another section of this report and the tables furnishing details presented below are also based on those statements. The notes that follow those reclassified financial statements may be consulted as may the reconciliation schedules for a description of the reclassification. Furthermore, the commentary examines changes that occurred during the first quarter of 2017 compared with both the same period of the previous year and the final three months of 2016 (the latter highlighted with a light background colour).

The first quarter of the year ended with a **profit** of €67 million[1], 59.4% above the €42.1 million in the same period of 2016, thanks to a positive performance by operating income, a further reduction in expenses, as well as lower net impairments on the loan portfolio. The result achieved becomes even more significant considering that the Group concurrently managed all the legal complexities associated with the merger of its last five former network banks.

The quarter-on-quarter trend shows a clear improvement from the net loss of €75.6 million recorded in the fourth quarter of 2016, as the latter was affected above all by expenses borne by the banking sector as a whole, incurred at the end of last year (additional contribution to the Resolution Fund of €74.7 million, overall write-down of the investment in the Atlante Fund amounting to €73 million, as well as the impairment loss on the investment in the Voluntary Scheme of the Interbank Deposit Protection Fund to support CariCesena, amounting to €3.9 million), despite a quarterly recovery in revenue.

In the three months of the reporting period, ordinary operations generated **operating income** of €798.2 million, 3.3% higher than the €772.9 million in 2016, the aggregate result of the performance reported below.

On a quarter-on-quarter basis, operating income further improved from the €785.5 million in the fourth quarter of last year, mainly attributable to trading and to fee and commission income, despite a 4.8% reduction in net interest income.

Net interest income, inclusive of the effects of the PPA, which came to -€3.4 million (compared with -€5.6 million in the first three months of 2016) fell to €347.2 million, compared with €387.6 million in the comparative period, mainly incorporating the change in the structure of interest rates in the two periods[2], but also due to the effects of volumes of general banking business and investments. In detail[3]:

- business with customers generated net interest income of €300.9 million (compared with €330.8 million in the comparative period). This decrease was due to the evolution of lending volumes (1.2% year-on-year fall in average stocks as calculated in management accounts based on gross interest bearing loans, including an 8.2% drop in the short-term lending component), but more importantly to the impact of interest rates on the overall lending portfolio, which was only partially offset by the downward trend in medium to long-term funding. Even though interest rates significantly affected short-term funding as well, the latter was more than offset by the decrease in medium to long-term funding. In this context the customer spread narrowed by approximately 14 basis points compared with the first quarter of 2016, affected by a greater reduction in interest rates on lending compared with those on funding.

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1 Following the adoption of new guidelines for the definition of non-recurring items, approved by the Management Board in October 2016 (see the preceding section "Reclassified financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules"), the items already included in the comparative statement for the period ended 31st March 2016 have been revised.
Net of non-recurring items (net of taxes and non-controlling interests), normalised profit rose to €86.3 million, from €42.5 million in 2016. Non-recurring items were negative overall by €19.3 million in the first quarter of 2017 (due to the recognition of a further impairment loss recognised on the Atlante Fund investment and expenses connected with the acquisition of the Bridge Banks, as well as expenses to complete the Single Bank project) and also negative in the same period of 2016, but only by €0.4 million (following recognition of adjustments to redundancy expenses).
Both quarters incorporated expenses resulting from the purchase price allocation (PPA), amounting to €3.5 million in 2017 and €5.4 million in 2016.

2 The average one-month Euribor rate remained negative, falling to -0.377% in the first three months of the current financial year, from -0.258% calculated in the first quarter of 2016.

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 within the different areas of business (with customers, financial, with banks).
For the period ended 31st March 2017, the Group, in accordance with its own policies and with international accounting standards, did not recognise the benefits deriving from the TLTRO II.

The balance also includes the differentials received mainly on hedges on bonds (€34.6 million compared with €46.8 million before);

- the securities portfolio generated net interest income of €48.8 million (€59.3 million in 2016), in the presence of investments in debt securities, down over twelve months by €3.8 billion. While a greater contribution was provided by the held-to-maturity portfolio, increased by former AFS securities reclassified in the fourth quarter of 2016 (though trading income was reduced to nearly zero), the contribution from bonds recognised as AFS decreased to €37.2 million (from €80 million in the comparative period), due amongst other things to profit-taking carried out during that time. This item also incorporated costs on uncovered short positions (-€328 thousand) and partial hedges on fixed income securities (the differentials paid on derivatives fell from €32.4 million to €7.2 million after action taken to close IRSs carried out in December);
- business on the interbank market generated a nearly unchanged negative result of €2.5 million, mainly the result of business with other banking counterparties, since interest on debt to central banks went down (it should be considered that the interest rate on principal refinancing operations fell to zero on 16th March 2016, from the previous 0.05% charged from September 2014 until then).

Interest and similar income: composition

Figures in thousands of euro	Debt instruments	Financing	Other transactions	1Q 2017	1Q 2016
1. Financial assets held for trading	185	-	-	185	1,693
2. Financial assets designated at fair value	-	-	-	-	-
3. Available-for-sale financial assets	37,165	-	-	37,165	80,025
3. Held-to-maturity investments	19,025	-	-	19,025	11,265
5. Loans and advances to banks	158	2,434	-	2,592	2,040
6. Loans and advances to customers	5	392,780	30	392,815	459,398
7. Hedging derivatives	X	X	27,326	27,326	14,440
8. Other assets	X	X	7	7	63
Total	**56,538**	**395,214**	**27,363**	**479,115**	**568,924**

Interest and similar expense: composition

Figures in thousands of euro	Borrowings	Securities	Other transactions	1Q 2017	1Q 2016
1. Due to central banks	(452)	X	-	(452)	(1,834)
2. Due to banks	(4,622)	X	-	(4,622)	(2,785)
3. Due to customers	(9,276)	X	(14)	(9,290)	(13,916)
4. Debt securities issued	X	(117,235)	-	(117,235)	(161,472)
5. Financial liabilities held for trading	(328)	-	-	(328)	(1,312)
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and provisions	X	X	(1)	(1)	(5)
8. Hedging derivatives	X	X	-	-	-
Total	**(14,678)**	**(117,235)**	**(15)**	**(131,928)**	**(181,324)**
			Net interest income	**347,187**	**387,600**

On a quarter-on-quarter basis, *net interest income* shrank by €17.6 million. Within the item the main components all decreased, only marginally offset by a moderate improvement in the interbank result (beneficial for debt to banks other than central banks).

Quarterly net interest income

Figures in thousands of euro	2017	2016			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Banking business with customers	300,899	312,354	313,688	322,298	330,823
Financial activities	48,797	55,059	54,232	58,494	59,298
Interbank business	(2,515)	(2,883)	(672)	(3,187)	(2,579)
Other items	6	235	306	367	58
Net interest income	**347,187**	**364,765**	**367,554**	**377,972**	**387,600**

More specifically, business with customers continued to suffer from the effect of interest rates on the lending portfolio, only partly offset by a downward trend in medium to long-term funding and by wider mark-downs on longer maturities (in the two periods, the spread narrowed by a few basis points). However, it should be underlined that for the third consecutive quarter the mark-down improved, confirming the trend seen in the previous financial year.
The contribution from the debt securities portfolio, on the other hand, reflected the trend for AFS securities (interest received fell by €32.4 million, owing to a €1.1 billion reduction in the portfolio), largely offset by an increase in interest on held-to-maturity investments, but above all by lower hedging costs for the period (-€19.4 million), following action taken to restructure interest rate risk in December 2016.

Dividends of €2 million were received during the quarter, almost entirely on the AFS securities portfolio held by UBI Banca, of which €1.4 million relating to the former network banks BRE and Carime, in the form of returns on stakes held in the Bank of Italy, while the remainder comes from shares held in UCITS (this item had totalled just €0.5 million in the first quarter of 2016, as Bank of Italy dividends were received in the month of May).

Profits of equity-accounted investments[4] in the first three months of the year came to €3.8 million (€5.3 million in the comparative period), the most significant of which were earned by: Zhong Ou (€1.7 million, compared with €2.3 million previously), Lombarda Vita (€0.5 million, unchanged), Aviva Vita (down to €1.4 million from €2.7 million, the latter figure including €0.8 million from Aviva Assicurazioni Vita, which was merged into Aviva Vita with effect from 31st December 2016).

Fee and commission income: composition

Figures in thousands of euro	1Q 2017	1Q 2016
a) guarantees granted	12,552	13,004
c) management, trading and advisory services	231,761	214,140
1. trading in financial instruments	3,759	4,746
2. foreign exchange trading	1,775	1,725
3. portfolio management	89,423	77,558
3.1. individual	19,334	18,302
3.2. collective	70,089	59,256
4. custody and administration of securities	1,892	1,943
5. depository banking	-	-
6. placement of securities	68,516	67,757
7. receipt and transmission of orders	9,420	10,040
8. advisory activities	1,937	1,446
8.1 on investments	1,937	1,446
9. distribution of third party services	55,039	48,925
9.1. portfolio management	5	6
9.1.1. individual	5	6
9.2. insurance products	50,318	43,323
9.3. other products	4,716	5,596
d) collection and payment services	35,288	34,736
f) services for factoring transactions	2,986	3,706
i) current account administration	48,742	43,891
j) other services	67,963	69,970
Total	**399,292**	**379,447**

Fee and commission expense: composition

Figures in thousands of euro	1Q 2017	1Q 2016
a) guarantees received	(157)	(424)
c) management and trading services:	(26,879)	(20,830)
1. trading in financial instruments	(2,928)	(2,968)
2. foreign exchange trading	-	(28)
3. portfolio management	(2,303)	(2,394)
3.1. own	-	-
3.2. on behalf of third parties	(2,303)	(2,394)
4. custody and administration of securities	(1,585)	(1,228)
5. placement of financial instruments	(2,971)	(1,231)
6. financial instruments, products and services distributed through indirect networks	(17,092)	(12,981)
d) collection and payment services	(10,989)	(10,319)
e) other services	(10,406)	(10,728)
Total	**(48,431)**	**(42,301)**
Net fee and commission income	**350,861**	**337,146**

Net fee and commission income rose to €350.9 million (up €13.7 million compared with 2016), thanks to the dynamics in both securities services and general banking services. In detail:

- management, trading and advisory services contributed €203.1 million[5], up €11.5 million compared with the same period in 2016, with €0.9 million of that increment related to higher performance fees relating to UBI Pramerica SGR. The difference is for the most part a consequence of good results for portfolio management (+€12 million both from customer portfolio management and from mutual investment funds and SICAVs, by virtue of higher average assets under management for both the former network banks and UBI Pramerica SGR), but it is also thanks to an increase in third party services distributed, especially life insurance policies (about +€7 million, thanks to a higher number of policies sold). Affected by volatility on equity markets and lower volumes of "trades" for assets under custody, the

4 The item consists of the profits of the companies recognised on the basis of the percentage interest held by the Group.
5 The amount consists of management, trading and advisory services net of the corresponding expense items and is calculated excluding currency trading.

following items recorded decreases: trading (-€0.9 million), receipt and transmission of orders (€-0.6 million), and custody and administration of securities (€-0.4 million). The performance of securities placements (-€1 million) is entirely a function of the totals subscribed, and remained in line with volumes recorded in the first quarter of 2016. On the expense side, commissions for the sale of financial instruments, products and services through indirect networks rose (by €4.1 million) to €17.1 million, due to higher volumes of business intercepted by financial advisors outside of branches;

- ordinary banking business[6] improved its contribution by €2.2 million to €147.8 million. While current account administration fees rose by €4.9 million, thanks to higher profitability on ordinary accounts, combined with a contribution from bundled accounts, there was a generalised decrease in other services (-€1.7 million, due to lower financing and personal guarantees granted in relation to the former Centrobanca's business, as well as to a €1.8 million decrease in commitment fees, recognised in the item amounting to €32.2 million, partly in relation to the trend in average short-term lending volumes), in collection and payment services, in factoring services and in guarantees given/received (-€1 million combined).

Compared with the fourth quarter of last year, *net fee and commission income* grew, but less substantially (+€4.7 million), due partly to the different impact of UBI Pramerica SGR *performance fees* in the two periods (€18.3 million in the last three months of last year and €3.2 million[7] in the first quarter of 2017).
In detail, management, trading and advisory services increased by €12.4 million to €203.1 million, driven primarily by the placement of securities (+€22.7 million, partly resulting from greater placements of non-Group SICAVs) and by good performance for the distribution of third party services, especially life insurance policies (+€9 million), against a slowdown recorded for customer portfolio management (in which the aforementioned performance fees are recognised) and an increase in expenses related to products and services distributed through indirect networks.
Banking services, on the other hand, fell to €147.8 million (-€7.7 million), incorporating not only generally weak volumes of business, but also seasonal factors in charging fees and commissions as follows: -€2.2 million for collection and payment services (as fewer transactions were executed); -€0.7 million for factoring; -€1 million for other services (mainly related to loans and personal guarantees, given the slight weakness in commitment fees (-€0.5 million); and -€6.5 million in current account administration, as a consequence of overall charges on ordinary accounts occurring at the end of the year.

Quarterly net fee and commission income

Figures in thousands of euro	2017 1st Quarter	2016 4th Quarter	2016 3rd Quarter	2016 2nd Quarter	2016 1st Quarter
Management, trading and advisory services (net of the corresponding expense items):	**203,107**	**190,712**	**177,357**	**186,382**	**191,613**
trading in financial instruments	831	1,295	608	2,200	1,778
portfolio management	87,120	99,253	82,408	78,236	75,164
custody and administration of securities	307	1,026	940	695	715
placement of securities	65,545	42,855	57,672	60,347	66,526
receipt and transmission of orders	9,420	9,063	7,194	9,324	10,040
advisory activities	1,937	1,664	1,828	1,851	1,446
distribution of third party services	55,039	50,385	40,527	46,790	48,925
financial instruments, products and services distributed through indirect networks	(17,092)	(14,829)	(13,820)	(13,061)	(12,981)
Banking services (net of the corresponding expense items):	**147,754**	**155,476**	**144,035**	**143,925**	**145,533**
guarantees	12,395	9,689	10,005	10,349	12,580
foreign exchange trading	1,775	1,775	1,696	1,749	1,697
collection and payment services	24,299	26,538	24,678	25,952	24,417
services for factoring transactions	2,986	3,638	3,189	3,404	3,706
current account administration	48,742	55,243	47,580	46,427	43,891
other services	57,557	58,593	56,887	56,044	59,242
Net fee and commission income	**350,861**	**346,188**	**321,392**	**330,307**	**337,146**

6 All the changes were calculated by subtracting commission expense from the respective commission income.
7 Performance fees amounted to 0.9% of net fee and commission income in the first three months, compared with 5.3% in the previous quarter and 0.7% in the first quarter of 2016.

In the first three months of the year, a favourable situation on financial markets, although highly volatile, enabled *financial activities* to generate a profit of €65.4 million, a clear recovery from the €15.7 million in the same period of 2016. More precisely:

Net trading income (item 80)

Figures in thousands of euro	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net income 1Q 2017 [(A+B)-(C+D)]	1Q 2016
1. Financial assets held for trading	**1,826**	**1,224**	**(784)**	**(1,661)**	**605**	**13,866**
1.1 Debt instruments	790	476	(55)	(552)	659	3,067
1.2 Equity instruments	845	106	(14)	(21)	916	(536)
1.3 Units in UCITS	-	1	(18)	(1)	(18)	5
1.4 Financing	-	-	-	-	-	-
1.5 Other	191	641	(697)	(1,087)	(952)	11,330
2. Financial liabilities held for trading	**-**	**39**	**-**	**-**	**39**	**530**
2.1 Debt instruments	-	39	-	-	39	530
2.2 Payables	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**7,339**	**(6,240)**
4. Derivative instruments	**97,928**	**40,767**	**(83,154)**	**(41,731)**	**15,967**	**(6,652)**
4.1 Financial derivatives	97,928	40,767	(83,154)	(41,731)	15,967	(6,652)
- on debt instruments and interest rates	*92,965*	*32,544*	*(80,282)*	*(36,925)*	*8,302*	*(5,335)*
- on equity instruments and share indices	*3,336*	*4,226*	*(1,277)*	*(873)*	*5,412*	*(3,384)*
- on currencies and gold	*X*	*X*	*X*	*X*	*2,157*	*1,863*
- other	*1,627*	*3,997*	*(1,595)*	*(3,933)*	*96*	*204*
4.2 Credit derivatives	-	-	-	-	-	-
Total	**99,754**	**42,030**	**(83,938)**	**(43,392)**	**23,950**	**1,504**

Net hedging loss (item 90)

Figures in thousands of euro	1Q 2017	1Q 2016
Net hedging loss	**(2,089)**	**(986)**

Profit from disposal/repurchase (item 100)

Figures in thousands of euro	Profits	Losses	Net profit 1Q 2017	1Q 2016
Financial assets				
1. Loans and advances to banks	-	-	-	-
2. Loans and advances to customers	254	(975)	(721)	(1,607)
3. Available-for-sale financial assets	44,057	(26)	44,031	24,855
3.1 Debt instruments	*43,619*	(2)	*43,617*	*24,564*
3.2 Equity instruments	*438*	(24)	*414*	*291*
3.3 Units in UCITS	-	-	-	-
3.4 Financing	-	-	-	-
4. Held-to-maturity investments	-	-	-	-
Total assets	**44,311**	**(1,001)**	**43,310**	**23,248**
Financial liabilities				
1. Due to banks	-	-	-	-
2. Due to customers	-	-	-	-
3. Debt securities issued	325	(3,134)	(2,809)	(6,756)
Total liabilities	**325**	**(3,134)**	**(2,809)**	**(6,756)**
Total	**44,636**	**(4,135)**	**40,501**	**16,492**

Net profit (loss) on financial assets and liabilities designated at fair value (item 110)

Figures in thousands of euro	1Q 2017	1Q 2016
Net profit (loss) on financial assets and liabilities designated at fair value	**2,998**	**(1,296)**

Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	**65,360**	**15,714**

- trading made a positive contribution of approximately €24 million (compared with €1.5 million in the comparative period) as follows: +€0.7 million from debt instruments; +€6.3 million from equity instruments and the related derivatives (almost all listed on regulated markets and with equity indices as the underlying); +€8.5 million from business in foreign currency[8] in relation to business with corporate clients; and €8.3 million from debt securities and interest rate derivatives (profits/losses, gains/losses and accruals). The latter – which include trades on behalf of customers – reflect both transactions in trading derivatives (including any unwinding) and fair value movements in the derivatives themselves (for investment and balanced on the market), as well as by the relative differentials accrued (which were negative in the first months of the year, given the growth, albeit moderate, in interest rate swaps on long-term maturities);

- hedging, which consists of the change in the fair value of derivatives and of the relative items hedged, generated a loss of €2.1 million, related above all to the valuation of mortgages and other loans hedged (compared with a loss of €1 million in 2016, due primarily to derivatives on AFS securities and, to a lesser extent, on mortgages and loans);
- the disposal of AFS securities and the repurchase of financial liabilities generated a profit of €40.5 million, as follows: +€43.6 million on sales of Italian government securities by the Parent; +€0.4 million on disposals of equity investments; -€0.7 million from the disposal of bad loans; and -€2.8 million from repurchases of debt securities issued, as part of normal direct business with customers.
  In 2016 the sale and repurchase of financial assets/liabilities gave rise to a profit of €16.5 million, as follows: +€24.6 million on the sale of Italian government securities; +€0.3 million as the positive impact from the conclusion of the liquidation of an industrial company (in which the Group held a 6% stake); -€1.6 million from the disposal of bad loans (relating to the former Centrobanca); and -€6.8 million from the repurchase of debt securities;
- fair value movements in investments in Tages Funds, which, gave rise to a profit of €3 million (a loss of €1.3 million in 2016, when capital losses on Tages Funds were only partially offset by increases in the fair value of private equity investments).

Examining quarterly trends, the result for *financial activities* also improved encouragingly, up €18 million on €47.4 million in the previous three months, thanks above all to the result for the sale and repurchase of financial assets/liabilities, which increased by €37.8 million, including €22.5 million from the disposal of Italian government securities.
The fourth quarter of 2016 was, by contrast, characterised by a substantial contribution from trading, amounting to €46.4 million, of which €29.7 million from trading in debt securities and interest rate derivatives, partly due to action taken to restructure interest rate risk in the AFS portfolio in early December through the unwinding of interest rate swaps used for interest rate hedges, restored on a 'forward' date.

Quarterly performance by financial activities

Figures in thousands of euro	2017 1st Quarter	2016 4th Quarter	2016 3rd Quarter	2016 2nd Quarter	2016 1st Quarter
Net trading income	23,950	46,448	17,924	4,071	1,504
Net hedging income (loss)	(2,089)	(574)	2,239	(264)	(986)
Total assets	*43,310*	*8,327*	*9,584*	*76,373*	*23,248*
Total liabilities	*(2,809)*	*(5,646)*	*(6,997)*	*(6,363)*	*(6,756)*
Profit from disposal or repurchase	40,501	2,681	2,587	70,010	16,492
Net income (loss) on financial assets and liabilities designated at fair value	2,998	(1,188)	1,005	(6,942)	(1,296)
Net income	**65,360**	**47,367**	**23,755**	**66,875**	**15,714**

Other net operating income/expense came to €28.9 million, an increase of approximately €2.2 million, as a result of growth in income (+€1.9 million) and only a marginal fall in operating expenses (-€0.2 million), mainly related to treasury contracts with public authorities.
Despite decreases recorded for recoveries of insurance premiums (-€0.4 million, linked to lower volumes of business, where the related expense item is recognised under other administrative expenses) and in recoveries of expenses on finance lease contracts (-€0.1 million, offset in related expense items), other operating income benefited from an increase in prior year income

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, 4.1 and 3) must be considered together as a whole. On the whole the items relate to the results of spot and forward currency trading by customers (transactions closed and/or existing) and transactions on behalf of customers balanced operationally by UBI Banca on the market.
Large fluctuations in currencies that have occurred since 2015, which had driven the increase in customer business, have not yet come to an end, partly owing to uncertainties over the United Kingdom's process of withdrawing from the European Union.

(+€2.4 million), within which fast credit processing fees are recognised, which fell by €0.6 million.

From a quarter-on-quarter viewpoint, *other net operating income/expense* improved by €6.8 million from €22 million in the fourth quarter of last year, thanks first of all to a reduction in overall expenses (-€6.8 million), especially in prior year expenses (-€6.4 million, thanks to the absence of expenses related to robberies and losses on lawsuits and related legal expenses for the former network banks, incurred at the end of the year). The positive components, which remained unchanged in the two periods, were however the aggregate result of opposing trends: a contraction in the recovery of expenses on current accounts (-€3 million, influenced by seasonal factors for charges on ordinary accounts) and in other income for property management (-€0.8 million overall), whereas prior year income grew (by €3.7 million, with fast credit processing fees stable over the two periods).
It must always be considered that because the underlying items of prior year income and expense items are of a varied and non-structural nature, they often fluctuate greatly from one period to another.

Other net operating income/expense

Figures in thousands of euro	1Q 2017	1Q 2016
Other operating income	**40,503**	**38,554**
Recovery of expenses and other income on current accounts	4,001	4,060
Recovery of insurance premiums	4,617	4,978
Recoveries of taxes	53,992	55,185
Rents and other income for property management	1,180	1,135
Recovery of expenses on finance lease contracts	3,545	3,660
Other income and prior year income	27,160	24,721
Reclassification of "tax recoveries"	*(53,992)*	*(55,185)*
Other operating expenses	**(11,614)**	**(11,849)**
Depreciation of leasehold improvements	(711)	(831)
Costs relating to finance lease contracts	(2,460)	(2,447)
Expenses for public authority treasury contracts	(631)	(874)
Other expenses and prior year expense	(8,523)	(8,528)
Reclassification of depreciation of leasehold improvements	*711*	*831*
Total	**28,889**	**26,705**

Operating expenses totalled €522 million (-€5.6 million compared with the first quarter of 2016), the aggregate result of differing trends in the different components as follows:

- *staff costs* remained broadly stable at €320.6 million (+€0.8 million).
  As shown in the table, all main employee personnel expense items did not change significantly in the two periods, as growth in wages and increases connected with the national trade union agreement were adequately offset by a decrease in the average workforce count (-175 staff). Increases were seen in "Other employee benefits" (+€2.6 million), due in part to lower reimbursements for training courses.
  Another factor contributing to the stability of the item was the reduced fees paid to Directors and Statutory Auditors (-€1 million approx.), a consequence of the ongoing process to rationalise the Group's ownership structure, which has lowered the number of Board Members and also led to a reduction in the fees paid to them;

Staff costs: composition

Figures in thousands of euro	1Q 2017	1Q 2016
1) Employees	**(317,778)**	**(316,030)**
a) Wages and salaries	(225,485)	(225,429)
b) Social security charges	(60,673)	(61,468)
c) Post-employment benefits	(12,463)	(12,276)
d) Pension expense	-	-
e) Provision for post-employment benefits	(187)	(525)
f) Pensions and similar obligations:	(285)	(207)
- defined contribution	-	-
- defined benefit	(285)	(207)
g) Payments to external supplementary pension funds:	(9,857)	(9,850)
- defined contribution	(9,763)	(9,812)
- defined benefit	(94)	(38)
h) Expenses resulting from share based payments	-	-
i) Other employee benefits	(8,828)	(6,275)
2) Other staff in service	**(318)**	**(294)**
- Expenses for agency staff on staff leasing	(3)	(2)
- Other expenses	(315)	(292)
3) Directors and statutory auditors	**(2,483)**	**(3,463)**
4) Expenses for retired staff	**-**	**-**
Total	**(320,579)**	**(319,787)**

- *other administrative expenses* came to €166.3 million, down €5.5 million, €3 million of which is related to indirect taxes, mostly a consequence of the absence of intercompany VAT charges on service fees following the establishment of a "Single Bank".
  The €2.5 million decrease in current expenses is the aggregate result of savings in almost all items shown in the table, the most significant being: rent payable, tenancy of premises and property maintenance (-€1.6 million due to mini-branch closures in April 2016 and closures related to the Single Bank project), as well as outsourced services (-€1.4 million, mainly linked to the completed marketing campaign that included a sweepstakes, which ended in the first half of 2016). The only items that went against the downward trend were professional and advisory services (+€0.9 million, for action taken for compliance with new regulations and requirements, such as MiFID II, as well as for services relating to IT systems and digital innovation), and credit recovery expenses (+1.4 million). It should also

be considered that "membership fees" include the ordinary contribution to the Resolution Fund of €31.6 million[9] for 2017; the figure for 2016 included the estimated contribution amounting to €31.9 million;

- *depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets* decreased moderately to €35.1 million (-€0.9 million), as a result of both lower depreciations on real estate assets (-€1.3 million, partly owing to branch closures) and the decrease in PPA (-€1.3 million, attributable to impairments on the former network banks' brands taken at the end of last year), whereas there were higher depreciations on IT components (+€1.7 million, pertaining to both software and central hardware components).

Other administrative expenses: composition

Figures in thousands of euro	1Q 2017	1Q 2016
A. Other administrative expenses	**(156,317)**	**(158,778)**
Rent payable	(11,809)	(12,429)
Professional and advisory services	(18,194)	(17,297)
Rentals hardware, software and other assets	(8,362)	(8,107)
Maintenance of hardware, software and other assets	(10,692)	(10,832)
Tenancy of premises	(10,409)	(11,066)
Property maintenance	(3,196)	(3,547)
Counting, transport and management of valuables	(2,857)	(2,829)
Membership fees	(34,579)	(34,612)
Information services and land registry searches	(2,128)	(2,453)
Books and periodicals	(292)	(339)
Postal	(3,317)	(3,308)
Insurance premiums	(7,908)	(7,894)
Advertising	(3,523)	(3,637)
Entertainment expenses	(262)	(301)
Telephone and data transmission expenses	(10,915)	(11,133)
Services in outsourcing	(9,950)	(11,362)
Travel expenses	(3,314)	(3,553)
Credit recovery expenses	(9,389)	(7,979)
Forms, stationery and consumables	(1,513)	(1,887)
Transport and removals	(1,326)	(1,346)
Security	(1,380)	(1,678)
Other expenses	(1,002)	(1,189)
B. Indirect taxes	**(10,028)**	**(13,022)**
Indirect taxes and duties	(2,932)	(2,058)
Stamp duty	(49,054)	(51,642)
Municipal property tax	(5,218)	(5,036)
Other taxes	(6,816)	(9,471)
Reclassification of "tax recoveries"	*53,992*	*55,185*
Total	**(166,345)**	**(171,800)**

A quarter-on-quarter analysis shows a continued trend to contain **operating expenses**, which at €522 million were reduced by €3.6 million from the €525.6 million in the fourth quarter of 2016 (normalised with the exclusion of the €74.7 million additional contribution to the Resolution Fund requested by the Bank of Italy in December). In detail, compared with the fourth quarter of last year:

- *staff costs* were reduced by €0.9 million (from €321.5 to €320.6 million), generated by the first savings resulting from changes in the staff numbers (early retirements and voluntary redundancies as per the agreement with trade unions signed on 11th December 2016 were mainly concentrated at the end of February), which amply offset normal growth in wages;
- *other administrative expenses* (net of the aforementioned extraordinary contribution) remained stable at €166.3 million (-€0.3 million), since the posting of €31.6 million for the ordinary contribution to the Resolution Fund was offset by lower expenditures for projects, advertising, credit recovery and legal/corporate advisory services, as well as for property repairs (which were concentrated towards the end of the year);
- *depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets* were reduced by €2.4 million to €35.1 million, due to lower depreciation on real estate (-€1.5 million) and on IT assets (-€0.9 million).

As a consequence of the performance described above, **net operating income** improved to €276.1 million, a increase of 12.6% on the fourth quarter of 2016.
Quarter-on-quarter, net operating income rose by 49% compared with €185.2 million in the final three months of the previous year (+6.3% compared with the normalised figure for the fourth quarter of 2016).

As a reflection of the high quality of the loan portfolio in terms of both the percentage of low-risk performing loans and inflows of "new non-performing loans", *net impairment losses on loans* came to €134.8 million in the first quarter, down 13.2% compared with €155.3 million in the same period of 2016.
As shown in the table, this item included €131.4 million of specific net impairment losses, down €18.8 million on the first three months of 2016, largely originating from the former network banks; the item, however, also benefited from reversals (excluding present value discounts) amounting to €80.9 million (€70.8 million in 2016).
Collective net impairment losses, meanwhile, came to €3.4 million, down €1.7 million on 2016, the aggregate result in detail of net impairment losses on performing loans that were almost

9 This item also includes settlement of a balance of €99 thousand related to the payment of the annual Resolution Fund quota for 2015.

unchanged in the two periods (€7.7 million, compared with €7.8 million previously), offset by an increase in reversals (€4.2 million, compared with €2.6 million previously), mainly attributable to Prestitalia, UBI Factor and UBI Banca International.

Net impairment losses on loans: composition

Figures in thousands of euro	Impairment losses/ reversals of impairment losses, net - Specific	Impairment losses/ reversals of impairment losses, net - Portfolio	1Q 2017
Loans and advances to banks	-	2	2
Loans and advances to customers	(131,363)	(3,441)	(134,804)
Total	**(131,363)**	**(3,439)**	**(134,802)**

Figures in thousands of euro	Impairment losses/ reversals of impairment losses, net - Specific	Impairment losses/ reversals of impairment losses, net - Portfolio	1Q 2016
Loans and advances to banks	-	-	-
Loans and advances to customers	(150,151)	(5,188)	(155,339)
Total	**(150,151)**	**(5,188)**	**(155,339)**

As a result of the above, the *loan loss rate* (calculated as total net impairment losses as a percentage of the portfolio of net loans to customers at the end of the period) decreased to 0.64%, compared with 0.74% in the comparative quarter (annualised figures); over the full year 2016, this rate was 1.91%, due to greater impairment losses recognised in accordance with the provisions of the Business Plan.

To confirm the positive ongoing trend, *net impairment losses* also contracted quarter-on-quarter, down 29.7% compared with €191.8 million recorded in the fourth quarter last year, which had given an annualised loan loss rate of 0.94%.

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

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

The following was also recognised in the income statement in the first quarter:

- €16.1 million of *net impairment losses on other financial assets/liabilities*[10], composed as follows:
  - -€38.9 million from item 130b, of which -€38.1 million for the write-down on the investment in the Atlante Fund (€18.7 million normalised, as a further write-down following the €19.4 million recognised and normalised in December of last year as an adjustment to the payment commitment made in early January 2017), while the remaining €0.8 million was related to write-downs of instruments held in UBI Banca's AFS portfolio;
  - +€22.8 million from item 130d, which includes €19.4 million of reversals on the aforementioned commitment relating to the Atlante Fund, while the remainder related to reversals on unsecured guarantees and sundry commitments;
- €7.5 million of *net provisions for risks and charges*[11], €3.6 million of which relating to litigation (on compounding of interest and investments, bonds and derivatives) and €3.3

10 In the first quarter of 2016, there had been €0.2 million of *net reversals of impairment losses*, composed as follows: -€4.7 million for item 130b (of which -€0.4 million, relating to write-downs of instruments held in UBI Banca's AFS portfolio, consisting mainly of units in UCITS, and -€4 million relating to equity instruments acquired as part of lending business); +€4.9 million for item 130d, consisting of €3 million of reversals of unsecured guarantees and sundry commitments and €1.9 million for proceeds from the difference between the expenses finally quantified and the expenses previously recognised for the Interbank Deposit Protection Fund action to assist Banca Tercas.

million to cover other probable risks; the latter includes €2.2 million resulting from provisions designed to cover claims received as well as risks identified by a specific statistical software procedure;

- €0.1 million of *profit on the disposal of investments*[12], achieved primarily from the disposal of real estate assets during the period.

Net provisions for risks and charges

Figures in thousands of euro	1Q 2017	1Q 2016
Net provisions for revocation clawback risks	(406)	(405)
Net provisions for staff costs	-	-
Net provision for bonds in default	(152)	(1)
Net provisions for litigation	(3,615)	(1,990)
Other net provisions for risks and charges	(3,287)	(3,972)
Total	**(7,460)**	**(6,368)**

The following was recognised in the fourth quarter of last year:

- €79.2 million of *net impairment losses on other financial assets/liabilities* consisting of €73 million from the overall impairment loss on the investment in the Atlante Fund (€53.6 million on the investment and €19.4 million on the commitment) and €3.9 million from the write-down on the equity investment in the Interbank Deposit Protection Fund Voluntary Scheme;
- €12.7 million of *net provisions for risks and charges*, primarily related to risks for legal claims and disputes of various nature;
- €21 million of *profits on the sale of investments*, consisting essentially of a profit on the sale of a former BPCI real estate property.

As a result of the performance reported above, **profit from continuing operations before tax** improved to €117.8 million, up 40% on €84.3 million earned in the same quarter of 2016.
As a consequence of amounts recognised, the fourth quarter recorded a loss on continuing operations of €77.4 million.

Taxes on income for the period from continuing operations increased at the same time to €39 million from €34.4 million in the first quarter of 2016, to give a tax rate of 33.10% (in line with the theoretical rate of 33.07%), down from 40.77% a year ago.
The reduction in the tax rate is mainly due to tax legislation changes that have taken effect from 2017, contained in the Italian government's *Legge di stabilità* ("stability law" – annual finance law) for 2016 which, while it introduces a 3.5 percentage point surtax on the banking sector (which effectively nullifies the corporate income tax reduction from 27.5% to 24% for banks), it also eliminates the non-deductibility for IRES (corporate income tax) and IRAP (regional production tax) tax purposes of 4% of interest expense recognised in the financial statements of banks and other financial institutions. The resulting positive impact is nevertheless partially offset by a significant decrease in the benefit from the *Aiuto alla crescita economica* (ACE – "aid to economic growth") concession for 2017, due to both a reduction in the notional return coefficient (from 4.75% in 2016 to 2.3%) and the change in the procedures for calculating this benefit, now determined for the current year based only on increases in the share capital and retained earnings posted in the last five years (instead of on increases recognised since 2010).

As a result of the performance reported and also of the profits earned by Group banks and companies, *profit for the period attributable to non-controlling interests* (inclusive of the effects of consolidation entries) fell to €6.1 million from €7.4 million in 2016, affected, amongst other things, by the reduced importance of non-controlling interests in the Group following the creation of the Single Bank.
In the fourth quarter of last year, *profit attributable to non-controlling interests* was €8.3 million.

Finally, stated under separate items (subject to normalisation), stated net of taxes and non-controlling interests, the following are reported:

- expenses related to completion of the Single Bank Project *(other administrative expenses*: €4.6 million net of €2.2 million of taxes and €28 thousand of non-controlling interests);
- expenses related to the acquisition of the Bridge Banks (*other administrative expenses*: €1.1 million net of taxes of €0.5 million).

In the first quarter of 2016, normalised *redundancy expenses* of €0.4 million were recognised (net of taxes amounting to €0.3 million and €0.1 million of non-controlling interests), relating to adjustments to provisions set aside previously, made necessary on the basis of the actual applications for redundancy received. The expenses were recognised in the fourth quarter of 2015 on the basis of a trade union agreement signed on 23rd December 2015.

11 In the comparative period, net provisions had amounted to €6.4 million and were related to legal disputes (€2 million approx.) and to other probable risks for €4 million (of which €2.8 million were provisions to meet claims received, as well as the risks identified by a specific statistical procedure installed at the end of 2015).
12 In 2016, €0.4 million was recognised for this item, also related to gains on real estate disposals.

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

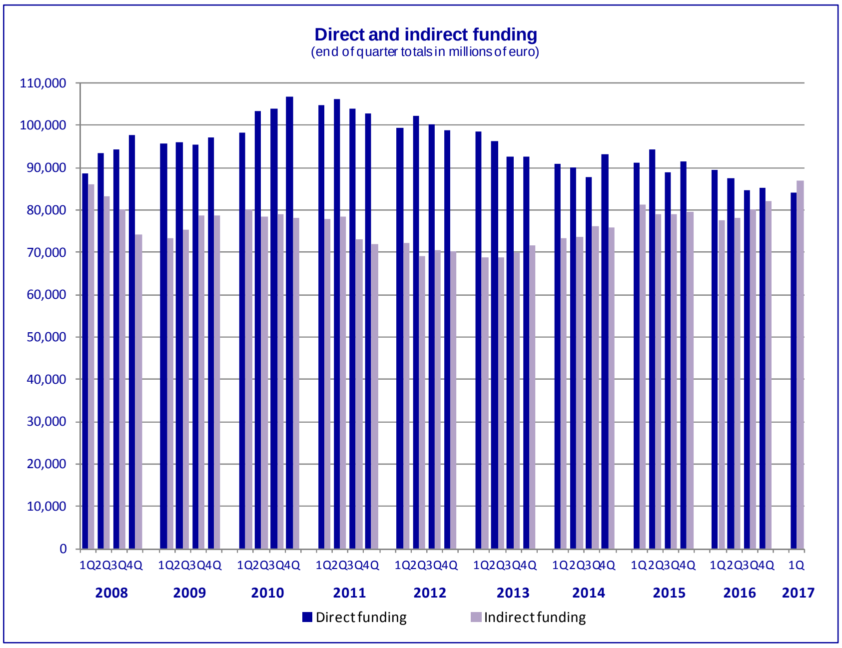
Total funding

Total funding from customers

Figures in thousands of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	Changes A/B %	30.9.2016 C	%	30.6.2016 D	%	31.3.2016 E	%	Changes A/E amount	Changes A/E %
Direct funding	84,005,846	49.2%	85,166,013	50.9%	-1,160,167	-1.4%	84,583,294	51.4%	87,524,908	52.8%	89,652,372	53.6%	-5,646,526	-6.3%
Indirect funding	86,869,436	50.8%	82,116,612	49.1%	4,752,824	5.8%	80,093,166	48.6%	78,097,204	47.2%	77,573,440	46.4%	9,295,996	12.0%
of which: assets under management	*56,607,185*	*33.1%*	*54,631,219*	*32.7%*	*1,975,966*	*3.6%*	*52,861,648*	*32.1%*	*50,914,753*	*30.7%*	*49,085,233*	*29.4%*	*7,521,952*	*15.3%*
Total funding from customers	**170,875,282**	**100.0%**	**167,282,625**	**100.0%**	**3,592,657**	**2.1%**	**164,676,460**	**100.0%**	**165,622,112**	**100.0%**	**167,225,812**	**100.0%**	**3,649,470**	**2.2%**
Total funding net of CCG and institutional funding	154,249,828		151,187,033		3,062,795	2.0%	149,353,161		147,923,030		148,685,408		5,564,420	3.7%
of which: ordinary captive customers	*153,775,791*		*150,712,758*		*3,063,033*	*2.0%*	*147,854,458*		*146,152,589*		*146,904,142*		*6,871,649*	*4.7%*

Total Group funding as at 31st March 2017, consisting of all amounts administered on behalf of customers, came to €170.9 billion, up €3.6 billion both year-on-year and on a quarterly basis.

As shown in the table, if the total is considered net of institutional components (inclusive of the CCG) and of non-captive totals (former Centrobanca), then funding from ordinary captive customers stood at €153.8 billion, an improvement over twelve months of €6.9 billion, significantly greater than for total funding, of which €3.1 billion is attributable to the first three months of the year.



The growth recorded in the total aggregate was determined by indirect funding, for which the total is now greater than that for direct funding.

In a background context of greater confidence, which is encouraging customers to return to investments, the first months of 2017 also benefited from good performance by financial markets.

On the other hand, direct funding was down both year-on-year and on a quarterly basis, a reflection of a progressive reduction in bonds subscribed by ordinary captive customers due to the less attractive remuneration offered and also of substantial maturities of former Centrobanca securities in the fourth quarter of 2016.

Direct funding

As at 31st March 2017 the direct funding of the UBI Banca Group amounted to €84 billion (of which €81.9 billion attributable to the Parent), down €1.2 billion in the quarter and €5.6 billion year-on-year. The fall recorded in both periods is attributable to debt securities issued and in particular to bonds subscribed by both captive and non-captive ordinary customers, which reduced constantly over twelve months.

In detail, **amounts due to customers**, which stood at €56.4 billion (€56.2 billion at the end of 2016 and €56.5 billion in the previous March) recorded no significant fluctuations in terms of the totals even if the most significant forms of funding moved in opposite directions:

- *current accounts and deposits* (€52.5 billion compared with €52.4 billion in December and €48.6 billion in March 2016), which grew constantly in 2016 (mainly the result of investor uncertainty in a context of zero or close-to-zero interest rates), practically stabilised in the quarter in question notwithstanding the increase in investment shown by the trend for indirect funding;
- *repurchase agreements with the Cassa di Compensazione e Garanzia* (a central counterparty clearing house) (€2.5 billion compared with €2.3 billion at the end of the year and €6.2 billion in the same period of 2016) confirmed their volatile nature as a tool used to cover temporary liquidity requirements and to finance, when necessary, the securities portfolio (which contracted progressively over twelve months).

On the other hand the remaining items, *financing – other* amounting to €356 million (of which 277 million of funds made available by Cassa Depositi e Prestiti (CDP) to support SME) and *other payables,* amounting to €730 million, remained marginal and almost unchanged.

Direct funding from customers

Figures in thousands of euro	31.03.2017 A	%	31.12.2016 B	%	Changes A/B amount	Changes A/B %	31.3.2016 C	%	Changes A/C amount	Changes A/C %
Current accounts and deposits	52,456,698	62.4%	52,404,432	61.5%	52,266	0.1%	48,639,666	54.3%	3,817,032	7.8%
Term deposits	151,926	0.2%	125,315	0.1%	26,611	21.2%	385,165	0.4%	-233,239	-60.6%
Financing	3,104,536	3.7%	2,957,962	3.5%	146,574	5.0%	6,785,670	7.6%	-3,681,134	-54.2%
- repurchase agreements	*2,748,479*	*3.3%*	*2,605,052*	*3.1%*	143,427	5.5%	*6,327,867*	*7.1%*	-3,579,388	-56.6%
of which: repos with the CCG	*2,521,635*	*3.0%*	*2,268,259*	*2.7%*	253,376	11.2%	*6,162,636*	*6.9%*	-3,641,001	-59.1%
- other	*356,057*	*0.4%*	*352,910*	*0.4%*	3,147	0.9%	*457,803*	*0.5%*	-101,746	-22.2%
Other payables	730,148	0.9%	738,707	0.9%	-8,559	-1.2%	717,258	0.8%	12,890	1.8%
Total amounts due to customers (item 20 liabilities)	**56,443,308**	**67.2%**	**56,226,416**	**66.0%**	**216,892**	**0.4%**	**56,527,759**	**63.1%**	**-84,451**	**-0.1%**
Bonds	27,455,693	32.7%	28,714,317	33.7%	-1,258,624	-4.4%	32,228,181	35.9%	-4,772,488	-14.8%
Certificates of deposit (a)+(c)	106,845	0.1%	225,280	0.3%	-118,435	-52.6%	766,436	0.9%	-659,591	-86.1%
Other certificates (b)	-	-	-	-	-	-	129,996	0.1%	-129,996	-100.0%
Total debt securities issued (*) (item 30 Liabilities)	**27,562,538**	**32.8%**	**28,939,597**	**34.0%**	**-1,377,059**	**-4.8%**	**33,124,613**	**36.9%**	**-5,562,075**	**-16.8%**
of which:										
securities subscribed by institutional customers:	14,103,819	16.8%	13,827,333	16.2%	276,486	2.0%	12,377,768	13.8%	1,726,051	13.9%
The EMTN programme (**)	*4,779,069*	*5.7%*	*4,298,583*	*5.0%*	480,486	11.2%	*2,485,083*	*2.8%*	2,293,986	92.3%
Negotiable European Commercial Paper programme (former French CD) (a)	-	-	*100,015*	*0.1%*	-100,015	-100.0%	*553,492*	*0.6%*	-553,492	-100.0%
The Euro Commercial Paper programme (b)	-	-	-	-	-	-	*129,996*	*0.1%*	-129,996	-100.0%
The Covered Bond programme	*9,324,750*	*11.1%*	*9,428,735*	*11.1%*	-103,985	-1.1%	*9,209,197*	*10.3%*	115,553	1.3%
securities subscribed by ordinary customers:	13,444,674	16.0%	15,037,038	17.7%	-1,592,364	-10.6%	20,636,356	23.0%	-7,191,682	-34.8%
of the Group:										
- Certificates of deposit (c)	*106,845*	*0.1%*	*125,265*	*0.1%*	-18,420	-14.7%	*212,944*	*0.2%*	-106,099	-49.8%
- bonds	*12,863,792*	*15.3%*	*14,437,498*	*17.0%*	-1,573,706	-10.9%	*18,642,146*	*20.8%*	-5,778,354	-31.0%
external distribution networks:										
- Bonds issued by the former Centrobanca	*474,037*	*0.6%*	*474,275*	*0.6%*	-238	-0.1%	*1,781,266*	*2.0%*	-1,307,229	-73.4%
Total direct funding	**84,005,846**	**100.0%**	**85,166,013**	**100.0%**	**-1,160,167**	**-1.4%**	**89,652,372**	**100.0%**	**-5,646,526**	**-6.3%**
Due to customers net of the CCG	*53,921,673*		*53,958,157*		*-36,484*	*-0.1%*	*50,365,123*		*3,556,550*	*7.1%*
Total direct funding net of the CCG and institutional funding	*67,380,392*		*69,070,421*		*-1,690,029*	*-2.4%*	*71,111,968*		*-3,731,576*	*-5.2%*

(*) Within the total, subordinated securities, consisting of Lower Tier 2 issues, amounted to €3,439 million as at 31st March 2017 (of which €1,274 million consisting of two EMTNs), to €3,012 million as at 31st December 2016 (of which €768 million consisting of one EMTN) and to €2,735 million as at 31st March 2016.

(**) The corresponding nominal amounts were €4,709 million as at 31st March 2017 (of which €1,250 million nominal subordinated), to €4,212 million as at 31st December 2016 (of which €750 million nominal subordinated) and to €2,423 million as at 31st March 2016.

Debt securities issued on the other hand fell to €27.6 billion (down €1.4 billion over three months and down €5.6 billion year-on-year) composed of the following:

- *bonds* amounting to €27.5 billion, were down €1.3 billion and €4.8 billion respectively;
- *certificates of deposit* amounting to €107 million (-€118 million and -€660 million) are now composed solely of the component attributable to ordinary customers because the institutional component, which previously consisted of negotiable European Commercial Papers (the former French certificates of deposit), amounting to €100 million in December and €553 million in March, matured in January. They were not renewed in view of the imminent disposal of the investment in UBI International, the issuer company for the two short-term programmes of institutional funding;
- *other certificates* reduced to zero (€130 million in March 2016), again in relation to the disposal of the investment in the Luxembourg company. This item did in fact include funding from the Euro Commercial Paper institutional programme.

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

- EMTNs (Euro Medium Term Notes), listed on the Dublin stock exchange issued by UBI Banca as part of a programme for a maximum issuance of €15 billion, amounting to €4.8 billion (€4.3 billion in December and €2.5 billion in March 2016). Issuances were made over twelve months amounting to €2.474 billion nominal (€1.224 billion in the form of private placements and €1.25 billion by means of two subordinated public placements), against maturities and total repurchases of €186 million nominal. Notes were placed in the first quarter alone, again in nominal terms, amounting to €605 million nominal (of which €500 million relating to a subordinated placement made in mid-March) against maturities and repurchases for a total of €108 million nominal. It should be noted that the total shown in the table also incorporates the impacts of accounting adjustments on the securities;
- covered bonds amounting to €9.3 billion (€9.4 billion at the end of the year and €9.2 billion a year before). Over twelve months placements were made for a total of €1.5 billion nominal[1], offset by maturities amounting to €1.2 billion nominal as follows: €1 billion relating to a bond which reached maturity in September 2016; €166.6 million relating to the call on 22nd November 2016 of two amortising issues placed with the EIB (the remaining principal and amortisation instalments falling due in the year); €22.7 million for total amortisation instalments falling due in the year on the remaining EIB amortising bond held. It should be noted that the changes shown in the table were also affected by the impacts of accounting adjustments on the securities.

  UBI Banca currently has nine covered bonds in issue under the first "multioriginator" programme backed by residential mortgages with a €15 billion ceiling for a nominal amount of €8.875 billion (net of amortisation totalling €125 million nominal)[2]. The bonds are traded in Dublin.

  As at 31st March 2017, the residential mortgage asset pool formed at UBI Finance to back the issuances totalled €13.6 billion, of which 98.6% originated by UBI Banca and 1.4% by IW Bank.
  The portfolio continues to show a high degree of fragmentation, including over 179 thousand mortgages with average remaining debt of €76 thousand, distributed with 66.9% in North Italy and in Lombardy especially (46.9% of the total).
  After the end of the quarter, effective from 1st May, a transfer of residential mortgages to the programme was made of remaining debt amounting to approximately €1.7 billion by UBI Banca.

  A second programme, again "multioriginator", is also operational with a ceiling of €5 billion, backed by commercial mortgages and by residential mortgages not used in the first programme. So far this programme, listed on the Dublin stock exchange, has only been used for self-retained issuances[3].

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1 €1 billion at the beginning of September 2016 and two reopenings for €0.25 billion each in June and October 2016 of the €750 million issuance made in October 2015.

2 Three self-retained issuances for €2.25 billion nominal also exist under that same programme, one for €0.5 billion nominal made in December 2015, a second for €1 billion concluded at the end of March 2016 and third for €750 million concluded in June 2016. Because these were repurchased by UBI Banca itself, these liabilities have not been recognised, in accordance with IFRS.

3 Totalling €2.19 billion: two issuances in 2012 for €1.04 billion nominal (net of the amortisation instalments falling due in the meantime), a €200 million issuance in March 2014, a fourth for €650 million completed in July 2015 and a fifth for €300 million concluded in June 2016. Because these were repurchased by UBI Banca itself, these liabilities have not been recognised, in accordance with IFRS.

At the end of the quarter the commercial and residential asset pool formed at UBI Finance CB 2 to back these issuances stood at €2.9 billion, of which 99.3% originated by UBI Banca and 0.7% by IW Bank. The portfolio includes over 26 thousand mortgages with average residual debt of €111 thousand, distributed, as for the first programme, with a high concentration in North Italy (68.5%) and in Lombardy especially (46.5% of the total).

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FUNDING IN SECURITIES FROM ORDINARY CUSTOMERS – now consisting almost entirely of bonds – fell to €13.4 billion (down €7.2 billion year-on-year and €1.6 billion in the quarter). In detail:

- the total outstanding issued by UBI Banca fell to €12.9 billion from €18.6 billion in March 2016 and from €14.4 billion at the end of 2016. Over twelve months, while issuances amounted to €1.2 billion, bonds amounting to €5.6 billion nominal reached maturity and repurchases came to €1.4 billion nominal. In the first three months of 2017 in particular, placements amounted to just €15 million nominal (consisting of social bonds) against maturities of €1.2 billion and repurchases of €246 million (again in nominal terms).
- the remaining funding from non-captive customers, consisting of securities issued by the former Centrobanca placed through indirect banking networks stood at €474 million, almost unchanged since the beginning of the year and down €1.3 billion year-on-year following maturities that occurred.

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

Maturities of bonds outstanding as at 31st March 2017

Nominal amounts in millions of euro	2nd Quarter 2017	3rd Quarter 2017	4th Quarter 2017	2018	2019	2020	2021	Subsequent years	Total
UBI BANCA	1,761	1,516	1,136	6,756	6,628	2,271	1,142	5,516	26,726
Bonds ordinary customers	1,000	466	967	5,362	4,500	723	119	5	13,142
Bonds institutional customers	761	1,050	169	1,394	2,128	1,548	1,023	5,511	13,584
of which: EMTNs	*750*	*50*	*158*	*1,371*	*1,105*	*25*	*-*	*1,250*	*4,709*
Covered bonds	*11*	*1,000*	*11*	*23*	*1,023*	*1,523*	*1,023*	*4,261*	*8,875*
Other banks in the Group	-	-	-	1	-	-	-	-	1
Total	**1,761**	**1,516**	**1,136**	**6,757**	**6,628**	**2,271**	**1,142**	**5,516**	**26,727**

Indirect funding and assets under management

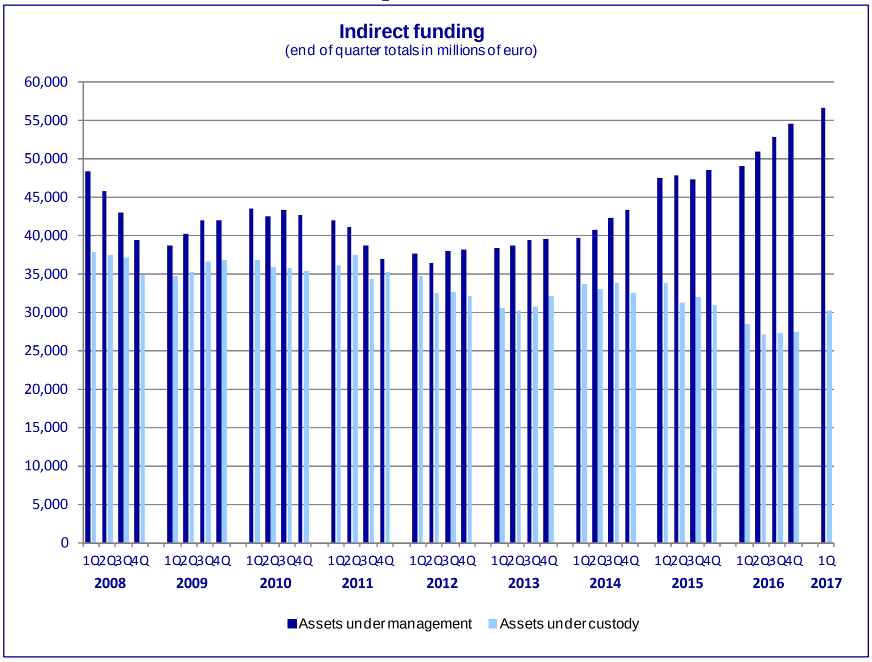
Indirect funding from ordinary customers

Figures in thousands of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	Changes A/B %	31.3.2016 C	%	Changes A/C amount	Changes A/C %
Assets under custody	**30,262,251**	**34.8%**	**27,485,393**	**33.5%**	**2,776,858**	**10.1%**	**28,488,207**	**36.7%**	**1,774,044**	**6.2%**
Assets under management	**56,607,185**	**65.2%**	**54,631,219**	**66.5%**	**1,975,966**	**3.6%**	**49,085,233**	**63.3%**	**7,521,952**	**15.3%**
Customer portfolio management	7,077,090	8.2%	7,004,075	8.5%	73,015	1.0%	6,941,731	8.9%	135,359	1.9%
of which: fund based instruments	*1,883,134*	*2.2%*	*1,816,587*	*2.2%*	*66,547*	*3.7%*	*1,804,407*	*2.3%*	*78,727*	*4.4%*
Mutual investment funds and Sicav's	32,660,363	37.6%	31,147,123	37.9%	1,513,240	4.9%	27,127,324	35.0%	5,533,039	20.4%
Insurance policies and pension funds	16,869,732	19.4%	16,480,021	20.1%	389,711	2.4%	15,016,178	19.4%	1,853,554	12.3%
of which: Insurance policies	*16,866,752*	*19.4%*	*16,231,409*	*19.8%*	*635,343*	*3.9%*	*14,752,413*	*19.0%*	*2,114,339*	*14.3%*
Total	**86,869,436**	**100.0%**	**82,116,612**	**100.0%**	**4,752,824**	**5.8%**	**77,573,440**	**100.0%**	**9,295,996**	**12.0%**

Indirect funding of the UBI Banca Group amounted to €86.9 billion at the end of March, an increase both during the quarter (+€4.8 billion) and year-on-year (+€9.3 billion).

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

As shown in the graph, with a total of €56.6 billion – equivalent to 65.2% of the total item – *assets under management* rose to above pre-crisis levels showing growth of €7.5 billion over twelve months (+15.3%), of which €2 billion relating to 2017 (+3.6%). The table shows that the trend for the item in the three-month period was driven primarily by mutual investment funds and Sicav's, up €1.5 billion to €32.7 billion (+€5.5 billion year-on-year) due to, amongst other things, the results of the placements of new products/UBI Sicav sub-funds (€1.2 billion between January and March 2017).



In total, over the twelve months the Group placed €1 billion[4] of UBI Pramerica mutual funds and €3 billion[5] of UBI Sicav products.

Furthermore, two new Sicav funds have been placed since 23rd March 2017 (UBI Sicav Euro Corporate Bond High Potential Class 2 and UBI Sicav Obiettivo Stabilità Class 2) for a total of €0.5 billion which are not included in the end of March totals because they were settled with a value date of 8th May 2017.

[4] UBI Pramerica Obiettivo Stabilità; UBI Pramerica Obiettivo Controllo.

[5] UBI Sicav Global Stars (Class 1 and Class 2), UBI Sicav Social 4 Future Class 1, UBI Sicav Euro Corporate Bond High Potential (Class A and Class1); UBI Sicav Global Multiasset 15 (Class A, Class 1 and Class 2); UBI Sicav Obiettivo Stabilità (Class A and Class 1); UBI Sicav Obiettivo Controllo Class A and UBI Sicav GloBo.

A significant contribution to the growth in assets under management was also made by insurance policies which reached €16.9 billion (+€0.6 billion since December; +€2.1 billion since March 2016), in line with the good performance by this business which saw inflows of premiums in the quarter of €1.2 billion.
Customer portfolio management, amounting to €7 billion, recorded marginal recoveries both quarter-on-quarter and year-on-year, benefiting from bull markets.

Assets under custody rose to €30.3 billion, to record exceptional growth of €2.8 billion in the quarter (+€1.8 billion compared with March 2016), a reflection of the recovery in prices on markets, and on equity markets in particular, while the background trend of the progressive change in the mix of customer portfolios into asset management instruments still continued.

* * *

At the end of the quarter, Assogestioni (national association of asset management companies) data[6] relating to the UBI Banca Group asset management companies for MUTUAL FUNDS AND SICAVS, was as follows for assets under management originated[7]:

- positive net inflows of €892.4 million, amounting to 3.2% of assets under management originated at the end of 2016 (net inflows for the sector on the other hand were positive by €14.9 billion[8], amounting to 1.7% of assets managed at the end of the previous year);
- a percentage increase in assets over three months (+€1.2 billion; +4.3 %), outperforming the sector nationally (+€26.6 billion; +3%). The comparison shown in the table also over twelve months, on the other hand, shows percentage growth in the Group's assets under management that is greater than that for the banking sample (+18.6% compared with +9.6%);
- assets managed of €29.2 billion, which positions the Group in eighth place with a market share of 3.15%, an improvement compared with all the comparative periods (3.11% in December; 2.91% in March 2016).

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 March 2017 was 6.01% – up from 5.91% in December – with UBI Banca in fourth position among Italian operators in the sector since March 2016.

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 always higher than the figure for the sector and which was up over twelve months (from 52% to 53.3%), compared with a slight fall for the Assogestioni sample (from 46.5% to 45.2%). In both cases the quarterly trend shows a slight fall in the percentage of these funds, a reflection also of bullish trends on financial markets;
- at the same time a greater percentage of balanced funds – up year-on-year from 28.1% to 29.2%, compared with an average figure for the sector nationally up from 8.1% to 8.7% – also to be seen in relation to the new products (funds and Sicav's) placed in the period;
- a percentage of equity funds down year-on-year and constantly lower than the benchmark sample (9.9% compared with 21.6%);
- a fall in the percentage of flexible funds over twelve months (7.5%), moving against the trend compared with an increase in the figure for the sector (24.1%);
- no significant investment in hedge funds (0.5% of the Assogestioni sample).

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[6] "Monthly map of assets under management", March 2017. For companies not included in the "Quarterly map of assets under management", December 2016.

[7] As already reported, as part of the periodic surveys performed by Assogestioni, since June 2012 the figure for assets under management for the UBI Banca Group also includes, in consideration of their nature, the management mandates granted to Pramerica Financial – the brand name used by Prudential Financial Inc. (USA) – a UBI Banca partner through UBI Pramerica SGR (€6.4 billion of mutual funds and sicav's, of which €1.8 billion in equities and €4.6 billion in bonds as at 31st March 2017). This presentation provides a more consistent account of the actual assets under management of the UBI Banca Group.

[8] On the basis of Assogestioni data, 83% of net inflows nationally are attributable to foreign registered funds (+€12.4 billion) and to a residual extent to Italian registered funds (+€2.5 billion). In terms of type of fund, the performance was driven by bond funds (+€6.7 billion), balanced funds (+€4 billion) and flexible funds (+€3.6 billion), while the contribution from equity funds was lower (+€1.7 billion), monetary funds decreased (-€0.8 billion) and hedge funds were more or less stable (-€0.3 billion).

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

UBI Banca Group Figures in millions of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	 %	31.3.2016 C	%	Changes A/C amount	 %
Equities	2,901	9.9%	2,762	9.9%	139	5.0%	2,572	10.4%	329	12.8%
Balanced	8,547	29.2%	7,831	27.9%	716	9.1%	6,918	28.1%	1,629	23.5%
Bond	15,028	51.4%	14,360	51.2%	668	4.7%	11,917	48.3%	3,111	26.1%
Monetary funds	569	2.0%	867	3.1%	-298	-34.4%	912	3.7%	-343	-37.6%
Flexible	2,199	7.5%	2,219	7.9%	-20	-0.9%	2,335	9.5%	-136	-5.8%
TOTAL (a)	**29,244**	**100.0%**	**28,039**	**100.0%**	**1,205**	**4.3%**	**24,654**	**100.0%**	**4,590**	**18.6%**

The sector Figures in millions of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	 %	31.3.2016 C	%	Changes A/C amount	 %
Equities	200,056	21.6%	191,042	21.2%	9,014	4.7%	178,059	21.0%	21,997	12.4%
Balanced	80,327	8.7%	75,700	8.4%	4,627	6.1%	68,543	8.1%	11,784	17.2%
Bond	386,340	41.6%	378,171	42.0%	8,169	2.2%	351,460	41.5%	34,880	9.9%
Monetary funds	32,976	3.5%	33,896	3.7%	-920	-2.7%	42,382	5.0%	-9,406	-22.2%
Flexible	223,852	24.1%	217,859	24.2%	5,993	2.8%	201,112	23.8%	22,740	11.3%
Hedge funds	4,356	0.5%	4,638	0.5%	-282	-6.1%	5,030	0.6%	-674	-13.4%
Unclassified	-	-	-	-	-	-	265	0.0%	-265	-100.0%
TOTAL (b)	**927,907**	**100.0%**	**901,306**	**100.0%**	**26,601**	**3.0%**	**846,851**	**100.0%**	**81,056**	**9.6%**
Market share of the UBI Banca Group (a)/(b)	**3.15%**		**3.11%**				**2.91%**			
Market share of the UBI Banca Group limited to banks only	**6.01%**		**5.91%**				**5.59%**			

* * *

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 March the UBI Banca Group was positioned in seventh place in the sector (in fifth place among Italian banking groups) with total assets for both ordinary and institutional customers amounting to €49.9 billion and a market share of 2.82%, up in the comparison with December (2.77% and with March 2016 (2.54%).

If the analysis is restricted to banks only, the Group's market share as at 31st March 2017 was 6.36% – an improvement compared with 6.30% at the end of 2016 – placing UBI Banca stably in fourth position among operators in the sector (5.99% in March 2016).

Again in the first months of 2017 UBI Pramerica SGR Spa received important recognition. In March, on the occasion of the 2017 Diaman Awards, its GPF Evoluzione Crescita (fund of funds) line was awarded fifth prize in the "GPF/GPM Balanced" category on the basis of a risk-adjusted assessment of its 2016 performance.

General banking business with customers: lending

Performance of the loan portfolio

Composition of loans to customers

Figures in thousands of euro	31.3.2017 A	%	of which non-performing	31.12.2016 B	%	of which non-performing	Changes A/B amount	Changes A/B %	31.3.2016 C	%	of which non-performing	Changes A/C amount	Changes A/C %
Current account overdrafts	8,392,393	9.9%	*1,056,471*	7,938,970	9.7%	*1,071,247*	453,423	5.7%	9,202,906	11.0%	*1,464,721*	-810,513	-8.8%
Reverse repurchase agreements	2,409,894	2.9%	-	120,991	0.2%	-	2,288,903	n.s	13,016	0.0%	-	2,396,878	n.s
Mortgage loans and other medium to long-term financing	53,288,563	63.0%	*4,705,313*	52,791,455	64.5%	*4,715,396*	497,108	0.9%	53,090,008	63.2%	*5,334,418*	198,555	0.4%
Credit cards, personal loans and salary-backed loans	2,818,814	3.3%	*139,471*	2,816,354	3.4%	*153,221*	2,460	0.1%	2,888,119	3.4%	*240,813*	-69,305	-2.4%
Finance leases	5,966,122	7.1%	*1,032,521*	6,023,872	7.4%	*1,066,486*	-57,750	-1.0%	6,222,425	7.4%	*1,235,356*	-256,303	-4.1%
Factoring	2,044,782	2.4%	*257,096*	2,465,964	3.0%	*270,071*	-421,182	-17.1%	2,199,607	2.6%	*368,064*	-154,825	-7.0%
Other transactions	9,593,996	11.4%	*769,787*	9,689,646	11.8%	*779,187*	-95,650	-1.0%	10,449,113	12.4%	*1,028,096*	-855,117	-8.2%
Debt instruments:	7,033	0.0%	-	7,028	0.0%	-	5	0.1%	7,359	0.0%	-	-326	-4.4%
- structured instruments	*5*	0.0%	-	*3*	0.0%	-	*2*	*66.7%*	*5*	0.0%	-	-	-
- other debt instruments	*7,028*	0.0%	-	*7,025*	0.0%	-	*3*	*0.0%*	*7,354*	0.0%	-	*-326*	*-4.4%*
Total	**84,521,597**	**100.0%**	***7,960,659***	**81,854,280**	**100.0%**	***8,055,608***	**2,667,317**	**3.3%**	**84,072,553**	**100.0%**	***9,671,468***	**449,044**	**0.5%**
of which: short-term	*22,441,065*	*26.6%*		*20,215,571*	*24.7%*		*2,225,494*	*11.0%*	*21,864,642*	26.0%		*576,423*	*2.6%*
medium to long-term	*62,080,532*	*73.4%*		*61,638,709*	*75.3%*		*441,823*	*0.7%*	*62,207,911*	74.0%		*-127,379*	*-0.2%*

In a slowly improving economic environment, although still dominated by factors of uncertainty and fragility, the performance of the Group's loan portfolio in the FIRST QUARTER showed signs of recovery: loans had risen to €84.5 billion as at 31st March 2017 to record growth of €2.7 billion compared with December.

As shown in the table, in reality the increase incorporates a significant recovery in business with the *Cassa di Compensazione e Garanzia* (CCG – a central counterparty clearing house) (+€2.3 billion[1]), consisting almost entirely of reverse repurchase agreements to invest liquidity, and also a contraction in the non-performing component (-€0.1 billion), net of which financing to the economy was up €0.43 billion (+0.6%) to €73.96 billion (€73.53 billion at the end of 2016).

The positive trend in *net performing loans excluding the CCG* shows progress in the medium to long-term component (+€0.5 billion), while performance of short-term lending remained weak (-€64 million) despite a positive trend in current accounts.

The medium to long-term segment in particular remains buoyed by new disbursements using TLTRO funds (+€0.7 billion in remaining debt outstanding for the three-month period), while consumer credit continues to be affected by the downward trend in residual balances of the former B@nca 24-7 managed by UBI Banca and of the salary and pension backed lending sector, which is now managed by Prestitalia (although we are seeing signs of recovery in light of efforts of commercial strengthening within the scope of the business plan). This was essentially offset by the upward trend in business with customers of the former network banks.

Of the €53.3 billion outstanding in March, residential mortgages – which were up marginally compared to December – totalled €24.1 billion according to management accounting figures, €22.3 billion of which was disbursed to consumer households and €1.8 billion to businesses.

OVER THE PREVIOUS TWELVE MONTHS, the total loan portfolio (i.e. both performing and non-performing) increased by €0.4 billion (+0.5%).[2] However, excluding the net increase of lending

1 Exposure to the CCG as at 31st March 2017 totalled €2.6 billion, of which €2.4 billion of reverse repos and €0.2 billion of margin deposits (€268.9 million in December of which €121 million in reverse repos and €147.9 million in margin deposits).

2 Based on February data published by the Bank of Italy (see *Supplemento al Bollettino Statistico "Banche e Moneta: serie nazionali"*, April 2017), the trend in *loans to residents in the private sector* – corrected to take account of securitisations and other loans sold and eliminated from bank balance sheets – confirms the gradual consolidation of the credit cycle for annual growth of 0.8% (+1.1% for December). In terms of borrowers, the positive trend continued in the consumer segment, +2.2% (+1.8 at the end of 2016), while the recovery remains uncertain for non-financial companies, +0.1% (+0.9% in January; +0.2% in December), despite increasingly attractive terms and conditions. According to the ABI outlook (see *Monthly Outlook, Economia w Mercati Finanziari-Creditizi*, April 2017), the year-on-year change in lending to private-sector residents at March came to +0.9%.

to the CCG[3] (+2 billion for repurchase agreements and margin accounts), the overall trend is still downward (-€1.6 billion), as confirmed by a modest decrease in average balances (-1.2%). This was affected by the following: primarily the significant reduction in the balance of net non-performing loans (-€1.7 billion) in response to multiple areas of improvement as described in the notes to the financial statements; the continuing downward trend in lending to non-captive customers of the product companies, essentially due to the prior activities of the discontinued indirect distribution networks, although this trend is gradually coming to an end; and the revision, in line with implementation of the business plan, of positions generating a loss or no income, which has led to the closer of a number of positions, particularly in the segment of short-term lending.
In terms of maturities, compared to March 2016, we have seen essential stability in medium to long-term lending – at €62.1 billion, equal to 73.4% of the total – and an increase in short-term lending of €0.6 billion to €22.4 billion, equal to 26.6%, attributable to the aforementioned exposure to the CCG. Net of this exposure, short-term lending decreased by €1.5 billion (-€0.7 billion net of the reduction in non-performing loans), a segment which, on the whole, continues to be affected by limited demand for working capital by businesses, which, in many cases, are preferring to replace short-term credit with TLTRO financing.
On an annual basis, net performing loans, excluding the CCG, posted only a modest recovery (to €73.96 billion from the €73.85 billion outstanding as at March 2016).

In consideration of the contrasting trend for these two aggregates, the *loan to deposit ratio* stood at 100.6% compared with 96.1% in December and 93.8% in March 2016.

As concerns "*large exposures*", the March 2017 supervisory report, prepared on the basis of the provisions of the new Basel 3 rules in force since 1st January 2014,[4] shows six positions for an amount equal to or greater than 10% of the qualifying capital, for a total of €31.7 billion. More specifically:

Large exposures

Figures in thousands of euro	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016
Number of positions	6	3	3	3	4
Exposure	31,724,314	22,324,759	22,971,445	27,096,939	29,478,784
Risk positions	323,115	25,368	-	-	786,042

- €15.8 billion is related to the Ministry of the Economy and Finance, mainly for investments in government securities by the Parent and, to a lesser extent, for current and deferred tax assets (€17.8 billion in December; €21.8 billion in March 2016);[5]
- €10 billion related to the CCG for operations of the Parent for repurchase agreements and related commitments (3 billion at year end; €6.8 billion at March 2016);
- €1.5 billion in investments in U.S. treasury notes (€1.5 billion at the end of 2016);
- €2 billion in deposits with the Bank of Italy;
- €1.2 billion related to the increased investment in Spanish government securities;
- €1.2 billion related to operations in relation to a leading banking counterparty (mainly for repurchase agreements).

In addition to the above, as at March 2016, there was an exposure of €0.9 billion related to authorised credit granted to a leading large-corporate group.

In consideration of the application of a zero-weighting factor for transactions with the government, three actual risk positions for the UBI Group existed after weightings for a total of €323.1 million, mainly attributable to the exposure towards the aforementioned leading banking counterparty. The percentage of the qualifying capital is well below the limit of 25% set for banking groups for each of the exposures reported.

3 As at 31st March 2016, exposure to the CCG came to a total of €550.6 million, €537.6 million of which for margin accounts and €13 million in repurchase agreements.
4 Bank of Italy Circular nos. 285 and 286 of 17th December 2013 and subsequent updates.
5 Until March 2016, exposures related to current and deferred tax assets were subject to separate reporting.

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

Customers or Groups	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016
Largest 10	4.1%	3.8%	3.6%	3.8%	3.6%
Largest 20	6.6%	6.4%	6.0%	6.1%	5.9%
Largest 30	8.1%	8.1%	7.7%	7.8%	7.5%
Largest 40	9.2%	9.2%	8.9%	9.1%	8.6%
Largest 50	10.1%	10.2%	9.8%	10.1%	9.6%

In terms of *concentration*, the figures for the quarter show a marginal increase from December for the top customer groups, although remaining at modest levels, thereby confirming the Group's careful management of this important aspect of portfolio quality.

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

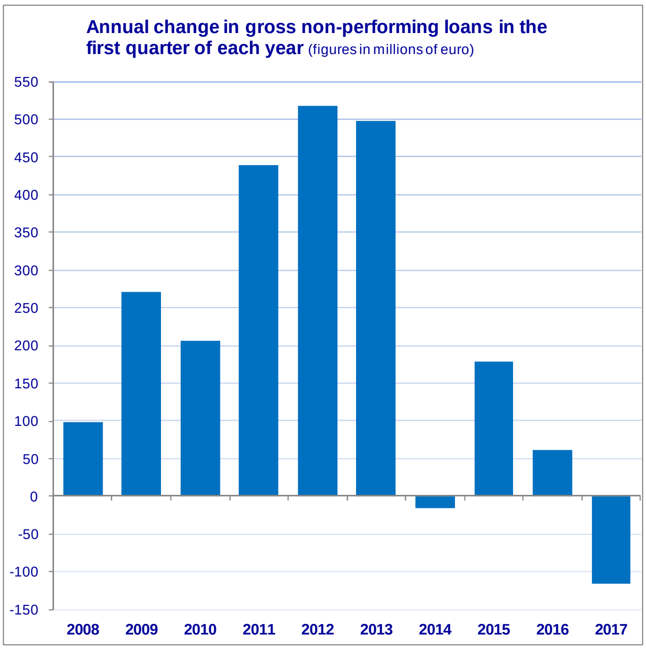
As regards targeted longer-term refinancing operations (TLTROs), on 10th March 2016 the ECB approved a new programme entitled "New series of targeted longer-term refinancing operations (TLTRO II)", which called for four quarterly operations (from June 2016 to March 2017), each with a duration of four years.
Within the scope of this programme, the UBI Banca Group requested a total of €12.5 billion in funds out of a total amount possible of €14.5 billion.[6] *More specifically:*

- *in June 2016, the Group took part in the first of the four auctions, thereby repaying the entirety of the funds received through the previous TLTRO I, which totalled €8.1 billion,*[7] *and obtaining new funds for a total of €10 billion with a maturity of 24th June 2020;*
- *in March 2017, the Group participated in the fourth and final auction and obtained €2.5 billion in funds with a maturity of 24th March 2021.*[8]

–

As at 31st March 2017, financing disbursed to customers using these funds came to a total of €9.6 billion for a remaining debt outstanding of €7.6 billion (€6.9 billion at the end of 2016). As at that same date, financing approved and not yet disbursed totalled €1.7 billion.[9]

Risk



During the first three months of 2017, we continued to see signs of improvement in the level of risk of the Group's loan portfolio.

At the end of March, the balance of *gross non-performing loans* was further decreased to €12.4 billion [-€115.1 million from December (-0.9%); -€1.1 billion annually (-8.1%)], with the ratio to total lending falling to 13.89% from the 14.44% of the end of 2016 (15.28% at March 2016), aided by a contextual increase in the total portfolio.

This graphic confirms the inversion in trend that began in June 2016, with the decrease in the first quarter – resulting from natural resolution of non-performing positions in absence of significant loan sales during the period – which is in clear contrast with previous years.

6 As per Bank of Italy communication.
7 The total amount that the UBI Banca Group obtained by participating in three of the seven TLTRO I auctions conducted by the ECB.
8 Total funds obtained in the four operations by intermediaries in the euro area amounted to €740 billion (€331 billion net of voluntary repayments of financing outstanding obtained by way of the first series of TLTROs). A total of €241 billion (€128 billion net) was granted to Bank of Italy counterparties.
9 As at 30th April 2017, loans disbursed to customers using these funds increased to €10 billion for a remaining debt outstanding of €7.9 billion, while loans approved but not yet disbursed totalled €1.7 billion.

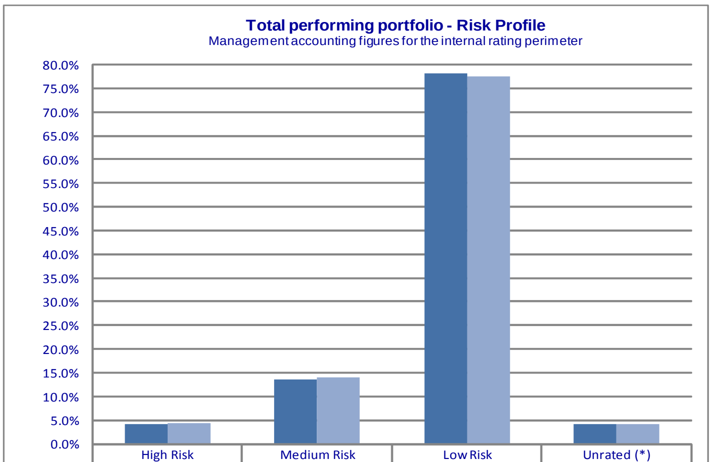
The table of quarterly changes shows the continuing downward trend of status changes from performing, falling to recent-year lows: -18.5% compared to the same period of the previous year and -10.7% compared to the fourth quarter of 2016. This trend is even more accentuated when seen in terms of net flows (inflows from – outflows to performing loans): -26% compared to the first quarter of 2016 and -17% compared to the last quarter of the previous year.

Gross non-performing exposures: quarterly changes

Figures in thousands of euro	2017 1Q	2016 4Q	2016 3Q	2016 2Q	2016 1Q
Bad loans	-34,345	-230,607	275,816	93,509	134,280
Unlikely-to-pay loans	-94,527	-450,255	-292,211	-249,520	-68,819
Exposures past due and/or in arrears	13,814	-29,078	-32,391	-60,142	-3,437
Gross non-performing loans	**-115,058**	**-709,940**	**-48,786**	**-216,153**	**62,024**
transfers from performing exposures	*317,061*	*354,871*	*267,711*	*281,768*	*389,236*
transfers into performing exposures	*-92,886*	*-84,807*	*-103,664*	*-182,921*	*-86,351*

This has been made possible, in part, by a more favourable economy, but is above all the result of:

- the favourable risk profile of the performing-loan portfolio, in which the lowest risk classes account for 78.1% of the total, while the higher risk classes have remained below the threshold of 4.5%;
- numerous actions internal reorganisation and adjustments to operating processes implemented in recent years in order to enhance management of the credit risk and the collection of non-performing positions. The Group intends to further strengthen these aspects as part of the NPL strategic plan submitted to the ECB in March 2017 in accordance with the related guidelines issued by the supervisory authority.[10]



	High Risk	Medium Risk	Low Risk	Unrated (*)
Mar-17	4.2%	13.6%	78.1%	4.1%
Dec-16	4.4%	14.0%	77.5%	4.1%

(*) Since March 2016, exposures to Group employees are no longer considered among unrated exposures, but are included within the relative rating classes.

In the same way, *net non-performing loans* also further decreased to 8 billion [-€95 million from December (-1.2%) and -€1.7 billion from March 2016 (-17.7%)].

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

Due to a parallel reduction in this aggregate, the Texas Ratio[11] – which measures the ratio of net non-performing loans to tangible equity – remained stable at 109.5% (109.4% in December).

The *level of coverage* of non-performing loans further improved to reach 35.83% (35.67% for December; 28.34% for March 2016) despite the significant level of positions backed by collateral and precautionary loan to value (LTV), which characterise loans disbursed by the Group.

Adjusted to take account of loan write-offs related to open proceedings, coverage comes to 46.02% (45.80% for December; 37.64% for March 2016).[12]

As for *performing loans*, at the end of March coverage was at 0.49%, which is slightly lower than the 0.51% of December and reflects both the increasing proportion of low-risk positions and the increase in operations with the CCG, which are, by their nature, not subject to adjustment (-0.55% as at March 2016).

10 For more information, see the section "Significant events in the first quarter 2017" of this report.
11 This indicator is calculated as follows: total net non-performing loans / [equity (excluding profit/including loss for the period) + minority interests – total intangible assets].
12 The figure for 31st March 2016 differs slightly from the one previously published in that it refers to final carrying values (and not management accounting figures).

Loans and advances to customers as at 31st March 2017

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(13.89%)**	**12,406,374**	**4,445,715**	**(9.42%)**	**7,960,659**	**35.83%**
- Bad loans	(8.09%)	7,226,416	3,263,053	(4.69%)	3,963,363	45.15%
- "Unlikely to pay" loans	(5.62%)	5,024,667	1,175,066	(4.55%)	3,849,601	23.39%
- Past due loans	(0.18%)	155,291	7,596	(0.18%)	147,695	4.89%
Performing loans	**(86.11%)**	**76,935,988**	**375,050**	**(90.58%)**	**76,560,938**	**0.49%**
Total		**89,342,362**	**4,820,765**		**84,521,597**	**5.40%**

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

Loans and advances to customers as at 31st December 2016

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(14.44%)**	**12,521,432**	**4,465,824**	**(9.84%)**	**8,055,608**	**35.67%**
- Bad loans	(8.37%)	7,260,761	3,273,458	(4.87%)	3,987,303	45.08%
- "Unlikely to pay" loans	(5.91%)	5,119,194	1,184,283	(4.81%)	3,934,911	23.13%
- Past due loans	(0.16%)	141,477	8,083	(0.16%)	133,394	5.71%
Performing loans	**(85.56%)**	**74,177,541**	**378,869**	**(90.16%)**	**73,798,672**	**0.51%**
Total		**86,698,973**	**4,844,693**		**81,854,280**	**5.59%**

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

Loans and advances to customers as at 31st March 2016

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(15.28%)**	**13,496,311**	**3,824,843**	**(11.50%)**	**9,671,468**	**28.34%**
- Bad loans	(8.06%)	7,122,043	2,775,182	(5.17%)	4,346,861	38.97%
- "Unlikely to pay" loans	(6.92%)	6,111,180	1,040,092	(6.03%)	5,071,088	17.02%
- Past due loans	(0.30%)	263,088	9,569	(0.30%)	253,519	3.64%
Performing loans	**(84.72%)**	**74,813,550**	**412,465**	**(88.50%)**	**74,401,085**	**0.55%**
Total		**88,309,861**	**4,237,308**		**84,072,553**	**4.80%**

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.
For bad loans only, impairment losses and gross exposures are given net of write-offs of positions still subject to ongoing bankruptcy proceedings.

As at 31st March 2017, *forborne exposures before impairment losses* came to €5.8 billion, which is essentially in line with December and represents a continuing positive trend (+€0.2 billion) although to a lesser extent than in the past (+4% compared to +7.9% for 2016).

It should be noted that the change in this aggregate and its composition were also affected by specific aspects of forbearance legislation introduced in September 2014.[13]
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.

Net forborne exposures remained at €5 billion for a slight reduction both for the quarter and for the last twelve months.

13 This term is used to indicate a situation in which a debtor is not considered able to meet due dates and comply with contractual terms and conditions as a result of financial difficulties. Because of those difficulties the creditor decides to modify the due date and the terms and conditions of the contract in order to allow the debtor to honour the debt or to refinance it, either fully or partially.

Forborne exposures as at 31st March 2017

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(59.96%)**	**3,483,891**	**803,730**	**(53.97%)**	**2,680,161**	**23.07%**
- Bad loans	(11.84%)	688,286	245,238	(8.92%)	443,048	35.63%
- "Unlikely to pay" loans	(47.49%)	2,759,098	556,632	(44.35%)	2,202,466	20.17%
- Past due loans	(0.63%)	36,507	1,860	(0.70%)	34,647	5.09%
Performing loans	**(40.04%)**	**2,326,274**	**40,008**	**(46.03%)**	**2,286,266**	**1.72%**
Total		**5,810,165**	**843,738**		**4,966,427**	**14.52%**

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

Forborne exposures as at 31st December 2016

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

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

Forborne exposures as at 31st March 2016

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(56.68%)**	**3,167,138**	**515,442**	**(52.68%)**	**2,651,696**	**16.27%**
- Bad loans	(7.01%)	391,450	108,901	(5.61%)	282,549	27.82%
- "Unlikely to pay" loans	(49.11%)	2,744,596	404,741	(46.49%)	2,339,855	14.75%
- Past due loans	(0.56%)	31,092	1,800	(0.58%)	29,292	5.79%
Performing loans	**(43.32%)**	**2,420,834**	**39,332**	**(47.32%)**	**2,381,502**	**1.62%**
Total		**5,587,972**	**554,774**		**5,033,198**	**9.93%**

The item as a percentage of the total is given in brackets.
(*) Coverage is calculated as the ratio of impairment losses to gross exposure.

BAD LOANS[14]

As can be seen in the table of quarterly changes, from January to March the balance of *gross bad loans* posted a slight decrease (-€34.3 million, or -0.5%) after benefitting, in the fourth quarter of 2016, from the effects of write-offs for outstanding creditor actions[15] and of sales during the period.
On an annual basis, gross bad loans still saw marginal growth from €7.1 billion to €7.2 billion (+€104.4 million, or +1.5%).

During the first quarter, sales of mainly unsecured bad loans were conducted for a gross management accounting value of €16.7 million, €8.8 million of which related to UBI Leasing.

Net bad loans remained essentially stable compared to December at €4 billion (-€23.9 million, or -0.6%), while decreasing by €383.5 million (-8.8%) for the twelve-month period as a result of the significant adjustments recognised in the second quarter of 2016 in line with the 2019-2020 business plan.

Net bad loans backed by collateral remained unchanged from December at €3.1 billion, accounting for 78.8% of the total (78.7% at the end of 2016).

At the end of the quarter, net bad loans without any collateral or personal guarantee accounted for 13.1% of the total (12.9% at the end of 2016).

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14 In February (see *Supplemento al Bollettino Statistico "Banche e Moneta: serie nazionali"*, April 2017), *bad loans to the private sector before impairment losses* totalled €202.6 billion for a slight increase from December (+1.1%), continuing the positive trends under way (+3.6% from +0.1% at the end of 2016). The ratio of gross bad loans to the private sector to total private-sector loans therefore rose to 12.61% (12.32% for December). Conversely, *net bad loans* decreased to €77 billion – the lowest level since May 2014 – posting a drop of 11.3% compared to the €86.8 billion of the end of 2016 and of 6.7% annually (from -1.9% for December 2016. The ratio of net bad loans to total lending therefore came to 4.41% (4.89% at the end of 2016).
15 As at 31st March 2017, loan write-offs related to pending creditor actions totalled €2,341 million (€2,342 million at the end of 2016).

An analysis of *movements* in the first three months of the year compared with the same period in 2016 shows the following:
- an overall reduction in new inflows (-22%), both from performing-loan status, although still only marginally, and from transfers from other categories of non-performing loans, particularly from unlikely-to-pay loans (for a 56.7% reduction in new inflows compared to the fourth quarter of 2016);
- an increase of 82.5% in cancellations;
- an increase in collections and disposals.

Given the cyclical increase in the loan portfolio, the *ratio of gross bad loans to total lending* decreased to 8.09% from the 8.37% of December, whereas in net terms the ratio fell to 4.69% from 4.87% at year end (vs. 8.06% and 5.17%, respectively, as at March 2016).

The *level of coverage* improved further to 45.15% (45.08% at the end of the year; 38.97% year-on-year).
If cases written off to the income statement relating to creditor actions still in progress are also considered, coverage would in reality have been 58.57% (58.48% in December; 52.41% in March 2016).[16] At the end of the quarter, coverage for non-performing loans not backed by collateral, considered gross of those write-offs, was 78.23% (78.69% at the end of 2016).

"UNLIKELY TO PAY" LOANS

Gross unlikely-to-pay loans, which fell further to 5 billion (-€95 million from December, or -1.8%), decreased by €1.1 billion (-17.8%) from the year-ago period. This drop concerned all members of the Group, with the most significant impact being seen by UBI Banca (both Parent and former network banks), UBI Leasing, and Prestitalia.

An analysis of *movements* in the first three months of the year compared with the same period in 2016 shows the following:
- an overall reduction in new inflows (-20%), which was confirmed in the quarter-on-quarter figure (-15.8%);
- a 15% increase in outflows to performing-loan status;
- a decrease of 18.5% in transfers to other categories of non-performing loans, mainly to bad loans (-56% for the quarter).

–*Net unlikely-to-pay loans* decreased to €3.8 billion (-€85.3 million during the first quarter, or -2.2%) for a marked reduction from March 2016 (-€1.2 billion, or -24.1%) as a result of the reduction in the gross balance and of a greater level of adjustments in June 2016 following presentation of the business plan.
At the same time, *coverage* increased to 23.39% from 23.13% in December (17.02% in March 2016).
Net unlikely-to-pay loans backed by collateral remained stable at €2.9 billion, accounting for 75.4% of the total (74.7% at the end of 2016).

EXPOSURES PAST DUE AND/OR IN ARREARS

Exposures past due and/or in arrears – which are, by their nature, subject to a certain variability – increased compared to the end of the previous year (+€13.8 million, or +9.8%), but decreased significantly year-on-year [-€107.8 million (-41%), essentially attributable to UBI Factor and UBI Leasing], reflecting the quality of the performing-loan portfolio (with a high degree of low-risk positions) and the coverage mechanisms implemented over time in anticipation of deteriorations of credit.

An analysis of *movements* in the first three months of the year compared with the same period in 2016 shows the following:
- a reduction of €74 million (-43%) in new inflows from performing-loan status, which confirms the underlying trend in progress since the beginning of 2013;

16 See note 12.

- a natural reduction at the same time in transfers to other categories of non-performing loans, mainly to unlikely-to-pay the loans (-€89.5 million, or -59.4%);
- a decrease in outflows to performing status in relation to the progressive reduction in the volumes of the inflows.

Coverage decreased to 4.89% from 5.71% in December (3.64% in March 2016).

Loans to customers: changes in gross non-performing exposures in the first quarter of 2017

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

Loans to customers: changes in gross non-performing exposures in 2016

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2016	**6,987,763**	**6,179,999**	**266,525**	**13,434,287**
Increases	**1,576,125**	**1,704,769**	**464,331**	**3,745,225**
transfers from performing exposures	99,748	742,738	451,100	1,293,586
transfers from other classes of non-performing exposures	1,371,045	415,388	168	1,786,601
other increases	105,332	546,643	13,063	665,038
Decreases	**-1,303,127**	**-2,765,574**	**-589,379**	**-4,658,080**
transfers into performing exposures	-1,728	-373,137	-82,878	-457,743
write-offs (*)	-850,132	-42,084	-16	-892,232
payments received	-387,818	-941,435	-55,827	-1,385,080
disposals	-48,160	-20,645	-	-68,805
transfers to other classes of non-performing exposure	-11,068	-1,335,806	-439,727	-1,786,601
other decreases	-4,221	-52,467	-10,931	-67,619
Final gross exposure as at 31st December 2016	**7,260,761**	**5,119,194**	**141,477**	**12,521,432**

Loans to customers: changes in gross non-performing exposures in the first quarter of 2016 (**)

Figures in thousands of euro	Bad loans	Unlikely-to-pay loans	Past-due exposures	Total
Initial gross exposure as at 1st January 2016	**6,987,763**	**6,179,999**	**266,525**	**13,434,287**
Increases	**298,886**	**477,092**	**176,995**	**952,973**
transfers from performing exposures	24,271	191,643	173,322	389,236
transfers from other classes of non-performing exposures	259,787	141,512	118	401,417
other increases	14,828	143,937	3,555	162,320
Decreases	**-164,606**	**-545,911**	**-180,432**	**-890,949**
transfers into performing exposures	-852	-70,384	-15,115	-86,351
write-offs (*)	-78,455	-6,621	-6	-85,082
payments received	-77,425	-192,641	-14,185	-284,251
disposals	-4,252	-	-	-4,252
transfers to other classes of non-performing exposure	-877	-249,746	-150,794	-401,417
other decreases	-2,745	-26,519	-332	-29,596
Final gross exposure as at 31st March 2016	**7,122,043**	**6,111,180**	**263,088**	**13,496,311**

(*) 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.

(**) For consistency with the criteria for calculating movements in the first quarter of 2017 and for the full year 2016, the movements for the first quarter of 2016 have been restated by customer relationships and are therefore different from those published in the interim financial report for the period ended 31st March 2016, which had been calculated by counterparty.

The interbank market and the liquidity position

The net interbank position of the UBI Banca Group as at 31st March 2017 was net debt of €11.8 billion, up compared with -€10.4 billion at the end of December.
The negative balance, which was maintained in all the interim periods of the previous year, although at lower levels, was closely related to debt with the central bank for refinancing operations (a total of €12.5 billion of TLTRO IIs).
Net of business with central banks, the net interbank position was a debt position, but decidedly smaller in amount, at -€1.7 billion compared with -€1.5 billion as at 31st December and -€0.1 billion as at 31st March 2016 and, partly in relation to opposing trends for volumes of lending and funding with other banking counterparties.

Net interbank position

Figures in thousands of euro	31.3.2017	31.12.2016	30.9.2016	30.6.2016	31.3.2016
Loans and advances to banks	4,850,605	3,719,548	4,108,062	3,930,021	3,591,309
of which: loans to central banks	*2,417,160*	*1,064,303*	*532,460*	*421,839*	*297,898*
Due to banks	16,665,755	14,131,928	13,800,894	13,691,017	11,495,105
of which: due to central banks	*12,491,031*	*9,993,625*	*9,998,754*	*9,999,873*	*8,108,273*
Net interbank position	**-11,815,150**	**-10,412,380**	**-9,692,832**	**-9,760,996**	**-7,903,796**
Loans and advances excluding central banks	2,433,445	2,655,245	3,575,602	3,508,182	3,293,411
Due to banks excluding central banks	4,174,724	4,138,303	3,802,140	3,691,144	3,386,832
Net interbank position net of central banks	**-1,741,279**	**-1,483,058**	**-226,538**	**-182,962**	**-93,421**

The Group also continues to maintain a more than positive position in terms of liquidity buffers, demonstrated, amongst other things, by specific short-term (Liquidity Coverage Ratio) and structural (Net Stable Funding Ratio) Basel 3 indicators, both greater than 100%[1].
It must also be stated that these indicators would be greater than one even in the presence of an ordinary funding structure not based on TLTRO II support.

Business on the interbank market recorded the following trends in the quarter.

Loans and advances to banks, at €4.9 billion, increased by €1.1 billion as a result of:

- reductions in liquidity (-€0.5 billion) held with central banks regarding the centralised account for the compulsory reserve, which totalled €0.6 billion at the end of March.
  In reality, the changes in end of period figures are operational and depend on balance management strategies, with account taken of average deposit requirements to be complied with in the reporting period. The Group normally maintains average deposits in line with the requirement;
- and investment of liquidity (+€1.8 billion) deposited with the central bank;
- deposits with other banks, down (-€0.2 billion) to €2.4 billion. Within the item, current accounts and term deposits decreased (-€136 million as part of ordinary business on the interbank market) as did other financing (-€86 million). The latter mainly reflects lending activity by the former network banks with customers (e.g. granting loans to banking counterparties that are part of industrial and/or financial groups), but it consists above all of margin deposits and liquidity accounts (totalling over €800 million) with international banking counterparties in relation to special purpose entities for securitisations and covered bonds.

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

Loans to banks: composition

Figures in thousands of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	%	31.3.2016 C	%
Loans to central banks	**2,417,160**	**49.8%**	**1,064,303**	**28.6%**	**1,352,857**	**127.1%**	**297,898**	**8.3%**
Compulsory reserve requirements	567,160	11.7%	1,064,303	28.6%	-497,143	-46.7%	296,675	8.3%
Other	1,850,000	38.1%	-	-	1,850,000	-	1,223	0.0%
Loans and advances to banks	**2,433,445**	**50.2%**	**2,655,245**	**71.4%**	**-221,800**	**-8.4%**	**3,293,411**	**91.7%**
Current accounts and deposits	1,227,747	25.4%	1,348,754	36.2%	-121,007	-9.0%	1,945,959	54.2%
Term deposits	6,624	0.1%	21,305	0.6%	-14,681	-68.9%	21,372	0.6%
Other financing:	1,199,074	24.7%	1,285,186	34.6%	-86,112	-6.7%	1,326,080	36.9%
- reverse repurchase agreements	*840*	*0.0%*	-	-	*840*	-	-	-
- other	*1,198,234*	*24.7%*	*1,285,186*	*34.6%*	*-86,952*	*-6.8%*	*1,326,080*	*36.9%*
Debt instruments	-	-	-	-	-	-	-	-
Total	**4,850,605**	**100.0%**	**3,719,548**	**100.0%**	**1,131,057**	**30.4%**	**3,591,309**	**100.0%**

At the end of the quarter, interbank funding amounted to €16.7 billion, up €2.5 billion compared with December 2016.

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

Net of that funding, amounts due to banks amounted to €4.2 billion, with no significant change quarter-on-quarter (+€36 million), but were nevertheless the aggregate result of the following changes:

- -€26 million for current accounts and term deposits as part of ordinary business on the market;
- +€152 million for repurchase agreements, amounting to €1.7 billion and relating almost entirely to the structuring of operations with market counterparties with investments in US Treasuries and securities issued by emerging market countries as the underlying;
- -€90 million for "financing – other", within which EIB loans and the relative repayments are recognised. These are medium to long-term funding transactions with the European Investment Bank designed to support SMEs, which as at 31st March totalled €1.7 billion. This funding may be drawn on directly both by the Parent and by the former network banks.

Finally, the item "other payables" includes funds relating to credit card settlement arrangements with Istituto Centrale Banche Popolari (these totalled approximately €35 million, marginally up on last December).

Due to banks: composition

Figures in thousands of euro	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	%	31.3.2016 C	%
Due to central banks	**12,491,031**	**75.0%**	**9,993,625**	**70.7%**	**2,497,406**	**25.0%**	**8,108,273**	**70.5%**
Due to banks	**4,174,724**	**25.0%**	**4,138,303**	**29.3%**	**36,421**	**0.9%**	**3,386,832**	**29.5%**
Current accounts and deposits	804,612	4.8%	772,773	5.5%	31,839	4.1%	876,403	7.6%
Term deposits	6,125	0.0%	63,830	0.5%	-57,705	-90.4%	77,611	0.7%
Financing:	3,329,328	20.0%	3,267,745	23.1%	61,583	1.9%	2,371,054	20.6%
- repurchase agreements	*1,671,296*	*10.0%*	*1,519,740*	*10.8%*	*151,556*	*10.0%*	*782,739*	*6.8%*
- other	*1,658,032*	*10.0%*	*1,748,005*	*12.3%*	*-89,973*	*-5.1%*	*1,588,315*	*13.8%*
Other payables	34,659	0.2%	33,955	0.2%	704	2.1%	61,764	0.6%
Total	**16,665,755**	**100.0%**	**14,131,928**	**100.0%**	**2,533,827**	**17.9%**	**11,495,105**	**100.0%**

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

Available liquidity reserve

Management accounting figures in millions of euro - net of haircuts	31.3.2017 A	%	31.12.2016 B	%	Changes A/B amount	Changes A/B %	31.3.2016 C	%
ECB pool	18,562	71.0%	16,102	57.6%	2,460	15.3%	14,148	53.6%
of which government securities (A)	*5,195*	*19.9%*	*2,917*	*10.4%*	*2,278*	*78.1%*	*5,163*	*19.5%*
of which Italian government securities (A)	*4,054*	*15.5%*	*2,917*	*10.4%*	*1,137*	*39.0%*	*5,163*	*19.5%*
Liquid securities not included in the ECB pool	6,002	22.9%	8,284	29.6%	-2,282	-27.5%	5,648	21.4%
of which government securities (B)	*6,002*	*22.9%*	*8,284*	*29.6%*	*-2,282*	*-27.5%*	*5,648*	*21.4%*
of which Italian government securities (b)	*5,957*	*22.8%*	*7,498*	*26.8%*	*-1,541*	*-20.6%*	*5,648*	*21.4%*
Government securities refinanced (C)	*1,601*	*6.1%*	*3,574*	*12.8%*	*-1,973*	*-55.2%*	*6,615*	*25.0%*
of which Italian government securities (c)	*123*	*0.5%*	*2,080*	*7.4%*	*-1,957*	*-94.1%*	*5,888*	*22.3%*
Liquidity reserve	**26,165**	**100.0%**	**27,960**	**100.0%**	**-1,795**	**-6.4%**	**26,411**	**100.0%**
of which government securities (A+B+C)	*12,798*	*48.9%*	*14,775*	*52.8%*	*-1,977*	*-13.4%*	*17,426*	*65.9%*
of which Italian government securities (a+b+c)	*10,134*	*38.8%*	*12,495*	*44.6%*	*-2,361*	*-18.9%*	*16,699*	*63.2%*
ECB auctions (portion pledged)	-12,500	-47.8%	-10,000	-35.7%	2,500	25.0%	-8,108	-30.7%
Government securities refinanced	-1,601	-6.1%	-3,574	-12.8%	-1,973	-55.2%	-6,615	-25.0%
Available liquidity reserve	**12,064**	46.1%	**14,386**	51.5%	**-2,322**	**-16.1%**	**11,688**	44.3%
of which unencumbered securities for the purposes of the LCR indicator	*12,370*	*47.3%*	*11,201*	*40.1%*	*1,169*	*10.4%*	*10,863*	*41.1%*

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

As at 31st March 2017 the Group's liquidity reserve[3] amounted to €26.2 billion (*net of haircuts*), down €1.8 billion quarter-on-quarter, and it was composed as follows:

- €18.6 billion of assets (+€2.5 billion) deposited with the ECB collateral pool to back both access to the TLTRO II programme already mentioned (and to increase that financing) and intraday credit;
- €6 billion (-€2.3 billion) of readily marketable spot and forward assets (mainly Italian government securities), not lodged with the collateral pool available to the Parent treasury for short-term liquidity management. The fall in this item in the quarter is attributable primarily to the transfer of government securities to the collateral pool (of which over €1 billion consisting of Italian government securities) to back the increased recourse to ECB financing;
- €1.6 billion (-€2 billion approx.) of refinanced government securities (liability net of asset positions).
  While refinancing of Italian government securities with the *Cassa di Compensazione e Garanzia* (CCG – a central counterparty clearing house) was stable (largely unchanged over three months), the balance was modified when reverse repurchase agreements were entered into with the CCG (+€2.2 billion) as a form of investment for liquidity. On the other hand, the portion of refinancing obtained using securities of other sovereign issuers recorded no significant changes.

The position in Italian government securities reduced further overall over the three month period (the book value was down €1.7 billion; see also the following section "Financial assets"), while at the same time the policy to diversify investments with the purchase of securities from other EU or non-EU issuers continued.

The Group is pursuing a policy to gradually reduce and diversify the portfolios (by geographical area and by sovereign and corporate issuer – see in this respect the section "Financial Activities"), designed nevertheless to maintain sufficiently large investments in domestic government securities to ensure optimum management of liquidity by means of the eligibility of these.

The total liquidity reserve amounts to approximately 50% of on demand direct funding consisting of current accounts and sight deposits as at 31st March 2017.

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

As also shown in the table below, in terms of category of financial instrument, the reserve (€26.17 billion, -€1.8 billion compared with the end of the year net of haircuts) shows primarily a fall in owned eligible or readily marketable securities (-€2 billion, of which -€720 million nominal), to be interpreted in relation to trends for the AFS portfolio, but above all to fair value movements and the new haircuts applied by the ECB on Italian sovereign debt after its downgrade by DBRS on 13th January 2017 [from A (low) to BBB (high)].

The aforementioned reduction was marginally offset by increases (+€0.2 billion), which involved self-retained securitisations (net of amortisations), self-retained covered bonds and the ABACO loan portfolio.

As at 31st March 2017, in view of the portion amounting to €12.5 billion to back TLTRO II funding and the portion to back repurchase agreements amounting to approximately €1.6 billion, the margin of available liquidity stood at €12.1 billion, compared with €14.4 billion in December.
Assets available (mainly Italian government securities) for the purposes of the LCR indicator amounted on the other hand to €12.4 billion[4] (€11.2 billion three months before).

The margin available amounts to approximately 23% of on demand direct funding consisting of current accounts and sight deposits as at 31st March 2017.

Liquidity reserve: composition by type of underlying assets

	31.3.2017		31.12.2016		30.9.2016		30.6.2016		31.3.2016	
Figures in billions of euro	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
Securities owned (AFS, HTM and L&R) (*)	13.10	13.38	13.82	15.36	13.84	15.74	14.84	16.92	15.62	17.89
Covered bonds ("self-retained" issues)	4.44	3.88	4.44	3.87	5.32	4.71	5.32	4.69	3.45	3.05
Securitisation of residential mortgages of the former B@nca 24-7	0.76	0.68	0.97	0.66	0.83	0.68	0.86	0.71	0.90	0.73
UBI Leasing assets securitisation	2.10	1.87	2.10	1.77	2.10	1.75	-	-	0.39	0.33
Securitisation of network bank performing loans to SMEs	2.09	1.77	2.09	1.74	2.48	2.06	0.49	0.42	0.59	0.49
Loans eligible resulting from participation in ABACO (**)	7.26	4.59	7.16	4.56	7.36	4.36	7.15	4.19	6.88	3.92
Liquidity reserve	**29.75**	**26.17**	**30.58**	**27.96**	**31.93**	**29.30**	**28.66**	**26.93**	**27.83**	**26.41**

(*) Owned securities, stated both at nominal value and net of haircuts, include the amount for refinanced government securities. The item is therefore fully comparable with the figures reported in the table "Available liquidity reserve", where the type of government securities included here is reported and it represents the most significant quota of the Group's liquid assets.

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

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

Financial activities

The Group's **financial assets** as at 31st March 2017 totalled €16.6 billion (€15.8 billion net of financial liabilities), down €1.3 billion compared with the end of 2016. Action taken to change the mix of the investments and diversify them continued during the quarter with further sales of Italian government securities (down €1.7 billion to €11.5 billion) and purchases of Spanish Bonos (€347 million nominal) and government securities issued by emerging countries ($100 million nominal).

On the other hand, in April, after the end of the quarter, trading took place involving the disposal of BTPs recognised in the AFS portfolio amounting to €850 million nominal and investments were made in BTPs in the HTM portfolio amounting to €1 billion nominal.

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Financial assets/liabilities

Figures in thousands of euro	31.3.2017 Carrying amount (A)	%	31.12.2016 Carrying amount (B)	%	Changes (A) / (B) amount	%	30.9.2016 Carrying amount (C)	%	30.6.2016 Carrying amount (D)	%	31.3.2016 Carrying amount (E)	%
Financial assets held for trading	627,034	3.8%	729,616	4.1%	-102,582	-14.1%	677,514	3.7%	681,543	3.4%	966,772	4.8%
of which: financial derivatives contracts	*552,443*	*3.3%*	*616,200*	*3.5%*	*-63,757*	*-10.3%*	*550,032*	*3.0%*	*554,248*	*2.8%*	*556,265*	*2.8%*
Financial assets designated at fair value	190,448	1.1%	188,449	1.1%	1,999	1.1%	189,638	1.0%	188,641	1.0%	194,738	1.0%
Available-for-sale financial assets	8,475,803	51.2%	9,613,833	53.8%	-1,138,030	-11.8%	14,144,698	76.8%	15,417,870	78.1%	15,699,461	77.2%
Held-to-maturity investments	7,274,195	43.9%	7,327,544	41.0%	-53,349	-0.7%	3,403,798	18.5%	3,452,886	17.5%	3,445,469	17.0%
Financial assets (a)	**16,567,480**	**100.0%**	**17,859,442**	**100.0%**	**-1,291,962**	**-7.2%**	**18,415,648**	**100.0%**	**19,740,940**	**100.0%**	**20,306,440**	**100.0%**
of which:												
- debt instruments	*15,470,001*	*93.4%*	*16,700,645*	*93.5%*	*-1,230,644*	*-7.4%*	*17,282,962*	*93.8%*	*18,628,634*	*94.4%*	*19,276,446*	*94.9%*
- of which: Italian government securities	*11,475,988*	*69.3%*	*13,183,605*	*73.8%*	*-1,707,617*	*-13.0%*	*15,012,032*	*81.5%*	*16,177,490*	*81.9%*	*17,691,911*	*87.1%*
- equity instruments	*284,499*	*1.7%*	*285,445*	*1.6%*	*-946*	*-0.3%*	*277,026*	*1.5%*	*257,642*	*1.3%*	*289,456*	*1.4%*
- Units in UCITS.	*260,537*	*1.6%*	*257,152*	*1.4%*	*3,385*	*1.3%*	*305,628*	*1.7%*	*300,416*	*1.5%*	*184,273*	*0.9%*
Financial liabilities held for trading (b)	**722,633**	**100.0%**	**800,038**	**100.0%**	**-77,405**	**-9.7%**	**584,324**	**100.0%**	**612,314**	**100.0%**	**610,468**	**100.0%**
of which: financial derivatives contracts	*722,633*	*100.0%*	*800,038*	*100.0%*	*-77,405*	*-9.7%*	*584,324*	*100.0%*	*612,314*	*100.0%*	*610,468*	*100.0%*
Net financial assets (a-b)	**15,844,847**		**17,059,404**		**-1,214,557**	**-7.1%**	**17,831,324**		**19,128,626**		**19,695,972**	

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The financial assets held for trading portfolio (€627,034 thousand) was smaller than the same portfolio held by the Parent (€628,834 thousand) due to the presence of financial derivatives contracts entered into by UBI Banca with the Group companies. These instruments, in addition to being subject to intragroup elimination in the consolidation, were classified by the Parent as held for trading because the relative assets hedged were recognised in the balance sheets of the Group companies. When the consolidation was prepared, those same instruments, entered into to hedge the underlying assets, were recognised within hedging derivatives.
Financial derivatives classified as held for trading held by the Parent at the end of March 2017 amounted to €554,249 thousand, while the figure for the Group was €552,443 thousand.

Management accounting figures[1] for the 31st March 2017, show the following:

- in terms of *type of financial instrument*, the Group's securities portfolio was composed as follows: 90.7% (92.6% at the end of 2016) of government securities; 5.9% (5.7%) of corporate securities (equally divided between the financial sector and corporate issuers; 98% of these investments have an "investment grade" rating, of which 63% concentrated in the BBB segment and 33% in the A segment); the remaining 3.4% (1.7%) of hedge funds, funds and equities (which included the stakes held in the Atlante Fund);
- from a *financial viewpoint*, floating rate securities accounted for 49.4% (51.8%) of the portfolio and fixed rate securities for 49.5% (47.2%), while the remainder was composed of structured instruments, held mainly in the AFS portfolio, and convertible securities;
- as regards the *currency of denomination*, 88.5% (89.7%) of the securities were denominated in euro and 11.5% (10.3%) in dollars with currency hedges, while in terms of *geographical distribution*, 87.6% (88.75%) of the investments (excluding hedge funds) were issued from countries in the euro area;
- an analysis by *rating* (for the bond portfolio only) shows no changes compared with the end of the year and 99.85% of the portfolio continued to consist of "investment grade" securities.

1 The management accounting analysis relates to a smaller portfolio than that stated in the consolidated financial statements, because they exclude "longer-term" AFS assets, some smaller portfolios and also financial derivatives contracts held for trading. Furthermore, transactions being processed at the end of the period (consisting of $7 million of net purchases of securities issued by emerging countries) are excluded.

Available-for-sale financial assets

"Available-for-sale financial assets" (AFS), asset item 40, are measured at fair value with the recognition of changes in a separate fair value reserve in equity, except for losses due to reductions in value that constitute "impairment" in accordance with IAS 39. In this case the reduction in value that occurred in the period is recognised through profit and loss. The UBI Banca Group applies IAS 34 "Interim financial reporting" to its half year reports only, with the consequent identification of a half year "interim period", and therefore any appreciations in the value of the securities which might occur in the second quarter, will reduce the impairment losses recognised through profit and loss in the first quarter. On the other hand, any recovery in value compared with prices recorded as at 31st December will be recognised in a separate reserve in equity for equity instruments and through profit and loss for debt instruments.
Definitions relating to the fair value hierarchy (levels 1, 2 and 3) are given in Section A.4 of Part A – Accounting Policies in the Notes to the Consolidated Financial Statements in the 2016 Annual Report.

Available-for-sale financial assets: composition

Figures in thousands of euro	31.3.2017 L 1	31.3.2017 L 2	31.3.2017 L 3	31.3.2017 Carrying amount (A)	31.12.2016 L 1	31.12.2016 L 2	31.12.2016 L 3	31.12.2016 Carrying amount (B)	Changes (A)/(B) amount	Changes (A)/(B) %	31.3.2016 L 1	31.3.2016 L 2	31.3.2016 L 3	31.3.2016 Carrying amount (C)
Debt instruments	7,954,707	158,595	13,755	8,127,057	9,094,524	157,437	13,347	9,265,308	-1,138,251	-12.3%	15,237,781	160,991	26,729	15,425,501
of which: Italian government securities	*4,180,871*	-	-	*4,180,871*	*5,750,938*	-	-	*5,750,938*	*-1,570,067*	*-27.3%*	*14,024,465*	-	-	*14,024,465*
Equity instruments	21,801	-	184,810	206,611	25,098	-	182,892	207,990	-1,379	-0.7%	2,790	-	209,684	212,474
Units in UCITS	23,348	48,191	70,596	142,135	25,841	49,165	65,529	140,535	1,600	1.1%	13,531	47,955	-	61,486
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**7,999,856**	**206,786**	**269,161**	**8,475,803**	**9,145,463**	**206,602**	**261,768**	**9,613,833**	**-1,138,030**	**-11.8%**	**15,254,102**	**208,946**	**236,413**	**15,699,461**

Available for sale financial assets amounted to €8.476 billion as at 31st March 2017, of which €8.445 billion attributable to the Parent.

The table reports debt instruments amounting to €8.1 billion down €1.1 billion in the three-month period due to a reduction in *Italian government securities*, down €1.6 billion following sales of BTPs for €1,330 million nominal, mostly offset, within other debt instruments, by the purchase of €300 million nominal of *Spanish Bonos* and $100 million nominal of *government securities of emerging countries.*
As already reported, the changes shown in the tables take account of end of period accounting adjustments.

Equity instruments, amounting to €206.6 million, of which €198.3 million attributable to UBI Banca, were almost unchanged compared with the figure at the end of the year (€208 million). These securities are classified almost entirely within fair value level three: they include €12.2 million, unchanged in the quarter, for the interest relating to the contribution to the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) for the intervention to support Cassa di Risparmio di Cesena.

Units of UCITS amounted to €142 million and were comprised, in fair value levels one and three, entirely of investments made by the Parent: the Polis Fund and two ETF funds were recognised in the level one, while the shares subscribed in the Atlante Fund were recognised in level three, amounting to €70.6 million, up compared with €65.5 million at the end of the year in relation to the payment made at the beginning of January, already stated net of further impairment which was recognised at the end of the quarter.
The amount recognised in fair value level two, on the other hand, remained largely unchanged.
Amounts continue to be recognised for property funds amounting to approximately €12.6 million (€16.5 million at the end of 2016), the most substantial of which is the Polis Fund, classified within fair value level one amounting to €7.8 million (€11.3 million at the end of 2016): redemptions recognised in capital account amounting to €4.2 million were recognised in the quarter, offset by increases in fair value amounting to €0.7 million.

Held-to-maturity investments

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

Held-to-maturity investments: composition

Figures in thousands of euro	Carrying amount (A)	31.3.2017 Fair Value L 1	L 2	L 3	Total	Carrying amount (B)	31.12.2016 Fair Value L 1	L 2	L 3	Total	Changes (A)/(B) amount	%	Carrying amount (C)	31.3.2016 Fair Value L 1	L 2	L 3	Total
Debt instruments	7,274,195	7,287,369	-	-	7,287,369	7,327,544	7,440,786	-	-	7,440,786	-53,349	-0.7%	3,445,469	3,595,144	-	-	3,595,144
of which: Italian government securities	*7,274,195*	*7,287,369*	-	-	*7,287,369*	*7,327,544*	*7,440,786*	-	-	*7,440,786*	-53,349	-0.7%	*3,445,469*	*3,595,144*	-	-	*3,595,144*
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**7,274,195**	**7,287,369**	**-**	**-**	**7,287,369**	**7,327,544**	**7,440,786**	**-**	**-**	**7,440,786**	**-53,349**	**-0.7%**	**3,445,469**	**3,595,144**	**-**	**-**	**3,595,144**

The portfolio continues to consist of BTPs amounting to €6.385 billion nominal, with a book value of €7.3 billion. As already reported, the portfolio was affected in the fourth quarter of 2016 by the transfer to it of BTPs amounting to €3.335 billion nominal (maturity 2022-2023) from the AFS portfolio.

As anticipated in the introduction, new investments amounting to €1 billion nominal were classified within this portfolio in April.

Financial instruments held for trading

Financial assets held for trading

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

Financial assets held for trading: composition

Figures in thousands of euro	31.3.2017 L 1	L 2	L 3	Carrying amount (A)	31.12.2016 L 1	L 2	L 3	Carrying amount (B)	Changes (A)/(B) amount	%	31.3.2016 L 1	L 2	L 3	Carrying amount (C)
On-balance sheet assets														
Debt instruments	68,622	27	100	68,749	107,483	210	100	107,793	-39,044	-36.2%	405,032	344	100	405,476
of which: Italian government securities	*20,922*	-	-	*20,922*	*105,123*	-	-	*105,123*	*-84,201*	*-80.1%*	*221,977*	-	-	*221,977*
Equity instruments	5,561	-	2	5,563	4,949	-	2	4,951	612	12.4%	4,185	-	2	4,187
Units in UCITS	279	-	-	279	672	-	-	672	-393	-58.5%	276	-	568	844
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (a)	**74,462**	**27**	**102**	**74,591**	**113,104**	**210**	**102**	**113,416**	**-38,825**	**-34.2%**	**409,493**	**344**	**670**	**410,507**
Derivative instruments														
Financial derivatives	9,653	528,832	13,958	552,443	1,403	599,680	15,117	616,200	-63,757	-10.3%	627	528,500	27,138	556,265
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (b)	**9,653**	**528,832**	**13,958**	**552,443**	**1,403**	**599,680**	**15,117**	**616,200**	**-63,757**	**-10.3%**	**627**	**528,500**	**27,138**	**556,265**
Total (a+b)	**84,115**	**528,859**	**14,060**	**627,034**	**114,507**	**599,890**	**15,219**	**729,616**	**-102,582**	**-14.1%**	**410,120**	**528,844**	**27,808**	**966,772**

At the end of the quarter financial assets held for trading amounted to €627 million, composed of on-balance sheet assets of €74.6 million (€113.4 million in December) and financial derivatives amounting to €552.4 million (€616.2 million), for which the performance and amount must be interpreted in strict relation to the corresponding item recognised within financial liabilities held for trading.

As shown in the table, debt instruments, which represent the main items for on-balance sheet assets and include Italian government securities amounting to €20.9 million, were down €68.7 million (-€39 million), having incorporated maturities of the BOTs amounting to €105 million nominal, only partially offset by the purchase of BTPs amounting to €23.25 million nominal and Bonos amounting to €47 million nominal.
As already reported, the changes shown in the tables take account of end of period accounting adjustments.

Equity instruments, of which €5.6 million are attributable to the Parent, recorded a slight increase (+€0.6 million) almost entirely attributable to the share of a small company launched on the AIM market.

Units in UCITS, existing for a very small amount (€279 thousand) and relating to investments in two listed real estate property funds, were down €393 thousand in the period due to the sale of funds held by UBI Pramerica, the Group's asset management company.

Financial liabilities held for trading

Financial liabilities held for trading: composition

Figures in thousands of euro	31.3.2017 L 1	31.3.2017 L 2	31.3.2017 L 3	31.3.2017 Carrying amount (A)	31.12.2016 L 1	31.12.2016 L 2	31.12.2016 L 3	31.12.2016 Carrying amount (B)	Changes (A)/(B) amount	Changes (A)/(B) %	31.3.2016 L 1	31.3.2016 L 2	31.3.2016 L 3	31.3.2016 Carrying amount (C)
On-balance sheet liabilities														
Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative instruments														
Financial derivatives	5,151	717,471	11	722,633	76	799,931	31	800,038	-77,405	-9.7%	17	610,440	11	610,468
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (b)	**5,151**	**717,471**	**11**	**722,633**	**76**	**799,931**	**31**	**800,038**	**-77,405**	**-9.7%**	**17**	**610,440**	**11**	**610,468**
Total (a+b)	**5,151**	**717,471**	**11**	**722,633**	**76**	**799,931**	**31**	**800,038**	**-77,405**	**-9.7%**	**17**	**610,440**	**11**	**610,468**

Financial liabilities held for trading, which were down to €722.6 million from €800 million previously, continued to consist solely of financial derivatives, the performance of which must be interpreted in a manner consistent with that of the corresponding item recognised within financial assets.

Financial assets designated at fair value

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

Financial assets designated at fair value: composition

	31.3.2017				31.12.2016				Changes (A)/(B)		31.3.2016			
Figures in thousands of euro	L 1	L 2	L 3	Carrying amount (A)	L 1	L 2	L 3	Carrying amount (B)	amount	%	L 1	L 2	L 3	Carrying amount (C)
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	1,647	2,000	68,678	72,325	1,555	3,000	67,949	72,504	-179	-0.2%	1,375	3,000	68,420	72,795
Units in UCITS	118,123	-	-	118,123	115,945	-	-	115,945	2,178	1.9%	116,959	-	4,984	121,943
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**119,770**	**2,000**	**68,678**	**190,448**	**117,500**	**3,000**	**67,949**	**188,449**	**1,999**	**1.1%**	**118,334**	**3,000**	**73,404**	**194,738**

Financial assets designated at fair value, amounted to €190.4 million (€188.4 million at the end of December) and related entirely to the Parent. They included the following:

- €72.3 million of equity instruments, unchanged in the quarter, held as part of merchant banking and private equity business;
- €118.1 million of UCITS units consisting solely of Tages funds recognised within fair value level one, subject to changes related to movements in market prices.

Exposure to sovereign debt risk

The table on the following page shows that the book value of the sovereign debt risk exposures of UBI Banca as at 31st March 2017 decreased to €15.2 billion from €16.2 billion at the end of 2016. This decrease is attributable primarily to Italy which, while it is the state in which 80% of the exposures are concentrated, it has incorporated the impacts of sales made in the period in the AFS portfolio and of maturities that have affected the HFT portfolio. As concerns other investments in government securities an increase of €0.5 billion was recorded attributable to new purchases of Bonos amounting to €0.4 billion and of emerging countries securities amounting to €0.1 billion.

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

UBI Banca Group: exposures to sovereign debt risk

Country/portfolio of classification Figures in thousands of euro	31.3.2017 Nominal amount	31.3.2017 Carrying amount	31.3.2017 Fair value	31.12.2016 Nominal amount	31.12.2016 Carrying amount	31.12.2016 Fair value
- Italy	**10,506,405**	**12,151,382**	**12,153,526**	**11,737,293**	**13,673,120**	**13,786,362**
financial assets and liabilities held for trading (net exposure)	23,251	20,922	20,922	105,000	105,123	105,123
financial assets available-for-sale*	3,431,505	4,186,109	4,186,109	4,761,505	5,756,273	5,756,273
held-to-maturity investments	6,385,000	7,274,195	7,287,369	6,385,000	7,327,544	7,440,786
loans and receivables	666,649	670,156	659,126	485,788	484,180	484,180
- United States	**1,496,586**	**1,513,933**	**1,513,933**	**1,517,883**	**1,533,693**	**1,533,693**
available-for-sale financial assets	1,496,586	1,513,933	1,513,933	1,517,883	1,533,693	1,533,693
- Belgium	**61**	**61**	**61**	**61**	**61**	**61**
loans and receivables	61	61	61	61	61	61
- Holland	**10**	**10**	**10**	**10**	**10**	**10**
loans and receivables	10	10	10	10	10	10
- Abu Dhabi	**4,677**	**4,729**	**4,729**	**-**	**-**	**-**
available-for-sale financial assets	4,677	4,729	4,729	-	-	-
- Andorra	**-**	**-**	**-**	**2,299**	**2,299**	**2,299**
loans and receivables	-	-	-	2,299	2,299	2,299
- Saudi Arabia	**7,483**	**7,397**	**7,397**	**-**	**-**	**-**
available-for-sale financial assets	7,483	7,397	7,397	-	-	-
- Chile	**2,806**	**2,855**	**2,855**	**-**	**-**	**-**
available-for-sale financial assets	2,806	2,855	2,855	-	-	-
- Colombia	**25,723**	**30,843**	**30,843**	**19,922**	**23,359**	**23,359**
available-for-sale financial assets	25,723	30,843	30,843	19,922	23,359	23,359
- South Korea	**1,403**	**1,507**	**1,507**	**-**	**-**	**-**
available-for-sale financial assets	1,403	1,507	1,507	-	-	-
- Philippines	**14,030**	**18,358**	**18,358**	**14,230**	**18,936**	**18,936**
available-for-sale financial assets	14,030	18,358	18,358	14,230	18,936	18,936
- Indonesia	**37,415**	**40,769**	**40,769**	**28,935**	**31,008**	**31,008**
available-for-sale financial assets	37,415	40,769	40,769	28,935	31,008	31,008
- Israel	**4,677**	**4,663**	**4,663**	**-**	**-**	**-**
available-for-sale financial assets	4,677	4,663	4,663	-	-	-
- Kazakhstan	**12,160**	**13,040**	**13,040**	**9,487**	**10,115**	**10,115**
available-for-sale financial assets	12,160	13,040	13,040	9,487	10,115	10,115
- Lithuania	**4,677**	**5,410**	**5,410**	**-**	**-**	**-**
available-for-sale financial assets	4,677	5,410	5,410	-	-	-
- Morocco	**14,966**	**15,668**	**15,668**	**9,487**	**9,715**	**9,715**
available-for-sale financial assets	14,966	15,668	15,668	9,487	9,715	9,715
- Mexico	**27,593**	**28,382**	**28,382**	**27,986**	**28,011**	**28,011**
available-for-sale financial assets	27,593	28,382	28,382	27,986	28,011	28,011
- Oman	**2,338**	**2,390**	**2,390**	**-**	**-**	**-**
available-for-sale financial assets	2,338	2,390	2,390	-	-	-
- Panama	**14,966**	**15,851**	**15,851**	**11,384**	**12,091**	**12,091**
available-for-sale financial assets	14,966	15,851	15,851	11,384	12,091	12,091
- Peru	**14,030**	**18,420**	**18,420**	**11,384**	**15,006**	**15,006**
available-for-sale financial assets	14,030	18,420	18,420	11,384	15,006	15,006
- Poland	**7,951**	**8,519**	**8,519**	**4,743**	**5,233**	**5,233**
available-for-sale financial assets	7,951	8,519	8,519	4,743	5,233	5,233
- Qatar	**3,741**	**3,765**	**3,765**	**-**	**-**	**-**
available-for-sale financial assets	3,741	3,765	3,765	-	-	-
- Slovakia	**1,871**	**2,064**	**2,064**	**-**	**-**	**-**
available-for-sale financial assets	1,871	2,064	2,064	-	-	-
- Rumania	**27,126**	**30,183**	**30,183**	**19,448**	**21,466**	**21,466**
available-for-sale financial assets	27,126	30,183	30,183	19,448	21,466	21,466
- Slovenia	**9,354**	**10,732**	**10,732**	**-**	**-**	**-**
available-for-sale financial assets	9,354	10,732	10,732	-	-	-
- Spain	**1,097,512**	**1,220,418**	**1,220,418**	**760,568**	**820,563**	**820,563**
financial assets and liabilities held for trading (net exposure)	47,000	46,289	46,289	-	-	-
available-for-sale financial assets	1,050,000	1,173,617	1,173,617	750,000	809,995	809,995
loans and receivables	512	512	512	10,568	10,568	10,568
- South Africa	**14,030**	**15,323**	**15,323**	**14,230**	**15,471**	**15,471**
available-for-sale financial assets	14,030	15,323	15,323	14,230	15,471	15,471
- Trinidad and Tobago	**1,871**	**1,878**	**1,878**	**-**	**-**	**-**
available-for-sale financial assets	1,871	1,878	1,878	-	-	-
- Turkey	**7,015**	**7,848**	**7,848**	**7,115**	**7,746**	**7,746**
available-for-sale financial assets	7,015	7,848	7,848	7,115	7,746	7,746
- Uruguay	**11,224**	**12,035**	**12,035**	**11,384**	**12,067**	**12,067**
available-for-sale financial assets	11,224	12,035	12,035	11,384	12,067	12,067
- Argentina	**660**	**559**	**559**	**829**	**843**	**843**
financial assets and liabilities held for trading (net exposure)	660	559	559	829	843	843
Total on-balance sheet exposure	**13,374,361**	**15,188,992**	**15,191,136**	**14,208,678**	**16,240,813**	**16,354,055**

* The carrying amount for the AFS Italian securities is different from that reported in the line "Italian government securities" in the table relating to "Available-for-sale financial assets" due to the presence in this table of *Cassa Deposito e Prestiti* (a state controlled fund and deposit institution) bonds (a government issuer) amounting to €5.2 million as at 31st March 2017 and to €5.3 million as at 31st December 2016.

The following table, on the other hand, shows the distribution by maturity of Italian government securities held in portfolio.

At the end of March the average life of the AFS portfolio was 10.24 years (8 years at the end of 2016), that of the HTM portfolio was 4.64 years (4.9 years), while that of government securities classified within the Held For Trading portfolio was 29.94 years (0.2 years). The significant lengthening of maturities in the HFT portfolio is due to the aforementioned investment made in the quarter in BTPs amounting to €23.25 million with maturity in 2047.

A comparison with the end of 2016 figures shows growth in the range "one to three years" to be interpreted in relation to the nearness of the maturity of two securities in the HTM portfolio which resulted in their movement out of the "three years to five years" range.
There was also, again in the "one year to three years" range, a reduction in the AFS portfolio following sales that occurred in the period.

Maturities of Italian government securities

Figures in thousands of euro	31.3.2017					31.12.2016				
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	**Carrying amount**	**%**	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	**Carrying amount**	**%**
Up to 6 months		-	-	-	-	105,122	-	-	105,122	0.8%
Six months to one year	-	102,229	-	102,229	0.9%	-	335,710	-	335,710	2.6%
One year to three years	-	694,999	2,238,816	2,933,815	25.6%	-	1,881,807	-	1,881,807	14.3%
Three years to five years	-	238,455	1,122,919	1,361,374	11.9%	-	-	2,637,845	2,637,845	20.0%
Five years to ten years	2	1,506,904	3,912,460	5,419,366	47.1%	-	1,789,459	4,689,699	6,479,158	49.1%
Over ten years	20,920	1,638,284	-	1,659,204	14.5%	1	1,743,962	-	1,743,963	13.2%
Total	**20,922**	**4,180,871**	**7,274,195**	**11,475,988**	**100.0%**	**105,123**	**5,750,938**	**7,327,544**	**13,183,605**	**100.0%**

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To complete the disclosures required by the ESMA, as at 31st March 2017 (as also in December 2016) the Group held no credit default products, nor did the Group carry out any transactions in those instruments during the year, either to increase its exposure or to acquire protection.

Equity and capital adequacy

Changes in consolidated shareholders' equity

Reconciliation of equity and profit of the Parent with consolidated equity as at 31st March 2017 and profit for the period then ended

Figures in thousands of euro	Equity	of which: Profit for period
Equity and profit for the period in the accounts of the Parent	8,659,819	70,831
Effect of the consolidation of subsidiaries including joint ventures	336,812	25,982
Effect of measuring other significant equity investments using the equity method	29,535	4,502
Dividends received during the period	-	-45,741
Other consolidation adjustments (including the effects of the PPA)	-52,554	11,463
Equity and profit for the period in the consolidated accounts	**8,973,612**	**67,037**

Changes in the consolidated equity of the Group in the first quarter of 2017

		Allocation of prior year result		Changes January-March 2017				31.3.2017
					Equity transactions			
Figures in thousands of euro	Balances as at 31.12.2016	Reserves	Dividends and other uses	Changes in reserves	New share issues	Stock options	Consolidated comprehensive income	Equity attributable to the shareholders of the Parent
Share capital:	2,440,751	-	-	-	2,343	-	-	**2,443,094**
a) ordinary shares	*2,440,751*	-	-	-	*2,343*	-	-	*2,443,094*
b) other shares	-	-	-	-	-	-	-	-
Share premiums	3,798,430	-	-	-	-	-	-	**3,798,430**
Reserves	3,664,366	-830,150	-	-401	-	-	-	**2,833,815**
Valuation reserves	-73,950	-	-	158	-	-	-85,103	**-158,895**
Treasury shares	-9,869	-	-	-	-	-	-	**-9,869**
Result for period	-830,150	830,150	-	-	-	-	67,037	**67,037**
Equity attributable to the shareholders of the Parent	**8,989,578**	**-**	**-**	**-243**	**2,343**	**-**	**-18,066**	**8,973,612**

Equity attributable to the shareholders of the Parent, UBI Banca, as at 31st March 2017 inclusive of profit for the period, was €8,973.6 million, slightly down compared with €8,989.6 million at the end of 2016.

As shown in the table "Changes in the consolidated equity of the Group in the first quarter of 2017", the decrease of over €16 million is the aggregate result of the following:

- a fall of €84.9 million in the balance on the valuation reserves, generated almost entirely by the impact of comprehensive income composed as follows: -€84.6 million for available-for-sale financial assets; -€0.2 million for actuarial gains/losses relating to defined benefit pension plans; -€0.3 million for cash flow hedges; +€0.2 million for special revaluation laws;
- an increase of €2.3 million attributable to the issue of 937,399 ordinary shares arising from the merger into the Parent of Banca Popolare Di Bergamo, Banco di Brescia, Banca Popolare di Ancona, Banca di Valle Camonica and Banca Carime;

Valuation reserves attributable to the Group: composition

Figures in thousands of euro	31.3.2017	31.12.2016
Available-for-sale financial assets	-111,516	-26,860
Cash flow hedges	-10	285
Currency translation differences	-243	-243
Actuarial gains/losses for defined benefit pension plans	-107,925	-107,773
Special revaluation laws	60,799	60,641
Total	**-158,895**	**-73,950**

- a decrease of €0.4 million in other reserves, the aggregate result of increases of various nature[1], offset by the negative impact of the change in the investment structure that took place with the completion of the "Single bank" project;
- the recognition of profit for the period of €67 million.

Fair value reserves of available-for-sale financial assets attributable to the Group: composition

Figures in thousands of euro	31.3.2017 Positive reserve	31.3.2017 Negative reserve	31.3.2017 Total	31.12.2016 Positive reserve	31.12.2016 Negative reserve	31.12.2016 Total
1. Debt instruments	35,904	-209,331	-173,427	68,846	-158,922	-90,076
2. Equity instruments	56,064	-4,165	51,899	53,688	-727	52,961
3. Units in UCITS	109,465	-99,453	10,012	10,505	-250	10,255
4. Financing	-	-	-	-	-	-
Total	**201,433**	**-312,949**	**-111,516**	**133,039**	**-159,899**	**-26,860**

Fair value reserves of available-for-sale financial assets attributable to the Group: changes in the period

Figures in thousands of euro	Debt instruments	Equity instruments	Units in UCITS	Financing	Total
1. Opening balances al 1st January 2017	**-90.076**	**52.961**	**10.255**	**-**	**-26.860**
2. Positive changes	**60.442**	**3.719**	**3.471**	**-**	**67.632**
2.1 Increases in fair value	53.866	3.538	3.120	-	60.524
2.2 Transfer to income statement of negative reserves	198	130	185	-	513
- following impairment losses	*31*	*130*	*185*	-	*346*
- from disposal	*167*	-	-	-	*167*
2.3 Other changes	6.378	51	166	-	6.595
3. Negative changes	**-143.793**	**-4.781**	**-3.714**	**-**	**-152.288**
3.1 Reductions in fair value	-110.562	-4.397	-3.696	-	-118.655
3.2 Impairment losses	-	-	-	-	-
3.3 Transfer to income statement of positive reserves: from disposal	-33.229	-167	-	-	-33.396
3.4 Other changes	-2	-217	-18	-	-237
4. Closing balances as at 31st March 2017	**-173.427**	**51.899**	**10.012**	**-**	**-111.516**

As shown in the table, the decrease mentioned above of €84.6 million in the "fair value reserve for available-for-sale financial assets" was generated almost entirely by debt instruments held in portfolio (for which the balance fell by €83.3 million to -€173.4 million, net of tax and non-controlling interests) and by Italian government securities in particular. The relative reserve, which was negative by €155.5 million, did in fact fall €89.5 million in the first quarter (it stood at -€66.1 million in December 2016), fully attributable to the Parent's portfolio.

Information on the shareholder structure of UBI Banca

On the basis of reports received in accordance with Art. 120 of the Consolidated Finance Act (Legislative Decree No. 58/1998), no changes occurred compared with the information reported in UBI Banca's 2016 Separate Annual Report, with the following investors who hold interests of greater than 3%:

- Fondazione Cassa di Risparmio di Cuneo with a 5.910% stake reported on 22nd November 2016[2];
- Fondazione Banca del Monte di Lombardia with a 5.208% stake reported on 24th November 2016[3];
- Silchester International Investors LLP with a 5.123% stake reported on 4th November 2015[4].

It must in any case be considered that the percentage interests reported may no longer be those actually held if a change has occurred in the meantime which does not involve disclosure obligations in accordance with the applicable regulations. Furthermore, those shareholders (investment management companies) who

1 These included an increase of €1.1 million due to the partial release of a negative reserve recognised as at 31st December 2016 as a consequence of the reclassification of €3.3 billion nominal of BTPs out of the AFS portfolio into the HTM portfolio.
2 Report made at the time of the merger of Banca Regionale Europea into UBI Banca. This interest would have amounted to 5.905% if recalculated on the share capital as at the reporting date.
3 Report made at the time of the merger of Banca Popolare Commercio e Industria into UBI Banca. This interest would have amounted to 5.203% if recalculated on the share capital as at the reporting date.
4 This interest would have amounted to 4.732% if recalculated on the share capital as at the reporting date. Nevertheless Silchester attended the Shareholders' Meeting held on 7th April 2017 with shares representing 7.258% of UBI Banca's share capital.

have taken advantage of the exemption pursuant to Art. 119-bis of the Issuers' Regulations have not been considered.

On the basis of reports received from financial intermediaries, shareholders of UBI Banca numbered approximately 150 thousand when the dividend for 2015 was paid.

Capital adequacy

The new prudential rules for banks and investment companies contained in EU Regulation 575/2013 (the Capital Requirements Regulation, known as the CRR) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, known as CRD IV), came into force on 1st January 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations.
The CRR came directly into force in member states, while the regulations contained in CRD IV were implemented in national legislation with Legislative Decree No. 72 of 12th May 2015, which came into force on 27th June 2015.
On conclusion of a public consultation process started in November 2013, on 17th December the Bank of Italy published Circular No. 285 "Regulations for the prudential supervision of banks", which updated, within the scope of its remit, the new EU regulations, together with Circular No. 286 "Instructions for compiling supervisory reports for banks and stock brokerage firms" and an update to Circular No. 154 "Supervisory reporting for credit and financial institutions. Tables for data and instructions for filing reports" (a set of regulations that was updated several times in 2014 and 2015).
As already reported, the introduction of Basel 3 rules is subject to a transitional regime during which, in most cases, the new rules will be applied to an increasing degree until 2019, when they will reach full application. At the same time, capital instruments that no longer qualify will be gradually excluded from total capital for regulatory purposes by 2021.

Consolidated capital requirements for the UBI Banca Group for 2017, reported in the correspondence received on 12th December 2016 from the ECB are as follows:
- *a new minimum phased-in CET1 ratio requirement of 7.5%*[5]*;*
- *a minimum SREP Total Capital ratio requirement of 9.75%*[6]*. If the capital conservation buffer of 1.25% is added, this then gives a minimum ratio requirement in terms of the Overall Total Capital Requirement of 11%.*

On the basis of the transition criteria applied for the year, as at 31st March 2017 the UBI Banca Group had a Common Equity Tier 1 Ratio and a Tier 1 Ratio of 11.44% (11.48% in December 2016), 394 b.p. above the threshold target recommended by the SREP.
The CET1 ratio as at 31st March 2017, calculated on the basis of the rules that will be in force at the end of the transitional period (known as the fully phased-in CET1 ratio) is estimated at 11.29%.

The Common Equity Tier 1 capital fell slightly in the quarter (-€56 million), from €6,829 million to €6,773 million, mainly the result of the following factors:
- the negative impact caused by the performance in the period of AFS reserves relating to government securities[7] (-€72 million) and by the greater reduction of DTA's resulting from future profitability (-€45 million) generated by the transitional provisions applicable in 2017 (deduction of a further 20% compared with 2016) only partially offset by the quota of these used as a result of offsetting the tax income for the period with prior year losses;
- the positive impact of approximately €74 million resulting from the inclusion of profit for the period, from a reduction in the value of intangible assets and from a decrease of €26 million in the shortfall deducted (€57 million compared with €83 million).

The Tier 2 capital rose to €1,937 million from €1,560 million before (+€377 million), due to the issue of a subordinated EMTN for €500 million nominal, partly offset by the progressive amortisation of eligible securities.

As a result of the changes reported above, Total Own Funds rose to €8.7 billion from €8.4 billion at the end of 2016 (+€321 million).
Risk weighted assets (RWAs) were down €277 million to €59.2 billion, mainly as a consequence of reductions in volumes of lending by the Product Companies, measured using the standard

5 The result of the sum of the minimum Pillar 1 capital requirement (4.5%), the Pillar 2 requirement (1.75%) and the capital conservation buffer (1.25%), calculated according to the transitional phased-in rules laid down by the Bank of Italy.
6 The result of the sum of the minimum Pillar 1 Regulatory Capital Ratio (own funds: 8%) and the Pillar 2 requirement (1.75%).
7 Unrealised losses were subject to sterilisation of 20% compared with 40% in 2016.

approach, only partially offset by an increase in volumes of lending relating to corporate positions measured using the IRB approach.

The Total Capital Ratio (TCR) rose as a consequence to 14.71%, from 14.10% before (+61 b.p.), well above the minimum required for 2017.

As concerns the leverage ratio according to Basel 3 requirements[8], this stood at 5.41% (5.75% in December 2016), while the fully loaded ratio is 5.35%.

Capital ratios (Basel 3)

Figures in thousands of euro	31.3.2017	31.12.2016
Common Equity Tier 1 capital net of prudential filters	**6,830,097**	**6,912,245**
*Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses inclusive of the application of transitional provisions**	*-57,022*	*-82,962*
Common Equity Tier 1 capital	**6,773,075**	**6,829,283**
Additional Tier 1 capital before deductions	**-**	**286**
Deductions from Additional Tier 1	-	286
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	-	*-286*
Additional Tier 1 capital	-	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**6,773,075**	**6,829,283**
Tier 2 capital before transitional provisions	**1,975,563**	**1,606,204**
Effects of grandfathering provisions on Tier 2 instruments	-	-
Tier 2 capital after transitional provisions	**1,975,563**	**1,606,204**
Deductions from Tier 2 capital	-38,554	-46,382
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	*-6,336*	*-20,812*
Tier 2 capital after specific deductions	**1,937,009**	**1,559,822**
Total own funds	**8,710,084**	**8,389,105**
Credit risk	4,325,359	4,351,066
Credit valuation adjustment risk	9,182	11,987
Market risk	118,706	112,356
Operational risk	283,300	283,300
Total prudential requirements	**4,736,547**	**4,758,709**
Risk weighted assets	**59,206,839**	**59,483,864**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions / Risk weighted assets)	**11.44%**	**11.48%**
Tier 1 ratio (Tier 1 capital after filters and deductions / Risk weighted assets)	**11.44%**	**11.48%**
Total capital ratio (Total own funds / Risk weighted assets)	**14.71%**	**14.10%**

Following the authorisations received from the Bank of Italy, the UBI Banca Group uses internal models to calculate capital requirements to meet credit risk relating to the corporate segment (exposures to companies) and to operational risks from the consolidated supervisory report as at 30th June 2012 and relating to the retail regulatory segment (exposures to small and medium-size enterprises and exposures backed by residential properties) from the consolidated supervisory report as at 30th June 2013.

* The item includes the quota of the shortfall provisions to expected losses which are deducted from the Additional Tier 1 Capital as a result of the transitional provisions applicable. As there was no capital of that type, the entire quota was deducted from the CET1 capital.

As already reported, on the basis of the provisions of EU Regulation 445/2016, from 1st October 2016 unrealised profits or losses relating to exposures to central governments classified within "available-for-sale financial assets" are included in CET1 capital, in compliance with transitional provisions concerning own funds contained in Part II, Chapter 14 of Bank of Italy Circular No. 285. Previously, unrealised profits or losses on those exposures were not included in any item of own funds as a result of the option exercised in January 2014 applied at both separate company and consolidated level.

8 Under Basel 3, leverage is calculated as the ratio of Tier 1 capital to total on- and off-balance sheet assets, with a minimum requirement of 3%. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015.

Consolidated companies: the principal figures

Profit for the period

Figures in thousands of euro	1st Quarter 2017 A	1st Quarter 2016 B	Change A-B	% change A/B	FY 2016 C
Unione di Banche Italiane Spa (*)	70,831	176,352	(105,521)	(59.8%)	(493,425)
Banca Popolare Commercio e Industria Spa (*)	-	12,471	(12,471)	(100.0%)	-
Banca Regionale Europea Spa (*)	-	2,508	(2,508)	(100.0%)	-
Banca Popolare di Bergamo Spa (*)	-	33,877	(33,877)	(100.0%)	(11,936)
Banco di Brescia Spa (*)	-	9,364	(9,364)	(100.0%)	(158,739)
Banca Popolare di Ancona Spa (*)	-	(2,422)	(2,422)	(100.0%)	(113,995)
Banca Carime Spa (*)	-	1,225	(1,225)	(100.0%)	(58,315)
Banca di Valle Camonica Spa (*)	-	2,707	(2,707)	(100.0%)	(3,425)
Centrobanca Sviluppo Impresa SGR Spa	(78)	(71)	148	10.2%	(159)
IW Bank Spa	(1,206)	(1,708)	(502)	(29.4%)	(6,913)
UBI Banca International Sa (**)	2,453	(2,468)	4,921	n.s.	(5,408)
UBI Pramerica SGR Spa	16,698	12,866	3,832	29.8%	63,587
Zhong Ou Asset Management Co. Ltd	1,736	2,328	(592)	(25.4%)	7,317
UBI Leasing Spa	2,667	4,448	(1,781)	(40.0%)	(54,917)
UBI Factor Spa	2,650	2,927	(277)	(9.5%)	(8,656)
Prestitalia Spa	1,732	(2,143)	3,875	n.s.	(14,310)
BPB Immobiliare Srl	(170)	(59)	111	190.5%	(716)
Società Bresciana Immobiliare Mobiliare - S.B.I.M. Spa (1)	-	571	(571)	(100.0%)	-
UBI Sistemi e Servizi SCpA (2)	6,999	2,873	4,126	143.6%	-
UBI Fiduciaria Spa (3)	-	(146)	(146)	(100.0%)	-
Aviva Assicurazioni Vita Spa (20%) (4)	-	840	(840)	(100.0%)	-
Aviva Vita Spa (20%)	1,380	1,860	(480)	(25.8%)	5,460
Lombarda Vita Spa (40%)	542	525	17	3.2%	11,525
UBI Management Co. Sa (**)	447	1,247	(800)	(64.1%)	1,850
UBI Trustee Sa (**)	111	250	(139)	(55.4%)	104
CONSOLIDATED	**67,037**	**42,061**	**24,976**	**59.4%**	**(830,150)**

(*) On 15th November 2016 the deeds for the merger by incorporation of Banca Popolare Commercio e Industria and Banca Regionale Europea into the Parent UBI Banca were signed (with legal effect from 21st November 2016 and with effect for accounting and tax purposes from 1st January 2016), while on 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
The UBI Banca's net profit for the full year 2016 and for the first quarter of 2016, stated on a pro forma basis to take account of the aforementioned mergers, came to -€820,873 million and €65,848 million respectively.

(**) The result shown is from the financial statements prepared for the consolidation according to the accounting policies followed by the Parent.
The disposal of UBI Banca International is expected to be concluded by the end of the second quarter of 2017 once the preparatory activities for its disposal are completed.

(1) The merger of SOLIMM Srl into S.B.I.M. Spa (Società Bresciana Immobiliare Mobiliare) became effective on 23rd October 2015 with effect for accounting and tax purposes from 1st January 2015. The merger of S.B.I.M. Spa into the Parent became effective on 28th September 2016.

(2) Since this is a consortium company with mutual, not-for-profit objects, UBI Sistemi e Servizi ends the year with a break-even result.

(3) The merger of the company into the UBI Banca became effective on 28th September 2016.

(4) On 5th October 2016 an extraordinary Shareholders' Meeting of Aviva Vita Spa resolved to merge its subsidiary Aviva Assicurazioni Vita into itself with legal effect from 31st December 2016.

Net loans and advances to customers

Figures in thousands of euro	31.3.2017 A	31.12.2016 B	31.3.2016 C	Change A-C	% change A/C
Unione di Banche Italiane Spa (*)	83,618,686	37,111,384	21,271,288	62,347,398	n.s.
Banca Popolare Commercio e Industria Spa (*)	-	-	8,822,536	-8,822,536	-100.0%
Banca Regionale Europea Spa (*)	-	-	8,246,211	-8,246,211	-100.0%
Banca Popolare di Bergamo Spa (*)	-	18,831,193	18,936,780	-18,936,780	-100.0%
Banco di Brescia Spa (*)	-	11,732,362	12,470,719	-12,470,719	-100.0%
Banca Popolare di Ancona Spa (*)	-	7,638,165	7,791,801	-7,791,801	-100.0%
Banca Carime Spa (*)	-	4,036,265	4,064,330	-4,064,330	-100.0%
Banca di Valle Camonica Spa (*)	-	1,729,589	1,752,247	-1,752,247	-100.0%
Prestitalia Spa	1,234,506	1,231,530	1,357,327	-122,821	-9.0%
UBI Banca International Sa	282,390	336,658	378,800	-96,410	-25.5%
IW Bank Spa	627,200	647,373	718,084	-90,884	-12.7%
UBI Factor Spa	2,059,683	2,468,928	2,168,678	-108,995	-5.0%
UBI Leasing Spa	6,288,875	6,347,210	6,569,710	-280,835	-4.3%
CONSOLIDATED	**84,521,597**	**81,854,280**	**84,072,553**	**449,044**	**0.5%**

Risk indicators

Percentages	Net bad loans/net loans			Total net non-performing loans/net loans		
	31.3.2017	31.12.2016	31.3.2016	31.3.2017	31.12.2016	31.3.2016
Unione di Banche Italiane Spa (*)	3.65%	2.85%	1.45%	7.68%	6.60%	5.60%
Banca Popolare Commercio e Industria Spa (*)	-	-	3.78%	-	-	8.58%
Banca Regionale Europea Spa (*)	-	-	6.03%	-	-	12.06%
Banca Popolare di Bergamo Spa (*)	-	4.13%	4.51%	-	6.87%	8.07%
Banco di Brescia Spa (*)	-	3.65%	3.73%	-	10.09%	11.81%
Banca Popolare di Ancona Spa (*)	-	6.33%	6.77%	-	12.26%	13.86%
Banca Carime Spa (*)	-	5.99%	6.59%	-	10.78%	11.80%
Banca di Valle Camonica Spa (*)	-	3.96%	4.46%	-	8.84%	10.79%
Prestitalia Spa	0.68%	0.76%	0.89%	5.65%	6.54%	10.04%
UBI Banca International Sa	1.73%	3.99%	4.81%	15.44%	15.60%	17.28%
IW Bank Spa	1.82%	1.77%	1.97%	3.67%	3.57%	3.55%
UBI Factor Spa	10.20%	8.46%	10.15%	12.87%	11.11%	17.44%
UBI Leasing Spa	10.81%	10.81%	11.43%	18.11%	18.47%	20.88%
CONSOLIDATED	**4.69%**	**4.87%**	**5.17%**	**9.42%**	**9.84%**	**11.50%**

(*) On 15th November 2016 the deeds for the merger by incorporation of Banca Popolare Commercio e Industria and Banca Regionale Europea into the Parent UBI Banca were signed (with legal effect from 21st November 2016 and with effect for accounting and tax purposes from 1st January 2016), while on 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's net loans to customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €81,112,931 thousand as at 31st December 2016 and at €83,406,219 thousand as at 31st March 2016. The ratio of net bad loans to net loans was 3.77% as at 31st December 2016 and 3.99% as at 31st March 2016, while the ratio of total net non-performing loans to net loans was 7.96% as at 31st December 2016 and 9.22% as at 31st of March 2016.

Direct funding from customers

Figures in thousands of euro	31.3.2017 A	31.12.2016 B	31.3.2016 C	Change A-C	% change A/C
Unione di Banche Italiane Spa (*)	80,241,032	44,160,639	38,364,272	41,876,760	109.2%
Banca Popolare Commercio e Industria Spa (*)	-	-	6,358,487	-6,358,487	-100.0%
Banca Regionale Europea Spa (*)	-	-	5,120,775	-5,120,775	-100.0%
Banca Popolare di Bergamo Spa (*)	-	16,445,137	15,455,472	-15,455,472	-100.0%
Banco di Brescia Spa (*)	-	8,653,781	8,052,080	-8,052,080	-100.0%
Banca Popolare di Ancona Spa (*)	-	5,171,558	4,891,392	-4,891,392	-100.0%
Banca Carime Spa (*)	-	5,871,976	5,559,106	-5,559,106	-100.0%
Banca di Valle Camonica Spa (*)	-	1,041,859	992,858	-992,858	-100.0%
UBI Banca International Sa (**)	1,438,311	1,701,873	1,514,698	-76,387	-5.0%
IW Bank Spa	2,809,327	2,757,347	2,783,443	25,884	0.9%
CONSOLIDATED	**84,005,846**	**85,166,013**	**89,652,372**	**-5,646,526**	**-6.3%**

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.

Direct funding for the following banks was therefore adjusted as follows:

Figures in millions of euro	31.3.2017	31.12.2016	31.3.2016
Bonds			
Unione di Banche Italiane Spa (*)	1,702.7	2,654.1	3,137.6
Banca Popolare Commercio e Industria Spa (*)	-	-	297.6
Banca Regionale Europea Spa (*)	-	-	1,271.7
Banca Popolare di Bergamo Spa (*)	-	991.2	1,008.3
Banco di Brescia Spa (*)	-	1,887.2	2,154.7
Banca Popolare di Ancona Spa (*)	-	1,286.2	1,094.9
Banca di Valle Camonica Spa (*)	-	441.0	398.0
IW Bank Spa	10.0	10.0	10.0
Euro Commercial Paper and former French certificates of deposit			
UBI Banca International Sa	-	-	938.0

(*) On 15th November 2016 the deeds for the merger by incorporation of Banca Popolare Commercio e Industria and Banca Regionale Europea into the Parent UBI Banca were signed (with legal effect from 21st November 2016 and with effect for accounting and tax purposes from 1st January 2016), while on 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's direct funding from customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €81,344,950 thousand as at 31st December 2016 and at €84,794,854 thousand as at 31st March 2016.

(**) The disposal is expected to be concluded by the end of the second quarter of 2017 once the preparatory activities for its disposal are completed.

Indirect funding from ordinary customers (at market prices)

Figures in thousands of euro	31.3.2017 A	31.12.2016 B	31.3.2016 C	Change A-C	% change A/C
Unione di Banche Italiane Spa (*)	73,828,545	18,374,907	5	73,828,540	n.s.
Banca Popolare Commercio e Industria Spa (*)	-	-	10,779,183	-10,779,183	-100.0%
Banca Regionale Europea Spa (*)	-	-	10,393,472	-10,393,472	-100.0%
Banca Popolare di Bergamo Spa (*)	-	31,818,308	31,500,614	-31,500,614	-100.0%
Banco di Brescia Spa (*)	-	16,546,418	16,272,786	-16,272,786	-100.0%
Banca Popolare di Ancona Spa (*)	-	5,238,305	5,194,113	-5,194,113	-100.0%
Banca Carime Spa (*)	-	6,641,983	6,621,434	-6,621,434	-100.0%
Banca di Valle Camonica Spa (*)	-	1,529,069	1,481,715	-1,481,715	-100.0%
UBI Pramerica SGR Spa	32,641,819	31,476,373	27,770,094	4,871,725	17.5%
UBI Banca International Sa (**)	2,888,849	2,640,060	2,735,673	153,176	5.6%
IW Bank Spa	9,447,631	8,833,568	8,673,267	774,364	8.9%
Lombarda Vita Spa (1)	6,675,345	6,360,382	5,809,565	865,780	14.9%
Aviva Vita Spa (1)	10,987,883	7,849,961	7,034,849	3,953,034	56.2%
Aviva Assicurazioni Vita Spa (1)	-	2,603,969	2,313,592	-2,313,592	-100.0%
CONSOLIDATED	**86,869,436**	**82,116,612**	**77,573,440**	**9,295,996**	**12.0%**

Assets under management (at market prices)

Figures in thousands of euro	31.3.2017 A	31.12.2016 B	31.3.2016 C	Change A-C	% change A/C
Unione di Banche Italiane Spa (*)	49,314,862	12,250,894	-	49,314,862	n.s.
Banca Popolare Commercio e Industria Spa (*)	-	-	5,882,467	-5,882,467	-100.0%
Banca Regionale Europea Spa (*)	-	-	5,303,979	-5,303,979	-100.0%
Banca Popolare di Bergamo Spa (*)	-	18,542,143	16,590,637	-16,590,637	-100.0%
Banco di Brescia Spa (*)	-	8,940,263	7,972,328	-7,972,328	-100.0%
Banca Popolare di Ancona Spa (*)	-	2,786,946	2,395,933	-2,395,933	-100.0%
Banca Carime Spa (*)	-	4,354,020	3,890,683	-3,890,683	-100.0%
Banca di Valle Camonica Spa (*)	-	798,692	644,016	-644,016	-100.0%
UBI Pramerica SGR Spa	32,641,819	31,476,373	27,770,094	4,871,725	17.5%
UBI Banca International Sa (**)	153,641	146,610	141,515	12,126	8.6%
IW Bank Spa	6,392,837	6,175,632	5,750,215	642,622	11.2%
Lombarda Vita Spa (1)	6,675,345	6,360,382	5,809,565	865,780	14.9%
Aviva Vita Spa (1)	10,987,883	7,849,961	7,034,849	3,953,034	56.2%
Aviva Assicurazioni Vita Spa (1)	-	2,603,969	2,313,592	-2,313,592	-100.0%
CONSOLIDATED	**56,607,185**	**54,631,219**	**49,085,233**	**7,521,952**	**15.3%**

(*) On 15th November 2016 the deeds for the merger by incorporation of Banca Popolare Commercio e Industria and Banca Regionale Europea into the Parent UBI Banca were signed (with legal effect from 21st November 2016 and with effect for accounting and tax purposes from 1st January 2016), while on 2nd February 2017 the deeds were signed for the merger by incorporation into the Parent of the remaining network banks: Banca Popolare Di Bergamo, Banca Popolare di Ancona, Banca Carime, Banco di Brescia and Banca di Valle Camonica (with effect from 20th February 2017 with regard to third parties and from 1st January 2017 for accounting and tax purposes).
UBI Banca's indirect funding from ordinary customers, stated on a pro forma basis to take account of the aforementioned mergers of the network banks, stood at €70,051,024 thousand as at 31st December 2016 and at €65,708,899 thousand as at 31st March 2016. Assets under management on the other hand stood at €47,672,958 thousand as at 31st December 2016 and at €42,680,043 thousand as at 31st March 2016.

(**) The disposal is expected to be concluded by the end of the second quarter of 2017 once the preparatory activities for its disposal are completed.

(1) The figure shown on this line is for total assets managed by the Company. It should be remembered that the calculation of consolidated funding is based solely on the portion placed by companies in the UBI Banca Group.

Other information

Inspections

On 26th February 2016 the Central European Bank commenced inspections into the Parent, UBI Banca, on the subject of BUSINESS MODEL AND PROFITABILITY. These inspections concluded on 19th May with a "pre-closing meeting", during which the Bank's senior managers were informed of the main results of the inspections conducted (officially concluded on 20th May 2016). The issues involved mainly internal organisational aspects and tools for planning and control. On 25th May 2016, UBI Banca sent the inspection team some preliminary considerations on the specific matters discussed in the pre-closing meeting. On 12th October a "closing" took place, during which the related findings were discussed.
Based on the results contained in the final inspection report received on 10th January 2017, UBI Banca's Management Board and Supervisory Board assessed an initial response on 7th February, containing observations and planned mitigation actions.
On 10th March 2017 UBI Banca submitted a compliance proposal and on the following 31st March replied to some of the questions posed on this matter by the authority.

In a letter dated 22nd June 2016, the ECB ordered 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 parties related to the Group and therefore potential conflicts of interest and the adequacy of internal control systems to detect such conflicts. These inspections were completed on 5th August.
On 27th January 2017, the ECB notified the Bank of the results of the inspections performed, directing the Bank to draw up an action plan to implement the requested solutions and suggested actions. On 7th March the Parent replied to the authority by submitting a plan of action. On 2nd May 2017 and update was submitted to the ECB on the state of progress on implementing the action at the end of the first quarter.

On 13th May 2016, the ECB gave notice that it had begun inspections on the UBI Banca Group into INTERNAL AND EXTERNAL REPORTING QUALITY. The main focus of this inspection is on data aggregation processes, particularly regarding credit risk. The inspections were concluded on 28th July 2016.
The "exit meeting" took place on 23rd November 2016 in order to discuss the results of the inspection in depth. Areas for improvement were identified, particularly with regard to the financial reporting (FINREP), common reporting (COREP) and the large exposure supervisory reporting process and to management reporting on credit risk that is submitted to the governing bodies. Information was also provided in certain areas for further improvement for which the Group has planned action to comply with the requests.
On 12th December 2016, the final report was received, in which the ECB officially noted the corrective actions requested of the UBI Banca Group in the areas cited above. On 11th January 2017, the Parent made a reply giving formal details of the corrective action undertaken for 2017, for which it submitted updates on 1st February, 8th March 2017 and 4th May.

The ECB gave notice in a letter dated 17th November 2016 of the start of an inspection on the subject of CAPITAL POSITION CALCULATION ACCURACY. The inspections were concluded on 3rd March 2017, while the official presentation of the preliminary results took place on the following 12th April. The Bank is currently expecting the release of the final report by the supervisory authority.

On 11th January 2017 the European Central Bank gave notice of an inspection on the subject of the INTERNAL MODEL following an application to extend the IRB perimeter, in accordance with the Group's roll-out plan. The investigations were concluded on 7th April 2017.

On 31st March 2017 the Bank of Italy gave notice of the start of inspections on the subject of *Transparency* at IW Bank. Inspection activity, which commenced on 3rd April, was concluded on 7th April. We await the relative results.

Finally, we report that on 6th February 2017 the Federal Reserve Bank of New York and the New York State Department of Financial Services commenced fact-finding activity on the situation as at 31st December 2016 relating to the representative office recently opened in New York. The inspection was concluded on 26th April 2017 with the delivery of a report and the assignment of a "satisfactory" rating to the representative office, while further more detailed activities are to be carried out with regard to specific recommendations received from these authorities.

* * *

The aforementioned inspections, which take place in the form of on-site inspections by ECB inspectors at UBI Banca, are accompanied (as part of the Supervisory Examination Plan formulated periodically by the supervisory authority) by many "remote" inspection activities conducted by means of email exchanges and periodic meetings which have taken the form to date of initiatives entitled "Thematic Review", "Deep dive", "Quality Assessment" and "For Action".

The thematic reviews currently in progress in the UBI Banca Group regard the following areas:
- IFRS 9 (in order to learn the latest developments in the process of adopting this new accounting standard): the review commenced on 2nd January and was concluded on 31st of March 2017. We are waiting to plan a meeting to discuss the matters dealt with;
- Risk Date Aggregation and Risk Reporting [with respect to the standards set by the Basel Committee on Banking Supervision (BCBS) for the development of an early warning system given the possibility of exceeding the risk considered acceptable under the Risk Appetite Framework adopted by the Bank also in terms of forecasts]: commenced in 2016, the first results were discussed with the ECB in a meeting held on 30th March 2017. On the following 5th May a preliminary reply was submitted to the draft of the report received in April. We are waiting for the final version of the document;
- Profitability (examination of the business model as part of the SREP): the analysis started on 9th March 2017 with a request to fill out a template, submitted on 3rd April 2017.

Litigation

Ordinary litigation

Compared with the situation reported as at 31st December 2016, in the Consolidated Annual Report, which may be consulted, we report the following new litigation in the quarter for which a *possible risk* (or a *contingent liability*) has been estimated:
- an action brought by beneficiaries of public contributions in relation to which UBI Banca (which took the place of Centrobanca Spa), in its capacity as the "concessionary bank" was summoned jointly and severally before the Civil Court of Rome (after similar proceedings initiated before the Latium TAR [administrative tribunal] – were terminated due to lack of jurisdiction) together with the "concessionary authorities" concerned, for which it is the agent, for a concessionary position under Law No. 46/1992 processed by a third party bank belonging to its "RTI" (temporary grouping of companies);
- a claim for damages against UBI Banca (the successor to Banca Popolare di Ancona), in the context of an objection to a court injunction. Following negotiations that were immediately initiated with the counterparty and with other companies in the same Group, an agreement was reached on points for a possible settlement, currently being concluded at present.

Furthermore, the following cases were reclassified as *remote risks*:
- a summons served (originally against Banco di Brescia), for which a *probable risk* had been estimated, by a company with a bankruptcy case which began in 1999 and is still in progress, which in the person of the Director has requested the return of amounts drawn/used in the period September 1997-June 1998 by the sole director who ceased to be

a director in September 1997 without the Bank being informed. In December 2012 the Judge accepted the objections raised by the bank and dismissed the case. The counterparty resumed the case within the relative time limits. In a hearing held on 26th April 2017 the case was held over for a ruling allowing the legal time limits for final written statements to be filed with the replies. The assessment of the likelihood of losing the case was changed on the basis of an opinion received from an external legal advisor.

- a claim for damages brought against UBI Leasing, for which a *possible risk* had been estimated, for claimed failure to meet obligations under finance lease contracts relating to a property under construction. The assessment of the likelihood of losing the case was changed on the basis of testimony submitted by the court-appointed expert during the course of the hearings which found no failure to meet obligations on the part of UBI Leasing itself which in reality was a substantial creditor of the client.

Tax litigation

Tax inspections and other investigative activities

As already reported in previous financial reports, on 4th October 2016 the Guardia di Finanza (finance police) commenced a tax inspection into the merged Banco di Brescia relating to the tax year 2012 in general and to the tax year 2016 for withholding taxes only.

Subsequently, the inspection was extended to include the tax year 2011 for VAT only. The inspection for this year concluded with a tax assessment report containing one single finding concerning a claimed failure to pay VAT on commissions relating to the management and collection of repayments on loans transferred by the merged bank to securitisation companies as part of operations pursuant to Law No. 130 of 30th April 1999. The tax authorities (Regional Department for Lombardy) in agreement with the position taken by Resolution No. 106 of 17th November 2016, took no further action on the tax assessment report and therefore did not issue a tax assessment against the merged Banca di Brescia by 31st December 2016, the deadline for serving the tax assessment.

The inspection relating to the tax years 2012 and 2016 was concluded on 17th March 2017 with the notification of a tax assessment report in which the inspectors stated that they had found no irregularities.

Assessment notices

PREFERENCE SHARES – UBI BANCA AND THE FORMER BANCO DI BRESCIA – AND REGISTRATION DUTIES FOR BRANCH TRANSFER TRANSACTIONS – UBI BANCA AND THE FORMER NETWORK BANKS (BANCA POPOLARE DI BERGAMO, BANCO DI BRESCIA, BANCA POPOLARE COMMERCIO E INDUSTRIA AND BANCA REGIONALE EUROPEA)

This litigation has been substantially concluded, considering that the competent tax commissions and the Supreme Court of Cassation have issued provisions to terminate the proceedings, there being no case to answer on almost all the pending cases. More, specifically with reference to:

- "preference shares", no case to answer has been declared on all the tax years subject to litigation (the last ruling relates to an appeal on the tax year 2004 by the merged Banco di Brescia and was filed on 31st January 2017);
- "branch switches", no case to answer has been declared on all the legal proceedings with the exception of that relating to UBI Banca (for itself and for the merged Banca Popolare Commercio Industria), for which the hearing, originally set for 3rd April 2017, has been adjourned by the Regional Tax Commission of Lombardy purely for administrative reasons until a new date is set.

Activities are continuing to recover taxes and fines paid provisionally during the course of the proceedings and not due in view of the reconciliation agreements concluded following the general settlement agreement signed on 4th February 2016.

VALUE ADDED TAX – LOAN COLLECTION AND MANAGEMENT COMMISSIONS: THE FORMER NETWORK BANKS AND UBI FINANCE

This affair originated with a series of questionnaires sent to the former network banks starting with the tax year 2014, which subsequently were transformed into an equal number of notices of tax assessment: the tax authorities alleged failure to pay VAT on commissions relating to the management of loans and repayments on them transferred by the former network banks to securitisation companies as part of operations pursuant to Law No. 130 of 1999.
This litigation has been substantially concluded, considering that all the competent tax commissions have declared that there is no case to answer, following the annulment under applications for internal review of the tax assessment notices as a consequence of the tax authorities' Resolution No. 106 of 17th November 2016 which clarifies that, with regard to the operations regulated by Law No. 130 of 30th April 1999, the servicing activities carried out by the party that granted the loan constitutes the provision of services exempt from VAT because they are classified as "loan management services provided by those granting the loan". In one sole case did the tax authorities not annul a ruling in favour of UBI Banca (the former Banca Regionale Europea), which has now become a "final judgement" with no need for further actions.

Finally, with regard to UBI Finance Srl, in its capacity as the counterparty for securitisations set up by the former network banks, hearings were held before the Province of Milan Tax Commission on 8th May 2017 regarding notices to impose fines relating to the tax years 2009 and 2010. The judges have yet to announce their ruling.

UBI BANCA: IRPEG (FORMER CORPORATE INCOME TAX)

In November 2011 UBI Banca (the former BPU Banca) was served with a notice of assessment in relation to its tax treatment for IRPEG (former corporate income tax) purposes of the contribution of a bank made on 1st July 2003 to the then newly formed Banca Popolare di Bergamo and Banca Popolare Commercio e Industria. In particular, the full deduction by the transferor BPU Banca of the taxed provisions for risks and charges set aside in previous years was disputed.
In 2015, the Province of Milan Tax Commission accepted the Bank's appeal, acknowledging that the notice of assessment had been notified after the ordinary term had expired and in the absence of the necessary conditions for full assessment. As a result of that ruling the tax authorities issued a provision agreeing to withdraw the payment demand for €8.3 million notified in 2014 to UBI Banca, which had already been suspended by the Tax Commission.
The tax authorities lodged an appeal on 19th October 2015 to the Regional Tax Commission of Milan against which the bank promptly filed its defence.
With a ruling filed on 1st March 2017 the Regional Tax Commission of Milan rejected the tax authorities appeal and ordered it to reimburse the Bank for the costs of the appeal. The Bank notified the tax authorities' Regional Department for Lombardy of that ruling. The tax authorities lodged an appeal with the Supreme Court of Cassation on 8th May 2017. The bank will appear before the court within the legal time limits with its own counter appeal.

UBI BANCA FORMER BANCA POPOLARE COMMERCIO E INDUSTRIA –2014 REFUSE TAX

On 6th July 2016 the City of Milan notified the merged Banca Popolare Commercio e Industria of a demand for the payment of refuse tax for the year 2014 totalling €234 thousand. On the basis of an assessment carried out, the tax demand was inaccurate by approximately €114 thousand. As a consequence, the merged Banca Popolare Commercio e Industria lodged a partial appeal on 16th September 2016 with the Provincial Tax Commission of Milan.
The hearing for the appeal, set for 27th March 2017, has been adjourned until 29th May 2017 on the request of the City of Milan.

UBI BANCA FORMER BANCA DI VAL CAMONICA: IRPEG-ILOR (FORMER CORPORATE INCOME TAX AND FORMER LOCAL INCOME TAX) 1977 AND 1980

The Office for Direct Taxes of Breno issued notices of assessment for payment of greater IRPEG and ILOR (tax years 1977 and 1980) by the merged Banca di Valle Camonica, which duly appealed against them. The Bank lost the case in the court of first instance. On appeal, the Tax Commission of second instance of Brescia partly confirmed the arguments made by the tax authorities, declaring the assessment of greater taxable income for IRPEG and ILOR to be correct with regard to the disputed full deductibility of certain costs because they did not

relate entirely to fully taxable revenues. As a result of those rulings, greater taxation totalling €51 thousand became due, in addition to fines and interest.
Both the tax authorities and the merged Banca di Valle Camonica lodged appeals with the Central Tax Commission of Rome against the rulings of the court of second instance. With rulings issued on 14th and 15th July 2010 the latter confirmed the partially unfavourable rulings of the court of second instance.
On the basis of strong grounds to support the proper nature of its conduct, on 29th July 2011 the merged Banca di Valle Camonica, lodged an appeal with the Supreme Court of Cassation against the rulings of the Central Tax Commission. The hearing for the two appeals was held on the 19th April 2017. The Judges have yet to announce their ruling.

UBI LEASING: VAT

On 10th December 2015, UBI Leasing received a tax assessment report which concluded a tax inspection conducted by the finance police of Brescia tax unit concerning the tax year 2010. More specifically, the latter alleged illegitimate deduction of VAT and consequent filing of an unfaithful annual VAT return for an undue deduction of VAT, in relation to a transaction objectively presumed to be non-existent (purchase of various industrial equipment subject to a finance lease contract).
On 8th February 2016 UBI Leasing filed grounded submissions with the tax authorities (Regional Department of the Lombardy). On the following 20th December the tax authorities, who considered irregularities contained in the tax assessment report to be well-grounded, served a notice of assessment demanding payment of increased VAT amounting to €396 thousand plus interest and an administrative fine of €495 thousand.
During the first quarter of 2017 this company initiated a tax assessment by consent procedure. This procedure is still ongoing and should be concluded by mid-May.

Tax aspects

No new developments have occurred in the tax legislation framework with respect to the information contained in the 2016 Consolidated Annual Report, which may be consulted.

Events subsequent to the end of the first quarter and the business outlook for consolidated operations

No events of significance that might affect the operating results and financial position presented occurred after 31st March 2017, the reporting date of this interim financial report, and until 10th May 2017 the date of its approval by the Management Board of UBI Banca Spa.

For information purposes, the following aspects are mentioned:

Resolutions approved by an Ordinary and Extraordinary Shareholders' Meeting of UBI Banca

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

1. with the vote in favour of 93.1% and the abstention of 5.8% of the share capital present, it approved the proposal to replenish the loss for the year by drawing on the share premium reserve and to distribute a dividend of €0.11 per share drawn from the extraordinary reserve, as proposed by the Management Board in consideration of the adequate capitalisation of the Group according to the parameters established by Basel 3 rules and in compliance with a communication from the European Central Bank dated 13th December 2016 on dividend distribution policies. The dividend will be paid on the 974,205,820 ordinary shares outstanding, net of treasury shares held in portfolio, to give a maximum dividend payout of €107,162,640.20 and it will be paid with ex dividend date, record date and payment date of 22nd, 23rd and 24th May 2017, against coupon No. 19;
2. with the vote in favour of 92.4% and the abstention of 6.1% of the share capital present, it appointed Ferruccio Dardanello as a Member of the Supervisory Board, in order to fill a vacancy on the Board following the resignation of a member in December 2016. The Board Member will remain in office until the expiry of the term of office of the current Supervisory Board and that is until the Shareholders' Meeting that will be held in accordance with article 2364-*bis* of the Italian Civil Code, after the end of the financial year 2018;
3. it approved the first section of the Remuneration Report, prepared for public disclosure purposes, in compliance with regulations in force and made available to the public in accordance with the law. That first section contains the main information on the following: the decision-making processes for remuneration schemes, the main features, the means by which remuneration is linked to results, the main performance indicators employed, the reasons behind the choice of variable remuneration schemes and the other non-monetary schemes;
4. it adopted, as proposed, remuneration policies for members of the Supervisory Board and members of the Management Board;
5. it approved remuneration schemes based on financial instruments, in order to pay a quota of the short-term (annual) and long-term (multi-year) variable component of remuneration for "Key Personnel" and to pay the productivity bonus (known as the "Company Bonus") for 2017 for all employee personnel and it also approved the resulting proposals to authorise the purchase of treasury shares at the service of those schemes, as follows:
   - *for the 2017 short-term incentive scheme for "Key Personnel" the payment of a variable component of remuneration by means of the grant of ordinary UBI Banca shares for a maximum amount of*

approximately €3.5 million and possibly also of quotas and shares of UCITS established by UBI Pramerica SGR Spa and by UBI Management Company Sa to the "Key Personnel" of UBI Pramerica;

- *for the long-term incentive scheme for the period 2017-2019/2024 reserved for "Key Personnel", the grant of ordinary UBI Banca shares for a maximum amount over the time frame of the scheme of approximately €16.4 million;*
- *with regard to the productivity bonus for 2017 for all employee personnel, the grant of ordinary UBI Banca shares for a maximum amount of €18 million;*

6. again on the subject of remuneration, having acknowledged a proposal submitted by the Supervisory Board, substantially along the same lines as that approved by the 2016 Shareholders' Meeting, it approved terms for setting the criteria and maximum limits on the number of years of remuneration and the relative payment procedures to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office;
7. lastly, having taken note of the proposal by the Supervisory Board and in consideration of the current legislation on the matter, it approved the determination of the ratio of variable to fixed remuneration up to a maximum of 2:1 for "Key Personnel" belonging to the Investments Area of the asset management company UBI Pramerica SGR S.p.A., the application of which for 2017 is planned for six positions.

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

Closing of the deal to acquire the three Bridge Banks and update to the 2019/2020 Business Plan

In view of the closing of the deal, on 5th May 2017 the Management Board and the Supervisory Board of UBI Banca approved an update of the 2019/2020 Business Plan for the period 2017-2020, in which an illustration is also given of the main steps involved in the conclusion of the acquisition of the Target Bridge Institutions (Nuova Banca Marche, Nuova Banca Etruria and Nuova CariChieti)

In the 11 months that have elapsed since its approval (which took place on 27th June 2016) the Group has already made radical organisational changes: the adoption of a single operating structure, the Single Bank, ahead of the original schedule and at the same time it has rationalised its corporate governance, with the acquisition of non-controlling interests; the evolution of the distribution model (with reorganisation of commercial activities, lending and geographical coverage provided by macro areas and local departments); and it has also recognised most of the one-off costs connected with the implementation of the plan itself (action to contain overheads has already seen the first mass closures of branches and reductions in staff); as well as the absorption of the provision shortfall with an increase in loan coverage.

The update, which confirms the business model and the strategic guidelines defined in the "Stand Alone" version, therefore starts from a strong baseline which enables the estimated targets to be achieved and extends to cover the perimeter of the Bridge Banks in the new "Combined Entity" configuration resulting from the integration of the Bridge Banks into UBI Banca.

More specifically the plan is based on confirmation of the four key cornerstones:

1) the "Single Bank" organisational model on the entire perimeter of the Combined Entity, on the basis of which in 2016 and in the first months of 2017 the seven former network banks have already been merged into UBI Banca and into which the three Bridge Banks will be integrated;
2) evolution of the commercial approach by:
   - an integrated multi-channel approach (to be completed by the end of 2017), both to enable customers to access the bank continuously and operate without distinction on all the available channels and also to allow the bank to reach customers with targeted commercial proposals;
   - the formulation of a dedicated strategy based on single customer segments ("Individuals and Households", "Affluent and Private Banking" and "Business" segments), also in consideration of market trends;
3) the structural strengths:
   - the quality of assets and adequate coverage for deteriorated loans;
   - continuation and acceleration of activity to rationalise overall costs;
4) maximisation of key profitability and efficiency indicators, but with respect for a balanced capital and financial structure.

Focus on the Bridge Banks perimeter

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

- completion of the IT migration to the UBI Banca platform by the end of February 2018 with the first migration planned for October 2017 (Nuova Banca Marche);
- roll-out of the strategic and operational guidelines and business model on the Bridge Banks perimeter, leveraging also on the value of the UBI Banca brand and reputation, and more specifically:
  - full integration in the UBI Banca branch network (-140 branches planned in the Bridge Banks perimeter over the course of the plan);
  - repricing of short-term funding which accounts for approximately 90% of total funding of the three banks to UBI Banca "stand alone" levels. The negative mark down on the Euribor one-month rate is expected to reduce in the Bridge Banks perimeter from 172 bps to 12 bps;
  - a significant reduction in operating expenses (-€200 million approximately in 2020 compared with 2016 in the Bridge Banks perimeter) through an increase in overall productivity which will also involve a reduction in staff numbers (-1,569 staff, -32% compared with 2016 in the Bridge Banks perimeter) and optimisation of other administrative expenses;
  - a reduction in loan losses through the adoption of best practices and the UBI Banca organisational model, starting on "day one" of the IT migration. Loan losses for the three Bridge Banks are expected to fall to 87 basis points in 2020;
  - an application to roll out UBI Banca's internal models on credit and operational risk to the Bridge Banks Perimeter by the end of the first half of 2018.

The 2017-2020 Business Plan of the Combined Entity (UBI Banca+3 Bridge Banks)

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

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

i) an evolved commercial approach on a customer segment basis and evolution of the Group's distribution model as a consequence, taking an integrated multi-channel approach, with consequent simplification of the geographical distribution network, enabled initially by the transformation into a Single Bank. In detail, the following is planned over the course of the plan:
   - the closure of approximately 370 branches of which approximately 140 in the Bridge Banks perimeter;
   - the refurbishment of approximately 700 branches and the implementation of precise formats (flagship, full and light branches) with specific targeted modules to improve local market coverage and the migration towards digital channels.

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

The Balance Sheet of the Combined Entity

Figures in billions of euro	2016	2019	2020	CAGR 16-19	CAGR 16-20
Net loans to customers (net of the CCG)	94.2	97.3	100.1	*1.1%*	*1.5%*
of which performing loans (net of the CCG)	*84.9*	*88.8*	*92.0*	*1.5%*	*2.0%*
of which non-performing exposures	*9.3*	*8.5*	*8.1*	*-3.0%*	*-3.1%*
Direct funding from ordinary customers	85.2	75.0	74.3	*-4.2%*	*-3.4%*
Indirect funding	89.6	114.8	124.4	*8.6%*	*8.5%*
of which assets under custody	*30.8*	*26.6*	*26.7*	*-4.9%*	*-3.6%*
of which asset management and insurance	*58.8*	*88.3*	*97.7*	*14.5%*	*13.5%*
Total funding (direct + indirect)	174.8	189.9	198.6	*2.8%*	*3.2%*
Institutional funding	14.8	23.7	27.8	*16.9%*	*17.0%*
Interbank funding (ECB)	10.0[1]	10.0	8.5	*0.0%*	*-4.0%*
Proprietary securities portfolio	19.2	16.7	15.2	*-2.6%*	*-5.7%*

1 Increased to €12.5 billion as at 29th March 2017.

- growth in net loans (excluding reverse repurchase agreements with the *Cassa di Compensazione e Garanzia* [CCG – a central counterparty clearing house]) from €94.2 billion in 2016 to approximately €97.3 billion in 2019 and to approximately €100.1 billion in 2020 with a CAGR of 1.1% and 1.5% respectively, which reflects estimated growth in GDP of less than 1% over the course of the plan;
- in terms of financing growth, this will be supported by institutional funding in particular, envisaged to rise over the course of the plan from €14.8 billion at the end of 2016 to approximately €23.7 billion in 2019 and to €27.8 billion at the end of 2020;
- total funding from ordinary customers (direct and indirect) is forecast to increase from €174.8 billion at the end of 2016 to approximately €189.9 billion in 2019 and to €198.6 billion in 2020. Within the item, assets under management and insurance products are expected to grow significantly from €58.8 billion in 2016 to approximately €88.3 billion in 2019 and to approximately €97.7 billion in 2020 enabled as follows:
  - by the partial transformation of direct funding (bank bonds) into assets under management, partly with a view to protecting customers, consistent with the bail-in rules, and by the conversion of assets under custody into assets under management;
  - by an increase in distribution capacity in the "Affluent & Private Banking" segment as a result, amongst other things, of the recruitment of new private bankers;
  - by leveraging on IW Bank Private Investments, which will be strengthened;
  - by focusing on the insurance/pension component in the "Individuals and Households" and "Affluent & Private Banking" segments;
  - by accelerating the use of new technologies (big data and advanced analytics) to determine a targeted range of products and services;

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

The income statement of the Combined Entity

Figures in millions of euro	2016	2019	2020	CAGR 16-19	CAGR 16-20
Operating income	3,592	4,102	4,459	*4.5%*	*5.6%*
of which net interest income	*1,708*	*2,040*	*2,263*	*6.1%*	*7.3%*
of which net fees and commissions	*1,523*	*1,790*	*1,912*	*5.5%*	*5.9%*
Operating expenses	(3,166)	(2,445)	(2,356)	*-8.3%*	*-7.1%*
of which staff costs	*(1,914)*	*(1,471)*	*(1,404)*	*-8.4%*	*-7.5%*
of which other administrative expenses	*(1,006)*	*(801)*	*(780)*	*-7.3%*	*-6.2%*
Net operating income	426	1,657	2,103	*57.3%*	*49.0%*
Net impairment losses to loans	(2,471)	(612)	(567)	*-27.7%*	*-23.1%*
Net profit[1]	(1,861)	919	1,117	*n.s.*	*n.s.*
Cost/income ratio	88%	60%	53%	*n.s.*	*n.s.*
Loan loss rate (bps)	n.s.[2]	63	57	*n.s.*	*n.s.*

1 Inclusive of the absorption of the provision shortfall, the reversal of bad will arising from the purchase of the Bridge Banks and the use of deferred tax assets.

2 The loan loss rate of the Combined Entity in 2016 would be 262 basis points if the absorption of UBI Banca's shortfall and the losses incurred from the disposal of the non-performing loans of the Bridge Banks are included.

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

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

- growth in operating income is expected, and growth in net interest income in particular will result totally from a reduction in the cost of funding, while the contribution from fee and commission income will take place mainly in relation to growth in indirect funding;
- following, amongst other things, the transition to a Single Bank and the roll-out of that model to the three Bridge Banks, operating expenses are forecast to further reduce to approximately €2.35 billion at the end of the plan, notwithstanding the inclusion of a strong investment programme (integrated multi-channel services, new platforms for corporate clients and tools for private bankers, refurbishment of approximately 700 branches, etc.), most of which is already present in the UBI Banca "stand alone" plan.

  Net of non-recurring items, operating expenses will benefit from synergies amounting to over €300 million, falling from €2.64 billion in 2016 to €2.34 billion in 2020.

  In detail:

  a) staff costs are expected to fall constantly to a level of approximately €1.4 billion at the end of the plan, with strong generation turnover and a reduction of around 3,000 in staff numbers, as a result of:
     - around 4,000 staff leaving, of which roughly 600 freed by the Single Bank project;
     - approximately 900 new recruits, in addition to around 200 recruited in the second half of 2016 to ensure an influx of new expertise to support the evolving commercial approach.

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

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

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

- credit quality and loan losses.

  The Group has high credit quality which will be further enhanced over the course of the plan as a result of:

  a) a focus on the organisational structure, assisted also by the Single Bank Project, with a further improvement in credit recovery capacities:
     - with regard to bad loans, centralised management already in place since 2009 with over 130 staff is to continue;

- with regard to the other problem loans, the Single Bank has facilitated evolution of the organisational structure with centralised management and the introduction of a problem loan account manager reporting directly to the Chief Lending Officer.

Overall, this unit is comprised of around 400 staff dedicated to the management of non-performing loans;

b) the reinforcement of monitoring tools with the introduction of evolved performance information (e.g. big data);

c) the use of a Re.O.Co. (Real estate owned Company) to support the realisation of the value of real estate collateral, already in operation at the end of 2016.

It is envisaged that this action, together with the reduction in new inflows of non-performing loans now in progress for over four years in the Group, will lead to a further improvement in the already historically high level of credit quality to allow the following to be achieved during the plan period:

- a reduction in gross non-performing exposures to approximately €12.9 billion in 2020;
- a decrease in the loss loan rate to approximately 0.57% in 2020;
- an improvement in coverage of non-performing exposures of around 47% (inclusive of write-offs) in 2020;
- a fall in the Texas ratio to around 87% in 2020.

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

a) with regard to the allocation of badwill:
on the basis of the international financial reporting standard IFRS3 (business combinations), the allocation must be carried out within 12 months of the closing date;
For the purposes of drawing up this Business Plan, the preliminary estimate, already made when the acquisition was announced, has been updated. The results of that update, again preliminary, involve the recognition of badwill through profit and loss as at the acquisition date amounting to approximately €600 million, against book equity of the Bridge Banks, inclusive of an estimate of expected losses in 2017 up until the transfer of control, of approximately €1,010 million. It is planned to allocate the remaining portion, amounting to approximately €410 million, to non-performing loans in order to bring their book value up to the presumed fair value and to other items, such as direct funding and provisions for risks and charges. The release of these items through profit and loss is assumed according to convention to be over a five-year period for loans and over three years for other items.

b) with regard to the use of the benefits of prior-year tax losses:
as part of the acquisition operation, potential tax benefits were identified arising from the prior-year losses of the Target Bridge Banks, which were transferred to the UBI Banca Group on the basis of favourable replies to specific private letter applications received from the tax authorities.
Because the deferred tax assets in question are not "qualified", which means that their recoverability depends on the actual certainty of there being sufficient taxable income, an approach was adopted which involves recognition through profit and loss, limiting the analysis of the recoverability to a finite time frame. Over the course of the plan a total of approximately €550 million of deferred tax assets have been recognised in the income statement. For supervisory purposes, it will also be possible to use additional tax benefits after 2020.

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

The Business Plan presents harmonious growth of the Group also following the integration of the Bridge Banks and it confirms the industrial value of the acquisition.
The objectives set allow sustainable profitability over time and stronger capital ratios, contributed to in the short-term by the increase in the share capital that will be carried out by UBI Banca and in future by growth in profits, with structural balance and risk indicators well above existing and expected regulatory requirements and the targets set by Group policies.
The plan has a safety buffer consisting of the DTAs from the Bridge Banks.
The execution is also supported by a medium to long-term incentive scheme approved by a Shareholders' Meeting of UBI Banca on 7th April. This involves a direct investment by key

management personnel, up to a preset maximum amount and consistent with defined "pay-mix" levels, by purchasing UBI Banca shares with their own funds, 50% of which cannot be sold until 31st December 2019, while the remaining 50% cannot be sold until 31st December 2020. The bonus, paid in UBI shares, considered one of the most appropriate instruments for aligning the interests of shareholders with those of management, is calculated as a multiplier of the investment made on the basis of Group performance measured over the two reference periods to 31st December 2019 and to 31st December 2020.

Profitability and structural balance indicators

	2016 Stand Alone	2019	2020
CET1 ratio (fully loaded)	11.2%	12.3%	13,5%
Total Capital Ratio (fully loaded)	14.1%	15.8%	17.0%
Leverage ratio (fully loaded)	5.6%	5.6%	6.2%
MREL	33.4%	27.1%	31.5%
Net Stable Funding Ratio	>100%	>100%	>100%
Liquidity Coverage ratio	>100%	>120%	>120%
Texas ratio	109%	98%	87%
Return on Tangible Equity	n.s.	11%	12%

N.B.: the CET1 ratio includes the impacts resulting from the implementation of IFRS 9[1], the model change, the new rules on write-offs, etc.

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

* * *

Subject to verification of the suspensive conditions for the Closing laid down in the purchase contract, the purchase of the Target Bridge Institutions by UBI Banca will take place on 10th May 2017 for valuable consideration of €1.

Again on 10th May 2017 following the Closing, shareholders' meetings of Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio, Nuova Cassa di Risparmio di Chieti e Banca Federico del Vecchio will be held which will carry out the following:

(i) appoint a new Board of Directors;

(ii) for the Target Bridge Institutions, adopt new articles of association with the change in particular of the name and registered offices; for Banca Federico del Vecchio, make some changes to the text of the articles of association in order to incorporate the entrance of the company into a new banking Group and to bring the contents into line with the general approach adopted by the UBI Banca Group.
For the Cassa Di Risparmio di Loreto, the appointment of a new Board of Directors and the aforementioned changes to the Articles of Association will be submitted to the approval of a Shareholders' Meeting on 17th/18th May 2017.

The effect of all the amendments to Articles of Association are subject to prior authorisation by the Bank of Italy/European Central Bank.

* * *

While activity to issue new regulations is proceeding with particular intensity on the part of all regulatory authorities (mainly in the form of regulations and technical standards to implement the most important European Directives, which include MiFID II, PSD II, the European Directive on Privacy, the IV Anti-Money Laundering Directive, etc.), we report the entry into force on 14th April 2017 of Legislative Decree No. 38 of 15th March 2017 on the "Implementation of the framework decision No. 2003/568/GAI of the Council, dated 22nd July 2003, on the fight against corruption in the private sector", published in Official Journal No. 75 of 30th March 2017.
That decree makes amendments to Chapter IV, Title XI, of Book V of the Italian Civil Code (more specifically Art. 2635 on corruption between private individuals was amended and

articles 2635-*bis* and 2635-*ter* were introduced) and to Art. 25-*ter* of Legislative Decree No. 231/2001 on the administrative liability of institutions.
All the necessary compliance activities were promptly commenced in this respect, including modifications to the "Model of organisation, management and monitoring pursuant to Legislative Decree No. 231/2001" adopted by UBI Banca.

* * *

As concerns the **business outlook for consolidated operations**, the information given for the UBI Banca stand alone results when the 2016 Annual Report was approved is confirmed.
It should be considered that the three Bridge Banks, for which the closing for the purchase and sale agreement will take place on 10th May 2017, will form part of the consolidation scope from 1st April 2017. In the half year report the outlook for operations will therefore relate to that larger consolidation scope.

Bergamo, 10th May 2017

THE MANAGEMENT BOARD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE PERIOD ENDED 31ST MARCH 2017

Gruppo UBI Banca

Mandatory interim consolidated financial statements as at and for the period ended 31st March 2017

Consolidated balance sheet

Figures in thousands of euro		31.3.2017	31.12.2016	31.3.2016
ASSETS				
10.	Cash and cash equivalents	476,835	519,357	506,194
20.	Financial assets held for trading	627,034	729,616	966,772
30.	Financial assets designated at fair value	190,448	188,449	194,738
40.	Available-for-sale financial assets	8,475,803	9,613,833	15,699,461
50.	Held-to-maturity investments	7,274,195	7,327,544	3,445,469
60.	Loans and advances to banks	4,850,605	3,719,548	3,591,309
70.	Loans and advances to customers	84,521,597	81,854,280	84,072,553
80.	Hedging derivatives	424,061	461,767	714,946
90.	Fair value change in hedged financial assets (+/-)	10,591	23,963	61,469
100.	Equity investments	254,842	254,364	259,545
120.	Property, plant and equipment	1,637,718	1,648,347	1,673,882
130.	Intangible assets	1,686,920	1,695,973	1,747,089
	of which: *- goodwill*	*1,465,260*	*1,465,260*	*1,465,260*
140.	Tax assets	2,982,254	3,044,044	2,790,272
	a) current	371,618	435,128	579,833
	b) deferred	2,610,636	2,608,916	2,210,439
	- of which pursuant to Law No. 214/2011	*1,954,022*	*1,956,572*	*1,957,995*
150.	Non-current assets and disposal groups held for sale	5,811	5,681	70,283
160.	Other assets	924,423	1,297,151	895,255
TOTAL ASSETS		**114,343,137**	**112,383,917**	**116,689,237**

Figures in thousands of euro		31.3.2017	31.12.2016	31.3.2016
LIABILITIES AND EQUITY				
10.	Due to banks	16,665,755	14,131,928	11,495,105
20.	Due to customers	56,443,308	56,226,416	56,527,759
30.	Debt securities issued	27,562,538	28,939,597	33,124,613
40.	Financial liabilities held for trading	722,633	800,038	610,468
60.	Hedging derivatives	195,586	239,529	1,000,034
80.	Tax liabilities	229,327	232,866	427,460
	a) current	72,356	59,817	159,184
	b) deferred	156,971	173,049	268,276
100.	Other liabilities	2,726,147	1,962,806	2,476,949
110.	Post-employment benefits	306,523	332,006	337,289
120.	Provisions for risks and charges:	466,939	457,126	255,392
	a) pension and similar obligations	69,230	70,361	68,981
	b) other provisions	397,709	386,765	186,411
140.	Valuation reserves	-158,895	-73,950	174,827
170.	Reserves	2,833,815	3,664,366	3,655,183
180.	Share premiums	3,798,430	3,798,430	3,798,430
190.	Share capital	2,443,094	2,440,751	2,254,371
200.	Treasury shares (-)	-9,869	-9,869	-5,155
210.	Non-controlling interests (+/-)	50,769	72,027	514,451
220.	Profit (loss) for the period/year (+/-)	67,037	-830,150	42,061
TOTAL LIABILITIES AND EQUITY		**114,343,137**	**112,383,917**	**116,689,237**

Consolidated income statement

Figures in thousands of euro		1Q 2017	1Q 2016	FY 2016
10.	Interest and similar income	479,115	568,924	2,161,121
20.	Interest and similar expense	(131,928)	(181,324)	(663,230)
30.	**Net interest income**	**347,187**	**387,600**	**1,497,891**
40.	Fee and commission income	399,292	379,447	1,508,992
50.	Fee and commission expense	(48,431)	(42,301)	(173,959)
60.	**Net fee and commission income**	**350,861**	**337,146**	**1,335,033**
70.	Dividends and similar income	2,045	523	9,678
80.	Net trading income	23,950	1,504	69,947
90.	Net hedging profit (loss)	(2,089)	(986)	415
100.	Income from disposal or repurchase of:	40,501	16,492	91,770
	a) loans and receivables	(721)	(1,607)	(31,482)
	b) available-for-sale financial assets	44,031	24,855	149,014
	d) financial liabilities	(2,809)	(6,756)	(25,762)
110.	Net profit (loss) on financial assets and liabilities designated at fair value	2,998	(1,296)	(8,421)
120.	**Gross income**	**765,453**	**740,983**	**2,996,313**
130.	Net impairment losses on:	(150,944)	(155,087)	(1,695,584)
	a) loans and receivables	(134,802)	(155,339)	(1,565,527)
	b) available-for-sale financial assets	(38,902)	(4,668)	(111,643)
	d) other financial transactions	22,760	4,920	(18,414)
140.	**Net financial income**	**614,509**	**585,896**	**1,300,729**
170.	**Net income from banking and insurance operations**	**614,509**	**585,896**	**1,300,729**
180.	Administrative expenses	(549,432)	(547,539)	(2,570,182)
	a) staff costs	(320,579)	(320,554)	(1,599,717)
	b) other administrative expenses	(228,853)	(226,985)	(970,465)
190.	Net provisions for risks and charges	(7,460)	(6,368)	(42,885)
200.	Depreciation and net impairment losses on property, plant and equipment	(18,920)	(19,289)	(80,823)
210.	Amortisation and net impairment losses on intangible assets	(15,464)	(15,922)	(125,197)
220.	Other net operating income/expense	82,170	81,059	306,541
230.	**Operating expenses**	**(509,106)**	**(508,059)**	**(2,512,546)**
240.	Profits of equity investments	3,809	5,252	24,136
270.	Profits on disposal of investments	116	402	22,969
280.	**Pre-tax profit (loss) from continuing operations**	**109,328**	**83,491**	**(1,164,712)**
290.	Taxes on income for the period/year from continuing operations	(36,237)	(34,098)	319,619
300.	**Post-tax profit (loss) from continuing operations**	**73,091**	**49,393**	**(845,093)**
320.	**Profit (loss) for the period/year**	**73,091**	**49,393**	**(845,093)**
330.	(Profit) loss for the period/year attributable to non-controlling interests	(6,054)	(7,332)	14,943
340.	**Profit (loss) for the period/year attributable to the shareholders of the Parent**	**67,037**	**42,061**	**(830,150)**

Consolidated statement of comprehensive income

Figures in thousands of euro		1Q 2017	1Q 2016	FY 2016
10.	**PROFIT (LOSS) FOR THE PERIOD/YEAR**	**73,091**	**49,393**	**(845,093)**
	Other comprehensive income net of taxes without transfer to the income statement			
40.	Defined benefit plans	(102)	(9,898)	(17,005)
	Other comprehensive income net of taxes with transfer to the income statement			
90.	Cash flow hedges	(296)	469	570
100.	Available-for-sale financial assets	(90,690)	(77,681)	(315,491)
120.	Share of valuation reserves of equity-accounted investees	6,033	507	(81)
130.	**Total other comprehensive loss net of taxes**	**(85,055)**	**(86,603)**	**(332,007)**
140.	**COMPREHENSIVE LOSS (item 10 + 130)**	**(11,964)**	**(37,210)**	**(1,177,100)**
150.	CONSOLIDATED COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	6,102	6,750	(10,526)
160.	**CONSOLIDATED COMPREHENSIVE LOSS ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT**	**(18,066)**	**(43,960)**	**(1,166,574)**

Statement of changes in consolidated equity for the period ended 31st March 2017

Figures in thousands of euro	Balances as at 31.12.2016	Restatement of opening balances	Balances as at 1.1.2017	Allocation of prior year result		Changes January - March 2017									31st March 2017		
							Equity transactions										
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity stakes	Consolidated comprehensive income	**Equity**	***attributable to the shareholders of the Parent***	***attributable to non-controlling interests***
Share capital:	2,451,729	-	2,451,729	-	-	-	**2,343**	-	-	-	-	-	-814	-	**2,453,258**	***2,443,094***	***10,164***
a) ordinary shares	2,451,729	-	2,451,729	-	-	-	2,343	-	-	-	-	-	-814	-	2,453,258	*2,443,094*	*10,164*
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,817,846	-	3,817,846	-	-	-	-	-	-	-	-	-	-2,738	-	**3,815,108**	***3,798,430***	***16,678***
Reserves	3,720,909	-	3,720,909	-845,093	-22,224	2,545	-	-	-	-	-	-	-4,373	-	**2,851,764**	***2,833,815***	***17,949***
a) retained earnings	1,810,697	-	1,810,697	-845,093	-22,224	-	-	-	-	-	-	-	-	-	943,380	*879,127*	*64,253*
b) other	1,910,212	-	1,910,212	-	-	2,545	-	-	-	-	-	-	-4,373	-	1,908,384	*1,954,688*	*-46,304*
Valuation reserves	-73,917	-	-73,917	-	-		-	-	-	-	-	-	1	-85,055	**-158,971**	***-158,895***	***-76***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-9,869	-	-9,869	-	-	-	-		-	-	-	-	-	-	**-9,869**	***-9,869***	-
Profit (loss) for the period	-845,093	-	-845,093	845,093	-	-	-	-	-	-	-	-	-	**73,091**	**73,091**	***67,037***	***6,054***
Equity	**9,061,605**	**-**	**9,061,605**	**-**	**-22,224**	**2,545**	**2,343**	**-**	**-**	**-**	**-**	**-**	**-7,924**	**-11,964**	**9,024,381**	***8,973,612***	***50,769***
Equity attributable to the shareholders of the Parent	***8,989,578***	**-**	***8,989,578***	**-**	**-**	***2,545***	***2,343***	**-**	**-**	**-**	**-**	**-**	***-2,788***	***-18,066***	***8,973,612***	*X*	*X*
Equity attributable to non-controlling interests	***72,027***	**-**	***72,027***	**-**	***-22,224***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***-5,136***	***6,102***	***50,769***	*X*	*X*

Statement of changes in consolidated equity for the period ended 31st March 2016

Figures in thousands of euro	Balances as at 31.12.2015	Restatement of opening balances	Balances as at 1.1.2016	Allocation of prior year profit		Changes January - March 2016									31st March 2016		
							Equity transactions										
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity stakes	Consolidated comprehensive income	Equity	*attributable to the shareholders of the Parent*	*attributable to non-controlling interests*
Share capital:	2,565,936	-	2,565,936	-	-	-	-	-	-	-	-	-	-69	-	**2,565,867**	***2,254,371***	***311,496***
a) ordinary shares	2,520,829	-	2,520,829	-	-			-	-	-	-	-	-69	-	2,520,760	*2,254,371*	*266,389*
b) other shares	45,107	-	45,107	-	-	-	-	-	-	-	-	-	-	-	45,107	*-*	*45,107*
Share premiums	3,818,024	-	3,818,024	-	-	-	-	-	-	-	-	-	-75	-	**3,817,949**	***3,798,430***	***19,519***
Reserves	3,737,499	-	3,737,499	144,466	-31,568	-14,478	-	-	-	-	-	-	-186	-	**3,835,733**	***3,655,183***	***180,550***
a) retained earnings	1,806,092	-	1,806,092	144,466	-31,568	-	-	-	-	-	-	-	-	-	1,918,990	*1,843,067*	*75,923*
b) other	1,931,407	-	1,931,407	-	-	-14,478	-	-	-	-	-	-	-186	-	1,916,743	*1,812,116*	*104,627*
Valuation reserves	256,993	-	256,993	-	-		-	-	-	-	-	-	-9	-86,603	**170,381**	***174,827***	***-4,446***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-5,155	-	-5,155	-	-	-	-		-	-	-	-	-	-	**-5,155**	***-5,155***	-
Profit for the period	144,466	-	144,466	-144,466	-	-	-	-	-	-	-	-	-	49,393	**49,393**	***42,061***	***7,332***
Equity	**10,517,763**	**-**	**10,517,763**	**-**	**-31,568**	**-14,478**	**-**	**-**	**-**	**-**	**-**	**-**	**-339**	**-37,210**	**10,434,168**	***9,919,717***	***514,451***
Equity attributable to the shareholders of the Parent	***9,981,862***	-	***9,981,862***	-	***-3,515***	***-14,478***	-	-	-	-	-	-	***-192***	***-43,960***	***9,919,717***	*X*	*X*
Equity attributable to non-controlling interests	***535,901***	-	***535,901***	-	***-28,053***	-	-	-	-	-	-	-	***-147***	***6,750***	***514,451***	*X*	*X*

Consolidated statement of cash flows (indirect method)

Figures in thousands of euro	1Q 2017	1Q 2016
A. OPERATING ACTIVITIES		
1. Ordinary activities	**275,968**	**204,421**
- profit for the period (+/-)	73,091	49,393
- gains/losses on financial assets held for trading and on financial assets/liabilities designated at fair value (+/-)	-26,948	-208
- gains/losses on hedging activities (-/+)	2,089	986
- net impairment losses on loans (+/-)	150,944	155,087
- depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (+/-)	34,384	35,211
- net provisions for risks and charges and other expense/income (+/-)	7,460	6,368
- net premiums not received (-)	-	-
- other insurance income/expense not received(-/+)	-	-
- outstanding taxes, duties and tax credits (+/-)	58,251	-20,443
- net impairment losses on disposal groups held for sale after tax (-/+)	-	-
- other adjustments (+/-)	-23,303	-21,973
2. Net cash flows from/used by financial assets	**-2,184,467**	**230,019**
- financial assets held for trading	127,894	22,461
- financial assets designated at fair value	999	151
- available-for-sale financial assets	1,175,469	-81,690
- loans and advances to banks: repayable on demand	-	-
- loans and advances to banks: other loans and receivables	-1,131,057	-161,372
- loans and advances to customers	-2,802,119	358,308
- other assets	444,347	92,161
3. Net cash flows from/used by financial liabilities	**1,901,164**	**-415,687**
- amounts due to banks repayable on demand	-	-
- amounts due to banks: other payables	2,533,827	1,040,802
- due to customers	216,892	1,263,288
- debt securities issued	-1,377,059	-3,123,315
- financial liabilities held for trading	-77,405	78,656
- financial liabilities designated at fair value	-	-
- other liabilities	604,909	324,882
Net cash flows from/used in operating activities	**-7,335**	**18,753**
B. INVESTING ACTIVITIES		
1. Cash flows from	**2,162**	**536**
- disposals of equity investments	-	-
- dividends received on equity investments	2,045	523
- disposals of held-to-maturity investments	-	-
- disposals of property, plant and equipment	117	13
- disposals of intangible assets	-	-
- disposals of subsidiaries and lines of business	-	-
2. Cash flows used in	**-15,125**	**-11,625**
- purchases of equity investments	-	-
- purchases of held-to-maturity investments	-	-
- purchases of property, plant and equipment	-8,556	-6,093
- purchases of intangible assets	-6,569	-5,532
- purchases of subsidiaries and lines of business	-	-
Net cash flows from/used in investing activities	**-12,963**	**-11,089**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	-	-
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-22,224	-31,568
Net cash flows from/used in financing activities	**-22,224**	**-31,568**
NET CASH GENERATED/USED DURING THE PERIOD	**-42,522**	**-23,904**

Reconciliation

Figures in thousands of euro	1Q 2017	1Q 2016
Cash and cash equivalents at beginning of period	519,357	530,098
Total net cash flows generated/absorbed during the period	-42,522	-23,904
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period	**476,835**	**506,194**

Notes

Basis of preparation

This interim financial report as at and for the period ended 31st March 2017 of the UBI Banca Group, approved by the Management Board on 10th May 2017, has been prepared in consolidated form and on a voluntary basis in order to ensure continuity with previous periodic quarterly reports[1].

The statements included in this report have been prepared in compliance with IFRS international accounting standards currently in force[2], to which no exceptions have been made.
The report has not been drawn up in accordance with the provisions of IAS 34 "Interim financial reporting", which relate to interim financial reports, because the UBI Banca Group applies that standard to its half yearly financial reports and not also to its quarterly financial reports.

The accounting policies adopted in the preparation of this financial report with specific regard to the classification, recognition, measurement and derecognition of balance sheet items and also the recognition of income and expense items are the same as those adopted for the financial statements as at and for the period ended 31st December 2016, which may be consulted in full[3].

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date of the Interim Financial Report.
If in the future those estimates and assumptions, which are based on management's best judgment at the date of this Interim Financial Report for the period ended 31st March 2017, should differ from the actual circumstances, they will be modified appropriately in the period in which circumstances deviate.
Part A.1, section 2, sub-section "Accounting policies" in the Notes to the Consolidated Financial Statements of the Group as at and for the period ended 31st December 2016 may be consulted for a fuller description of the most significant accounting measurement processes for the Group.

Consistent with previous periodic financial reports and in order to ensure full comparability of quantitative data, this financial report includes both the mandatory consolidated financial statements in compliance with Bank of Italy Circular No. 262/2005[4] and subsequent amendments and additions and the reclassified consolidated financial statements both prepared in euro as the accounting currency.

This document also contains tables furnishing details of the contents of the main items in the reclassified consolidated income statement and the reclassified consolidated balance sheet with the relative comment.

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1 That approach, disclosed to the market in compliance with the provisions of Art. 82 *ter* of the Consob Issuers' Regulations on 30th January 2017, may be subject to re-formulation by the Management of the Bank, in view also of the establishment of different practices in the sector. Legislative Decree No. 25/2016 (which implemented Directive 2013/50/EU) did in fact eliminate the obligation to publish interim financial reports for the first and third quarters and established the possibility for the Consob (Italian securities market authority), by means of special regulations, to set possible reporting obligations in addition to the annual and half yearly financial reports, the contents of which may not be greater than those required previously. With Resolution No. 19770, on 26th October 2016 the Consob approved amendments to the Issuers' Regulations on the subject of interim financial reports, introducing Art. 82-*ter* which allows issuers the option to publish periodic quarterly financial reports.

2 Those standards, implemented in Italian law by Legislative Decree No. 38/2005, which took advantage of the option allowed under EC Regulation 1606/2002 on international accounting standards, are applied on the basis of events occurring that are disciplined by them from the date on which their application becomes compulsory, unless specified otherwise.

3 Notes to the Consolidated Financial Statements – Part A.2 "Accounting policies – Part on the main balance sheet items".

4 The balance sheet lists assets and liabilities in order of decreasing liquidity and the income statement recognises expenses according to their nature.

This interim financial report relates to the scope of consolidation reported in the 2016 Annual Report, which has been modified as per changes reported in the relative section of the "Interim consolidated management report as at and for the period ended 31st March 2017.
With regard to the provisions of IAS 10, concerning events occurring after the balance sheet date of the Interim Financial Report, subsequent to 31st March 2017, the balance sheet date of the Report in question, and until 10th May 2017, the date on which the Management Board approved this Report, no events occurred to make adjustments to the figures presented in the financial statements necessary.

The accounting information contained in this Interim Financial Report[5] has been voluntarily subjected to a limited audit.

Other aspects

Valuation of shares in the Atlante Fund

As already reported in the information contained in the notes to the financial statements contained in the 2016 Consolidated Annual Report, as at 31st December 2016 UBI Banca, having carefully considered all the information useful for estimating the value of the investment in the Atlante Fund as at that date, had proceeded to recognise total impairment of approximately €73 million[6] on the total exposure of €162.2 million[7].
The valuation of the shares held as at 31st March 2017, which employed the same valuation methods used as at 31st December 2016, took account of the loss for the year actually incurred by Banca Popolare Di Vicenza and by Veneto Banca for the year ended 31st December 2016, which was significantly greater than that estimated and incorporated in the valuation at the end of 2016. As a result of this, the update of the valuation led to the recognition of a further impairment loss of €18.7 million[8].
The carrying amount as at 31st March 2017 of the investment in the Atlante Fund, recognised within the item "Available-for-sale financial assets", following the recognition of that impairment was €70.6 million.

Valuation of the quota for adherence to the "Voluntary Scheme" of the Interbank Deposit Protection Fund

As already described in the notes to the financial statements in the 2016 Consolidated Annual Report, which may be consulted for full details, implementation of the operation to recapitalise Cassa Di Risparmio Di Cesena ("CariCesena"), undertaken by the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) in order to take action to assist the failed banks[9], involved a total payout for the UBI Banca Group of €16.13 million (inclusive also of its quota of the expenses connected with the intervention and with the functioning of the Voluntary Scheme[10]), as a result of which it:

- recognised approximately €16.07 million within "available-for-sale financial assets" in respect of the Voluntary Scheme;
- recognised an expense of €0.06 million in respect of the above expenses in the income statement within the item "other administrative expenses".

The valuation of the AFS stakes recognised as at 31st December 2016, calculated on the basis of the equity risk attributable to CariCesena, involved recognition in the income statement within the item "net impairment losses on available-for-sale financial assets" of total impairment losses of €3.9 million.

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5 These are the consolidated financial statements and the relative notes to them.
6 Of which €53.6 million relating to the part recognised within "available-for-sale financial assets" and €19.4 million relating to the commitment.
7 Of which €119.1 million relating to "available-for-sale financial assets" and €43.1 million relating to commitments.
8 The net effect of impairment losses recognised on "available-for-sale financial assets" amounting to €38.1 million and reversals of the impairment on the commitment recognised as at 31st December 2016 and already written down by €19.4 million.
9 The UBI Banca Group had undertaken a commitment amounting to €41 million, reduced, following action taken to support CariCesena, to €24.6 million.
10 Which totalled €1 million.

The aforementioned impairment loss was recognised because in this case it was considered that the conditions for recognition of an impairment loss set out in IAS 39 were considered to have been met.

At present the investment in Cassa Di Risparmio Di Cesena, controlled by the Voluntary Scheme, is subject to a preliminary non-binding purchase offer made by Crédit Agricole Cariparma, as part of a broader operation to find a solution, through a change of ownership, to the difficulties consisting also of the capital shortfalls of Cassa Di Risparmio di Rimini and Cassa di Risparmio di San Miniato.
Therefore, with specific reference to the valuation as at 31st March 2017 of the investment in question, we report that while waiting for a more complete definition of the terms of the aforementioned operation as a whole, it was decided to confirm the amount recognised as at 31st December 2016. Should we learn of any news on the matter, that valuation will be updated as at 30th June 2017 in the Half Year Financial Report.

STATEMENT OF THE SENIOR OFFICER RESPONSIBLE FOR THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Statement of the senior officer responsible for the preparation of corporate accounting documents

The undersigned, Elisabetta Stegher, as the senior officer responsible for the preparation of the corporate accounting documents of Unione di Banche Italiane Spa, hereby declares, in compliance with the second paragraph of article 154 bis *of the* "Testo unico delle disposizioni in materia di intermediazione finanziaria" *(consolidated finance act), that the information contained in this "Quarterly financial report as at and for the period ended 31st March 2017" is reliably based on the records contained in corporate documents and accounting records.*

the Senior Officer Responsible for the preparation of the corporate accounting documents

(signed on the original)

Bergamo, 10th May 2017

Calendar of corporate events of UBI Banca for 2017

Date	Event
22nd May, 23rd May and 24th May 2017	Ex-dividend date, record date and payment date respectively of the dividend if approved by the Shareholders' Meeting
4th August 2017	Approval of the interim financial report as at and for the period ended 30th June 2017
9th November 2017	Approval of the interim financial report as at and for the period ended 30th September 2017

The dates of the presentations of accounting data to the financial community will be communicated from time to time during the course of the financial year.

Contacts

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