Pillar 3

Disclosures

as at 30th June 2019

Translation from the Italian orginal which remains the definitive version

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint Stock Company
Registered office: Bergamo, Piazza Vittorio Veneto 8
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 December 2018: Euro 2,843,177,160.24 fully paid up
Certified email address (P.E.C.): ubibanca.pec@pecgruppoubi.it
www.ubibanca.it

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Introduction

The prudential rules for banks and investment companies have been contained in EU Regulation 575/2013 (the Capital Requirements Regulation, hereinafter CRR) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, hereinafter CRD IV) since 1st January 2014. They transpose standards defined by the Basel Committee on Banking Supervision (hereinafter Basel 3 framework) into European Union regulations. The Bank of Italy implemented the EU regulations by publishing Circular No. 285 "Regulations for the prudential supervision of banks".

In order to strengthen "market discipline", the regulations make it compulsory for banks to publish disclosures (the "Pillar 3 Disclosures") that provide an adequate degree of transparency with regard to risk exposure, monitoring and management and which therefore give particular importance to capital adequacy.

More specifically the Pillar 3 Disclosures are regulated directly by Part Eight and Part Ten (Title I, Chapter 3) of the CRR and by regulatory and implementation provisions issued by the European Commission[1], to regulate the following:

- standard templates for the public disclosure of information on own funds;
- standard templates for the public disclosure of information on own funds in the period running from 1st January 2014 to 31st December 2021;
- disclosure obligations concerning reserves in equity;
- standard templates for the disclosure of information on indicators of systemic importance;
- disclosures concerning balance sheet assets free from encumbrances;
- standard templates for the disclosure of information on leverage ratios.

The regulation does not require special tables for the other information subject to disclosure in which information that banks must publish is classified.

The CRR also requires intermediaries to disclose information on at least an annual basis jointly with financial statements and to assess the need to publish some of or all the information requested more frequently, in the light of the more important characteristics of their activities. Following on from past practice, the UBI Banca Group intends to make Pillar 3 Disclosures on at least a quarterly basis, providing an update of the information considered most important.

The Basel Committee has subjected the public disclosure framework to analysis, recommending that supervisory authorities have them transposed, for those areas for which they are responsible, into their supervisory regulations[2]. At European level, the EBA published the second final version of the *"Guidelines on disclosure requirements under part Eight of Regulation No (EU) 575/2013"* in June 2017 in order to increase the consistency and

[1] The "Regulatory Technical Standard" – RTS and "Implementing Technical Standard" – ITS respectively.

[2] "Pillar 3 disclosure requirements – updated framework" December 2018, "Pillar 3 disclosure requirements – consolidated and enhanced framework", March 2017 and "Revised Pillar 3 disclosure requirements" January 2015, Basel Committee on Banking Supervision.

comparability of the information to be provided in the Pillar 3 Disclosures. These guidelines apply to *"Globally and Other Systemically Important Institutions"* (G-SIIs and O-SIIs). It is left to the competent authorities to decide whether they also wish to require institutions other than G-SIIs and O-SIIs to apply some or all of the recommendations contained in the guidelines[3]. In this respect, it is underlined that in exercising this power the supervisory authority has not provided for full application of the guidelines for important institutions (IIs) that are classified neither as G-SIIs nor as O-SIIs. As a consequence the procedures followed by the UBI Banca Group for these Pillar 3 Disclosures is essentially along the same lines as previously because it provides exhaustive information sufficient to comply with the requirements of part 8 of the CRR.

More specifically, this document, which reports the position of the Group as at 30th June 2019, provides an update of quantitative information relating to the following: own funds, capital adequacy, credit and counterparty risk, exposures in capital instruments, interest rate risk and leverage.

For full information, the information published relates to the prudential consolidation, which consists of those entities subject to banking consolidation for regulatory purposes. Any differences with respect to other sources (e.g. the Interim Financial Report prepared for the period ended and as at the same balance sheet date) are therefore attributable to differences in the scope of consolidation considered.

Further information on capital adequacy, own funds and risks to which the Group is exposed is also published in the Interim Financial Report for the period ended 30th June 2019 in the section containing the interim management report on consolidated operations and in the explanatory notes to the condensed consolidated financial statements.

As already reported in the Pillar 3 Disclosures as at 31st March 2019, on 18th March the UBI Group received authorisation with regard to credit risk to roll out already validated AIRB models for the corporate and retail exposures of the "New Banks" (Banca Adriatica, Banca Teatina and Banca Tirrenica) and for the progressive rollout of the IRB perimeter to the Other Private Individual and Qualifying Revolving Retail Segment.

The UBI Banca Group has published these Pillar 3 Disclosures on its website in the investor relations section (www.ubibanca.it).

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NOTE: all the figures contained in the sections of these disclosures are stated in thousands of euro, unless otherwise stated.

[3] These recommendations have been implemented in Regulation EU 575/2013.

Scope of application

Qualitative information

The bank to which the Pillar three disclosure obligations apply is UBI Banca S.p.a., the Parent of the banking group of the same name, listed on the Milan stock exchange and included in the FTSE /MIB index. The content of this Pillar 3 Disclosure document relates to the supervisory scope of consolidation (referred to as the Banking Group), as defined by the supervisory regulations in force.

The supervisory scope of consolidation includes:

- banks, financial and service companies that are directly or indirectly controlled by the Parent and subject to line-by-line consolidation;
- banks, financial and service companies in which an interest of 20% or greater is held, which are subject to proportionate consolidation.

The supervisory scope of consolidation used in this disclosure document differs from the statutory accounting scope of consolidation (determined by IAS/IFRS standards). This circumstance may generate differences between the sets of data presented in this document and those presented in the consolidated annual report for the same year.

There are no hindrances within the Group, either legal or substantial, which might prevent the rapid transfer of capital resources or funds.

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The scope of consolidation underwent the following principal changes compared with 31st December 2018 following various corporate ownership transactions[4]:

- UBI SPV BBS 2012 Srl, UBI SPV BPCI 2012 Srl and UBI SPV BPA 2012 Srl: these three special purpose entities, formed in accordance with Law No. 130/1999 for the securitisation of the performing loans to SMEs of some former network banks (Banco di Brescia, Banca Popolare Commercio e Industria and Banca Popolare di Ancona) and placed in voluntary liquidation in May 2018, were removed from the register of companies in March 2019;
- Bancassurance Popolari Danni Spa: as part of the transfer of almost all the portfolio of the non-life sector insurance policies to Cargeas Assicurazioni Spa from 1st November 2018, on the 15th May 2019 100% share capital of this company was sold to AmTrust Italia Holdings Llc (a company belonging to the international group AmTrust Financial Services);
- Centrobanca Sviluppo Impresa Spa: on 24th May 2019, a Shareholders' Meeting of this company resolved to dissolve the company in advance and put it into liquidation, with effect from the date on which the resolution was filed with the Company Registrar which took place on the following 4th June 2019;
- Assieme Srl: this company was removed from the register of companies on 27th May 2019 after it was placed in voluntary liquidation on the previous 10th September 2018;

[4] Further information on the scope of the consolidation is given in the section "The scope of consolidation" of the Interim Financial Report for the period ended 30th June 2019.

- Marche Mutui 2 Società per la Cartolarizzazione a r.l.: on 28th May 2019 all the notes were redeemed and the MM2 securitisation was closed down (the relative loans were repurchased by UBI Banca in April 2019). As the Group held no equity interest in it and substantial control was longer held, the company was excluded from the consolidation scope on that same date;
- Palazzo della Fonte SCpA: on 5th June 2019 the purchase by UBI Banca of all the shares and "profit-sharing equity instruments" (SFP - *Strumenti Finanziari di Partecipativi*) of the consortium not yet held by the Group was completed. As already reported, Palazzo della Fonte is the owner of business premises leased by UBI Banca and has been awarded a facility management contract for the management of real estate assets.

Quantitative information

The table below lists the consolidated companies, with an indication of the different treatment for statutory and supervisory purposes.

Name	Headquarters	Type of ownership	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
A.1 Line-by-line fully consolidated companies							
1. Unione di Banche Italiane Spa - UBI Banca	Bergamo				line-by-line	line-by-line	Bank
2. IW Bank Spa	Milan	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Bank
3. BPB Immobiliare Srl	Bergamo	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Instrumental
4. UBI Leasing Spa	Brescia	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Financial
5. Prestitalia Spa	Bergamo	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Financial
6. UBI Factor Spa	Milan	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Financial
7. Centrobanca Sviluppo Impresa SGR Spa**	Milan		UBI Banca Spa	100.000%	line-by-line	RWA	Other
8. 24-7 Finance Srl	Brescia	1	UBI Banca Spa	10.000%	line-by-line	line-by-line	Financial
9. UBI Trustee Sa	Luxembourg	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Financial
10. UBI Finance CB 2 Srl	Milan	1	UBI Banca Spa	60.000%	line-by-line	line-by-line	Financial
11. Pramerica Management Company Sa	Luxembourg	1	Pramerica Sgr Spa	100.000%	line-by-line	line-by-line	Financial
12. UBI Finance 2 Srl**	Brescia		UBI Banca Spa	10.000%	line-by-line	RWA	Financial
13. UBI Finance Srl	Milan	1	UBI Banca Spa	60.000%	line-by-line	line-by-line	Financial
14. Pramerica SGR Spa	Milan	1	UBI Banca Spa	65.000%	line-by-line	line-by-line	Financial
15. UBI Sistemi e Servizi SCpA	Brescia	1	UBI Banca Spa	91.936%	line-by-line	line-by-line	Instrumental
			IW Bank Spa	4.314%			
			Pramerica Sgr Spa	1.438%			
			Prestitalia Spa	0.072%			
			UBI Academy Scrl	0.010%			
			UBI Factor Spa	0.719%			
			BancAssurance	0.072%			
16. UBI SPV LEASE 2016 Srl	Milan	1	UBI Banca Spa	10.000%	line-by-line	line-by-line	Financial
17. UBI SPV GROUP 2016 Srl	Milan	1	UBI Banca Spa	10.000%	line-by-line	line-by-line	Financial
18. KEDOMUS Srl	Brescia	1	UBI Banca Spa	100.000%	line-by-line	line-by-line	Instrumental
19. UBI Academy Scrl	Bergamo	1	UBI Banca Spa	88.000%	line-by-line	line-by-line	Instrumental
			Pramerica Sgr Spa	1.500%			
			Prestitalia Spa	1.500%			
			IW Bank Spa	3.000%			
			UBI Leasing Spa	1.500%			
			UBI Sistemi e Servizi	3.000%			
			UBI Factor Spa	1.500%			
20. Mecenate Srl	Arezzo	1	UBI Banca Spa	95.000%	line-by-line	line-by-line	Financial
21. Marche M6	Conegliano		UBI Banca Spa		line-by-line		Financial
22. Focus Impresa			UBI Banca Spa	80.769%	line-by-line	RWA	Closed end fund
23. Oro Italia Trading Srl**	Arezzo		UBI Banca Spa	100.000%	line-by-line	RWA	Other
24. BancAssurance Popolari Spa	Arezzo		UBI Banca Spa	100.000%	line-by-line	RWA	Insurance
25. Palazzo della Fonte SCpA	Arezzo		UBI Banca Spa	99.881%	line-by-line	RWA	Instrumental
			BancAssurance	0.119%			
A.2 Companies accounted for using the equity method							
1. Aviva Vita Spa	Milan	3	UBI Banca Spa	20.000%	Equity	RWA*	Insurance
2. Polis Fondi SGR	Milan	3	UBI Banca Spa	19.600%	Equity	RWA*	Financial
3. Zhong Ou Asset Management	Shanghai (China)	3	UBI Banca Spa	25.000%	Equity	RWA*	Financial
4. Lombarda Vita Spa	Brescia	3	UBI Banca Spa	40.000%	Equity	RWA*	Insurance
5. SF Consulting Srl	Mantua	3	UBI Banca Spa	35.000%	Equity	RWA	Other
6. UFI Servizi Srl	Rome	3	Prestitalia Spa	23.167%	Equity	RWA	Other
7. Montefeltro Sviluppo Scrl	Urbania	3	UBI Banca Spa	26.370%	Equity	RWA	Other

Legend
Type of relationship
1= Majority of voting rights in ordinary general meetings
2 = Joint control
3 = Significant influence
(*) Significant investment in CET1 instruments, subject to the calculation of RWAs
(**) Company's placed in liquidation.

Capital ratios

The table below reports the capital ratios for the UBI Banca Group.

Figures in thousands of euro	30.06.2019	31.12.2018
Common Equity Tier 1 capital net of prudential filters	**7,071,487**	**7,218,380**
Deductions from Common Equity Tier 1 capital	-148,573	-79,455
Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses (*)	-134,866	-54,065
Common Equity Tier 1 capital	**6,922,914**	**7,138,925**
Additional Tier 1 capital before deductions	**-**	**-**
Deductions from Additional Tier 1 capital	-	-
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional arrangements	-	-
Additional Tier 1 capital	**-**	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**6,922,914**	**7,138,925**
Tier 2 capital before transitional arrangements	1,811,416	1,330,472
Effects of grandfathering provisions on Tier 2 instruments	**-**	**-**
Tier 2 capital after transitional arrangements	**1,811,416**	**1,330,472**
Deductions from Tier 2 capital	-60,421	-49,022
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional arrangements	-	-
Tier 2 capital after specific deductions	**1,750,995**	**1,281,450**
Total own funds	**8,673,909**	**8,420,375**
Credit risk	4,243,479	4,461,475
Credit valuation adjustment risk	4,037	3,805
Market risk	59,947	67,585
Operational risk	287,934	349,957
Total prudential requirements	**4,595,397**	**4,882,822**
Risk weighted assets	**57,442,461**	**61,035,275**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk-weighted assets)	**12.05%**	**11.70%**
Fully loaded Common Equity Tier 1 ratio	**12.00%**	**11.34%**
Tier 1 ratio (Tier 1 capital after filters and deductions/risk-weighted assets)	**12.05%**	**11.70%**
Fully loaded Tier 1 ratio	**12.00%**	**11.34%**
Total capital ratio (total own funds/risk-weighted assets)	**15.10%**	**13.80%**
Fully loaded total capital ratio	**15.05%**	**13.44%**

Own funds

Quantitative information

The calculation of own funds has been carried out in accordance with the prudential rules for banks and investment companies, which came into force on the 1st January 2014, contained in the CRR and in CRD IV (which transpose standards defined by the Basel 3 framework into European Union regulations), as implemented in the Italian regulatory framework. More specifically, the rules relating to the inclusion of capital items in own funds subject to the transitional treatment until 31st December 2017 will apply fully from 1st January 2018 (amongst others these include the shortfall on IRB positions, which is to say negative amounts resulting from the calculation of expected losses, DTAs on future profits, minority interests and valuation reserves).

Furthermore, the financial reporting standard IFRS 9 "Financial Instruments" supersedes the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" as from 1st January 2018. IFRS 9 was published by the IASB on 24th July 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union of Regulation (EU) No. 2016/2067 of 22nd November 2016[5]. As concerns the impacts on regulatory own funds, the UBI Group has opted for adhesion to the transitional regime provided for by the Regulation EU 2017/2395, which amends the CRR. These measures allow the negative impacts of the adoption of the standard in question to be applied gradually, with the benefit allowed on the basis of decreasing quotas over a five-year period (95% in the 2018, 85% in the 2019, 70% in the 2020, 50% in the 2021, 25% in 2022).

At the end of June the Common Equity Tier 1 (CET1) capital of the UBI Banca Group amounted to approximately €6.923 billion, down on €7.139 billion in December 2018 and up compared with €6.820 billion recorded in March 2019. Own funds amounted to €8.674 billion, an increase compared with €8.420 billion last December and €8.548 billion last March.

As concerns changes in the Common Equity Tier 1 (CET1) capital, the reduction of approximately €216 million is attributable to the following:

- -€152 million resulting from changes recorded in reserves, the economic result that qualifies for regulatory purposes and other items of accumulated other comprehensive income (the OCI reserve). Contributions were made in particular to this trend by the result for the first half which took pro rata account of a dividend assumption and the smaller negative OCI reserve, the joint result of market interest rate trends and the asset allocation for both government and corporate debt securities;
- -€293 million resulting from the reduction in the quota relating to the application of the transition arrangements for the accounting standard IFRS 9 (-€212 million) and to changes in the provision shortfall (-€81 million) which reflect changes in the perimeter relating to the rollout of the already validated AIRB models for corporate and retail exposures to the

[5] See the section *"The transition to the new financial reporting standards IFRS 9 and IFRS 15"* in the "Quarterly consolidated financial report for the period ended 31st March 2018" available in the Investor Relations section of the corporate website at https://www.ubibanca.it/.

"New Banks" and for the progressive rollout of the IRB perimeter to include the Other Private Individual and Qualifying Revolving Retail Segment;
- -€75 million approximately resulting from the combined changes reported for intangible assets, prudential filters, the recalculation of the quotas of significant investments and regulatory deduction of DTAs from CET1 capital, treasury shares and other residual variations.

The Tier 2 capital increased by approximately €470 million to stand at approximately €1.751 billion. The main contributions to that trend were a bond issuance for €500 million[6], the reduction in the eligibility of instruments as a result of both regulatory amortisation instalments for the period and redemptions on maturity.
The table below gives details of the items of which own funds were composed as at 30th June 2019.

[6] See the press release of 25th February 2019 available in the Investor Relations Section of the corporate website at http://www.ubibanca.it.

Changes in own funds to 30th June 2019

Capital item	30/6/2019	31/12/2018
Common Equity Tier 1 (CET1) capital instruments	2,843,177	2,843,177
CET1 capital share premium accounts	3,294,604	3,294,604
Reserves	3,206,795	2,923,589
(i) retained earnings	*1,302,526*	*960,828*
(ii) other reserves	*1,904,269*	*1,962,761*
Profit (loss) for the period/year	59,163	283,335
Direct and indirect holdings of own CET1 instruments	(93,245)	(26,762)
Accumulated other comprehensive income (AOCI)	(206,254)	(299,589)
CET1 prudential filters	(11,490)	(10,211)
Intangible assets	(1,699,952)	(1,689,926)
(i) goodwill	*(1,455,829)*	*(1,456,894)*
(i) other intangible assets	*(244,123)*	*(233,032)*
Negative amounts resulting from the calculation of expected loss amounts (shortfall on IRB positions)	*(134,866)*	*(54,065)*
(i) shortfall on IRB positions eligible for inclusion in CET 1 under transitional provisions	*(134,866)*	*(54,065)*
(i) shortfall on qualifying AT1 IRB positions that exceed the AT1 capital of the institution (excess of deductions from AT1)	-	-
Deferred tax assets that rely on future profitability, and do not arise from temporary differences	(355,658)	(345,277)
(-) Amount exceeding the 17.65% threshold	-	(25,391)
Effects of IFRS 9 transitional arrangements	34,347	247,041
Other deductions from CET1 ratio	(13,707)	-
COMMON EQUITY TIER 1 (CET1) CAPITAL	**6,922,914**	**7,138,925**
Additional Tier 1 instruments and the related share premium accounts	-	-
Instruments issued by subsidiaries included in AT1	-	-
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-	-
Negative amounts on qualifying IRB positions that exceed the AT1 capital of the institution	-	-
Negative amount resulting from transitional provisions applied to the loss for the period	-	-
Regulatory adjustments relating to unrealised gains or losses	-	-
Negative amounts for the period that exceed the AT1 capital	-	-
ADDITIONAL TIER 1 (AT1) CAPITAL	**-**	**-**
TIER 1 (CET1 + AT1)	**6,922,914**	**7,138,925**
Tier 2 (T2) capital instruments and the related share premium accounts	1,811,416	1,330,472
Amount of qualifying items referred to in Article 484 (5) and the related share premium account subject to phase out from T2	-	-
Instruments issued by subsidiaries included in T2	-	-
Positive amounts resulting from excess of provisions to expected losses (excess on IRB positions)	-	-
Direct and indirect holdings of Tier 2 instruments	(3,826)	(5,394)
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-	-
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	(56,595)	(43,628)
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required for pre-CRR treatment	-	-
TIER 2 CAPITAL (T2)	**1,750,995**	**1,281,450**
TOTAL CAPITAL (TC=T1+T2)	**8,673,909**	**8,420,376**

Capital requirements

Quantitative information

The tables below summarise compliance with capital requirements in terms of capital ratios and they give details of the various capital requirements.

Capital requirements	30.06.2019	31.12.2018
CREDIT AND COUNTERPARTY RISK	**4,243,479**	**4,461,475**
Total credit risk	4,176,498	4,406,775
Total counterparty risk	66,981	54,700
MARKET RISK - Standardised approach	**59,947**	**67,585**
- position risk in debt instruments	40,892	48,179
- position risk in equity instruments	1,272	1,364
- currency risk	17,783	18,042
- position risk in commodities		
OPERATIONAL RISK	**287,934**	**349,957**
Basic indicator approach	10,293	10,292
Standardised approach	104,034	104,035
Advanced measurement approach	173,607	235,630
CREDIT VALUATION ADJUSTMENT RISK	**4,037**	**3,805**
Standardised method	4,037	3,805

Supervisory ratios	30.06.2019	31.12.2018
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk-weighted assets)	**12.05%**	**11.70%**
Fully loaded Common Equity Tier 1 ratio	**12.00%**	**11.34%**
Tier 1 ratio (Tier 1 capital after filters and deductions/risk-weighted assets)	**12.05%**	**11.70%**
Fully loaded Tier 1 ratio	**12.00%**	**11.34%**
Total capital ratio (total own funds/risk-weighted assets)	**15.10%**	**13.80%**
Fully loaded total capital ratio	**15.05%**	**13.44%**

Credit and counterparty risk	30.06.2019 Amounts not weighted	30.06.2019 Amounts weighted	30.06.2019 Requirement	31.12.2018 Amounts not weighted	31.12.2018 Amounts weighted	31.12.2018 Requirement
A. CREDIT AND COUNTERPARTY RISK						
A.1 Standardised approach	**53,437,053**	**21,537,186**	**1,722,975**	**59,197,476**	**27,978,669**	**2,238,294**
Exposures to or guaranteed by central governments or central banks	29,060,507	3,207,546	256,603	25,903,555	3,408,652	272,692
Exposures to or guaranteed by regional governments or local authorities	666,230	132,853	10,628	904,729	180,557	14,444
Exposures to or guaranteed by public sector entities	446,914	178,889	14,311	559,718	191,484	15,319
Exposures to or guaranteed by multilateral development banks	6	-	-	15	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-
Exposures to or guaranteed by supervised institutions	4,601,511	1,643,374	131,470	4,470,325	1,580,669	126,454
Exposures to or guaranteed by corporates and others	8,002,535	7,556,153	604,493	9,211,089	8,758,555	700,685
Retail exposures	2,784,277	1,898,066	151,846	6,961,116	4,879,350	390,348
Exposures secured by mortgages of immovable properties	1,273,942	577,919	46,234	4,473,547	1,798,274	143,862
Exposures in default	899,901	1,029,580	82,367	1,878,891	2,156,867	172,549
High-risk exposures	11,962	17,942	1,435	10,312	15,467	1,237
Exposures in the form of covered bonds	161,051	18,213	1,457	9,841	1,464	117
Short-term exposures to corporates or others or to supervised institutions	-	-	-	-	-	-
Exposures to UCITS	245,679	280,765	22,461	343,737	849,748	67,980
Equity exposures	1,000,243	1,685,643	134,851	916,939	1,567,487	125,399
Other exposures	4,281,088	3,295,155	263,612	3,552,510	2,575,701	206,056
Items which represent positions towards securitisations	1,207	15,088	1,207	1,152	14,394	1,152
A.2 Internal rating based approach - Risk assets	**82,003,875**	**31,506,297**	**2,520,504**	**72,494,330**	**27,789,768**	**2,223,181**
Exposures to or guaranteed by central governments or central banks	-	-	-	-	-	-
Exposures to or guaranteed by supervised institutions, public sector and local entities and others	-	-	-	-	-	-
Exposures to or guaranteed by corporates - SMEs	12,863,540	6,138,491	491,079	11,975,011	5,543,354	443,468
Exposures to or guaranteed by corporates - Specialised lending	-	-	-	-	-	-
Exposures to or guaranteed by corporates - Other corporates	23,594,936	14,944,964	1,195,597	23,854,979	14,381,257	1,150,501
Retail exposures secured by real estate property: SMEs	3,940,454	1,130,898	90,472	3,594,284	1,009,095	80,728
Retail exposures secured by real estate property: private individuals	27,552,033	5,027,848	402,228	23,553,528	3,709,043	296,723
Retail exposures Revolving exposures	1,224,388	205,271	16,422	-	-	-
Other retail exposures: SMEs	4,503,020	1,271,676	101,734	4,255,276	1,222,790	97,823
Other retail exposures: private individuals	3,758,173	980,633	78,451	-	-	-
Specialised lending - slotting criteria	1,811,685	1,615,999	129,280	1,929,450	1,693,428	135,474
Items which represent positions towards securitisations	2,755,646	190,517	15,241	3,331,802	230,801	18,464
Other activities different from lending				-	-	-

Credit and counterparty risk	30.06.2019				31.12.2018			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement
Standardised approach	**20,816,268**	**1,665,301**	**720,918**	**57,674**	**27,392,135**	**2,191,372**	**586,534**	**46,922**
Exposures to or guaranteed by central governments or central banks	3,207,529	256,602	17	1	3,408,648	272,692	4	-
Exposures to or guaranteed by regional governments or local authorities	132,850	10,628	3	-	180,552	14,444	5	-
Exposures to or guaranteed by public sector entities	178,839	14,307	50	4	191,461	15,317	23	2
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposures to or guaranteed by supervised institutions	1,505,324	120,426	138,050	11,044	1,494,160	119,533	86,509	6,921
Exposures to or guaranteed by corporates and others	7,262,446	580,996	293,707	23,497	8,558,206	684,657	200,349	16,028
Retail exposures	1,897,797	151,824	269	22	4,879,261	390,341	89	7
Exposures secured by mortgages of immovable properties	577,919	46,234	-	-	1,798,274	143,862	-	-
Exposures in default	1,021,871	81,750	7,709	617	2,150,376	172,030	6,491	519
High-risk exposures	17,942	1,435	-	-	15,467	1,237	-	-
Exposures in the form of covered bonds	18,213	1,457	-	-	1,464	117	-	-
Short-term exposures to corporates and other supervised intermediaries	-	-	-	-	-	-	-	-
Exposures to UCITS	280,765	22,461	-	-	849,748	67,980	-	-
Equity exposures	1,404,530	112,362	281,113	22,489	1,274,423	101,954	293,064	23,445
Other exposures	3,295,155	263,612	-	-	2,575,701	206,056	-	-
Items which represent positions towards securitisations	15,088	1,207	-	-	14,394	1,152	-	-
Internal rating based approach	**31,389,964**	**2,511,197**	**116,333**	**9,307**	**27,692,539**	**2,215,403**	**97,229**	**7,778**
Exposures to or guaranteed by central governments or central banks					-	-	-	-
Exposures to or guaranteed by supervised institutions, public sector and local entities and others					-	-	-	-
Exposures to or guaranteed by corporates - SMEs	6,138,491	491,079			5,543,354	443,468	-	-
- to which the support factor is applied	-	-			*2,412,929*	*193,034*	-	-
Exposures to or guaranteed by corporates - Specialised lending	-	-			-	-	-	-
Exposures to or guaranteed by corporates - Other corporates	14,944,964	1,195,597			14,381,257	1,150,501	-	-
Retail exposures secured by real estate property: SMEs	1,130,898	90,472			1,009,095	80,728	-	-
- to which the support factor is applied	-	-			*180,429*	*14,434*	-	-
Retail exposures secured by real estate property: private individuals	5,027,848	402,228			3,709,043	296,723	-	-
Retail exposures Revolving exposures	205,271	16,422			-	-	-	-
Other retail exposures: SMEs	1,271,676	101,734			1,222,790	97,823	-	-
- to which the support factor is applied	-	-			*556,002*	*44,480*	-	-
Other retail exposures: private individuals	980,633	78,451			-	-	-	-
Specialised lending - slotting criteria	1,499,666	119,973	116,333	9,307	1,596,199	127,696	97,229	7,778
Other activities different from lending					-	-	-	-
Items which represent positions towards securitisations	190,517	15,241			230,801	18,464	-	-
TOTAL	**52,206,232**	**4,176,498**	**837,251**	**66,981**	**55,084,674**	**4,406,775**	**683,763**	**54,700**

Following authorisations received from the supervisory authority on 18th March 2019, the UBI Banca Group rolled out the use of already validated AIRB models for corporate and retail exposures to the "New Banks" and extended the perimeter to cover the Other Private Individual and Qualifying Revolving Retail Segment.

Risk-weighted assets (down to €57.442 billion from €61.035 billion at the end of 2018) decreased by approximately €3.593 billion, of which €2.725 billion relating to credit risk, €775 million to operational risk and the remaining €93 million to market risk. The reduction for credit risk was mainly attributable to the impacts of the following: the already mentioned rollout of the AIRB models; the smaller capital absorption due to lower volumes of business (that change was partially offset by an increase resulting from the recognition of leased property assets following the adoption of IFRS 16); hedge accounting.
With account taken of those changes, compliance with minimum capital requirements as at 30th June 2019 equal to total capital requirements for credit, counterparty, credit valuation adjustment, market and operational risk, required capital of approximately €4.595 billion (€4.883 billion in December 2018) against which the Group recorded actual regulatory capital (own funds) of approximately €8.674 billion (€8.420 billion in December 2018).

A communication received from the ECB on 11th February 2019 [7] set the following requirements at consolidated level for the UBI Banca Group in 2019:

- a minimum CET1 ratio requirement of 9.25% [the result of the sum of the minimum Pillar 1 regulatory capital ratio (4.5%), the Pillar 2 requirement (2.25%) and the Capital Conservation Buffer (2.50%[8])];
- a minimum total SREP capital requirement of 10.25% (the result of the sum of the minimum Pillar 1 regulatory capital requirement (8%) and the Pillar 2 requirement (2.25%)). If the capital conservation buffer of 2.50% is added, this then gives a minimum requirement in terms of the regulatory total capital ratio of 12.75%.

As at 30th June the UBI Banca Group complied with the regulatory limits requested, and in fact the Common Equity Tier 1 ratio and the Tier 1 ratio stood at 12.05% (up from 11.70% in December 2018) and the total capital ratio was 15.10% (up from 13.80% in December 2018).

If Basel 3 rules on a full application basis are applied without taking account of the effects of adherence to the transition regime allowed from 2018 by Regulation EU No. 2017/2395 relating to the impacts on capital of First-Time Adoption of IFRS 9 then the UBI Group's capital ratios as at 30th June 2019 would be 12.00% for the Common Equity Tier 1 ratio and Tier 1 ratio and 15.05% for the total capital ratio.

[7] See the press release of 11th February 2019 available in the Investor Relations Section of the corporate website at http://www.ubibanca.it.
[8] In application of the phased-in transitional arrangements set for the sector by the Bank of Italy, 1.25% was included in the CCB in the 2017 requirements and 1.875% was included in the requirements for 2018.

Template IFRS 9-FL. Comparison of institutions' own funds and capital ratios, with and without the application of transitional arrangements for IFRS 9 or analogous expected credit losses

(figures in thousands of euro)

Available capital (amounts)	**30.06.2019**	**31.12.2018**
Common Equity Tier 1 (CET1) capital	6,922,914	7,138,925
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,888,567	6,891,885
Tier 1 capital	6,922,914	7,138,925
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,888,567	6,891,885
Total capital	8,673,909	8,420,376
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,639,562	8,173,335

Risk-weighted assets (amounts)	**30.06.2019**	**31.12.2018**
Total risk-weighted assets	57,442,461	61,035,276
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	57,406,798	60,792,142

Capital ratios	**30.06.2019**	**31.12.2018**
Common Equity Tier 1 (as a percentage of risk exposure amount)	12.05%	11.70%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.00%	11.34%
Tier 1 (as a percentage of risk exposure amount)	12.05%	11.70%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.00%	11.34%
Total capital (as a percentage of risk exposure amount)	15.10%	13.80%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.05%	13.44%

In detail, the difference recorded between the CET1 capital and the fully loaded CET1 capital is attributable to the positive capital component amounting to approximately +€34 million which sterilises 85% of the provisions (€40 million approx.) recognised on First-Time Adoption for the credit positions remaining as at the 30th June 2019 using the standardised approach.

As concerns risk weighted assets (RWAs), the difference between the phased-in amount and the fully loaded amount (+€36 million approx.) is determined by the greater RWAs connected with the transitional IFRS 9 adjustment mentioned above (85% of the greater provisions recognised on credit positions subject to the standardised approach on First-Time Adoption).

Banks have been obliged to hold a countercyclical capital buffer since 1st January 2016. If it is considered that, as stated in a communication dated 22nd March 2019, the Bank of Italy set the countercyclical capital buffer for the second quarter of 2019 at 0% for exposures to counterparties resident in Italy and also that the Group mainly has exposures to domestic counterparties[9], then the Group's countercyclical capital buffer is negligible.

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In compliance with the regulations in force, in April 2019 the UBI Banca Group submitted its ICAAP and ILAAP reports as at 31.12.2018 to the supervisory authority. On that occasion too, the results of the capital adequacy assessments confirmed the availability of significant margins, sufficient to maintain the capital position, both current and future and under stress conditions above the requirements requested.

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In consideration of the ratios achieved as at 30th June 2019 – and on the basis of the simulations carried out for future years according to current regulations and on a "fully loaded" basis – significant margins clearly exist to maintain a strong capital position, higher than that requested by capital requirements.

[9] The capital requirement for significant exposures to counterparties not resident in Italy is below 5% of the total capital requirement for significant exposures.

Leverage ratio

Qualitative information

A leverage ratio has been introduced to the Basel 3 framework as a requirement that is supplementary to the risk-based capital requirements. The introduction of a leverage ratio to the regulatory framework meets the following objectives:

- it limits the expansion of total exposures to the availability of an adequate capital base and during expansionary phases of the economic cycle it contains the level of debt held by banks thereby reducing the risk of deleveraging processes in crisis situations;
- it introduces a control that is additional to the risk-based approach by means of a simple and non-risk based measure that acts as a backstop to the risk-based capital requirement.

The disclosure of leverage ratios has been compulsory for banks since 1st January 2015 and in compliance with Regulation EU 2019/876 ("CRR2"), which amends and adds to Regulation 575/2013 (CRR), the introduction of a regulatory leverage ratio requirement, as a Pillar 1 requirement, will take place in 2021. The minimum leverage ratio requirement has been set at 3%, which is the recommended level set by the Basel Committee[10]. A leverage ratio buffer equal to 50% of the capital buffer set for systemically important institutions has also been set for G-SIIs[11]. Disclosure of leverage ratios by banks has been compulsory from 1st January 2015.

The leverage ratio is calculated as the ratio between the Tier 1 capital (capital amount) and total Group exposure (the exposure amount). The latter is the sum of all asset exposures and off-balance sheet items not deducted in determining the capital amount[12]. It is to be monitored on a quarterly basis at both separate company and consolidated level.

The leverage ratio is used to monitor the risk of excessive leverage under the heading "other risks" and in addition to the regulatory reference mentioned above, it is subject to quantitative limits set internally[13].

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[10] In this respect, on 3rd August 2016 the EBA published its *"EBA report on the Leverage ratio requirements under article 511 of the CRR"* in which it recommends the introduction of a minimum leverage ratio requirement in order to mitigate the risk of excessive leverage. The results of the quantitative analysis confirmed the calibration of a minimum LR of 3% as an effective measure of protection which is in addition to the risk-based regulatory capital requirements set.

[11] See Art. 131 of Directive 2019/878 ("CRD2").

[12] More specifically the exposure amount includes the following: derivatives, securities financing transactions (SFT), off-balance-sheet items (liquidity facilities, guarantees and commitments, transactions not yet finalised or awaiting settlement, etc.) and other on-balance sheet assets in addition to derivatives and SFTs.

[13] See in this respect the section "*Risk management objectives and policies*" in the document Pillar 3 Disclosures as at 31st December 2018.

Quantitative information

The table below reports summary data on the calculation of the UBI Banca Group leverage ratios as at 30th June 2019. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015[14] and it takes account of the "Guidelines on uniform disclosure under Art. 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" EBA/GL/2018/01.

Both versions of the Tier 1 capital and of exposures at the end of the period were used (capital and exposure measures), to calculate the ratio as follows:

- Tier 1 capital and the exposure amount in the transitional regime that is calculated making reference to the calculation rules applicable from time-to-time in the transition period in accordance with Regulation EU 2017/2395 relating to the capital impacts of first-time adoption of IFRS 9;
- the fully loaded Tier 1 capital and the exposure amount calculated as if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied.

The leverage ratio stood at 5.23% as at the 30th June 2019, while it is estimated at 5.21% fully loaded.

Leverage ratio as at 30th June 2019

	30.06.2019	31.12.2018
fully loaded Tier 1 capital	6,888,567	6,891,885
fully phased-in exposure	132,227,420	130,679,685
fully phased in leverage ratio	**5.21%**	**5.27%**
transition Tier 1 capital	6,922,914	7,138,925
transition exposure amount	132,261,767	130,926,726
transition leverage ratio	**5.23%**	**5.45%**

[14] The Commission Delegated Act brings the rules for calculating the ratio into line with the provisions of the Basel Committee - cf. *"Basel III Leverage ratio framework and disclosure requirements"*, January 2014.

Credit risk: general disclosures and impairment losses

Quantitative information

This section contains tables which show the distribution of gross credit exposures by type, credit quality, geographical area, economic sector and residual contractual maturity. It also gives changes in total net impairment losses for non-performing exposures. The figures given, which were calculated according to statutory accounting rules, take no account of credit mitigation techniques and they are based on positions in both the banking and the trading books.

Gross and net credit exposures, by principal types of exposure

Portfolios/Quality	Non-performing assets				Performing assets			Total (net exposure)
	Gross exposure	Total impairment losses	Net exposure	Total partial write-offs	Gross exposure	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	9,002,821	(3,690,586)	5,312,235	967,280	98,569,550	(525,369)	98,044,181	**103,356,416**
2. Financial assets measured at fair value through other comprehensive income	9,501	(9,501)	-	-	11,579,717	(6,383)	11,573,334	**11,573,334**
3. Financial assets designated at fair value	-	-	-	-			10,054	**10,054**
4. Other financial assets mandatorily measured at fair value	186,747	(94,248)	92,499	8,045			353,107	**445,606**
5. Financial assets held for sale	-	-	-	-	-	-	-	-
30.06.2019	**9,199,069**	**(3,794,335)**	**5,404,734**	**975,325**	**110,149,267**	**(531,752)**	**109,980,676**	**115,385,410**
31.12.2018	**9,957,709**	**(3,836,493)**	**6,121,216**	**940,795**	**108,061,713**	**(561,761)**	**107,799,964**	**113,921,180**

Net credit exposures, by principal types of exposure

Portfolios/Quality	Bad loans	Unlikely-to-pay exposures	Non-performing past-due exposures	Performing past-due exposures	Performing assets	Total
1. Financial assets measured at amortised cost	2,482,932	2,774,001	55,302	1,882,214	96,161,967	**103,356,416**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	11,573,334	**11,573,334**
3. Financial assets designated at fair value	-	-	-	-	10,054	**10,054**
4. Other financial assets mandatorily measured at fair value	3,664	88,793	42	686	352,421	**445,606**
5. Financial assets held for sale	-	-	-	-	-	-
30.06.2019	**2,486,596**	**2,862,794**	**55,344**	**1,882,900**	**108,097,776**	**115,385,410**
31.12.2018	**2,770,841**	**3,286,316**	**64,059**	**4,788,634**	**103,011,330**	**113,921,180**

Distribution by geographical areas of exposures to customers, by principal types of exposure

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Bad loans	5,132,780	2,479,118	30,408	7,477	10	-	-	-	1	1	5,163,199	2,486,596
A.2 Unlikely-to-pay exposures	3,964,038	2,854,635	5,966	5,008	189	149	1	1	3,694	3,001	3,973,888	2,862,794
A.3 Non-performing past-due exposures	61,973	55,336	8	7	1	1	-	-	-	-	61,982	55,344
A.4 Performing loans	88,894,866	88,378,198	4,116,687	4,108,410	2,024,315	2,022,960	377,140	376,502	17,286	17,258	95,430,294	94,903,328
TOTAL	**98,053,657**	**93,767,287**	**4,153,069**	**4,120,902**	**2,024,515**	**2,023,110**	**377,141**	**376,503**	**20,981**	**20,260**	**104,629,363**	**100,308,062**
B. Off-balance sheet exposures												
B.1 Non-performing exposures	362,020	336,456	794	662	5	5	-	-	-	-	362,819	337,123
B.2 Performing exposures	39,704,578	39,679,556	845,393	844,694	58,161	58,121	140,962	140,702	5,873	5,872	40,754,967	40,728,945
TOTAL	**40,066,598**	**40,016,012**	**846,187**	**845,356**	**58,166**	**58,126**	**140,962**	**140,702**	**5,873**	**5,872**	**41,117,786**	**41,066,068**
30.06.2019	**138,120,255**	**133,783,299**	**4,999,256**	**4,966,258**	**2,082,681**	**2,081,236**	**518,103**	**517,205**	**26,854**	**26,132**	**145,747,149**	**141,374,130**
31.12.2018	**141,282,646**	**136,860,087**	**3,747,193**	**3,715,100**	**1,972,744**	**1,971,634**	**482,994**	**482,190**	**27,011**	**26,311**	**147,512,588**	**143,055,322**

Distribution by geographical areas of exposures to banks, by principal types of exposure

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposu	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	11,752,432	11,750,489	1,172,198	1,170,967	20,227	20,213	63,492	63,451	22,996	22,910	13,031,345	13,028,030
TOTAL	**11,752,432**	**11,750,489**	**1,172,198**	**1,170,967**	**20,227**	**20,213**	**63,492**	**63,451**	**22,996**	**22,910**	**13,031,345**	**13,028,030**
B. Off-balance sheet exposures												
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	514,057	514,057	229,883	229,807	5,368	5,364	122,879	122,769	41,959	41,917	914,146	913,914
TOTAL	**514,057**	**514,057**	**229,883**	**229,807**	**5,368**	**5,364**	**122,879**	**122,769**	**41,959**	**41,917**	**914,146**	**913,914**
30.06.2019	**12,266,489**	**12,264,546**	**1,402,081**	**1,400,774**	**25,595**	**25,577**	**186,371**	**186,220**	**64,955**	**64,827**	**13,945,491**	**13,941,944**
31.12.2018	**9,793,147**	**9,791,664**	**1,095,108**	**1,093,343**	**29,524**	**29,325**	**176,173**	**175,858**	**40,841**	**40,785**	**11,134,793**	**11,130,975**

Distribution by residual contractual maturity of the entire portfolio, by type of exposure

	On sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	over 5 years	Indeterminate maturity	TOTAL
On-balance sheet assets	**11,852,813**	**893,733**	**967,671**	**2,411,756**	**4,640,546**	**4,840,179**	**7,432,266**	**30,977,401**	**39,554,882**	**10,550,013**	**114,121,260**
A.1 Government securities	562	-	-	-	29,321	80,454	158,891	2,944,804	8,158,286	-	11,372,318
A.2 Other debt securities	6,012	183	25	-	3,352	4,495	21,689	712,840	1,388,537	1,807	2,138,940
A.3 Shares of UCITS	260,426	-	-	-	-	-	-	-	-	410	260,836
A.4 Financing	11,585,813	893,550	967,646	2,411,756	4,607,873	4,755,230	7,251,686	27,319,757	30,008,059	10,547,796	100,349,166
- Banks	1,356,625	6,322	12,521	66,439	33,772	184,946	72,881	317,087	-	10,353,181	12,403,774
- Customers	10,229,188	887,228	955,125	2,345,317	4,574,101	4,570,284	7,178,805	27,002,670	30,008,059	194,615	87,945,392
On-balance sheet liabilities	**71,048,516**	**218,679**	**898,517**	**861,968**	**966,943**	**2,456,496**	**11,381,896**	**15,552,662**	**8,272,819**	**-**	**111,658,496**
B.1 Deposits and current accounts	67,935,869	21,805	1,565	42,245	103,981	211,410	330,645	51,535	4,325	-	68,703,380
- Banks	947,670	21,646	588	510	4,375	-	-	-	-	-	974,789
- Customers	66,988,199	159	977	41,735	99,606	211,410	330,645	51,535	4,325	-	67,728,591
B.2 Debt securities	648,979	83,566	17,360	176,226	436,511	2,116,578	936,452	11,767,006	7,528,463	-	23,711,141
B.3 Other liabilities	2,463,668	113,308	879,592	643,497	426,451	128,508	10,114,799	3,734,121	740,031	-	19,243,975
Off-balance sheet transactions	**(4,659,929)**	**(18,588)**	**8,967**	**17,117**	**129,413**	**1,043,828**	**408,153**	**1,574,526**	**952,524**	**-**	**(543,989)**
C.1 Financial derivatives with exchange of principal	(30,434)	(11,994)	(5,499)	(550)	(4,632)	2,512	(665)	(377,250)	(173,875)	-	(602,387)
- Long positions	15,158	332,969	548,342	1,053,379	1,114,018	344,407	325,314	162,134	47,677	-	3,943,398
- Short positions	45,592	344,963	553,841	1,053,929	1,118,650	341,895	325,979	539,384	221,552	-	4,545,785
C.2 Financial derivatives without exchange of principal	(122,253)	(10,047)	798	279	14,349	80,014	65,489	-	-	-	28,629
- Long positions	613,498	2,054	816	4,872	20,319	87,025	98,718	-	-	-	827,302
- Short positions	735,751	12,101	18	4,593	5,970	7,011	33,229	-	-	-	798,673
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	1,673	-	-	-	-	-	-	-	-	-	1,673
- Short positions	-	1,673	-	-	-	-	-	-	-	-	1,673
C.4 Irrevocable commitments to disburse funds	(4,527,126)	3,453	13,668	17,373	119,695	960,958	343,217	1,944,303	1,124,459	-	-
- Long positions	8,945,162	3,453	13,668	17,373	119,695	960,958	343,217	1,944,303	1,124,459	-	13,472,288
- Short positions	13,472,288	-	-	-	-	-	-	-	-	-	13,472,288
C.5 Financial guarantees issued	19,884	-	-	15	1	344	112	7,473	1,940	-	29,769
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Distribution by economic sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations			Financial companies			Financial companies (of which: insurance companies)		
	Gross exposure	Total impairment losses	Net exposure	Gross exposure	Total impairment losses	Net exposure	Gross exposure	Total impairment losses	Net exposure
A. On-balance sheet exposure									
A.1 Bad loans	13,576	(4,847)	8,729	99,586	(58,167)	41,419	5	-	5
A.2 Unlikely-to-pay exposures	5,487	(1,476)	4,011	82,158	(19,808)	62,350	-	-	-
A.3 Non-performing past-due exposures	1,948	(3)	1,945	129	(20)	109	-	-	-
A.4 Performing exposures	13,429,807	(6,783)	13,423,024	5,719,149	(19,174)	5,699,975	185,045	(191)	184,854
TOTAL A	**13,450,818**	**(13,109)**	**13,437,709**	**5,901,022**	**(97,169)**	**5,803,853**	**185,050**	**(191)**	**184,859**
B. Off-balance sheet exposures									
B.1 Non-performing exposures	632	(2)	630	828	(13)	815	-	-	-
B.2 Performing exposures	1,475,293	(458)	1,474,835	2,650,079	(1,082)	2,648,997	102,549	(38)	102,511
TOTAL B	**1,475,925**	**(460)**	**1,475,465**	**2,650,907**	**(1,095)**	**2,649,812**	**102,549**	**(38)**	**102,511**
30.06.2019	**14,926,743**	**(13,569)**	**14,913,174**	**8,551,929**	**(98,264)**	**8,453,665**	**287,599**	**(229)**	**287,370**
31.12.2018	**14,475,382**	**(13,731)**	**14,461,651**	**8,172,148**	**(116,020)**	**8,056,128**	**289,579**	**(167)**	**289,412**

Exposures/Counterparties	Non-financial companies			Households			T o t a l		
	Gross exposure	Total impairment losses	Net exposure	Gross exposure	Total impairment losses	Net exposure	Total Gross exposure	Total impairment losses	Total Net exposure
A. On-balance sheet exposure									
A.1 Bad loans	3,143,809	(1,537,914)	1,605,895	1,906,228	(1,075,675)	830,553	5,163,204	(2,676,603)	2,486,601
A.2 Unlikely-to-pay exposures	2,829,263	(846,801)	1,982,462	1,056,980	(243,009)	813,971	3,973,888	(1,111,094)	2,862,794
A.3 Non-performing past-due exposures	31,041	(3,711)	27,330	28,864	(2,904)	25,960	61,982	(6,638)	55,344
A.4 Performing exposures	40,886,337	(311,668)	40,574,669	35,395,001	(189,341)	35,205,660	95,615,339	(527,157)	95,088,182
TOTAL A	**46,890,450**	**(2,700,094)**	**44,190,356**	**38,387,073**	**(1,510,929)**	**36,876,144**	**104,814,413**	**(4,321,492)**	**100,492,921**
B. Off-balance sheet exposures									
B.1 Non-performing exposures	350,667	(24,757)	325,910	10,692	(924)	9,768	362,819	(25,696)	337,123
B.2 Performing exposures	32,775,343	(17,100)	32,758,243	3,854,252	(7,382)	3,846,870	40,857,516	(26,060)	40,831,456
TOTAL B	**33,126,010**	**(41,857)**	**33,084,153**	**3,864,944**	**(8,306)**	**3,856,638**	**41,220,335**	**(51,756)**	**41,168,579**
30.06.2019	**80,016,460**	**(2,741,951)**	**77,274,509**	**42,252,017**	**(1,519,235)**	**40,732,782**	**146,034,748**	**(4,373,248)**	**141,661,500**
31.12.2018	**82,219,694**	**(2,797,983)**	**79,421,711**	**42,355,785**	**(1,529,365)**	**40,826,420**	**147,512,588**	**(4,457,266)**	**143,055,322**

Credit risk: disclosures for portfolios subject to the standardised approach and the use of ECAIs

Quantitative information

Distribution of exposures by credit quality class and by supervisory class of activity: standardised approach[15].

Portfolios	30.06.2019		31.12.2018	
	Exposure WITH credit risk mitigation	**Exposure WITHOUT credit risk mitigation**	**Exposure WITH credit risk mitigation**	**Exposure WITHOUT credit risk mitigation**
Exposures to or guaranteed by central governments and central banks	**29,222,528**	**26,995,571**	**26,059,404**	**23,737,244**
0%	26,649,431	24,427,766	23,395,597	21,078,190
20%	100,387	100,387	101,680	101,680
50%	141,603	136,311	145,296	140,543
100%	1,806,772	1,806,772	1,816,863	1,816,863
250%	524,335	524,335	599,968	599,968
Exposures to or guaranteed by regional governments or local authorities	**1,003,488**	**965,955**	**1,745,246**	**1,704,647**
20%	1,003,488	965,955	1,745,246	1,704,647
Exposures to or guaranteed by public sector entities	**1,138,352**	**1,137,222**	**1,482,314**	**1,481,585**
20%	1,015,747	1,014,903	1,370,485	1,370,326
100%	122,605	122,319	111,829	111,259
Exposures to or guaranteed by multilateral development banks	**6**		**15**	**-**
0%	6		15	-
Exposures to or guaranteed by international organisations			**-**	**-**
Exposures to or guaranteed by supervised institutions	**5,772,093**	**9,168,328**	**5,121,133**	**7,625,388**
0%			-	-
2%	501,760	501,760	463,499	463,499
20%	3,860,920	6,975,194	3,494,008	5,728,018
50%	386,889	386,889	247,351	247,351
100%	1,022,524	1,304,485	916,275	1,186,520
Exposures to or guaranteed by corporates and others	**9,460,076**	**9,480,175**	**11,138,120**	**11,255,583**
2%			-	-
20%	19,004	19,004	55,867	55,867
50%	911,831	911,831	833,932	833,932
100%	8,327,128	8,347,160	10,081,715	10,199,178
150%	202,113	202,180	166,606	166,606
Retail exposures	**2,951,213**	**2,970,402**	**9,580,861**	**9,807,890**
75%	2,951,213	2,970,402	9,580,861	9,807,890
Exposures secured by mortgages of immovable properties	**1,293,780**	**1,294,926**	**4,485,173**	**4,490,379**
35%	28,064	28,559	2,435,628	2,438,269
50%	1,265,716	1,266,367	2,049,545	2,052,110
Exposures in default	**903,510**	**904,416**	**1,923,499**	**1,936,095**
100%	641,171	642,028	1,334,502	1,340,603
150%	262,339	262,388	588,997	595,492
High-risk exposures	**15,046**	**15,046**	**12,952**	**12,952**
100%	15,046	15,046	12,952	12,952

(contd.)

[15] The table gives banking group exposures subject to credit risk – standardised approach. The exposures are given by credit quality step and by supervisory step and they are determined in accordance with prudential supervisory rules.

Portfolios	30.06.2019		31.12.2018	
	Exposure WITH credit risk mitigation	Exposure WITHOUT credit risk mitigation	Exposure WITH credit risk mitigation	Exposure WITHOUT credit risk mitigation
Exposures in the form of covered bonds	**161,050**	**161,050**	**9,841**	**9,841**
10%	139,975	139,975	5,041	5,041
20%	21,075	21,075	4,800	4,800
Short-term exposures to corporates and others or institutions	-	-	-	-
Exposures to UCITS	**248,643**	**248,643**	**347,564**	**347,564**
100%	178,471	178,471	234,608	234,608
150%	70,172	70,172	72,089	72,089
1250%			40,867	40,867
Equity exposures	**1,000,243**	**1,000,243**	**916,939**	**916,939**
100%	543,310	543,310	483,240	483,240
250%	456,933	456,933	433,699	433,699
Other exposures	**4,281,089**	**4,281,089**	**3,552,510**	**3,552,510**
0%	589,621	589,621	745,229	745,229
20%	495,391	495,391	513,256	513,256
100%	3,196,077	3,196,077	2,278,458	2,278,458
1250%			15,567	15,567
On-balance sheet exposures subject to credit risk	**50,978,208**	**48,861,348**	**56,399,284**	**54,420,225**
Off-balance sheet exposures subject to credit risk	**5,283,736**	**5,128,274**	**8,804,731**	**8,711,778**
Securities financing transactions	**159,403**	**3,590,461**	**314,823**	**2,864,648**
Derivatives and exposures with long-term settlement	**1,029,770**	**1,042,983**	**856,733**	**881,966**
Exposures resulting from cross-product netting			-	-
General total	**57,451,117**	**58,623,066**	**66,375,571**	**66,878,617**

Credit risk: use of the IRB approach

Qualitative information

Authorisation by the Bank of Italy to use the chosen method and the roll-out plan for the method

With Provisions No. 689988 of 19th July 2013 and No. 423940 of 16th May 2012, the Bank of Italy authorised the UBI Banca Group to use the advanced internal rating based (AIRB) approach to calculate capital requirements to meet credit risk for the sub-classes of the retail regulatory segment "exposures backed by residential real estate" and "other exposures (SME-retail)" and for the corporate regulatory segment. The authorisation allows the use of internal estimates for probability of default (PD) and loss given default (LGD) parameters for the RRE (Residential Real Estate - Individuals and Retail Businesses), the Retail Other (Retail Businesses) and the Corporate portfolios. In 2018 UBI Banca received authorisation from the ECB for the implementation of a "model change", brought the Bank's internal models for credit risk into line with the new regulatory framework. A capital requirement for default positions was introduced, amongst other things, and in the first quarter of 2019, again with regard to credit risk, the Bank obtained authorisation to roll out the already validated AIRB models for the corporate and retail exposures of the "New Banks" (Banca Adriatica, Banca Teatina and Banca Tirrenica) and for the progressive rollout of the AIRB perimeter to the Other Private Individual and Qualifying Revolving Retail Segment.

For all the other portfolios, the standardised approach is used, to be applied in accordance with the roll-out plan submitted to the Supervisory Authority.

As at the reporting date, the scope of application, in terms of companies, for the approaches authorised is as follows:

- AIRB: IW Bank S.p.A. and UBI Banca S.p.A.;
- the remaining legal entities in the Group will continue to use the standardised approach until the date of the respective authorisation/roll-out.

The application for validation, which was approved by the European Central Bank involves a roll-out plan for the portfolios subject to the AIRB/IRB approach which, for each legal entity, contains set deadlines for each supervisory customer segment ("corporate", "retail – RRE" and "retail – other") and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan covers the period 2018-2025, while permanent exemption from the application of AIRB was requested for the Group's foreign banks and branches and also for the following exposures:

- exposures to central governments and central banks;
- exposures to supervised intermediaries;
- exposures to nonprofit institutions;
- exposures to members of the banking Group;
- exposures to equity instruments;
- exposures secured by collateral and counter-guarantees issued by the government, recognised in accordance with the legislation and regulations on credit risk mitigation;

- exposures backed by credit protection provided by the parties listed above (central governments, central banks and supervised intermediaries);
- generic types of exposure to economic counterparties not directly attributable to single debtor/creditor counterparties, but mainly to special purpose entities formed for covered bond operations and self-securitisations.

The output of the models consists of nine rating classes that correspond to the relative PDs. These PDs are mapped on the Master Scale to 14 classes (comparable with the ratings of the main external rating agencies) exclusively for reporting purposes.

With regard to LGD models, the UBI Banca Group has developed LGD models differentiated by regulatory class.

Master Scale	PD THRESHOLDS		UBI INTERNAL RATING MODELS			
	Min PD	Max PD	Corporate and Large Corporate	Small Business	Retail Business	Private individuals
			Class	*Class*	*Class*	*classe*
MS1	0.030%	0.049%				
MS2	0.049%	0.084%	1			1
MS3	0.084%	0.174%		1	1	2
MS4	0.174%	0.298%	2			
MS5	0.298%	0.469%		2	2	3
MS6	0.469%	0.732%	3	3	3	
MS7	0.732%	1.102%	4			
MS8	1.102%	1.867%		4	4	4
MS9	1.867%	2.968%	5	5		5
MS10	2.968%	5.370%	6		5	
MS11	5.370%	9.103%	7	6	6	6
MS12	9.103%	13.536%				
MS13	13.536%	19.142%	8	7	7	7
MS14	19.142%	99.999%	9	8-9	8-9	8-9

Master Scale	EXTERNAL RATINGS
	Moody's 2017
	Class
MS1	Aaa Aa1 Aa2 Aa3
MS2	A1 A2 A3
MS3	Baa1 Baa2
MS4	Baa3
MS5	Ba1
MS6	Ba1 / Ba2
MS7	Ba2
MS8	Ba3
MS9	B1 B2
MS10	B3 Caa1
MS11	Caa1/Caa2
MS12	Caa2
MS13	Caa3
MS14	Ca-C

(1) See "Moody's "Corporate Default and Recovery Rates, 1920-2017", Exhibit 29, Average One-Year Alphanumeric Rating Migration Rates, 1983-2017.

Quantitative information

Amounts of the exposures by supervisory portfolio

SUPERVISORY PORTFOLIO	EXPOSURES	
	FOUNDATION IRB	ADVANCED IRB
Exposures to or guaranteed by corporates:		
Specialised lending		-
SMEs		12,863,540
Other corporates		23,594,936
Retail exposures		
-Exposures secured by residential real estate: SMEs		3,940,454
-Exposures secured by residential real estate: private individuals		27,552,033
-Qualified revolving retail exposures		1,224,388
-Other retail exposures: SMEs		4,503,020
-Other retail exposures: private individuals		3,758,173

Distribution of exposures by supervisory class of activity and by PD class (exposures to corporates)

Exposure class	Credit quality step	30.06.2019				
		Amount of exposure	Average weighting factor	Average weighted LGD	Undrawn credit	Average weighted EAD
Exposures to or guaranteed by corporates - SMEs	1st class	-	-	-	-	-
	2nd class	304,947	16.82	36.48	40,346	3.89
	3rd class	156,952	14.07	25.77	14,782	5.84
	4th class	11,600	10.99	10.54	-	-
	5th class	1,613,462	28.27	31.36	117,390	5.52
	6th class	2,259,327	38.19	30.69	121,699	6.21
	7th class	1,274,602	54.32	32.92	51,503	6.29
	8th class	1,175,844	46.85	28.75	64,955	11.32
	9th class	1,938,379	65.19	32.05	56,892	7.59
	10th class	650,181	78.63	32.47	31,080	12.68
	11th class	762,273	82.92	29.94	18,452	9.98
	12th class	-	-	-	-	-
	13th class	388,494	98.05	24.68	2,858	6.32
	14th class	220,140	96.82	24.12	7,394	23.33
	Default	2,107,339	23.76	39.77	28,692	29.99
Exposures to or guaranteed by corporates - Other corporates	1st class		-	-	-	-
	2nd class	864,750	23.90	38.42	272,989	11.68
	3rd class	16,216	17.92	23.03	672	3.56
	4th class	-	-	-	-	-
	5th class	5,345,366	40.81	35.82	1,364,149	16.25
	6th class	5,335,632	58.25	34.97	874,321	14.59
	7th class	4,648,695	75.53	35.08	919,617	23.27
	8th class	316,778	69.50	28.12	62,352	52.10
	9th class	2,908,404	92.70	33.89	244,445	17.79
	10th class	1,306,562	108.17	32.99	112,891	19.10
	11th class	612,858	136.00	32.12	68,738	25.12
	12th class	-	-	-	-	-
	13th class	142,469	169.50	31.33	5,903	13.53
	14th class	100,091	122.16	21.01	7,441	31.88
	Default	1,997,115	20.41	46.81	58,155	26.44

Distribution of exposures by supervisory class of activity and by PD class (retail exposures)

Exposure class	Credit quality step	30.06.2019				
		Amount of exposure	Average weighting factor	Average weighted LGD	Undrawn credit	Average weighted EAD
Retail exposures secured by real estate property: SMEs	1st class		-	-	-	-
	2nd class	464	1.91	12.30	-	-
	3rd class	141,201	3.51	14.82	1,202	34.54
	4th class	1,398	3.94	12.94	-	-
	5th class	838,067	7.96	14.46	2,724	33.19
	6th class	750,444	13.89	14.69	3,148	34.04
	7th class	-	-	-	-	-
	8th class	462,222	24.50	14.97	2,266	32.06
	9th class	729	35.33	13.92	-	-
	10th class	254,389	39.43	14.76	1,099	30.36
	11th class	254,134	58.03	14.76	708	30.30
	12th class	-	-	-	-	-
	13th class	127,595	75.83	14.66	42	33.04
	14th class	190,712	77.91	14.75	72	35.56
	Default	919,099	37.90	49.15	695	100.00
Retail exposures secured by real estate property: private individuals	1st class	-	-	-	-	-
	2nd class	1,215,745	2.08	13.29	3,860	39.97
	3rd class	-	-	-	-	-
	4th class	5,558,337	4.09	13.33	8,304	40.88
	5th class	9,593,143	10.44	13.46	18,800	39.68
	6th class	72,557	13.66	16.69	1,429	39.63
	7th class	-	-	-	-	-
	8th class	5,369,826	20.40	13.65	10,184	39.86
	9th class	2,129,926	34.93	13.76	4,710	40.36
	10th class	-	-	-	-	-
	11th class	686,943	53.76	13.65	1,578	40.17
	12th class	-	-	-	-	-
	13th class	614,214	76.47	13.66	755	39.64
	14th class	508,728	83.34	13.59	270	43.21
	Default	1,802,614	36.70	43.69	200	100.00
Retail exposures Revolving exposures	1st class	-	-	-	-	-
	2nd class	309,797	1.96	44.87	275,645	77.31
	3rd class	-	-	-	-	-
	4th class	183,156	3.91	42.89	141,781	72.79
	5th class	54,952	5.42	24.60	29,248	71.78
	6th class	209,297	10.90	46.28	117,760	68.66
	7th class	-	-	-	-	-
	8th class	227,844	21.44	43.13	97,139	77.18
	9th class	159,929	37.20	43.40	56,869	79.34
	10th class	-	-	-	-	-
	11th class	49,901	67.75	45.09	12,483	80.96
	12th class	-	-	-	-	-
	13th class	14,876	105.37	41.63	2,844	84.21
	14th class	5,683	117.33	37.44	1,111	83.43
	Default	8,953	19.83	55.71	1,406	100.00

(contd.)

Exposure class	Credit quality step	30.06.2019				
		Amount of exposure	Average weighting factor	Average weighted LGD	Undrawn credit	Average weighted EAD
Other retail exposures: SMEs	1st class	-	-	-	-	-
	2nd class	586	8.10	37.37	387	66.33
	3rd class	268,110	8.04	29.79	109,820	29.54
	4th class	712	11.13	27.71	175	72.27
	5th class	726,471	15.82	30.14	196,186	34.32
	6th class	900,736	25.20	31.88	204,701	37.30
	7th class	-	-	-	-	-
	8th class	798,720	35.14	32.54	145,949	35.34
	9th class	432	52.22	36.03	97	65.70
	10th class	596,855	39.53	32.13	76,259	27.11
	11th class	346,588	43.50	31.79	31,203	25.99
	12th class	-	-	-	-	-
	13th class	146,188	58.57	31.61	9,447	26.88
	14th class	122,161	67.28	29.94	5,732	32.66
	Default	595,461	12.19	73.64	23,491	88.06
Other retail exposures: non-SMEs	1st class	-	-	-	-	-
	2nd class	398,537	6.96	34.25	140,725	75.66
	3rd class	-	-	-	-	-
	4th class	575,115	11.85	31.51	162,121	70.26
	5th class	137,060	15.59	20.42	35,285	74.07
	6th class	930,944	24.62	31.94	301,371	66.06
	7th class	-	-	-	-	-
	8th class	748,184	37.04	30.60	232,106	72.77
	9th class	400,219	44.12	29.92	86,898	76.74
	10th class	-	-	-	-	-
	11th class	143,271	56.45	34.95	23,807	78.51
	12th class	-	-	-	-	-
	13th class	52,670	74.42	34.40	3,860	90.00
	14th class	36,254	76.66	28.20	2,834	71.48
	Default	335,919	9.69	79.75	1,645	83.92

Distribution of specialised lending exposures by credit quality step

Residual maturity/Rating	Amount of exposure as at 30.06.2019				
	Regulatory classes				
	1 - High	2 - Good	3 - Sufficient	4 - Poor	5 - Default
Residual maturity less than 2.5 years	145,456	187,407	-	-	-
Residual maturity equal to or greater than 2.5 years	354,749	842,877	122,710	105,623	52,863
Total specialised lending	**500,205**	**1,030,284**	**122,710**	**105,623**	**52,863**

Residual maturity/Rating	Amount of exposure as at 31.12.2018				
	Regulatory classes				
	1 - High	2 - Good	3 - Sufficient	4 - Poor	5 - Default
Residual maturity less than 2.5 years	81,414	203,613	-	-	-
Residual maturity equal to or greater than 2.5 years	475,167	881,456	141,171	88,767	57,862
Total specialised lending	**556,581**	**1,085,069**	**141,171**	**88,767**	**57,862**

Comparison between estimates and actual results

The comparison of estimates of risk parameters and empirical data is carried out in the first instance by the function that develops the models as part of periodic activities to monitor the risk parameters in order to test the adequacy of the models over time.

In the second instance, the models are subject to independent verification carried out by the validation function when new models are developed (initial validation) and subsequently on an annual basis (on-going validation). The internal validation process employs a structured and formal set of procedures and activities designed to assess the quality of systems for the management and measurement of the credit risks and to check over the course of time that they comply with regulatory requirements, meet operational demands, respond to market developments and that all estimates of risk components are accurate. The results of validation activities are formalised and documented and they are submitted periodically to the appropriate corporate functions in accordance with the relative internal regulations.

As concerns PD, the analyses conducted by the function focus on “out-of-sample” application portfolios and are designed in particular to assess (i) the performance of the models, in terms of their ability to maintain their discriminating capacity and predictive power over time (calibration) and (ii) the dynamic rating properties also with respect to the development samples. In view of the results of the tests and with account taken of the current economic environment, overall robustness in the accuracy and ordering capacities as well as the dynamic rating properties was found for all the authorised PD models. Correct calibration of PD measured by using binomial tests and also considering correlation between defaults was found to be satisfactory.

As concerns LGD, the analyses performed by the validation function on the most recent data regard the stability of the sample, performances and the average of the parameter with respect to the sample used for the estimate of the parameter. Also with regard to the LGD parameter, the analyses conducted on the most recent time window showed good stability for the empirical loss values and for estimates of the parameter.

Exposure to counterparty risk

Quantitative information

Counterparty risk constitutes a particular type of credit risk. It is the risk that a counterparty to a transaction involving determined types of financial instruments defaults (credit and financial derivatives sold "over the counter" – OTC, securities financing transactions and transactions with long term settlement) before the transaction itself is settled.

Financial derivatives held for trading: end-of-period notional amounts

Underlying assets/type of derivative	Total 30.06.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**17,978,680**	**4,182,786**	**9,211,669**	**992**	**19,088,987**	**4,292,715**	**8,673,608**	**96,453**
a) Options	-	2,484,506	2,132,889	-	-	2,411,224	2,021,758	-
b) Swaps	17,978,680	1,698,280	7,078,780	-	19,088,987	1,881,491	6,651,850	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	992	-	-	-	96,453
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**4,322**	**895,160**	**19,809**	**-**	**101**	**977,439**	**34,289**
a) Options	-	-	895,160	19,325	-	-	977,439	33,300
b) Swaps	-	4,322	-	-	-	101	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	484	-	-	-	989
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**2,245,140**	**1,596,140**	**-**	**-**	**3,297,051**	**2,640,917**	**-**
a) Options	-	83,831	752,696	-	-	84,142	698,731	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	2,161,309	843,444	-	-	3,212,909	1,942,186	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**39,758**	**39,857**	**-**	**-**	**38,085**	**38,219**	**-**
5. Other						**-**	**-**	**-**
Total	**17,978,680**	**6,472,006**	**11,742,826**	**20,801**	**19,088,987**	**7,627,952**	**12,330,183**	**130,742**

Financial derivatives held for trading: gross positive and negative fair values - by type of product

Type of derivative	Total 30.06.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Positive fair value								
a) Options	-	8,880	82,208	85	-	11,994	85,798	14
b) Interest rate swaps	216,829	26,178	353,869	-	142,933	20,742	239,645	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	80	-	-	-	3	-	-
e) Forwards	-	17,526	3,435	-	-	31,601	5,617	-
f) Futures	-	-	-	2	-	-	-	598
g) Other	-	1,366	689	-	-	2,672	1,014	-
Total	**216,829**	**54,030**	**440,201**	**87**	**142,933**	**67,012**	**332,074**	**612**
2. Negative fair value								
a) Options	-	2,979	4,486	29	-	2,155	5,166	-
b) Interest rate swaps	482,604	243,057	-	-	299,102	271,740	326	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	96	-	-	-	-	-	-
e) Forwards	-	16,734	7,028	-	-	15,257	17,656	-
f) Futures	-	-	-	22	-	-	-	124
g) Other	-	614	1,283	-	-	900	2,614	-
Total	**482,604**	**263,480**	**12,797**	**51**	**299,102**	**290,052**	**25,762**	**124**

OTC financial derivatives held for trading: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	-	-	638,267	8,573,402
- positive fair value	-	-	20,866	342,451
- negative fair value	-	-	34	1,014
2) Equity securities and share indices				
- notional amount	-	-	540,071	355,089
- positive fair value	-	-	68,777	538
- negative fair value	-			
3) Currencies and gold				
- notional amount	-	117,623	438,460	1,040,057
- positive fair value	-	-	217	6,662
- negative fair value	-	-	4,367	6,100
4) Commodities				
- notional amount	-	-	-	39,857
- positive fair value	-	-	-	689
- negative fair value	-	-	-	1,283
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	17,978,680	3,800,270	382,515	-
- positive fair value	216,829	34,398	488	-
- negative fair value	482,604	172,113	73,763	-
2) Equity securities and share indices				
- notional amount	-	-	4,322	-
- positive fair value	-	-	80	-
- negative fair value	-	-	96	-
3) Currencies and gold				
- notional amount	-	2,179,694	65,446	-
- positive fair value	-	17,451	249	-
- negative fair value	-	16,271	623	-
4) Commodities				
- notional amount	-	16,663	23,096	-
- positive fair value	-	783	583	-
- negative fair value	-	170	443	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Residual maturity of OTC financial derivatives held for trading: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	4,464,201	19,439,927	7,469,007	**31,373,135**
A.2 Financial derivatives on equity securities and share indices	3,108	551,446	344,929	**899,483**
A.3 Financial derivatives on currencies and gold	3,732,353	108,926	-	**3,841,279**
A.4 Financial derivatives on commodities	75,271	4,344	-	**79,615**
A.5 Other financial derivatives				**-**
Total as at 30.06.2019	**8,274,933**	**20,104,643**	**7,813,936**	**36,193,512**
Total as at 31.12.2018	**10,870,237**	**19,763,692**	**8,413,193**	**39,047,122**

Financial derivatives held for hedging: end-of-period notional amounts

Underlying assets/type of derivative	Total 30.06.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**44,827,801**	**3,030,966**	**-**	**-**	**37,028,777**	**4,869,512**	**-**	**-**
a) Options	0	1,081,960	-	-		1,238,142		
b) Swaps	44,827,801	1,949,006	-	-	37,028,777	3,631,370		
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**24,379**	**-**	**-**	**-**	**24,821**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	24,379	-	-	-	24,821	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**44,827,801**	**3,030,966**	**24,379**	**-**	**37,028,777**	**4,869,512**	**24,821**	**-**

Financial derivatives held for hedging: gross positive and negative fair values - by type of product

Type of derivative	Total 30.06.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	745,823	20,973	-	-	349,921	40,425		-
c) Cross currency swaps	-	-	1,479	-			1,605	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other					-	-	-	-
Total	**745,823**	**20,973**	**1,479**	**-**	**349,921**	**40,425**	**1,605**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	927,832	50,141	-	-	300,898	96,022		-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**927,832**	**50,141**	**-**	**-**	**300,898**	**96,022**	**-**	**-**

OTC financial derivatives held for hedging: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	24,379	-	-
- positive fair value	-	1,479	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	44,827,801	2,881,771	149,195	-
- positive fair value	745,823	20,078	895	-
- negative fair value	927,832	48,296	1,846	-
2) Equity securities and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Residual maturity of OTC financial derivatives held for hedging: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	5,704,046	22,561,278	19,593,443	**47,858,767**
A.2 Financial derivatives on equity securities and share indices	-	-	-	**-**
A.3 Financial derivatives on currencies and gold	-	24,379	-	**24,379**
A.4 Financial derivatives on commodities	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 30.06.2019	**5,704,046**	**22,585,657**	**19,593,443**	**47,883,146**
Total 31.12.2018	**8,054,586**	**14,291,197**	**19,577,327**	**41,923,110**

Credit derivatives: end-of-period and average notional amounts

No transactions in credit derivatives were performed in the first half of 2019.

Over the counter credit derivatives - gross negative fair values: by type of product

No outstanding transactions in credit derivatives existed as at 30th June 2019.

Residual maturity of over the counter credit derivatives: notional amounts

No outstanding transactions in credit derivatives existed as at 30th June 2019.

Counterparty risk - credit equivalent

Counterparty risk	EAD 30.06.2019	EAD 31.12.2018
Standardised approach		
- derivatives contracts and long-term settlement transactions	1,029,770	856,734
- securities financing transactions	159,403	314,823
- cross product netting agreements		
IRB approach		
- derivatives contracts and long-term settlement transactions	132,993	112,198
- securities financing transactions		-
- cross product netting agreements		-

Exposures to equity instruments not included in the trading portfolio

Quantitative information

The tables on the pages that follow give exposures in equity instruments grouped according to the accounting portfolio in which they are classified. Amounts for equity investments in companies that are fully consolidated for financial reporting purposes are excluded.

- ***Financial assets designated at fair value;*** - ***Financial assets measured at fair value through other comprehensive income***	***Carrying amount***		***Fair value***	
	level 1	***level 2/3***	***level 1***	***level 2/3***
1. Debt securities	11,484,108	99,280	11,484,108	99,280
2. Equity securities	0	45,436	0	45,436

- ***Financial assets designated at fair value;*** - ***Financial assets measured at fair value through other comprehensive income***	***profits/losses realised and impairment recognised through profit or loss***	***unrealised gains/losses recognised in the balance sheet (valuation reserve, net)***	
		Negative reserve	***Positive reserve***
1. Debt securities	32,279	-165,129	41,455
2. Equity securities	32,440	-17,686	2,371

Exposure to interest rate risk on positions not included in the trading portfolio

Qualitative information

Interest rate risk consists of changes in interest rates which have the following effects:

- on net interest income and consequently on the profits of the bank (cash flow risk);
- on the net present value of assets and liabilities, which has an impact on the present value of future cash flows (fair value risk).

The control and management of structural interest rate risk - fair value and cash flow – is performed in a centralised manner by the Parent within the framework, defined annually, of the *Policy to Manage Financial Risks of the UBI Banca Group*, which identifies measurement methods and models and limits or early warning thresholds that the regard the sensitivity of the economic value and the net interest income of the Group.

Exposure to interest rate risk is measured by using gap analysis and sensitivity analysis models on all those financial instruments – assets and liabilities – not included in the trading book in accordance with supervisory regulations.

Sensitivity analysis of economic value includes an estimate of the impacts resulting from the early repayment of mortgages and long-term loans and also behavioural modelling of items contractually callable on sight (inclusive of viscosity factors).

At consolidated level, the *2019 Policy to Manage the Financial Risks of the UBI Banca Group* defines a system of early warning thresholds on exposure to interest rate risk based on indicators measured in various scenarios of changes in the yield curves, both deterministic and historical, and parallel and non-parallel, assuming rises and falls in interest rates. A negative interest constraint of -75 bps has been set for downward interest rate shift scenarios. Additionally, the standard scenario existing at the time defined by supervisory regulations is evaluated for sensitivity analysis of economic value, given by an instantaneous and parallel shock of +/- 200 bps on the entire perimeter of banking book items with a non-negative constraint on the interest rate level.

At individual company level that same policy sets early warning levels for the sensitivity of subsidiaries resulting from the application of two distinct interest rate scenarios (a parallel shock of +/-100 b.p. on the yield curve) and an overall exposure limit measured on the standard scenario existing at the time defined by supervisory regulations, as described above.

Compliance with individual limits is pursued by Group companies by means of hedging derivatives contracts with the Parent, which may then close the position with counterparties outside the Group, acting in accordance with strategic policies and within the consolidated limits set by the governing bodies.

In 2019 the sections on interest-rate risk in the "Risk Appetite Framework" documents were updated in order to render internal regulations compliant with the guidelines on interest-rate risk published by the EBA in 2018.

Quantitative information

The exposure of the UBI Banca Group to interest rate risk as at 30th June 2019, measured in terms of the sensitivity of the net economic value of the component relating to the HTC&S portfolio, was approximately -€39.47 million, thereby remaining within the limits set by the Policy to Manage Financial Risks. In detail, the sensitivity originated by the product companies was -€57.39 million, while the Parent contributed a total of +€17.91 million.

On the basis of the standard scenario set by supervisory regulations, the measurement as at 30th June 2019 recorded a potential reduction in economic value estimated at -€308.49 million. Although negative, that threshold fell within the risk limit set.

Sensitivity analysis of net interest income focuses on changes in profits resulting from a set of scenarios for changes in interest rates measured over a time horizon of twelve months.

UBI Banca Group exposure to interest rate risk as at 30th June 2019, estimated in terms of an impact on net interest income of a reduction in reference interest rates of -100 b.p., was -€92.41 million, a figure which fell within the limits set by Group policy.

The impact on net interest income shows the effects of changes in interest rates on the portfolio monitored, excluding hypotheses of future changes in the mix of assets and liabilities. These factors mean that the indicator cannot be used to assess the Bank's future strategy.

PARALLEL SHIFT IN THE YIELD CURVE (figures in millions of euro)

Scenario	Currency	Impact on economic value **
+100 BP	EUR	-38.52
	Other currencies not significant*	-0.95
TOTAL +100 bp		**-39.47**
-100 BP	EUR	39.55
	Other currencies not significant*	0.54
TOTAL -100 bp		**40.09**

* Non significant currencies are defined as those accounting for less than 5% of the assets or liabilities in the banking portfolio.

** The HtCS portfolio, excluded from that indicator in compliance with the 2019, Policy to Manage Financial Risks, has an impact on economic value of -€147.68 million for a shock of +100 bps and of €109.59 million for a shock of -100 bps. If that impact were included then the total exposure would be -€187.16 million for a positive shock on the yield curve and €149.68 million for the negative shock scenario.

Statement of the Senior Officer Responsible for the preparation of company accounting documents

The undersigned, Elisabetta Stegher, as the Senior Officer Responsible for preparing 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 Law), that the information contained in this "Pillar 3 Disclosures as at 30th June 2018" is reliably based on the records contained in corporate documents and accounting records.*

Elisabetta Stegher
The Senior Officer Responsible for
the preparation of the company
accounting documents

Bergamo, 2nd August 2019