Pillar 3 Disclosures

as at 30th June 2018

Translation from the Italian original 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 2017: Euro 2.843.177.160.24
www.ubibanca.it

Contents

Introduction

Pillar 3 regulations require compulsory disclosures on capital adequacy, exposure to risks and the general characteristics of systems designed to identify, measure and manage these risks.

Where internal systems are used to calculate capital requirements for credit and operational risks, disclosure of this information constitutes a necessary condition for recognition of these approaches for regulatory purposes.

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, 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 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[1]. 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"* last June in order to increase the consistency and comparability of the information to be provided in the Pillar 3 Disclosures. These guidelines apply to the *"Globally and Other Systemically Important Institutions"* (G-SIIs and O-SIIs). It is left to the

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

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[2]. 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 2018, provides an update of quantitative information relating to the following: own funds, capital adequacy, credit and counterparty risk, exposures in capital instruments and interest rate risk. Disclosures are also given of the leverage ratio.

The document Pillar 3 Disclosures as at 31st December 2017 may be consulted for information not contained in this document. Furthermore, any significant changes that occurred during the first half of 2018 are reported in this disclosure document. Additionally, it is also underlined that some figures published for the first half of 2018 are not fully comparable with those for the comparative periods because the latter had been calculated by applying international reporting standard IAS 39.

For full information, the information published relates to the regulatory 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 2018 in the section containing the interim management report on consolidated operations and in the explanatory notes to the condensed consolidated financial statements.

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

***

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

[2] These recommendations have been implemented in the draft amendment to CRR 575/2013 published in November 2016.

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 full 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.

***

The scope of consolidation underwent the following principal changes compared with 31st December 2017 following various corporate ownership transactions[3].

- Banca Teatina Spa: on 20th February 2018 a deed for the merger of Banca Teatina into the Parent was signed and filed on the following 22nd February with the competent Company Registrar of Bergamo. It took effect with regard to third parties from 26th February and for accounting and tax purposes from 1st January 2018. Because the surviving bank held 100% control, the merger had no effect on the number of shares and the share capital of UBI Banca;

- Etruria Informatica Srl was merged into UBI Sistemi e Servizi Scpa with effect from 1st June 2018 and took effect for accounting and tax purposes from 1st January 2018. All relationships of an operating and financial nature were fully taken over by the surviving company.

[3] Further information on the scope of the consolidation is given in the section “The consolidation scope” of the Interim Financial Report for the period ended 30th June 2018.

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				Full	Full	Bank
2. IW Bank Spa	Milan	1	UBI Banca Spa	100.000%	Full	Full	Bank
3. BPB Immobiliare Srl	Bergamo	1	UBI Banca Spa	100.000%	Full	Full	Instrumental
4. UBI Leasing Spa	Brescia	1	UBI Banca Spa	100.000%	Full	Full	Financial
5. Prestitalia Spa	Bergamo	1	UBI Banca Spa	100.000%	Full	Full	Financial
6. UBI Factor Spa	Milan	1	UBI Banca Spa	100.000%	Full	Full	Financial
7. Centrobanca Sviluppo Impresa SGR Spa	Milan		UBI Banca Spa	100.000%	Full	RWAs	Other
8. 24-7 Finance Srl	Brescia	1	UBI Banca Spa	10.000%	Full	Full	Financial
9. UBI Trustee Sa	Luxembourg	1	UBI Banca Spa	100.000%	Full	Full	Financial
10. UBI Finance CB 2 Srl	Milan	1	UBI Banca Spa	60.000%	Full	Full	Financial
11. UBI Management Company Sa	Luxembourg	1	UBI Pramerica Sgr	100.000%	Full	Full	Financial
12. UBI Finance 2 Srl**	Brescia		UBI Banca Spa	10.000%	Full	RWAs	Financial
13. UBI Finance Srl	Milan	1	UBI Banca Spa	60.000%	Full	Full	Financial
14. UBI Pramerica SGR Spa	Milan	1	UBI Banca Spa	65.000%	Full	Full	Financial
15. UBI Sistemi e Servizi Spa	Brescia	1	UBI Banca Spa	91.936%	Full	Full	Instrumental
			IW Bank Spa	4.314%			
			UBI Pramerica Sgr	1.438%			
			Prestitalia Spa	0.072%			
			UBI Academy Scrl	0.010%			
			UBI Factor Spa	0.719%			
			BancAssurance	0.072%			
16. UBI SPV BBS 2012 Srl**	Milan	1	UBI Banca Spa	10.000%	Full	Full	Financial
17. UBI SPV BPCI 2012 Srl**	Milan	1	UBI Banca Spa	10.000%	Full	Full	Financial
18. UBI SPV BPA 2012 Srl**	Milan	1	UBI Banca Spa	10.000%	Full	Full	Financial
19. UBI SPV LEASE 2016 Srl	Milan	1	UBI Banca Spa	10.000%	Full	Full	Financial
20. UBI SPV GROUP 2016 Srl	Milan	1	UBI Banca Spa	10.000%	Full	Full	Financial
21. KEDOMUS Srl	Brescia	1	UBI Banca Spa	100.000%	Full	Full	Instrumental
22. UBI Academy Scrl	Bergamo	1	UBI Banca Spa	88.000%	Full	Full	Instrumental
			UBI Pramerica Sgr	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%			
23. Mecenate Srl	Arezzo	1	UBI Banca Spa	95.000%	Full	Full	Financial
24. Marche Mutui 2	Rome		UBI Banca Spa		Full		Financial
25. Marche M6	Conegliano		UBI Banca Spa		Full		Financial
26. Focus Impresa			UBI Banca Spa	80.769%	Full	RWAs	Closed end fund
27. Oro Italia Trading Srl**	Arezzo		UBI Banca Spa	100.000%	Full	RWAs	Other
28. BancAssurance Popolari Spa	Arezzo		UBI Banca Spa	89.534%	Full	RWAs	Insurance
29. BancAssurance Popolari Danni Spa	Arezzo		UBI Banca Spa	50.765%	Full	RWAs	Insurance
			BancAssurance	49.235%			
30. Assieme Srl	Arezzo		BancAssurance	90.000%	Full		Financial
A.2 Companies accounted for using the equity method							
1. Aviva Vita Spa	Milan	3	UBI Banca Spa	20.000%	Equity	RWAs*	Insurance
2. Polis Fondi SGR	Milan	3	UBI Banca Spa	19.600%	Equity	RWAs*	Financial
3. Zhong Ou Asset Management	Shanghai (China)	3	UBI Banca Spa	25.000%	Equity	RWAs*	Financial
4. Lombarda Vita Spa	Brescia	3	UBI Banca Spa	40.000%	Equity	RWAs*	Insurance
5. SF Consulting Srl	Mantua	3	UBI Banca Spa	35.000%	Equity	RWAs	Other
6. UFI Servizi Srl	Rome	3	Prestitalia Spa	23.167%	Equity	RWAs	Other
7. Montefeltro Sviluppo Scrl	Urbania	3	UBI Banca Spa	26.370%	Equity	RWAs	Other

Legend
Type of relationship
1= Majority of voting rights in ordinary general meetings
2 = Joint control
3 = Significant influence
(*) Significant investments in CET1 instruments which, because they do not exceed the condition thresholds (first threshold of 10% and second threshold of 17.5%), are not deducted but are subject to a specific risk weighting (RWA).
(**) Companies placed in liquidation.

Capital ratios

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

Figures in thousands of euro	30.06.2018	31.12.2017
Common Equity Tier 1 capital before filters and transitional provisions	6,854,001	7,712,369
Effects of transitional provisions provided for by the regulations (minority interests)	-	8,523
Effects of transitional provisions provided for by the regulations (AFS reserves - other debt securities and equity securities)	-	- 13,747
Effects of transitional provisions provided for by the regulations (AFS reserves - government securities)	-	24,555
Effects of transitional provisions provided for by the regulations (Pension Funds)	-	- 1,002
Effects of transitional provisions provided for by the regulations (DTAs)	-	66,176
Effects of transitional IFRS 9 provisions	247,041	0
Adjustments to Common Equity Tier 1 capital due to prudential filters provided for by the regulations	-10,929	-7,638
Common Equity Tier 1 capital net of prudential filters	**7,090,112**	**7,789,237**
Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses (*)	-	*-34,735*
Common Equity Tier 1 capital	**7,090,112**	**7,754,502**
Additional Tier 1 capital before deductions	**-**	**-**
Deductions from Additional Tier 1 capital	-	-
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	-	-
Additional Tier 1 capital	**-**	**-**
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**7,090,112**	**7,754,502**
Tier 2 capital before transitional provisions	1,463,405	1,775,601
Effects of grandfathering provisions on Tier 2 instruments	**-**	**-**
Tier 2 capital after transitional provisions	**1,463,405**	**1,775,601**
Deductions from Tier 2 capital	-51,650	-54,630
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	-	*-3,859*
Tier 2 capital after specific deductions	**1,411,755**	**1,720,971**
Total own funds	**8,501,867**	**9,475,473**
Credit risk	4,383,497	4,946,639
Credit valuation adjustment risk	4,246	4,943
Market risk	75,404	75,680
Operational risk	350,961	337,033
Total prudential requirements	**4,814,108**	**5,364,295**
Risk weighted assets	**60,176,350**	**67,053,683**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk-weighted assets)	**11.78%**	**11.56%**
Tier 1 ratio (Tier 1 capital after filters and deductions/risk-weighted assets)	**11.78%**	**11.56%**
Total capital ratio (Total own funds/risk-weighted assets)	**14.13%**	**14.13%**

(*) The comparative figure includes the effects of transitional provisions

Own funds

Quantitative information

The calculation of own funds has been carried out in accordance with the 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), which 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 calculation was performed according to their implementation in turn in the Italian regulatory framework. The introduction of Basel 3 rules is subject to a transitional (phased-in) regime during which the new rules will be applied to an increasing degree, generally over a five-year period of time (2014-2018), when they will reach full application. At the same time, capital instruments that no longer qualify are being gradually excluded from total capital for regulatory purposes by 2021. We therefore report in particular that the rules relating to the inclusion of capital items in own funds subject to the transitional treatment until 31st December 2017 will apply fully from 1st January 2018 (amongst others these include the shortfall on IRB positions, which is to say negative amounts resulting from the calculation of expected losses, DTA's on future profits, minority interests and valuation reserves).

Furthermore, the financial reporting standard IFRS 9 "Financial Instruments" replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" as from 1st January 2018. IFRS 9 was published by the IASB on 24th July 2014 and its endorsement by the EU took place with the publication in the Official Journal of the European Union of Regulation (EU) No. 2016/2067 of 22nd November 2016[4]. As concerns the impacts on regulatory own funds, the Group has opted for the adhesion to the transitional regime provided for by Regulation EU 2017/2395, which amends Regulation No. 575/2013 ("CRR"). These measures allow the negative impacts of the adoption of the standard in question to be applied gradually, with the benefit allowed on the basis of decreasing quotas over a five-year period (95% in the 2018, 85% in the 2019, 70% in the 2020, 50% in the 2021, 25% in 2022).

At the end of June the UBI Banca Group's Common Equity Tier 1 (CET1) capital amounted to approximately €7.090 billion, down compared with €7.755 billion in December 2017. Own funds stood at €8.502 billion, down on €9.475 billion recorded last December.

As concerns changes in the Common Equity Tier 1 (CET1) capital (-€664 million approx.), the main impacts were as follows:

- -€901 million resulting from changes recorded in reserves, the economic result that qualifies for regulatory purposes and other items of *accumulated other comprehensive income (or the OCI reserve)*. The following contributed in particular to these changes: the overall impact of the first-time adoption of IFRS 9 by approximately -€787 million; the

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

result for the first half which took pro rata account of a dividend assumption; the changes recorded in the OCI reserve due to the ending of the transitional treatment[5] and also to the contraction recorded during the first half in the securities portfolio following the widening of spreads in relation to sovereign debt risk;

- +€247 million relating to the capital component which incorporates a positive contribution of provisions resulting from the transitional regime provided for by Regulation No. 2017/2395 (approximately -€260 million) recognised on credit positions subject to the standardised approach carried out on first-time adoption (only 5% of these provisions were therefore included in the CET1);
- +€35 million resulting from a change in the provision shortfall. More specifically, the following contributed to this change: around -€4 million as a result of the end of the transitional treatment for that capital item[6]; and +€39 million attributable to the combined impacts of the increase in impairment losses on loans subject to IRB models and the calculation of expected credit losses following the application of the "model change"[7]. During the course of the third quarter the "model change" had already involved a change in the mix of capital absorptions between performing positions (with a reduction in RWAs) and default positions (for which the "model change" had determined an increase in the regulatory expected credit loss for portfolios subject to internal models as well as an increase in RWAs, as result of the introduction of a specific capital requirement for default positions) with a virtually nil overall impact on capital ratios. The increase in the regulatory expected loss, which would have involved a theoretical increase in the shortfall with a consequent negative impact on regulatory capital, was substantially offset by the recognition of greater provisions on loan positions subject to IRB approaches carried out with the first-time adoption of IFRS 9;
- -€64 million resulting from the absence of the effects of transitional provisions relating to DTAs on future profits[8], for which the total was in fact substantially unchanged during the course of the first half of 2018;
- -€9 million approximately resulting from the end of the transitional treatment for the inclusion of minority interests[9];
- +€27 million approximately resulting from the combined changes reported for intangible assets, prudential filters, defined pension fund assets and other residual changes.

The Tier 2 capital was down by approximately -€309 million to stand at around €1.412 billion. That decrease was caused by less inclusion, compared with December 2017, of the greater impairment losses with respect to the expected credit losses on credit exposures subject to the IRB approach up to a maximum of 0.6% of IRB RWAs (-€121 million approx.) and a reduction in the eligibility of instruments as a result of regulatory amortisation instalments for the period (-€191 million). The changes recorded in other T2 items were mainly the result of the application of fully loaded rules (the reference here is to items connected with the transitional treatment for the shortfall (+€4 million) and to the AOCI reserve (-€7 million approx.) and of the reduction in the component deducted from capital in relation to the repurchase of T2 instruments (+€6 million approx.).

---

[5] Inclusion of 100% of profits/losses in 2018 compared with 80% of profits/losses for 2017 in the transition period.

[6] On the basis of the transitional provisions applicable in 2017, 80%, 10% and 10% of the shortfall of provisions was deducted from the CET1, T1 and T2 capital respectively. In the absence of AT1 capital in December 2017, 90% of the shortfall, amounting to -€38.5 million, was deducted from the CET1, benefiting from a transitional adjustment of 10% amounting to approximately +€3.8 million.

[7] The UBI Group obtained authorisation for a "model change" in the first quarter of the year. See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.

[8] A deduction of 80% of total DTAs was allowed for 2017 based on future profits. The CET1 therefore benefited by 20% of the amount as a transitional adjustment.

[9] As concerns the gradual exclusion of minority interests, no longer eligible when fully loaded, 80% was set for 2017 (phase-out). As a consequence, with the end of the application of the transitional provisions, it was no longer possible to include the remaining 20%.

The table below gives details of the items of which own funds were composed as at 30th June 2018.

Changes in own funds to 30th June 2018

Capital item	30/06/2018	31/12/2017
Common Equity Tier 1 (CET1) capital instruments	2,843,177	2,843,177
CET1 capital share premium accounts	3,294,604	3,306,627
Reserves	2,921,489	3,209,460
(i) retained earnings	*961,398*	*1,250,070*
(ii) other reserves	*1,960,091*	*1,959,390*
Profit for the period	142,130	565,014
Direct and indirect holdings of own CET1 instruments	(22,271)	(38,007)
Accumulated other comprehensive income (AOCI)	(287,673)	(120,188)
Regulatory adjustments relating to unrealised gains or losses	-	13,661
Minority interests	-	8,523
(i) amount allowed in consolidated CET1	-	-
(ii) amount qualifying under transitional provisions	-	*8,523*
CET1 prudential filters	(10,929)	(7,638)
Intangible assets (net of related tax liability)	(1,706,646)	(1,722,837)
(i) goodwill	*(1,495,690)*	*(1,495,690)*
(i) other intangible assets	*(210,956)*	*(227,147)*
Negative amounts resulting from the calculation of expected loss amounts (shortfall on IRB positions)	-	(34,735)
(i) shortfall on IRB positions eligible for inclusion in CET1 under transitional provisions	-	*(30,875)*
(i) shortfall on qualifying AT1 IRB positions that exceed the AT1 capital of the institution (excess of deductions from AT1)	-	*(3,859)*
Regulatory adjustments relating to unrealised losses (Excess deductions from AT1)	-	*(2,853)*
Deferred tax assets that rely on future profitability, and do not arise from temporary differences	(328,699)	(264,703)
Regulatory effects relating to defined benefit pension funds	(2,111)	(1,002)
Effects of IFRS 9 transitional arrangements	247,041	-
COMMON EQUITY TIER 1 (CET1) CAPITAL	**7,090,112**	**7,754,502**
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	-	(3,859)
Negative amounts on qualifying IRB positions that exceed the AT1 capital of the institution	-	3,859
Negative amount resulting from transitional provisions applied to the loss for the period	-	-
Regulatory adjustments relating to unrealised gains or losses	-	(2,853)
Negative amounts for the period that exceed the AT1 capital	-	2,853
ADDITIONAL TIER 1 (AT1) CAPITAL	**-**	**-**
TIER 1 (CET1 + AT1)	**7,090,112**	**7,754,502**
Tier 2 (T2) capital instruments and the related share premium accounts	1,441,858	1,632,810
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)	21,547	142,791
Direct and indirect holdings of Tier 2 instruments	(8,286)	(13,946)
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-	(3,859)
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)	(43,364)	(43,698)
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required for pre-CRR treatment	-	6,873
TIER 2 CAPITAL (T2)	**1,411,755**	**1,720,971**
TOTAL CAPITAL (TC=T1+T2)	**8,501,867**	**9,475,473**

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	30.06.2018	31.12.2017
CREDIT AND COUNTERPARTY RISK	**4,383,496**	**4,946,639**
Total credit risk	4,332,958	4,894,812
Total counterparty risk	50,538	51,827
MARKET RISK - Standardised approach	**75,404**	**75,680**
- position risk in debt instruments	47,204	72,309
- position risk in equity instruments	1,833	3,272
- currency risk	26,367	99
- position risk in commodities		
OPERATIONAL RISK	**350,961**	**337,033**
Basic indicator approach	10,201	10,201
Standardised approach	101,426	101,426
Advanced measurement approach	239,334	225,406
CREDIT VALUATION ADJUSTMENT RISK	**4,246**	**4,943**
Standardised method	4,246	4,943

Supervisory ratios	30.06.2018	31.12.2017
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk-weighted	**11.78%**	**11.56%**
Tier 1 ratio (Tier 1 capital after filters and deductions/risk-weighted assets)	**11.78%**	**11.56%**
Total capital ratio (Total own funds/risk-weighted assets)	**14.13%**	**14.13%**

Credit and counterparty risk	30.06.2018 Amounts not weighted	30.06.2018 Amounts weighted	30.06.2018 Requirement	31.12.2017 Amounts not weighted	31.12.2017 Amounts weighted	31.12.2017 Requirement
A. CREDIT AND COUNTERPARTY RISK						
A.1 Standardised approach	**59,013,650**	**27,914,343**	**2,233,147**	**61,960,519**	**30,513,779**	**2,441,102**
Exposures to or guaranteed by central governments or central banks	25,413,280	3,046,314	243,705	24,436,888	3,021,008	241,681
Exposures to or guaranteed by regional governments or local authorities	831,142	165,736	13,259	733,463	146,225	11,698
Exposures to or guaranteed by public sector entities	452,324	199,803	15,984	380,690	153,949	12,316
Exposures to or guaranteed by multilateral development banks	11	0	0	4	0	0
Exposures to or guaranteed by international organisations	0	0	0	0	0	0
Exposures to or guaranteed by supervised institutions	4,236,695	1,737,039	138,963	4,096,091	1,741,875	139,350
Exposures to or guaranteed by corporates and others	8,812,514	8,298,580	663,886	9,814,609	9,154,484	732,359
Retail exposures	7,877,298	5,505,776	440,462	8,525,324	5,984,533	478,762
Exposures secured by mortgages of immovable properties	4,665,935	1,882,618	150,609	6,827,876	2,915,687	233,255
Exposures in default	2,133,738	2,505,334	200,427	2,533,486	3,111,322	248,906
High-risk exposures	11,130	16,695	1,336	12,372	18,558	1,485
Exposures in the form of covered bonds	5,012	501	40	5,176	518	41
Short-term exposures to corporates or others or to supervised institutions	0	0	0	0	0	0
Exposures to UCITS	233,088	686,348	54,908	225,082	671,723	53,738
Equity exposures	855,341	1,436,717	114,937	853,812	1,438,048	115,043
Other exposures	3,486,142	2,432,882	194,631	3,515,646	2,155,849	172,468
Items which represent positions towards securitisations	0	0	0	0	0	0
A.2 Internal rating based approach - Risk assets	**74,686,591**	**26,879,362**	**2,150,349**	**72,148,219**	**31,319,209**	**2,505,537**
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	13,088,153	5,578,894	446,311	12,388,640	6,577,286	526,183
Exposures to or guaranteed by corporates - Specialised lending	0	0	0	0	0	0
Exposures to or guaranteed by corporates - Other corporates	24,532,624	12,777,398	1,022,192	25,021,996	17,512,536	1,401,003
Retail exposures secured by real estate property: SMEs	4,463,603	1,375,388	110,031	4,899,917	871,675	69,734
Retail exposures secured by real estate property: private individuals	23,980,620	4,132,896	330,631	21,385,772	2,815,599	225,248
Retail exposures Revolving exposures	0	0	0	0	0	0
Other retail exposures: SMEs	4,793,769	1,100,170	88,014	4,151,637	1,388,494	111,080
Other retail exposures: private individuals	0	0	0	0	0	0
Specialised lending - slotting criteria	1,998,749	1,789,095	143,128	2,019,823	1,792,407	143,392
Items which represent positions towards securitisations	1,829,073	125,521	10,042	2,280,434	361,212	28,897
Other activities different from lending					0	0

Credit and counterparty risk	30.06.2018				31.12.2017			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement
Standardised approach	**27,390,489**	**2,191,238**	**523,854**	**41,909**	**29,981,710**	**2,398,537**	**532,069**	**42,565**
Exposures to or guaranteed by central governments or central banks	3,046,314	243,705	-	-	3,021,008	241,681	-	-
Exposures to or guaranteed by regional governments or local authorities	165,729	13,258	7	1	146,216	11,697	9	1
Exposures to or guaranteed by public sector entities	199,803	15,984	-	-	153,949	12,316	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposures to or guaranteed by supervised institutions	1,674,324	133,946	62,715	5,017	1,690,748	135,260	51,127	4,090
Exposures to or guaranteed by corporates and others	8,117,041	649,363	181,539	14,523	8,958,248	716,660	196,236	15,699
Retail exposures	5,505,641	440,451	135	11	5,984,103	478,728	430	34
Exposures secured by mortgages of immovable properties	1,882,618	150,609	-	-	2,915,687	233,255	-	-
Exposures in default	2,498,960	199,917	6,374	510	3,100,972	248,078	10,350	828
High-risk exposures	16,695	1,336	-	-	18,558	1,485	-	-
Exposures in the form of covered bonds	501	40	-	-	518	41	-	-
Short-term exposures to corporates and other supervised intermediaries	-	-	-	-	-	-	-	-
Exposures to UCITS	686,348	54,908	-	-	671,723	53,738	-	-
Equity exposures	1,163,633	93,090	273,084	21,847	1,164,131	93,130	273,917	21,913
Other exposures	2,432,882	194,631	-	-	2,155,849	172,468	-	-
Items which represent positions towards securitisations	-	-	-	-	-	-	-	-
Internal rating based approach	**26,771,496**	**2,141,720**	**107,866**	**8,629**	**31,203,434**	**2,496,275**	**115,775**	**9,262**
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	5,578,894	446,311			6,577,286	526,183		
- to which the support factor is applied	*2,771,299*	*221,704*			*3,593,882*	*287,511*		
Exposures to or guaranteed by corporates - Specialised lending	-	-						
Exposures to or guaranteed by corporates - Other corporates	12,777,398	1,022,192			17,512,536	1,401,003		
Retail exposures secured by real estate property: SMEs	1,375,388	110,031			871,675	69,734		
- to which the support factor is applied	*307,668*	*24,613*			*210,871*	*16,870*		
Retail exposures secured by real estate property: private individuals	4,132,896	330,631			2,815,599	225,248		
Retail exposures Revolving exposures	-	-						
Other retail exposures: SMEs	1,100,170	88,014			1,388,494	111,080		
- to which the support factor is applied	*666,836*	*53,347*			*680,661*	*54,453*		
Other retail exposures: private individuals	-	-						
Specialised lending - slotting criteria	1,681,229	134,499	107,866	8,629	1,676,632	134,130	115,775	9,262
Other activities different from lending		-						
Items which represent positions towards securitisations	125,521	10,042			361,212	28,897		
Total	**54,161,985**	**4,332,958**	**631,720**	**50,538**	**61,185,144**	**4,894,812**	**647,844**	**51,827**

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models[10] for the calculation of capital requirements for credit risk – "Corporate" segments ("exposures to businesses") and "Retail" segments (sub-portfolios "retail: exposures backed by real estate" and "retail: other exposures[11]") – and operational risks.

As already mentioned, UBI Banca received authorisation in the first quarter of 2018 from the ECB for the implementation of a "model change[12]" , which will modify the Bank's internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions.

Risk weighted assets were down to €60.176 billion from €67.054 billion at the end of 2017), a reduction of approximately €6.877 billion. That change was mainly attributable to the effects of the introduction of new internal models on performing positions ("model change"), to lower capital absorption for the product companies and to the recovery of the eligibility of guarantees.

With account taken of those changes, compliance with minimum capital requirements as at 30th June 2018 equal to total capital requirements for credit, counterparty, credit valuation adjustment, market and operational risk, required capital of approximately €4,814 million (€5,364 million in December 2017) against which the Group recorded actual regulatory capital (own funds) of €8,502 million (€9,475 million in December 2017).

As notified in a communication dated 28th December 2017[13], the ECB set the following requirements for the UBI Group at consolidated level for 2018:

- a new minimum CET1 capital ratio requirement of 8.625% (the result of the sum of the minimum Pillar 1 regulatory capital requirement (4.5%), the Pillar 2 requirement (2.25%) and the capital conservation buffer (1.875%[14]));
- 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 1.875% is added, this then gives a minimum requirement in terms of the regulatory total capital ratio of 12.125%.

As at 30th June the UBI Group complied with the regulatory limits requested and in fact the Common Equity Tier 1 ratio and the Tier 1 ratio stood at 11.78% (up from 11.56% in December 2017) and the Total Capital ratio was 14.13% (14.13% in December 2017).

If Basel 3 rules on a full application basis are applied without taking account of the effects of adhesion 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 Group's capital ratios as at 30th June 2018 would be 11.42% for the Common Equity Tier 1 ratio and the Tier 1 ratio and 13.77% for the Total Capital ratio.

---

[10] For further details see the full Pillar 3 Disclosures document as at 31st December 2017 and the press release dated 22nd March 2018, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.
[11] Limited to the small to medium-size enterprise portfolio comprised within the "Retail" segment ("SME retail").
[12] See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.
[13] See the press release dated 28th December 2017 available in the Investor Relations section of the corporate website at https://www.ubibanca.it.
[14] In application of the phased-in transitional provisions 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 for 2018.

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

(amounts in thousands of euro)

Available capital (amounts)	**30.06.2018**	**31.03.2018**
Common Equity Tier 1 (CET1) capital	7.090.112	7.195.245
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.843.072	6.952.747
Tier 1 capital	7.090.112	7.195.245
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.843.072	6.952.747
Total capital	8.501.867	8.676.231
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.254.826	8.433.733
Risk-weighted assets (amounts)	**30.06.2018**	**31.03.2018**
Total risk-weighted assets	60.176.350	59.942.487
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	59.939.669	59.706.794
Capital ratios	**30.06.2018**	**31.03.2018**
Common Equity Tier 1 (as a percentage of risk exposure amount)	11,78%	12,00%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,42%	11,64%
Tier 1 (as a percentage of risk exposure amount)	11,78%	12,00%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,42%	11,64%
Total capital (as a percentage of risk exposure amount)	14,13%	14,47%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,77%	14,13%

The difference recorded between the CET1 capital and the fully loaded CET1 capital (as if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied) is attributable to the positive capital component amounting to approximately +€247 million which sterilises 95% of the provisions (-€260 million approx.) recognised on credit positions subject to the standardised approach on first-time adoption of IFRS 9. On the other hand, the greater provisions recognised on credit positions subject to IRB models on first-time adoption were fully offset by the expected credit losses generated, and in particular for the default positions following the application of the "model change".

As concerns risk weighted assets (RWAs), the difference between the phased-in amount and the fully loaded amount (+€236 million approx.) is determined by the greater RWAs connected with the transitional IFRS 9 adjustment (95% of the greater provisions of approximately €260 million 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 reported in the press release dated 23rd March 2018, the Bank of Italy set the countercyclical capital buffer for the second quarter of 2018 at 0% for exposures to counterparties resident in Italy and also that the Group mainly has exposures to domestic counterparties[15], then the Group's countercyclical capital buffer is negligible.

***

In compliance with the regulations in force, the UBI Banca Group submitted its 2017 ICAAP and ILAAP report to the supervisory authority on 30th April. 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.

***

In consideration of the ratios achieved as at 30th June 2018 – 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.

[15] 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 introduction of a leverage ratio regulatory requirement – as a Pillar 1 requirement – will take effect from 1st January 2018, subject to approval by the European Council and Parliament of a specific proposal for legislation. 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[16].

The ratio is expressed as a percentage and is subject to a minimum 3% requirement (the limit set by the Basel Committee)[17]. It is monitored quarterly and is measured both at separate company and at 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[18].

---

[16] 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.

[17] 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. A proposal to amend Regulation 575/2013 published by the European Commission also confirms a minimum target of 3%.

[18] See in this respect the section *"Risk management objectives and policies"* in the document Pillar 3 Disclosures as at 31st December 2017.

Quantitative information

The leverage ratio stood at 5.37% as at 30th June 2018, while it is estimated at 5.19% fully loaded.

The table below reports summary data on the calculation of the UBI Group leverage ratios as at 30th June 2018. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015[19] 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 measure 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.

Leverage ratio as at 30th June 2018

	30.06.2018	31.12.2017
fully loaded tier 1 capital	6,843,072	7,664,885
fully phased-in exposure	131,813,441	132,540,784
fully phased in leverage ratio	**5.19%**	**5.78%**
transition tier 1 capital	7,090,112	7,754,502
transition exposure	132,060,482	132,621,877
transition leverage ratio	**5.37%**	**5.85%**

[19] 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. They also give 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. Furthermore, it is also underlined that the figures published for the first half of 2018 may not be fully comparable with those for the comparative period because the latter as at and for the year ended 31st December 2017 had been calculated by applying international reporting standard IAS 39. Consequently, the figures for the comparative period have not been presented in this Pillar 3 Disclosure.

Quantitative information

Gross and net credit exposures, by principal types of exposure

Portfolios/Quality	Non-performing assets				Performing assets			Total (net exposure)
	Gross exposure	Total impairment	Net exposure	Total partial write-offs	Gross exposure	Total impairment	Net exposure	
1. Financial assets measured at amortised cost	12,008,425	(4,865,777)	7,142,648	1,701,436	97,301,917	(558,266)	96,743,651	**103,886,299**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	11,497,404	(19,651)	11,477,753	**11,477,753**
3. Financial assets designated as at fair value	-	-	-	-			10,085	**10,085**
4. Other financial assets mandatorily measured at fair value	212,835	(79,892)	132,943	-			340,488	**473,431**
5. Financial assets held for sale	-	-	-	-	-	-	-	**-**
30/06/2018	**12,221,260**	**(4,945,669)**	**7,275,591**	**1,701,436**	**108,799,321**	**(577,917)**	**108,571,977**	**115,847,568**

Net credit exposures, by principal types of exposure

Portfolios/Quality	Bad loans	Unlikely-to-pay loans	Non-performing past-due	Performing past-due exposures	Performing assets	Total
1. Financial assets measured at amortised cost	3,473,505	3,544,211	124,932	2,541,793	94,201,858	**103,886,299**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	11,477,753	**11,477,753**
3. Financial assets designated as at fair value	-	-	-	-	10,085	**10,085**
4. Other financial assets mandatorily measured at fair value	907	131,311	725	1,757	338,731	**473,431**
5. Financial assets held for sale	-	-	-	-	-	**-**
30.06.2018	**3,474,412**	**3,675,522**	**125,657**	**2,543,550**	**106,028,427**	**115,847,568**

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	7,155,805	3,459,360	39,094	15,027	55	24	-	-	1	1	7,194,955	3,474,412
A.2 Unlikely-to-pay exposures	4,853,796	3,653,013	28,488	18,743	7	5	1	1	3,764	3,760	4,886,056	3,675,522
A.3 Non-performing past-due exposures	140,071	125,503	175	151	3	3	-	-	-	-	140,249	125,657
A.4 Performing loans	92,091,872	91,547,252	3,226,845	3,209,610	1,840,757	1,838,943	259,560	259,021	27,199	27,114	97,446,233	96,881,940
TOTAL	**104,241,544**	**98,785,128**	**3,294,602**	**3,243,531**	**1,840,822**	**1,838,975**	**259,561**	**259,022**	**30,964**	**30,875**	**109,667,493**	**104,157,531**
B. Off-balance sheet exposures												
B.1 Non-performing exposures	566,488	530,193	3,268	3,268	3	3	-	-	-	-	569,759	533,464
B.2 Performing loans	42,666,090	42,629,196	738,551	738,069	65,378	65,224	142,118	141,926	3,663	3,661	43,615,800	43,578,076
TOTAL	**43,232,578**	**43,159,389**	**741,819**	**741,337**	**65,381**	**65,227**	**142,118**	**141,926**	**3,663**	**3,661**	**44,185,559**	**44,111,540**
30.06.2018	**147,474,122**	**141,944,517**	**4,036,421**	**3,984,868**	**1,906,203**	**1,904,202**	**401,679**	**400,948**	**34,627**	**34,536**	**153,853,052**	**148,269,071**

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 exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	8,817,236	8,814,475	857,349	852,470	19,555	19,216	81,864	81,372	5,358	5,349	9,781,362	9,772,882
TOTAL	**8,817,236**	**8,814,475**	**857,349**	**852,470**	**19,555**	**19,216**	**81,864**	**81,372**	**5,358**	**5,349**	**9,781,362**	**9,772,882**
B. Off-balance sheet exposures												
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Performing loans	402,844	402,842	267,333	267,241	8,386	8,381	68,658	68,615	42,754	42,725	789,975	789,804
TOTAL	**402,844**	**402,842**	**267,333**	**267,241**	**8,386**	**8,381**	**68,658**	**68,615**	**42,754**	**42,725**	**789,975**	**789,804**
30.06.2018	**9,220,080**	**9,217,317**	**1,124,682**	**1,119,711**	**27,941**	**27,597**	**150,522**	**149,987**	**48,112**	**48,074**	**10,571,337**	**10,562,686**

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

	On demand	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	More than 5 years	Indeterminate maturity	TOTAL
On-balance sheet assets	**13,244,603**	**1,133,726**	**1,025,460**	**2,432,121**	**5,002,815**	**5,171,066**	**7,635,776**	**33,113,244**	**38,250,676**	**7,920,211**	**114,929,698**
A.1 Government securities	887	-	-	-	43,549	75,528	562,364	2,965,520	7,567,197	-	11,215,045
A.2 Other debt instruments	15,662	-	12	-	1,210	2,876	8,741	433,206	356,889	18,266	836,862
A.3 Shares of UCITS	233,045	-	-	-	-	-	-	-	-	-	233,045
A.4 Financing	12,995,009	1,133,726	1,025,448	2,432,121	4,958,056	5,092,662	7,064,671	29,714,518	30,326,590	7,901,945	102,644,746
- Banks	1,157,922	16,933	2,934	121,265	38,834	29,640	122,056	353,677	210	7,689,729	9,533,200
- Customers	11,837,087	1,116,793	1,022,514	2,310,856	4,919,222	5,063,022	6,942,615	29,360,841	30,326,380	212,216	93,111,546
On-balance sheet liabilities	**68,943,807**	**1,864,087**	**332,332**	**793,134**	**1,931,724**	**2,880,816**	**4,580,107**	**22,873,333**	**7,339,203**	**-**	**111,538,543**
B.1 Deposits and current accounts	67,862,403	67,588	3,192	86,591	163,816	257,817	511,118	127,649	4,593	-	69,084,767
- Banks	992,062	65,934	537	8,591	-	-	-	-	-	-	1,067,124
- Customers	66,870,341	1,654	2,655	78,000	163,816	257,817	511,118	127,649	4,593	-	68,017,643
B.2 Debt instruments	458,796	351,539	9,510	333,996	843,999	2,393,127	3,871,018	9,314,544	6,765,859	-	24,342,388
B.3 Other liabilities	622,608	1,444,960	319,630	372,547	923,909	229,872	197,971	13,431,140	568,751	-	18,111,388
Off-balance sheet transactions	**(3,985,747)**	**221,992**	**(11,622)**	**40,149**	**144,032**	**1,054,388**	**146,144**	**1,476,850**	**278,280**	**-**	**(635,534)**
C.1 Financial derivatives with exchange of principal	-	182,404	(3,582)	868	2,481	26,168	(191,349)	(374,647)	(287,384)	-	(645,041)
- Long positions	-	881,148	278,986	3,328,351	1,075,627	868,737	437,301	317,931	292,335	-	7,480,416
- Short positions	-	698,744	282,568	3,327,483	1,073,146	842,569	628,650	692,578	579,719	-	8,125,457
C.2 Financial derivatives without exchange of principal	(177,087)	2,106	431	(69)	9,820	81,634	58,909	-	-	-	(24,256)
- Long positions	405,791	3,554	431	4,492	27,720	101,150	107,339	-	-	-	650,477
- Short positions	582,878	1,448	-	4,561	17,900	19,516	48,430	-	-	-	674,733
C.3 Deposits and financing to be received	15,440	-	(15,440)	-	-	-	-	-	-	-	-
- Long positions	15,440	-	-	-	-	-	-	-	-	-	15,440
- Short positions	-	-	15,440	-	-	-	-	-	-	-	15,440
C.4 Irrevocable commitments to disburse funds	(3,848,501)	37,482	6,969	39,090	131,730	945,223	277,507	1,843,716	563,092	-	(3,692)
- Long positions	8,544,974	37,482	6,969	39,090	131,730	945,223	277,507	1,843,716	563,092	-	12,389,783
- Short positions	12,393,475	-	-	-	-	-	-	-	-	-	12,393,475
C.5 Financial guarantees issued	24,401	-	-	260	1	1,363	1,077	7,781	2,572	-	37,455
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	Specific impairment losses	Net exposure	Gross exposure	Specific impairment losses	Net exposure	Gross exposure	Specific impairment losses	Net exposure
A. On-balance sheet exposure									
A.1 Bad loans	13.834	(5.027)	8.807	110.233	(54.458)	55.775	52	(23)	29
A.2 Unlikely-to-pay loans	8.723	(1.823)	6.900	75.731	(26.022)	49.709	6	(1)	5
A.3 Non-performing past-due exposures	12.226	(220)	12.006	379	(52)	327	-	-	-
A.4 Performing loans	12.831.999	(14.276)	12.817.723	4.732.444	(18.134)	4.714.310	160.917	(460)	160.457
TOTAL A	**12.866.782**	**(21.346)**	**12.845.436**	**4.918.787**	**(98.666)**	**4.820.121**	**160.975**	**(484)**	**160.491**
B. Off-balance sheet exposures									
B.1 Non-performing exposures	3.570	(1)	3.569	1.667	(19)	1.648	-	-	-
B.2 Performing loans	2.698.332	(358)	2.697.974	5.195.283	(13.247)	5.182.036	119.948	(31)	119.917
TOTAL B	**2.701.902**	**(359)**	**2.701.543**	**5.196.950**	**(13.266)**	**5.183.684**	**119.948**	**(31)**	**119.917**
30.06.2018	**15.568.684**	**(21.705)**	**15.546.979**	**10.115.737**	**(111.932)**	**10.003.805**	**280.923**	**(515)**	**280.408**

Exposures/Counterparties	Non-financial companies			Households			Total		
	Gross exposure	Specific impairment losses	Net exposure	Gross exposure	Specific impairment losses	Net exposure	Total Gross exposure	Total Specific impairment losses	Total Net exposure
A. On-balance sheet exposure									
A.1 Bad loans	4.293.428	(2.150.512)	2.142.916	2.777.408	(1.510.523)	1.266.885	7.194.955	(3.720.543)	3.474.412
A.2 Unlikely-to-pay loans	3.523.967	(923.582)	2.600.385	1.277.629	(259.106)	1.018.523	4.886.056	(1.210.534)	3.675.522
A.3 Non-performing past-due exposures	75.160	(9.265)	65.895	52.484	(5.055)	47.429	140.249	(14.592)	125.657
A.4 Performing loans	43.721.203	(354.610)	43.366.593	35.999.670	(176.813)	35.822.857	97.446.233	(564.293)	96.881.940
TOTAL A	**51.613.758**	**(3.437.969)**	**48.175.789**	**40.107.191**	**(1.951.497)**	**38.155.694**	**109.667.493**	**(5.509.962)**	**104.157.531**
B. Off-balance sheet exposures									
B.1 Non-performing exposures	548.205	(35.409)	512.796	16.317	(866)	15.451	569.759	(36.295)	533.464
B.2 Performing loans	32.048.441	(19.238)	32.029.203	3.553.796	(4.850)	3.548.946	43.615.800	(37.724)	43.578.076
TOTAL B	**32.596.646**	**(54.647)**	**32.541.999**	**3.570.113**	**(5.716)**	**3.564.397**	**44.185.559**	**(74.019)**	**44.111.540**
30.06.2018	**84.210.404**	**(3.492.616)**	**80.717.788**	**43.677.304**	**(1.957.213)**	**41.720.091**	**153.853.052**	**(5.583.981)**	**148.269.071**

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[20].

Portfolios	30.06.2018		31.12.2017	
	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	**25,562,630**	**23,892,422**	**24,603,074**	**23,037,856**
0%	23,057,059	21,389,868	22,090,648	20,527,100
20%	93,938	93,938	88,792	88,792
50%	145,145	142,128	155,472	153,802
100%	1,807,066	1,807,066	1,829,726	1,829,726
250%	459,422	459,422	438,436	438,436
Exposures to or guaranteed by regional governments or local authorities	**1,415,691**	**1,382,117**	**1,356,099**	**1,319,853**
20%	1,415,691	1,382,117	1,356,099	1,319,853
Exposures to or guaranteed by public sector entities	**1,339,729**	**1,339,190**	**1,322,453**	**1,321,844**
20%	1,191,453	1,191,286	1,209,434	1,209,232
100%	148,276	147,904	113,019	112,612
Exposures to or guaranteed by multilateral development banks	**11**	**-**	**4**	**-**
0%	11	-	4	-
Exposures to or guaranteed by supervised institutions	**5,023,501**	**7,871,799**	**5,258,687**	**6,848,576**
0%			60,697	60,697
2%	486,488	486,488	319,526	319,526
20%	3,114,119	5,591,700	3,276,257	4,666,899
50%	255,427	255,416	200,460	198,954
100%	1,167,467	1,538,195	1,401,747	1,602,500
Exposures to or guaranteed by corporates and others	**10,823,368**	**10,917,094**	**17,043,307**	**17,152,217**
2%			141,665	141,665
20%	48,444	48,444	67,320	67,320
50%	967,177	967,177	1,008,419	1,008,419
70%	9,626,686	9,720,412	15,622,380	15,731,290
100%	181,061	181,061	203,523	203,523
Retail exposures	**10,820,256**	**11,128,618**	**14,335,486**	**14,698,121**
75%	10,820,256	11,128,618	14,335,486	14,698,121
Exposures secured by mortgages of immovable properties	**4,681,084**	**4,686,008**	**6,862,463**	**6,867,070**
35%	2,499,263	2,501,876	2,809,245	2,810,741
50%	2,181,821	2,184,132	4,053,218	4,056,329
Exposures in default	**2,188,144**	**2,200,699**	**2,704,245**	**2,716,534**
100%	1,411,902	1,417,775	1,398,781	1,403,730
150%	776,242	782,924	1,305,464	1,312,804
High-risk exposures	**14,452**	**14,452**	**16,094**	**16,094**

[20] 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.

(contd.)

Portfolios	30.06.2018		31.12.2017	
	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	**5,012**	**5,012**	**5,176**	**5,176**
10%	5,012	5,012	5,176	5,176
Exposures to UCITS	**237,505**	**237,505**	**229,721**	**229,721**
100%	160,254	160,254	165,949	165,949
150%	39,557	39,557	26,067	26,067
1250%	37,694	37,694	37,705	37,705
Equity exposures	**855,341**	**855,342**	**853,812**	**853,812**
100%	467,758	467,758	464,322	464,322
250%	387,583	387,584	389,490	389,490
Other exposures	**3,486,142**	**3,486,142**	**3,515,646**	**3,515,646**
0%	567,523	567,523	700,649	700,649
20%	830,950	830,950	823,935	823,935
100%	2,072,102	2,072,102	1,991,062	1,991,062
1250%	15,567	15,567		
On-balance sheet exposures subject to credit risk	**56,436,853**	**55,113,841**	**59,341,847**	**58,100,338**
Off-balance sheet exposures subject to credit risk	**8,976,378**	**8,886,813**	**17,782,866**	**17,672,620**
Securities Financing Transactions	**78,264**	**3,029,502**	**50,375**	**1,825,410**
Derivatives and exposures with long-term settlement	**961,371**	**986,244**	**931,179**	**984,152**
General total	**66,452,866**	**68,016,400**	**78,106,267**	**78,582,520**

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 C*orporate portfolios*. As already mentioned, UBI Banca received authorisation in the first quarter of 2018 from the ECB for the implementation of a "model change"[21] , which will modify the Bank's internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions.

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.[22] and UBI Banca S.p.A.[23];
- the remaining legal entities in the Group as well as the new exclusive customers acquired following the merger of the "Bridge Banks"[24] 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 Bank of Italy involves a roll-out plan for the portfolios subject to the AIRB/IRB approach which contains set deadlines for each supervisory customer segment ("corporate", "retail – RRE" and "retail – other") and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan covers the period 2018-2022, while permanent exemption from the application of AIRB was requested for the Group's foreign banks and branches and also for the following exposures:

---

[21] See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.

[22] In 2015 the company IW Bank Spa was merged into UBI Banca Private Investment Spa and the new company was subsequently renamed IW Bank Spa.

[23] The corporate ownership procedures for the creation of a Single Bank were completed with effect from 21/11/2016 for Banca Popolare Commercio e Industria Spa and Banca Regionale Europea Spa and from 20/02/2017 for Banca Popolare di Bergamo Spa, Banco di Brescia Spa, Banca di Valle Camonica Spa, Banca Popolare di Ancona Spa and Carime Spa, with the incorporation of the network banks into UBI Banca which was followed on 10/05/2017 with the acquisition from the Resolution Fund of the "Bridge Banks" (Nuova Banca delle Marche, Nuova Banca Popolare dell'Etruria e del Lazio and Nuova Carichieti) and the subsequent merger as part of the same Single Bank Project of Banca Adriatica (the former Nuova Banca delle Marche) on 23/10/2017 and of Banca Tirrenica (the former Nuova Banca Popolare dell'Etruria e del Lazio) on 20/11/2017 as approved on 11th May 2017 by the Supervisory Board. The stages for the merger of Banca Teatina (the former Nuova Carichieti) were completed in February 2018).

[24] The reference here is to counterparties who had no business relations existing with UBI Banca before the acquisition.

- 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				EXTERNAL RATINGS
	Min PD	Max PD	Corporate and Large Corporate	Small Business	Retail Business	Private individuals	Moody's (1)
			class	class	class	class	class
MS1	0.030%	0.049%					Aaa Aa1 Aa2 Aa3
MS2	0.049%	0.084%	1			1	A1 A2 A3
MS3	0.084%	0.174%		1	1	2	Baa1
MS4	0.174%	0.298%	2				Baa2 Baa3
MS5	0.298%	0.469%		2	2		Ba1
MS6	0.469%	0.732%	3	3	3	3	Ba1 / Ba2
MS7	0.732%	1.102%	4				Ba2
MS8	1.102%	1.867%		4	4	4	Ba3
MS9	1.867%	2.968%	5	5		5	B1
MS10	2.968%	5.370%	6		5		B2 B3 Caa1
MS11	5.370%	9.103%	7	6	6	6	Caa1/Caa2
MS12	9.103%	13.536%					Caa2
MS13	13.536%	19.142%	8	7	7	7	Caa2 / Caa3
MS14	19.142%	99.999%	9	8-9	8-9	8-9	Caa3 Ca-C

(1) Cf. "Moody's "Corporate Default and Recovery Rates, 1920-2016", Exhibit 29, Average One-Year Alphanumeric. Rating Migration Rates, 1983-2016.

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		13,088,153
Other corporates		24,532,624
Retail exposures		
-Exposures secured by residential real estate: SMEs		4,463,603
-Exposures secured by residential real estate: private individuals		23,980,620
-Qualified revolving retail exposures		-
-Other retail exposures: SMEs		4,793,769
-Other retail exposures: private individuals		-

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

Exposure class	Credit quality step	30.06.2018				
		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	367,561	14.44	30.41	36,911	3.83
	3rd class	118,697	13.58	26.81	13,583	5.76
	4th class	1,025,097	26.31	29.26	78,930	5.71
	5th class	534,961	23.92	25.83	44,896	7.48
	6th class	2,319,131	34.38	27.72	123,343	6.44
	7th class	1,267,508	47.61	29.27	57,885	7.36
	8th class	1,132,697	40.61	25.57	48,823	9.66
	9th class	1,946,645	55.86	28.25	67,442	8.54
	10th class	678,002	68.88	28.54	26,652	11.91
	11th class	878,927	73.42	26.36	26,384	13.80
	12th class	-	-	-	-	-
	13th class	437,629	85.78	21.92	11,968	18.99
	14th class	234,595	90.40	22.13	2,297	10.61
	Default	2,146,703	21.62	35.91	29,687	28.96
Exposures to or guaranteed by corporates - Other corporates	1st class	-	-	-	-	-
	2nd class	1,010,276	19.81	31.11	224,368	9.21
	3rd class	12,768	16.17	23.08	593	3.64
	4th class	4,655,790	34.71	29.79	686,643	11.10
	5th class	56,574	33.10	26.94	7,293	10.68
	6th class	5,788,343	48.32	29.36	1,159,149	17.91
	7th class	4,497,114	63.72	30.16	819,536	22.02
	8th class	248,616	56.28	23.68	51,895	54.98
	9th class	3,358,406	73.87	27.52	333,899	21.55
	10th class	1,321,718	95.60	29.18	139,151	23.52
	11th class	462,168	108.54	25.89	23,837	19.06
	12th class	-	-	-	-	-
	13th class	180,472	134.72	25.51	3,720	8.88
	14th class	115,138	115.31	20.02	4,295	40.34
	Default	2,825,241	18.26	46.26	107,841	31.79

(*) Master Scale, cf. Qualitative information.

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

Exposure class	Credit quality step	30.06.2018				
		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	56	1.83	11.78	-	-
	3rd class	170,170	3.62	14.25	1,560	38.25
	4th class	-	-	-	-	-
	5th class	857,114	7.47	13.43	2,729	30.90
	6th class	761,926	13.16	13.41	2,978	28.58
	7th class	-	-	-	-	-
	8th class	490,291	23.03	13.63	2,325	30.14
	9th class	1,119	32.03	12.40	-	-
	10th class	296,593	37.58	13.79	577	23.02
	11th class	300,447	54.37	13.86	322	23.67
	12th class	-	-	-	-	-
	13th class	176,146	73.20	13.74	71	27.45
	14th class	258,551	70.54	13.61	159	28.88
	Default	1,151,190	43.92	44.82	639	100.00
Retail exposures secured by real estate property: private individuals	1st class	-	-	-	-	-
	2nd class	1,011,730	1.74	10.77	2,529	37.72
	3rd class	4,458,478	3.31	10.79	3,987	37.72
	4th class	-	-	-	-	-
	5th class	-	-	-	-	-
	6th class	7,451,943	8.58	10.80	10,136	37.72
	7th class	-	-	-	-	-
	8th class	5,321,059	16.70	10.78	7,269	37.72
	9th class	2,030,903	27.98	10.83	4,961	37.72
	10th class	-	-	-	-	-
	11th class	707,476	43.63	10.88	1,439	37.72
	12th class	-	-	-	-	-
	13th class	567,206	62.02	10.96	688	37.72
	14th class	513,153	66.80	10.93	268	37.72
	Default	1,918,672	45.26	37.24	255	100.00
Other retail exposures: SMEs	1st class	-	-	-	-	-
	2nd class	-	-	-	-	-
	3rd class	284,819	6.52	23.11	96,503	28.75
	4th class	-	-	-	-	-
	5th class	712,363	12.69	23.56	167,709	31.51
	6th class	885,016	20.81	25.34	178,042	34.38
	7th class	-	-	-	-	-
	8th class	758,920	29.60	26.61	125,328	31.35
	9th class	-	-	-	-	-
	10th class	576,818	32.61	25.87	64,956	24.97
	11th class	368,210	35.81	25.88	28,187	20.70
	12th class	-	-	-	-	-
	13th class	171,516	47.41	25.28	9,086	21.56
	14th class	142,826	56.13	24.73	5,564	26.05
	Default	893,281	11.30	72.32	24,832	100.00

(*) Master Scale, cf. Qualitative information.

Distribution of specialised lending exposures by credit quality step

Residual maturity/Rating	Amount of exposure as at 30.06.2018				
	Regulatory classes				
	1 - High	2 - Good	3 - Sufficient	4 - Poor	5 - Default
Residual maturity less than 2.5 years	88,570	150,657	-	-	-
Residual maturity equal to or greater than 2.5 years	519,335	916,678	172,466	100,988	50,055
Total specialised lending	**607,905**	**1,067,335**	**172,466**	**100,988**	**50,055**

Residual maturity/Rating	Amount of exposure as at 31.12.2017				
	Regulatory classes				
	1 - High	2 - Good	3 - Sufficient	4 - Poor	5 - Default
Residual maturity less than 2.5 years	37,929	71,190	-	-	-
Residual maturity equal to or greater than 2.5 years	563,919	1,004,988	197,288	78,998	65,512
Total specialised lending	**601,848**	**1,076,178**	**197,288**	**78,998**	**65,512**

Comparison between estimates and actual results

The comparison of estimates of risk parameters and empirical data is carried out by internal audit functions at least once annually by means of a set of codified, structured and automated procedures. Periodic monitoring of statistical tests is also carried out by units which include the development function in order to promptly identify, where necessary, the most effective solutions to ensure the robustness of the models over time.

With specific reference to the probability of default (PD), the analyses conducted by the internal audit functions 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, and (ii) the dynamic rating properties also with respect to the development samples. As concerns loss given default (LGD), the analyses performed on the most recent out-of-sample data regard the stability of the sample and performances with respect to the long-term period sample which determined the estimate of the parameter.

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 in the most recent out-of-sample data 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.

Also with regard to the LGD parameter, the analyses conducted on the last most recent out-of-sample 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	30/06/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements	
1. Debt instruments and interest rates	**17,985,744**	**8,091,956**	**8,363,193**	**1,841,343**
a) Options	-	4,008,131	2,145,821	-
b) Swaps	17,985,744	4,083,825	6,217,373	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	1,841,343
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**948,076**	**29,724**
a) Options	-	-	948,076	17,705
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	12,020
e) Other	-	-	-	-
3. Currencies and gold	**-**	**3,364,525**	**2,967,080**	**-**
a) Options	-	219,441	943,098	-
b) Swaps	-	-	-	-
c) Forwards	-	3,145,084	2,023,983	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**95,591**	**-**
5. Other	**-**	**-**	**-**	**-**
Total	**17,985,744**	**11,456,481**	**12,373,941**	**1,871,068**

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

Type of derivative	30/06/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements	
1. Positive fair value				
a) Options	-	40,327	82,217	136
b) Interest rate swaps	122,823	20,182	236,921	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	29,553	7,539	-
f) Futures	-	-	-	129
g) Other	-	-	3,771	-
Total	**122,823**	**90,063**	**330,449**	**265**
2. Negative fair value				
a) Options	-	22,747	6,286	58
b) Interest rate swaps	278,355	293,534	982	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	19,721	10,974	-
f) Futures	-	-	-	340
g) Other	-	-	5,714	-
Total	**278,355**	**336,002**	**23,955**	**398**
Total (1+2)	**401,178**	**426,065**	**354,405**	**663**

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

Underlying assets	30/06/2018			
	Central counterparties	Banks	Other companies financial	Other
Contracts not covered by clearing agreements				
1) Debt instruments and interest rates				
- notional amount	-	-	507,844	7,855,349
- positive fair value	-	-	4,445	240,945
- negative fair value	-	-	533	2,707
2) Equity instruments and share indices				
- notional amount	-	-	484,622	463,454
- positive fair value	-	-	62,562	1,372
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	1,079,533	592,799	1,294,749
- positive fair value	-	2,416	2,191	12,747
- negative fair value	-	6,085	1,112	9,917
4) Commodities				
- notional amount	-	13,737	34,027	47,828
- positive fair value	-	1,443	1,292	1,036
- negative fair value	-	278	682	2,642
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts covered by clearing agreements				
1) Debt instruments and interest rates				
- notional amount	17,985,744	7,034,492	1,057,464	-
- positive fair value	122,823	46,693	13,355	-
- negative fair value	278,355	223,065	91,485	-
2) Equity instruments and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	3,109,071	255,454	-
- positive fair value	-	22,518	7,497	-
- negative fair value	-	20,778	674	-
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 trading: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	6,606,359	18,481,195	9,353,340	34,440,894
A.2 Financial derivatives on equity instruments and share indices	3,089	506,494	438,494	948,076
A.3 Financial derivatives on currencies and gold	6,175,143	156,463	-	6,331,606
A.4 Financial derivatives on commodities	84,033	11,558	-	95,591
A.5 Other financial derivatives	-	-	-	-
Total	**12,868,623**	**19,155,709**	**9,791,834**	**41,816,167**

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

Underlying assets/type of derivative	30/06/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements	
1. Debt instruments and interest rates	**36,481,570**	**5,606,787**	**-**	**-**
a) Options	-	1,654,311	-	-
b) Swaps	36,481,570	3,952,476	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**26,995**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	26,995	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**
Total	**36,481,570**	**5,606,787**	**26,995**	**-**

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

Type of derivative	30/06/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements	
1. Positive fair value	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	355,322	50,264	-	-
c) Cross currency swaps	-	-	1,852	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	13	-
Total	**355,322**	**50,264**	**1,864**	**-**
2. Negative fair value	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	196,396	102,923	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	38	-
Total	**196,396**	**102,923**	**38**	**-**
Total (1+2)	**551,718**	**153,187**	**1,902**	**-**

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

Underlying assets	30/06/2018			
	Central counterparties	Banks	Other companies financial	Other
Contracts not covered by clearing agreements				
1) Debt instruments and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	24,765	-	2,229
- positive fair value	-	1,852	-	13
- negative fair value	-	-	-	38
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 instruments and interest rates				
- notional amount	36,481,570	5,368,043	238,745	-
- positive fair value	355,322	37,002	13,262	-
- negative fair value	196,396	100,489	2,434	-
2) Equity instruments 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	More than 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	5,156,249	16,433,798	20,498,311	42,088,357
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	2,229	24,765	-	26,995
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total	**5,158,478**	**16,458,563**	**20,498,311**	**42,115,352**

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

No transactions in credit derivatives were performed in the first half of 2018.

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

No outstanding transactions in credit derivatives existed as at 30th June 2018.

Residual maturity of over the counter credit derivatives: notional amounts

No outstanding transactions in credit derivatives existed as at 30th June 2018.

Counterparty risk - credit equivalent

Counterparty risk	EAD 30.06.2018	EAD 31.12.2017
Standardised approach		
- derivatives contracts and long-term settlement transactions	931,371	931,179
- securities financing transactions	78,264	50,375
- cross product netting agreements		-
IRB approach		-
- derivatives contracts and long-term settlement transactions	123,232	130,210
- 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 as 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	11,403,692	84,146	11,403,692	84,146
2. Equity securities	0	50,221	0	50,221

- Financial assets designated as 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	47,479	-222,718	3,924
2. Equity securities	8,633	-16,318	403

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 vischosity factors).

At consolidated level, the *2018 Policy to Manage the Financial Risks of the UBI Banca Group* defines a system of early warning thresholds on exposure to interest rate risk based on indicators measured in various scenarios of changes in yield curves, both deterministic and historical, and parallel and non-parallel, assuming rises and falls in interest rates. 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 targets and 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.

Quantitative information

The exposure of the UBI Banca Group to interest rate risk as at 30th June 2018, measured in terms of the sensitivity of the net economic value of the component relating to the HTC&S portfolio, was approximately -€55.8 million, thereby remaining within the limits set by the Policy to Manage Financial Risks. In detail, the sensitivity originated by the product companies was -€56.80 million, while the Parent contributed a total of +€0.99 million.

On the basis of the standard scenario set by supervisory regulations, the measurement as at 30th June 2018 recorded a potential reduction in economic value estimated at -€291.56. 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 2018, estimated in terms of an impact on net interest income of a reduction in reference interest rates of -100 b.p., was -€111.4 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	-55.89
	Other non-significant currencies*	0.08
TOTAL +100 bp		**-55.81**
-100 BP	EUR	261.05
	Other non-significant currencies*	-0.64
TOTAL -100 bp		**260.41**

* 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 2018, Policy to Manage Financial Risks, has an impact on economic value of -€109.37 million for a shock of +100 bps and of €91.51 million for a shock of -100 bps. If that impact were included then the total exposure would be -€165.18 million for a positive shock on the yield curve and €351.92 million for the negative shock scenario.

Statement of the Senior Officer Responsible for the preparation of corporate 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 Act), 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 corporate
accounting documents

Bergamo 3rd August 2018