Pillar 3 Disclosures

as at 30th June 2012

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint stock co-operative 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: €2,254,367,512.50 fully paid up

www.ubibanca.it

Contents

Introduction

In order to strengthen “market discipline”, the New regulations for the prudential supervision of banks (Bank of Italy Circular No. 263 of 27th December 2006 and subsequent amendments) make it compulsory for banks to publish disclosures (the document “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.

The contents and the procedures for preparing the disclosure, generally referred to as “Pillar 3” – which accompanies and supplements the regulations for minimum capital requirements (Pillar 1) and the process of prudential monitoring (Pillar 2) – are set out in Title IV, Chapter 1 of the circular mentioned. The document consists of summaries termed “Tables” in which quantitative and qualitative information is classified, which intermediaries must publish, thereby producing comparable data and an assessment of the banks operations and the related risks.

Supervisory provisions state that the Pillar 3 Disclosures are to be published annually in full (full publication of the qualitative and quantitative parts as at 31st December). Those banks which are authorised to use internal systems to calculate capital requirements for credit or operational risk – as in the case of the UBI Banca Group – are required to publish the quantitative information of the disclosures half yearly (except for that contained in Table 15 on remuneration and incentive schemes) and the quantitative information relating to tables 3 and 4 on regulatory capital and capital adequacy on a quarterly basis.

This document, which reports the position of the UBI Group as at 30th June 2012, therefore provides an update of the quantitative information, except for the tables relating to the internal models, since these represent the first time adoption of the regulations. The document Pillar 3 Disclosures as at 31st December 2011 may be consulted for information of a qualitative nature. Furthermore, any significant changes that occurred during the first six months of the year are reported in this disclosure document.

The UBI Banca Group has defined a process for producing Pillar 3 public disclosures with the following aims:

- to produce adequate information on capital adequacy, exposure to risks and the general characteristics of the systems employed to identify, measure and manage them, which is then included in the Pillar 3 Disclosures;
- to officially establish the processes used by the Group for the preparation and publication of the Pillar 3 Disclosures;
- to allow a structured approach to be taken to verifying the reliability and proper implementation of activities to produce, prepare and disclose the information.

This Pillar 3 Disclosure has been prepared by means of co-operation between the various bodies and units involved in the governance and execution of processes, consistent with their responsibilities as assigned by internal Group regulations. The information thereby obtained has been brought together and validated by the Risk Management Area and by the Chief Risk Officer in this disclosure document, which also includes a declaration by the Senior Office Responsible for preparing the company accounting documents.

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

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

NOTE: all the figures contained in the tables are stated in thousands of euro, unless otherwise indicated.

Table 1 – General requirements

Qualitative information

In accordance with the provisions of Circular No. 263/06, no qualitative information is published in the Half Year Pillar 3 Disclosure. The full document already published as at 31st December 2011 may be consulted for information of a qualitative nature on the risks to which the Group is subject.

Table 2 – Scope of application

Qualitative information

An up-to-date description of the scope of consolidation as at 30th June 2012 is given below. The full disclosures as at 31st December 2011 already published may be consulted for further information.

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
A.1 Fully consolidated companies							
1. Unione di Banche Italiane Scpa - UBI Banca	Bergamo				Full Cons.	Full Cons.	Bank
2. Albenza 3 Srl	Milan				Full Cons.	RWA	Financial
3. B@nca 24-7 Spa	Bergamo	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Bank
4. Banca Carime Spa	Cosenza	1	UBI Banca Scpa	92.835%	Full Cons.	Full Cons.	Bank
5. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa	74.244%	Full Cons.	Full Cons.	Bank
			Banco di Brescia Spa	8.716%			
6. Banca Lombarda Preferred Capital Company LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
7. Banca Lombarda Preferred Securities Trust	Delaware (USA)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
8. UBI Banca Private Investment Spa	Brescia	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Bank
9. Banca Popolare Commercio e Industria Capital Trust	Delaware (USA)	1	BPCI Funding Llc - USA	100.000%	Full Cons.	Full Cons.	Financial
10. Banca Popolare Commercio e Industria Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
11. Banca Popolare Commercio e Industria Spa	Milan	1	UBI Banca Scpa	75.077%	Full Cons.	Full Cons.	Bank
12. Banca Popolare di Ancona Spa	Jesi (AN)	1	UBI Banca Scpa	92.961%	Full Cons.	Full Cons.	Bank
13. Banca Popolare di Bergamo Spa	Bergamo	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Bank
14. Banca Regionale Europea Spa	Cuneo	1	UBI Banca Scpa	74.960%	Full Cons.	Full Cons.	Bank
15. Banco di Brescia Spa	Brescia	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Bank
16. Banco di San Giorgio Spa	Genoa	1	UBI Banca Scpa	38.193%	Full Cons.	Full Cons.	Bank
			Banca Regionale Europea Spa	57.500%			
17. Banque de Depots et de Gestion Sa	Lausanne (Switzerland)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Bank
18. UBI CAPITAL Singapore Pte Ltd	Singapore	1	UBI Banca International Sa	100.000%	Full Cons.	Full Cons.	Financial
19. BPB Capital Trust	Delaware (USA)	1	BPB Funding Llc - USA	100.000%	Full Cons.	Full Cons.	Financial
20. BPB Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
21. BPB Immobiliare Srl	Bergamo	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Instrumental
22. UBI Leasing Spa	Brescia	1	UBI Banca Scpa	79.996%	Full Cons.	Full Cons.	Financial
			Banca Popolare di Ancona Spa	18.996%			
23. Barberini Sa in liquidazione	Brussels (Belgium)	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
24. Prestitalia Spa	Rome	1	Banca 24-7 Spa	100.000%	Full Cons.	Full Cons.	Financial
25. UBI Factor Spa	Milan	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
26. Centrobanca Spa	Milan	1	UBI Banca Scpa	94.323%	Full Cons.	Full Cons.	Bank
			Banca Popolare di Ancona Spa	5.471%			
27. Centrobanca Sviluppo Impresa SGR Spa	Milan	1	Centrobanca Spa	100.000%	Full Cons.	Full Cons.	Financial
28. Coralis Rent Srl	Milan	1	UBI Banca Scpa	100.000%	Full Cons.	RWA	Other
29. 24-7 Finance Srl	Brescia		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
30. UBI Trustee Sa	Luxembourg	1	UBI Banca International Sa	100.000%	Full Cons.	Full Cons.	Financial
31. Investnet International Spa	Milan	1	IW Bank Spa	100.000%	Full Cons.	Full Cons.	Financial
32. IW Bank Spa	Milan	1	UBI Banca Scpa	76.236%	Full Cons.	Full Cons.	Bank
			Centrobanca Spa	23.764%			
33. UBI Finance 3	Brescia		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
34. UBI Finance CB 2 Srl	Milan	1	UBI Banca Scpa	60.000%	Full Cons.	Full Cons.	Financial
35. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
36. UBI Management Company Sa	Luxembourg	1	UBI Pramerica Sgr Spa	100.000%	Full Cons.	Full Cons.	Financial
37. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
38. UBI Finance Srl	Milan	1	UBI Banca Scpa	60.000%	Full Cons.	Full Cons.	Financial
39. Orio Finance Nr. 3 Plc	Dublin (Ireland)				Full Cons.	RWA	Financial
40. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Instrumental
41. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	100.000%	Full Cons.	Full Cons.	Financial
42. Silf - Società Italiana Leasing e Finanziamenti Spa	Cuneo	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial
43. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Instrumental
44. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100.000%	Full Cons.	Full Cons.	Financial

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
45. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa	91.196%	Full Cons.	Full Cons.	Bank
			Banco di Brescia Spa	5.483%			
			Banco di San Giorgio Spa	0.162%			
			Banca Popolare di Bergamo Spa	3.160%			
46. UBI Insurance Broker Srl	Bergamo	1	UBI Banca Scpa	100.000%	Full Cons.	Deducted from RC	Insurance
47. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	65.000%	Full Cons.	Full Cons.	Financial
48. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
49. UBI Sistemi e Servizi Scpa	Brescia	1	UBI Banca Scpa	70.845%	Full Cons.	Full Cons.	Instrumental
			Banca Popolare di Bergamo Spa	2.960%			
			Banco di Brescia Spa	2.960%			
			Banca Popolare Commercio e Industria Spa	2.960%			
			Banca Popolare di Ancona Spa	2.960%			
			Banca Carime Spa	2.960%			
			Banca Regionale Europea Spa	2.960%			
			Banco di San Giorgio Spa	1.480%			
			Banca di Valle Camonica Spa	1.480%			
			UBI Banca Private Investment Spa	1.480%			
			Centrobanca Spa	1.480%			
			UBI Pramerica Sgr Spa	1.480%			
			Prestitalia Spa	0.074%			
			Banca 24-7 Spa	1.480%			
			IW Bank Spa	0.074%			
			Silf Spa	0.074%			
			UBI Insurance Broker Srl	0.074%			
			UBI Factor Spa	0.740%			
50. UBI SPV BBS 2012 Srl	Milan		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
51. UBI SPV BPCI 2012 Srl	Milan		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
52. UBI SPV BPA 2012 Srl	Milan		UBI Banca Scpa	10.000%	Full Cons.	Full Cons.	Financial
A.2 Companies accounted for using the equity method							
1. Arca SGR Spa	Milan	3	UBI Banca Scpa	23.124%	Equity method	Deducted from RC	Financial
			Banca Popolare di Ancona Spa	3.584%			
2. Aviva Assicurazioni Vita Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method	Deducted from RC	Insurance
3. Aviva Vita Spa	Milan	3	UBI Banca Scpa	50.000%	Equity method	Deducted from RC	Insurance
4. Capital Money Spa	Milan	3	UBI Banca Scpa	21.185%	Equity method	Deducted from RC	Financial
5. By You Spa	Milan	3	UBI Banca Scpa	10.000%	Equity method	RWA	Financial
6. Polis Fondi SGR	Milan	3	UBI Banca Scpa	19.600%	Equity method	Deducted from RC	Financial
7. Lombarda China Fund Management Co.	Shenzen (China)	3	UBI Banca Scpa	49.000%	Equity method	Deducted from RC	Financial
8. Lombarda Vita Spa	Brescia	3	UBI Banca Scpa	40.000%	Equity method	Deducted from RC	Insurance
9. Prisma Srl	Milan	3	UBI Banca Scpa	20.000%	Equity method	Deducted from RC	Other
10. SF Consulting Srl	Mantova	3	UBI Banca Scpa	35.000%	Equity method	RWA	Other
11. Sider Factor Spa in liquidazione	Milan	3	UBI Factor Spa	27.000%	Equity method	Deducted from RC	Financial
12. Sofipo Fiduciarie Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30.000%	Equity method	Deducted from RC	Financial
13. SPF Studio Progetti Finanziari Srl	Rome	3	Banca Popolare di Ancona Spa	25.000%	Equity method	RWA	Other
14. UBI Assicurazioni Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method	Deducted from RC	Insurance
15. UFI Servizi Srl	Rome	3	Prestitalia Spa	23.167%	Equity method	RWA	Other

Key
Type of relationship
1 = Majority of voting rights in ordinary general meetings
2 = Joint control
3 = Significant influence
RC = Regulatory Capital
RWA = Risk Weighted Assets

Quantitative information

No capital deficiencies with respect to compulsory capital requirements were recorded for subsidiaries as at 30th June 2012.

Table 3 – Regulatory capital structure

Qualitative information

An up-to-date summary of the main contractual details of the components of capital as at 30th June 2012 is given below.

ISSUER		TYPE OF ISSUE			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 30.06.2012	AMOUNT ELIGIBLE FOR INCLUSION
TIER ONE CAPITAL	BPB CAPITAL TRUST	Innovative capital instruments	1	2001/perpetual - mixed rate - Currency euro ISIN XS0123998394	Until 14-2-2011 8.364% fixed rate; from 15-2-2011 variable rate Euribor 3M + 5.94%.	perpetual	(*)	185,618	187,246	185,618
	BANCA LOMBARDA PREFERRED SECURITIES TRUST		2	2000/perpetual - mixed rate - Currency euro ISIN XS0108805564	Until 9-3-2010 8.17% fixed rate; from 10-3-2010 to 9-3-2011 variable rate Euribor 3M + 3.375%; from 10-3-2011 variable rate Euribor 3M + 5.94%.	perpetual	(*)	91,462	91,801	91,462
	BPCI CAPITAL TRUST		3	2001/perpetual - mixed rate - Currency euro ISIN XS0131512450	Until 26-6-2011 9.00% fixed rate; from 27-6-2011 variable rate Euribor 3M + 5.94%.	perpetual	(*)	67,358	66,417	66,358
TIER TWO CAPITAL	UNIONE DI BANCHE ITALIANE	Ordinary subordinated bond issues (Lower Tier 2)	4	2011/2018 - mixed rate ISIN IT0004767742 - Currency euro	Quarterly fixed rate 6.25% until 2014 and subsequently variable Euribor 3M +1%.	18-11-2018		221,598	221,664	221,598
			5	2010/2017 - fixed rate ISIN IT0004645963 - Currency euro Listed on MOT	Half year fixed rate 4.30%.	5-11-2017	Redemption by repayment schedule at constant annual rates from 5-11-2013	400,000	404,520	400,000
			6	2004/2014 - variable rate ISIN IT0003754949 - Currency euro	Half year Euribor 6M + 0.125% for years 1-5; Euribor 6M + 0.725% for years 6-10.	23-12-2014		110,950	109,920	66,587
			7	2004/2014 - variable rate ISIN IT0003723357 - Currency euro	Half year Euribor 6M + 0.125% for years 1-5; Euribor 6M + 0.725% for years 6-10.	22-10-2014		139,020	137,895	83,413
			8	2008/2015 - variable rate ISIN IT0004424435 - Currency euro Listed on MOT	Quarterly Euribor 3M + 0.85%.	28-11-2015	Redemption by fixed rate annual amortisation schedule from 28-11-2011	479,519	475,561	479,519
			9	2006/2018 - variable EMTN ISIN XS0272418590 - Currency euro	Quarterly Euribor 3M + 0.50% for years 1-7; Euribor 3M + 1.10% for years 8-12.	30-10-2018	Call 30-10-2013	190,650	190,699	190,065
			10	2009/2016 - variable rate ISIN IT0004457187 - Currency euro Listed on MOT	Quarterly Euribor 3M + 1.25%.	13-3-2016	Redemption by fixed rate annual amortisation schedule from 13-3-2012	169,594	167,899	169,594
			11	2009/2019 - mixed rate ISIN IT0004457070 Currency euro - Listed on MOT	Half year fixed rate 4.15% until 2014; susequently variable Euribor 6M + 1.85%.	13-3-2019	13-3-2014	370,000	383,795	370,000
			12	2009/2016 - variable rate ISIN IT0004497068 - Currency euro Listed on MOT	Quarterly Euribor 3M + 1.25%.	30-6-2016	Redemption by fixed rate annual amortisation schedule from 30-6-2012	125,470	123,917	125,469
			13	2009/2019 - mixed rate ISIN IT0004497050 Currency euro - Listed on MOT	Half year fixed rate 4% until 2014; susequently variable Euribor 6M + 1.85%.	30-6-2019	30-6-2014	365,000	372,344	365,000
			14	2010/2017 - fixed rate ISIN IT0004572878 Currency euro - Listed on MOT	Half year fixed rate 3.10%.	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	300,000	312,167	300,000
			15	2010/2017 - variable rate ISIN IT0004572860 - Currency euro Listed on MOT	Half year variable rate Euribor 6M + 0.40%	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	152,587	151,600	152,587
			16	2011/2018 - fixed rate ISIN IT0004718489 Currency euro - Listed on MOT	Half year fixed rate 5.50%.	16-6-2018	Redemption by fixed rate annual amortisation schedule from 16-6-2014	400,000	418,953	400,000
			17	2011/2018 - fixed rate ISIN IT0004723489 Currency euro - Listed on MOT	Half year fixed rate 5.40%	30-6-2018	Redemption by fixed rate annual amortisation schedule from 30-6-2014	400,000	419,199	400,000
TOTAL as at 30/06/2012								**4,168,826**	**4,235,597**	**4,067,270**
TOTAL as at 31/12/2011								**4,783,770**	**4,825,306**	**4,685,590**

(*) Subsequent to the early redemption dates, the securities are callable every three months.

Quantitative information

Use was made by the UBI Banca Group in the calculation of regulatory capital as at 31st December 2012 – in compliance with provisions issued by the Bank of Italy in May 2010[1] – of the possibility of completely neutralising the impacts on regulatory capital of gains and losses recognised in the fair value reserves relating to government securities issued by EU member states held in the "available-for-sale financial assets" portfolio. This approach is in addition to that already contained in regulations, which requires losses to be deducted entirely from regulatory capital and gains to be only partially included. The option in question has been applied across the board by all members of the banking group from 30th June 2010.

The table below gives details of the items of which the regulatory capital was composed as at 30th June 2012.

COMPOSITION OF THE REGULATORY CAPITAL	30.06.12	31.12.11
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2,740,322	2,722,391
- Share premiums	4,788,120	7,506,086
- Reserves	3,503,902	2,647,826
- Innovative equity instruments and non Innovative capital instruments with maturity	-	-
- Non innovative capital instruments:	-	-
- non innovative capital instruments eligible up to 35%	-	-
- non innovative capital instruments eligible up to 50%	-	-
- Instruments subject to transition provisions (grandfathering) (*)	388,545	489,191
- Profit for the period	157,298	-
- Prudential filters: increases in tier 1 capital:	-	-
- Fair value option: changes in its credit worthiness	-	-
- Redeemable shares	-	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other positive prudential filters	276	579
- Total positive elements of tier one capital	**11,578,463**	**13,366,073**

[1] With a provision of 18th May 2010 and a later communication of 23rd June 2010 ("Clarification of supervisory measures concerning regulatory capital – prudential filters"), the Bank of Italy issued new instructions for the treatment of fair value reserves relating to debt instruments held in the "*available-for-sale financial assets*" portfolio for the purposes of calculating regulatory capital (prudential filters). More specifically, as an alternative to the "asymmetric approach" (full deduction of net losses from the tier one capital and partial inclusion of net gains in the tier two capital) already provided for by Italian regulations, it is now permitted – in compliance with 2004 CEBS guidelines –, limited to securities issued by the central governments of countries belonging to the European Union, to completely neutralise gains and losses in the reserves mentioned ("symmetrical approach"). The measure is designed to prevent unjustified volatility in regulatory capital, caused by sudden changes in the prices of securities that are not related to changes in the credit ratings of the issuers.

COMPOSITION OF THE REGULATORY CAPITAL	30.06.12	31.12.11
- Negative elements:		
- Treasury shares or quotas	4,375	4,375
- Goodwill	2,577,055	2,577,055
- Other intangible fixed assets	344,031	357,528
- Loss for the period	-	1,862,091
- Other negative elements:	-	-
- Net impairment losses on loans	-	-
- Net impairment of supervisory amounts relating to the "trading portfolio for supervisory purposes"	-	-
- other	-	-
- Prudential filters, deductions from tier 1 capital:	-	-
- Fair value option: changes in its creditworthiness	-	-
- Negative reserves for available-for-sale securities	-	-
- Equity instruments and units in O.I.C.R (collective investment instruments).	-	-
- Debt instruments	91,635	138,120
- Cumulative net gains on property, plant and equipment	-	-
- Capital elements subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other negative filters	-	-
- Total negative elements of tier one capital	**3,017,096**	**4,939,169**
- Tier 1 capital before items to be deducted:	**8,561,367**	**8,426,904**

TIER 1 CAPITAL – ELEMENTS TO BE DEDUCTED	-	-
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	-	-
- Shareholdings	19,680	20,111
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with matur	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	-	-
- Shareholdings	4,470	5,060
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with matur	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee	-	-
- Shareholdings	-	-
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with matur	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	128,367	120,429
- Subordinated instruments	5,019	5,024
- Excess of expected losses over total impairment losses recognised	167,027	-
- Expected losses on equity instruments and exposure to OICR (collective investment instruments) where the underlying relates to/is treated as equity instruments	-	-
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on DVP transactions	-	-
- Total elements to be deducted	**324,563**	**150,624**
TIER ONE CAPITAL	**8,236,804**	**8,276,280**

COMPOSITION OF THE REGULATORY CAPITAL	30.06.12	31.12.11
TIER 2 CAPITAL		
- Positive elements		
- Valuation reserves	63,217	106,130
- Innovative capital instruments and non Innovative capital instruments with maturity not eligible for inclusion in tier one capital	-	-
- Non innovative capital instruments not eligible for inclusion in tier one capital:	-	-
- non innovative capital instruments eligible up to 35%	-	-
- non innovative capital instruments eligible up to 50%	-	-
- Hybrid capital instruments	-	413,597
- Tier 2 subordinated liabilities	3,723,832	3,818,533
- Excess of total net impairment losses recognised over expected losses	-	-
- Net gains on equity investments	-	-
- Other positive elements	-	-
- Prudential filters: increases in the regulatory capital	21,748	15,720
- Total positive elements of the tier 2 capital	**3,808,797**	**4,353,980**
- Negative elements:		
- Net losses on equity investments	-	-
- Loans and receivables	-	-
- Other negative elements	55,437	41,046
- Prudential filters: deductions from tier 2 capital	10,874	7,860
- Total negative elements of the tier 2 capital	**66,311**	**48,906**
- Tier 2 capital before items to be deducted:	**3,742,486**	**4,305,074**
TIER 2 CAPITAL – ITEMS TO BE DEDUCTED		
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	19,680	20,111
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	4,470	5,060
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee		-
- Equity investments in insurance companies:	133,385	125,453
- Excess of expected losses over total impairment losses recognised	167,027	-
- Deductions resulting from securitisations		-
- Deductions relating to settlement risks on DVP transactions		-
- Total elements to be deducted	**324,562**	**150,624**
TIER TWO CAPITAL	**3,417,924**	**4,154,450**
ITEMS TO BE DEDUCTED FROM TIER 1 CAPITAL AND TIER 2 CAPITAL	**157,469**	**148,574**
REGULATORY CAPITAL	**11,497,259**	**12,282,154**
TIER 3 CAPITAL	**-**	**-**
REGULATORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL	**11,497,259**	**12,282,154**

(*) Those instruments subject to transitory "grandfathering" provisions include innovative capital instruments issued before 31.12.2010 (€343.438 million) and savings and privileged shares issued by Banca Regionale Europea, recognised within non-controlling interests (€45.1 million).

Regulatory capital as at 30th June 2012 fell by €785 million compared to the end of 2011, due mainly to the recognition of an excess of expected losses over total impairment losses (i.e. the difference between the expected loss and provisions) and to changes in subordinated debt (in June in particular, hybrid capitalisation instruments included in the tier two capital were redeemed for a total nominal amount of €414 million).

Reconciliation of statutory equity with regulatory tier 1 capital

	30.06.2012	31.12.2011
Equity attributable to the shareholders of the Parent	9,235	8,939
Equity attributable to non-controlling interests	870	899
Equity	**10,105**	**9,838**
Dividends attributable to the shareholders of the Parent	-	-45
Dividends attributable to non-controlling interests	-14	-35
Other appropriations	-3	-7
Other elements	**-1,527**	**-1,324**
Innovative and non innovative capital instruments	343	453
Goodwill relating to the banking group	-2,577	-2,577
Other intangible assets relating to the banking group	-344	-358
Valuation reserves relating to banking group	1,142	1,295
Valuation reserves relating to the banking group included as negative filters	-91	-138
Other positive prudential filters	-	1
Total tier 1 capital before items to be deducted	**8,561**	**8,427**

(amounts in millions of euro)

Table 4 – Capital adequacy

Quantitative information

CAPITAL ADEQUACY	Capital requirement 30.06.2012	Capital requirement 31.12.11
A. REGULATORY CAPITAL REQUIREMENTS		
Credit risk		
Standardised approach		
Exposures to or guaranteed by central governments and banks	36	15
Exposures to or guaranteed by regional government and local authorities	13,327	12,234
Exposures to or guaranteed by non commercial and public sector entities	68,718	71,868
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	182,547	205,754
Exposures to or guaranteed by corporates	826,632	3,259,373
Retail exposures	838,897	1,201,769
Exposures secured by real estate property	840,018	968,830
Past-due exposures	381,151	605,336
High risk exposures	14,753	15,381
Exposures in the form of covered bonds	713	-
Shorte term exposures to supervised intermediaries and corporates	-	-
Exposure to OICR (collective investment undertakings)	6,433	15,763
Other exposures	256,531	281,717
Securitisations	206	215
Total standardised approach	**3,429,961**	**6,638,255**
Internal rating based approach		
Exposures to or guaranteed by corporates	1,958,735	-
Specialised lending	-	-
SMEs	781,807	-
Other companies	1,176,928	-
Specialised lending - slotting criteria	185,651	-
Total internal rating based approach	**2,144,386**	**-**
Total credit risk	**5,574,347**	**6,638,255**
Counterparty risk	64,252	108,268
Total counterparty risk	**64,252**	**108,268**

CAPITAL ADEQUACY	Capital requirement 30.06.2012	Capital requirement 31.12.11
Market risk		
Standardised approach		
Assets included in the supervisory trading portfolio:		
- position risk	76,071	72,461
of which specific to positions with securitisations	*5,146*	*6,344*
- concentration risk	-	-
Other assets:	-	
- regulatory risk	-	-
- currency risk	626	1,044
- position risk in commodities	42	39
Total market risk	**76,739**	**73,545**
Operational risk		
Basic indicator approach	48,965	48,965
Standardised approach	32,818	411,784
Advanced measurement approach	332,351	-
Total operational risk	**414,134**	**460,749**
B. CAPITAL RATIOS		
Core tier I ratio after specific deductions from tier 1 capital (Tier 1 capital net of preference shares/Risk weighted assets)	10.24%	8.56%
Tier I ratio (Tier I capital/Risk weighted assets)	10.75%	9.09%
Total capital ratio [(Regulatory capital + qualifying tier 3 capital)/Risk weighted assets]	15.01%	13.50%

The table above summarises compliance with requirements in terms of ratios.

Following authorisation from the Supervisory Authority, the UBI Group has now used internal models to calculate capital requirements for credit risk – the “exposures to corporate customers” segment – and for operational risk from the 30th June 2012 consolidated supervisory report onwards[2].

Capital ratios as at 30th June 2012 had improved appreciably due to the adoption of internal models, a contraction in volumes of business and action taken to optimise risk weighted assets. The reduction in the latter more than offset the recognition of the difference between the expected loss and provisions (-€334 million, 50% of which deducted from the tier one capital and 50% from the tier two capital). To summarise, the core tier one ratio rose compared to 31st December 2011 by 168 bps (up from 8.56% to 10.24%), the tier one ratio by 166 bps (from 9.09% to 10.75%) and the total capital ratio by 151 bps (up from 13.50% to 15.01%).

Finally, as at 30th June 2012, the UBI Group had achieved the objective set by the EBA Recommendation[3] to reach a core tier one ratio of 9% inclusive of the “buffer” on sovereign debt of €868 million as at 30th September 2011. The core tier one ratio for EBA purposes was 9.24%.

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[2] Tables 7 and 12 of this Pillar 3 Disclosure document may be consulted for further information. The application of internal methods is subject to a quantitative constraint (a “floor”), equal to 87.5% of the sum of the requirements calculated on the basis of Basel 1 regulation, to which any capital savings obtained using internal models is subject.

[3] The Pillar 3 Disclosures document as at 31st December 2011 may be consulted for further information.

Table 5 – Credit risk: general disclosures for all banks

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 deteriorated 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 credit exposures, by principal types of exposure

	Banking group					
	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures	Other asstes	**Total**
1. Financial assets held for trading	1,113	5,850	981	508	5,103,932	**5,112,384**
2. Available-for-sale financial assets	-	-	-	-	12,389,228	**12,389,228**
3. Held-to-maturity investments	-	-	-	-	3,192,239	**3,192,239**
4. Loans to banks	21	-	-	-	4,658,041	**4,658,062**
5. Loans to customers	2,750,186	2,809,323	811,093	648,704	88,532,475	**95,551,781**
6. Financial assets at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedging derivatives	-	332	-	18	1,340,596	**1,340,946**
30/06/2012	**2,751,320**	**2,815,505**	**812,074**	**649,230**	**115,216,511**	**122,244,640**
31/12/2011	**2,481,805**	**2,541,150**	**842,125**	**425,966**	**111,014,854**	**117,305,900**

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

	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 Non performing loans	4,980,108	2,742,012	26,599	6,628	7,985	2,116	4,633	-	629	191	**5,019,954**	**2,750,947**
A.2 Impaired loans	3,101,279	2,764,387	47,306	41,488	73	53	-	-	3,509	3,395	**3,152,167**	**2,809,323**
A.3 Restructured exposures	897,731	791,370	24,789	19,643	42	41	-	-	39	39	**922,601**	**811,093**
A.4 Past due exposures	671,324	646,319	2,397	2,385	-	-	-	-	-	-	**673,721**	**648,704**
A.5 Other exposures	104,895,390	104,399,219	2,102,484	2,092,943	651,419	650,443	5,494	5,482	189,907	189,886	**107,844,694**	**107,337,973**
TOTAL	**114,545,832**	**111,343,307**	**2,203,575**	**2,163,087**	**659,519**	**652,653**	**10,127**	**5,482**	**194,084**	**193,511**	**117,613,137**	**114,358,040**
B. Off-balance sheet exposures												
B.1 Non performing loans	78,797	68,649	-	-	-	-	-	-	-	-	**78,797**	**68,649**
B.2 Impaired loans	102,076	94,607	994	976	21	19	-	-	-	-	**103,091**	**95,602**
B.3 Other deteriorated assets	92,795	83,474	1,774	1,758	-	-	-	-	-	-	**94,569**	**85,232**
B.4 Other exposures	14,181,466	14,140,451	1,276,741	1,276,198	150,257	148,052	3,905	3,888	17,706	17,706	**15,630,075**	**15,586,295**
TOTAL	**14,455,134**	**14,387,181**	**1,279,509**	**1,278,932**	**150,278**	**148,071**	**3,905**	**3,888**	**17,706**	**17,706**	**15,906,532**	**15,835,778**
30/06/2012	**129,000,966**	**125,730,488**	**3,483,084**	**3,442,019**	**809,797**	**800,724**	**14,032**	**9,370**	**211,790**	**211,217**	**133,519,669**	**130,193,818**
31/12/2011	**122,018,359**	**118,872,652**	**3,775,785**	**3,730,866**	**736,468**	**734,236**	**65,669**	**15,808**	**217,351**	**216,222**	**126,813,632**	**123,569,784**

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

	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 Non performing loans	22	21	-	-	-	-	-	-	-	-	**22**	**21**
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.5 Other exposures	3,312,814	3,312,622	2,140,274	2,140,274	126,007	126,007	21,067	21,067	66,115	66,115	**5,666,277**	**5,666,085**
TOTAL	**3,312,836**	**3,312,643**	**2,140,274**	**2,140,274**	**126,007**	**126,007**	**21,067**	**21,067**	**66,115**	**66,115**	**5,666,299**	**5,666,106**
B. Off-balance sheet exposures												
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.4 Other exposures	333,151	333,145	936,384	935,997	43,644	43,625	59,769	59,550	30,309	30,238	**1,403,257**	**1,402,555**
TOTAL	**333,151**	**333,145**	**936,384**	**935,997**	**43,644**	**43,625**	**59,769**	**59,550**	**30,309**	**30,238**	**1,403,257**	**1,402,555**
30/06/2012	**3,645,987**	**3,645,788**	**3,076,658**	**3,076,271**	**169,651**	**169,632**	**80,836**	**80,617**	**96,424**	**96,353**	**7,069,556**	**7,068,661**
31/12/2011	**4,672,113**	**4,671,953**	**4,372,543**	**4,372,103**	**416,050**	**416,030**	**62,253**	**62,040**	**216,380**	**216,300**	**9,739,339**	**9,738,426**

Distribution by economic sector of exposures, by principal types of exposure

	Governments and Central Banks		Other public authorities		Financial companies		Insurance companies		Non financial companies		Other		**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	**Gross exposure**	**Net exposure**
A. On-balance sheet exposure														
A.1 Non performing loans	69	69	4,597	3,231	70,319	12,023	1,935	166	3,360,270	1,910,360	1,582,764	825,098	**5,019,954**	**2,750,947**
A.2 Impaired loans	-	-	21,723	21,342	77,337	57,614	28	24	2,214,699	1,982,999	838,380	747,344	**3,152,167**	**2,809,323**
A.3 Restructured exposures	-	-	8	8	19,909	14,380	-	-	895,816	790,764	6,868	5,941	**922,601**	**811,093**
A.4 Past due exposures	-	-	36,762	36,760	6,188	5,917	-	-	424,551	412,209	206,220	193,818	**673,721**	**648,704**
A.5 Other exposures	18,179,474	18,179,407	913,719	910,249	4,015,534	4,004,036	144,878	144,863	50,115,423	49,794,512	34,475,666	34,304,906	**107,844,694**	**107,337,973**
TOTAL	**18,179,543**	**18,179,476**	**976,809**	**971,590**	**4,189,287**	**4,093,970**	**146,841**	**145,053**	**57,010,759**	**54,890,844**	**37,109,898**	**36,077,107**	**117,613,137**	**114,358,040**
B. Off-balance sheet exposures														
B.1 Non performing loans	-	-	-	-	21	20	-	-	14,871	11,127	63,905	57,502	**78,797**	**68,649**
B.2 Impaired loans	-	-	-	-	4,328	3,379	-	-	96,910	90,436	1,853	1,787	**103,091**	**95,602**
B.3 Other deteriorated assets	-	-	53	52	65	58	-	-	68,627	64,206	25,824	20,916	**94,569**	**85,232**
B.4 Other exposures	43,654	43,654	1,177,436	1,175,258	2,257,058	2,233,678	54,669	54,543	10,871,764	10,856,347	1,225,494	1,222,815	**15,630,075**	**15,586,295**
TOTAL	**43,654**	**43,654**	**1,177,489**	**1,175,310**	**2,261,472**	**2,237,135**	**54,669**	**54,543**	**11,052,172**	**11,022,116**	**1,317,076**	**1,303,020**	**15,906,532**	**15,835,778**
30/06/2012	**18,223,197**	**18,223,130**	**2,154,298**	**2,146,900**	**6,450,759**	**6,331,105**	**201,510**	**199,596**	**68,062,931**	**65,912,960**	**38,426,974**	**37,380,127**	**133,519,669**	**130,193,818**
31/12/2011	**8,569,857**	**8,569,767**	**2,174,470**	**2,168,047**	**5,664,360**	**5,552,916**	**593,477**	**591,489**	**70,456,033**	**68,483,273**	**39,319,754**	**38,204,292**	**126,777,951**	**123,569,784**

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	**21,653,492**	**1,242,415**	**942,834**	**4,295,157**	**6,141,899**	**6,908,523**	**7,243,948**	**31,621,031**	**40,416,702**	**661,732**	**121,127,733**
A.1 Government securities	1,602	42	7	13,800	1,499,203	2,948,900	1,975,499	6,098,523	5,527,269	70	18,064,915
A.2 Other debt instruments	378,819	5,570	60	650,492	3,288	46,543	183,340	706,599	365,527	59,231	2,399,469
A.3 Units in OICR (collective investment instr.)	220,176	-	-	-	-	-	-	-	-	51	220,227
A.4 Financing	21,052,895	1,236,803	942,767	3,630,865	4,639,408	3,913,080	5,085,109	24,815,909	34,523,906	602,380	100,443,122
- Banks	3,371,988	153,113	40,251	146,297	46,730	52,787	44,945	133,774	11,082	599,952	4,600,919
- Customers	17,680,907	1,083,690	902,516	3,484,568	4,592,678	3,860,293	5,040,164	24,682,135	34,512,824	2,428	95,842,203
On-balance sheet liabilities	**48,147,992**	**5,703,190**	**888,401**	**1,483,696**	**5,005,079**	**4,009,401**	**5,473,082**	**38,813,640**	**6,964,356**	**423,581**	**116,912,418**
B.1 Deposits	46,773,646	308,192	27,770	232,226	482,411	317,739	1,244,569	397,056	38	-	49,783,647
- Banks	1,209,292	54,127	109	82,489	19,712	5,073	-	201,429	-	-	1,572,231
- Customers	45,564,354	254,065	27,661	149,737	462,699	312,666	1,244,569	195,627	38	-	48,211,416
B.2 Debt instruments	469,850	304,837	704,462	995,248	2,319,540	3,377,413	4,108,300	25,836,132	5,929,301	417,213	44,462,296
B.3 Other liabilities	904,496	5,090,161	156,169	256,222	2,203,128	314,249	120,213	12,580,452	1,035,017	6,368	22,666,475
Off-balance sheet transactions	**-208,223**	**19,563**	**-14,093**	**76,641**	**5,369**	**247,759**	**100,995**	**19,234**	**-344,174**	**899,482**	**802,553**
C.1 Financial derivatives with exchange of principal	-	811	861	4,542	-3,898	309	-6,649	-157,524	-477,642	677,036	37,846
- Long positions	-	696,195	106,311	2,566,489	653,177	349,914	166,751	731,710	518	709,598	5,980,663
- Short positions	-	695,384	105,450	2,561,947	657,075	349,605	173,400	889,234	478,160	32,562	5,942,817
C.2 Financial derivatives without exchange of principal	1,516	25,544	387	-4,183	-37,907	78,484	7,822	-	-	-	71,663
- Long positions	533,877	28,134	847	4,924	111,714	180,657	301,414	-	-	-	1,161,567
- Short positions	532,361	2,590	460	9,107	149,621	102,173	293,592	-	-	-	1,089,904
C.3 Deposits and financing to be received	29,910	-3,357	-18,496	-	-8,057	-	-	-	-	-	-
- Long positions	29,910									-	29,910
- Short positions		3,357	18,496		8,057					-	29,910
C.4 Irrevocable commitments to disburse funds	-267,495	-3,435	1,962	11,207	27,357	161,775	88,007	56,319	81,619	201,320	358,636
- Long positions	18,614	5,186	1,962	11,207	27,357	161,775	88,007	56,319	81,619	206,066	658,112
- Short positions	286,109	8,621								4,746	299,476
C.5 Financial guarantees issued	27,846	-	1,193	65,075	27,874	7,191	11,815	120,439	51,849	21,126	334,408

Distribution by economic sector of deteriorated exposures and impairment

Exposures/counterparties	Governments and Central Banks				Other public authorities				Financial companies				Insurance companies				Non financial companies				Other			
	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure
A. On-balance sheet exposure																								
A.1 Non performing loans	69	-	X	69	4,597	-1,366	X	3,231	70,319	-58,296	X	12,023	1,935	-1,769	X	166	3,360,270	-1,449,910	X	1,910,360	1,582,764	-757,666	X	825,098
A.2 Impaired loans	-	-	X	-	21,723	-381	X	21,342	77,337	-19,723	X	57,614	28	-4	X	24	2,214,699	-231,700	X	1,982,999	838,380	-91,036	X	747,344
A.3 Restructured exposures	-	-	X	-	8	-	X	8	19,909	-5,529	X	14,380	-	-	X	-	895,816	-105,052	X	790,764	6,868	-927	X	5,941
A.4 Past due exposures	-	-	X	-	36,762	-2	X	36,760	6,188	-271	X	5,917	-	-	X	-	424,551	-12,342	X	412,209	206,220	-12,402	X	193,818
A.5 Other exposures	18,179,474	X	-67	18,179,407	913,719	X	-3,470	910,249	4,015,534	X	-11,498	4,004,036	144,878	X	-15	144,863	50,115,423	X	-320,911	49,794,512	34,475,666	X	-170,760	34,304,906
TOTAL A	**18,179,543**	**-**	**-67**	**18,179,476**	**976,809**	**-1,749**	**-3,470**	**971,590**	**4,189,287**	**-83,819**	**-11498**	**4,093,970**	**146,841**	**-1,773**	**-15**	**145,053**	**57,010,759**	**-1,799,004**	**-320,911**	**54,890,844**	**37,109,898**	**-862,031**	**-170,760**	**36,077,107**
B. Esposizioni "fuori bilancio"																								
B.1 Non performing loans	-	-	X	-	-	-	X	-	21	-1	X	20	-	-	X	-	14,871	-3,744	X	11,127	63,905	-6,403	X	57,502
B.2 Impaired loans	-	-	X	-	-	-	X	-	4,328	-949	X	3,379	-	-	X	-	96,910	-6,474	X	90,436	1,853	-66	X	1,787
B.3 Other deteriorated assets	-	-	X	-	53	-1	X	52	65	-7	X	58	-	-	X	-	68,627	-4,421	X	64,206	25,824	-4,908	X	20,916
B.4 Other exposures	43,654	X	-	43,654	1,177,436	X	-2,178	1,175,258	2,257,058	X	-23,380	2,233,678	54,669	X	-126	54,543	10,871,764	X	-15,417	10,856,347	1,225,494	X	-2,679	1,222,815
TOTAL B	**43,654**	**-**	**-**	**43,654**	**1,177,489**	**-1**	**-2,178**	**1,175,310**	**2,261,472**	**-957**	**-23,380**	**2,237,135**	**54,669**	**0**	**-126**	**54,543**	**11,052,172**	**-14,639**	**-15,417**	**11,022,116**	**1,317,076**	**-11,377**	**-2,679**	**1,303,020**
30/06/2012	**18,223,197**	**-**	**-67**	**18,223,130**	**2,154,298**	**-1,750**	**-5,648**	**2,146,900**	**6,450,759**	**-84,776**	**-34,878**	**6,331,105**	**201,510**	**-1,773**	**-141**	**199,596**	**68,062,931**	**-1,813,643**	**-336,328**	**65,912,960**	**38,426,974**	**-873,408**	**-173,439**	**37,380,127**
31/12/2011	**8,569,857**	**-**	**-90**	**8,569,767**	**2,174,470**	**-1,232**	**-5,191**	**2,168,047**	**5,664,360**	**-96,399**	**-15,045**	**5,552,916**	**593,477**	**-1,960**	**-28**	**591,489**	**70,456,033**	**-1,626,786**	**-345,974**	**68,483,273**	**39,320,115**	**-895,859**	**-219,964**	**38,204,292**

Distribution by geographical area of deteriorated exposures to customers and impairment losses

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		**TOTAL**	
	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	**Gross Exposure**	**Impairment**
A. On-balance sheet exposure												
A.1 Non performing loans	4,980,108	-2,238,096	26,599	-19,971	7,985	-5,869	4,633	-4,633	629	-438	5,019,954	-2,269,007
A.2 Impaired loans	3,101,279	-336,892	47,306	-5,818	73	-20	-	-	3,509	-114	3,152,167	-342,844
A.3 Restructured exposures	897,731	-106,361	24,789	-5,146	42	-1	-	-	39	-	922,601	-111,508
A.4 Past due exposures	671,324	-25,005	2,397	-12	-	-	-	-	-	-	673,721	-25,017
A.5 Other exposures	104,895,390	-496,171	2,102,484	-9,541	651,419	-976	5,494	-12	189,907	-21	107,844,694	-506,721
TOTAL A	**114,545,832**	**-3,202,525**	**2,203,575**	**-40,488**	**659,519**	**-6,866**	**10,127**	**-4,645**	**194,084**	**-573**	**117,613,137**	**-3,255,097**
B. Esposizioni "fuori bilancio"												
B.1 Non performing loans	78,797	-10,148	-	-	-	-	-	-	-	-	78,797	-10,148
B.2 Impaired loans	102,076	-7,469	994	-18	21	-2	-	-	-	-	103,091	-7,489
B.3 Other deteriorated assets	92,795	-9,321	1,774	-16	-	-	-	-	-	-	94,569	-9,337
B.4 Other exposures	14,181,466	-41,015	1,276,741	-543	150,257	-2,205	3,905	-17	17,706	-	15,630,075	-43,780
TOTAL B	**14,455,134**	**-67,953**	**1,279,509**	**-577**	**150,278**	**-2,207**	**3,905**	**-17**	**17,706**	**-**	**15,906,532**	**-70,754**
30/06/2012	**129,000,966**	**-3,270,478**	**3,483,084**	**-41,065**	**809,797**	**-9,073**	**14,032**	**-4,662**	**211,790**	**-573**	**133,519,669**	**-3,325,851**
31/12/2011	**122,018,359**	**-3,145,707**	**3,775,785**	**-44,919**	**736,468**	**-2,232**	**65,669**	**-49,861**	**217,351**	**-1,129**	**126,813,632**	**-3,243,848**

Distribution by geographical area of deteriorated exposures to banks and impairment losses

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	**Gross Exposure**	**Impairment**
A. On-balance sheet exposure												
A.1 Non performing loans	22	-1	-	-	-	-	-	-	-	-	22	-1
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	3,312,814	-192	2,140,274	-	126,007	-	21,067	-	66,115	-	5,666,277	-192
TOTAL A	**3,312,836**	**-193**	**2,140,274**	**-**	**126,007**	**-**	**21,067**	**-**	**66,115**	**-**	**5,666,299**	**-193**
B. Esposizioni "fuori bilancio"												
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	333,151	-6	936,384	-387	43,644	-19	59,769	-219	30,309	-71	1,403,257	-702
TOTAL B	**333,151**	**-6**	**936,384**	**-387**	**43,644**	**-19**	**59,769**	**-219**	**30,309**	**-71**	**1,403,257**	**-702**
30/06/2012	**3,645,987**	**-199**	**3,076,658**	**-387**	**169,651**	**-19**	**80,836**	**-219**	**96,424**	**-71**	**7,069,556**	**-895**
31/12/2011	**4,672,113**	**-160**	**4,372,543**	**-440**	**416,050**	**-20**	**62,253**	**-213**	**216,380**	**-80**	**9,739,339**	**-913**

Changes in total net impairment losses for deteriorated exposures to customers

Description/categories	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures
A. Total initial net impairment	**-2,188,065**	**-311,652**	**-93,095**	**-10,152**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**-435,388**	**-143,446**	**-45,106**	**-23,742**
B.1 Impairment losses	-347,734	-126,407	-35,347	-16,798
B.2 transfers from other categories of deteriorated exposures	-78,355	-6,322	-9,759	-500
B.3 other increases	-9,299	-10,717	-	-6,444
C. Decreases	**354,446**	**112,254**	**26,693**	**8,877**
C.1 unrealised reversal of impairment losses	70,831	13,308	2,463	1,725
C.2 reversals of impairment losses	39,088	23,950	10,202	2,001
C.3 write-offs	127,181	444	418	-
C.4 transfers to other categories of impaired exposures	3,133	739,23	13,610	4,270
C.5 other decreases	114,213	629	-	881
D. Total closing net impairment	**-2,269,007**	**-342,844**	**-111,508**	**-25,017**
- of which: exposures transferred not derecognised	-	-	-	-

Changes in total net impairment losses for deteriorated exposures to banks

Description/categories	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures
A. Total initial net impairment	**-112**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 Impairment losses	-	-	-	-
B.2 transfers from other categories of deteriorated exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**111**	**-**	**-**	**-**
C.1 unrealised reversal of impairment losses	-	-	-	-
C.2 reversals of impairment losses	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	111	-	-	-
D. Total closing net impairment	**-1**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-

Table 6 – Credit risk: disclosures for portfolios subject to the standardised approach and specialised lending and equity exposures subject to IRB approaches

Quantitative information

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

The table gives banking group exposures subject to credit risk with the standardised approach. The exposures are given by credit quality class and by supervisory class and they are determined in accordance with prudential supervisory rules. The column "exposures deducted from regulatory capital" gives the exposures not considered in the calculation of risk weighted assets, because they are deducted directly from the regulatory capital.

		Data as at 30.06.2012			Data as at 31.12.11		
SUPERVISORY PORTFOLIO	**Credit quality step**	**Exposure with credit risk mitigation**	**Exposure without credit risk mitigation**	**Exposures deducted from the regulatory capital**	**Exposure with credit risk mitigation**	**Exposure without credit risk mitigation**	**Exposures deducted from the regulatory capital**
Exposures to or guaranteed by central governments and banks		**16,115,313**	**16,615,590**	**2,245**	**9,129,768**	**9,588,129**	**2,245**
	0%	16,114,444	16,613,229		9,128,913	9,587,161	
	20%	869	2,361		855	968	
Exposures to or guaranteed by regional governments and local authorities		**1,128,680**	**1,218,429**		**1,044,292**	**1,159,716**	
	0%	-	2,945		-	27,979	
	20%	1,128,680	1,215,484		1,044,292	1,131,737	
Exposures to or guaranteed by non commercial and public sector entities		**2,082,296**	**2,143,614**		**2,291,540**	**2,440,284**	
	0%	1,676	33,132		-	118,876	
	20%	949,789	949,789		1,056,237	1,056,237	
	50%	92,074	121,936		118,059	147,927	
	70%	-	-				
	100%	1,038,757	1,038,757		1,117,244	1,117,244	
Exposures to or guaranteed by multilateral development banks		**-**	**-**				
Exposures to or guaranteed by international organisations		**-**	**-**				
Exposures to or guaranteed by supervised intermediaries		**9,857,709**	**19,162,090**		**12,978,307**	**20,813,127**	
	0%	2,132,327	10,595,306		2,058,768	9,048,348	
	20%	5,349,283	5,711,644		8,060,949	8,352,290	
	50%	1,447,555	1,926,526		1,997,925	2,551,754	
	75%	265	265				
	100%	928,249	928,319		860,665	860,735	
	150%	30	30				
Exposures to or guaranteed by corporates		**20,776,722**	**21,155,422**		**75,874,684**	**77,460,228**	
	0%	2,134	148,650		11,384	605,198	
	20%	10,448	74,260		109,268	268,993	
	35%	1,538	1,538		1,629	1,854	
	50%	2,085,366	2,092,844		23,298,020	23,818,116	
	70%	-	4,429		-	20,332	
	75%	132,899	132,899		127,037	127,037	
	100%	17,664,890	17,821,355		47,020,403	47,311,755	
	150%	879,447	879,447		5,306,943	5,306,943	
Retail exposures		**20,023,677**	**20,620,902**		**28,285,355**	**29,415,442**	
	0%	11,743	605,624		11,410	1,137,756	
	20%	3,023	3,023				
	100%	32,732	32,732				
	150%	8	8				
	75%	19,976,171	19,979,515		28,273,945	28,277,686	
Exposures secured by real estate property		**27,603,014**	**27,622,614**		**30,633,005**	**30,654,659**	
	0%	-	19,600		-	21,654	
	35%	21,883,981	21,883,981		21,111,087	21,111,087	
	50%	5,719,033	5,719,033		9,521,918	9,521,918	
Past-due exposures		**4,201,603**	**4,210,273**		**6,485,419**	**6,535,464**	
	0%	-	8,670		-	42,633	
	50%	212,256	212,256		196,311	196,311	
	100%	2,233,913	2,233,913		2,866,047	2,866,047	
	150%	1,755,434	1,755,434		3,423,061	3,430,473	
High risk exposures		**123,262**	**123,262**		**128,445**	**128,445**	
	100%	965	965		801	801	
	150%	122,297	122,297		127,644	127,644	
Exposures in the form of covered bonds		**44,552**	**44,552**				
	20%	44,552	44,552				
Short-term exposures to supervised intermediaries and corporates		**-**	**-**				
Exposures to OICR (collective investment undertakings)		**81,636**	**81,636**		**202,788**	**202,788**	
	20%	-	-		-	-	
	100%	81,636	81,636		202,788	202,788	
Other exposures		**4,305,249**	**4,305,249**	**470,295**	**5,021,693**	**5,021,693**	**447,578**
	0%	472,552	472,552		571,702	571,702	
	20%	782,581	782,581		1,159,611	1,159,611	
	100%	3,050,116	3,050,116		3,290,380	3,290,380	
Securitisations		**3,297**	**3,297**		**3,849**	**3,849**	

Distribution of exposures by credit quality step: IRB approach

SUPERVISORY PORTFOLIO	CLASS	EXPOSURE
Exposures to or guaranteed by businesses: specialised lending - slotting criteria	specialised lending supervisory rating - high rating	152,594
	specialised lending supervisory rating - good rating	1,022,519
	specialised lending supervisory rating - sufficient rating	452,771

Table 7 – Credit risk: disclosures for portfolios for which AIRB approaches are employed

Qualitative information

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

With Provision No. 423940 of 16th May 2012, the Bank of Italy authorised the UBI Banca Group to use advanced internal rating based (AIRB) systems to calculate capital requirements to meet credit risk – "exposures to businesses" ("corporate") segment – and operational risks, from the supervisory report as at 30th June 2012. With specific reference to credit risk, the authorisation allows the use of internal estimates for probability of default (PD) and loss given default (LGD) parameters for the corporate portfolio.
Therefore for all the other portfolios, except for the corporate segment, the standardised approach will be used, to be applied in accordance with the roll-out plan delivered 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: Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Popolare di Ancona, Banca Regionale Europea, Banca Carime, Banco San Giorgio, Banca Valle Camonica (the "Network Banks"), UBI Banca Private Investment and Centrobanca[4];
- the remaining legal entities in the Group will continue to use the standardised approach.

The application for validation, which was approved by the Bank of Italy involves a roll-out plan for the portfolios subject to the AIRB approach which contains set deadlines for each supervisory customer segment (corporate, retail-mortgage and other retail) and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan will last 7 years (2012-2018), 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);

[4] As specified later in these disclosures, a special model was formulated to calculate the associated risk weighted assets for Centrobanca's "acquisition finance", structured finance exposures.

- generic types of exposure to economic counterparties not directly attributable to single debtor/creditor counterparties, but mainly to vehicles for covered bonds and self-securitisations.

The structure of internal rating systems and relationships between internal and external ratings

The rating models subject to validation which were developed internally for the corporate supervisory segment are employed for the small business, corporate and large corporate credit risk segments and involved the integration of different components. The acquisition finance, credit risk segment is only used by Centrobanca.

The assignment of credit risk segments to counterparties is used to select the internal rating calculation model that is appropriate for the characteristics of the counterparty and it is therefore necessary to ensure consistency between the type of counterparty and the model used to assign a rating.

Customer supervisory segmentation constitutes the starting point for the assignment of credit risk segments and as a consequence for the selection of the rating models to be employed for counterparties.

The following credit risk segments are defined within the supervisory corporate portfolio – consisting of exposures of greater than €1 million or a size (turnover or total assets) of greater than €1.5 million:

- small business, if the size is less than €5 million;
- corporate, if the size is between €5 million and €150 million;
- large corporate, if the size is greater than €150 million;
- nonprofit organisations;
- specialised lending.

In addition to the above, a parallel credit risk segment has been employed on the Centrobanca IT systems only, in order to identify and manage "acquisition finance", structured finance exposures with a dedicated model (the "Structured Finance" model).

Ratings are calculated using a counterparty approach and they are normally reviewed and updated once a year. The PD models developed by the UBI Group provide an overall assessment of counterparty risk through a combination of a quantitative and a qualitative component. The quantitative component is developed and processed statistically: the technique selected is that of logistic regression, normally used to assess cases where the dependent variable is dichotomous, either default or performing. The qualitative component of the rating model is based on information acquired by the Account Manager or a central unit[5] of UBI Banca for large corporate positions and it meets the need to incorporate qualitative factors and information on the client in ratings, which accompanies and completes the quantitative analyses, in order to detect trends and assess creditworthiness more accurately.

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

[5] This solution was adopted in order to ensure centralised management by specialists in the assessment of large corporate positions in conformity with internal Group assessments.

Master Scale	PD THRESHOLDS		UBI INTERNAL RATING MODELS		EXTERNAL RATINGS	
	Min PD	Max PD	Corporate and Large Corporate	Small Business	Moody's (1)	
			class	*class*	*class*	*PD*
MS1	0.030%	0.049%	1		Aaa-Aa3	0.000% - 0.047%
MS2	0.049%	0.084%		1	A1-A3	0.057% - 0.064%
MS3	0.084%	0.174%	2	2	Baa1-Baa2	0.142% - 0.171%
MS4	0.174%	0.298%	3	3	Baa3	0.292%
MS5	0.298%	0.469%	4		Baa3/Ba1	0.292% -0.674%
MS6	0.469%	0.732%		4	Ba1	0.674%
MS7	0.732%	1.102%	5	5	Ba2	0.760%
MS8	1.102%	1.867%	6		Ba3	1.729%
MS9	1.867%	2.968%		6	B1	2.381%
MS10	2.968%	5.370%	7		B2	3.775%
MS11	5.370%	9.103%		7	B3	7.158%
MS12	9.103%	13.536%	8	8	Caa1	9.349%
MS13	13.536%	19.142%	9	9	Caa2	17.895%
MS14	19.142%	99.999%			Caa3/C	27.352% - 35.447%

(1) cf. "Moody''s "Corporate Default and Recovery Rates, 1920-2010", Exhibit 30, Average One-Year Alphanumeric Rating Migration Rates, 1983-2010.

With regard to loss given default (LGD) models, the Group has developed different models for the Network Bank perimeter and for Centrobanca, because the operational management and IT systems are different.

Three factors determine the final estimate of LGD:

- NON-PERFORMING LGD is an estimate of the economic loss incurred on non-performing loans, inclusive of direct and indirect management costs. The present value of the cash flows reflects both the time value of money and the volatility of credit recovery cash flows.
- DOWNTURN LGD is an estimate of the economic loss incurred on non-performing loans during periods of recession, calculated by applying a correction factor to the Non-Performing LGD to represent the greater expected risk with respect to the long-term average. This correction factor is applied as a multiplication factor of the Non-Performing LGD.
- the DANGER RATE is a factor that must be applied to the Downturn LGD due to a definition of default which extends until 180 days past-due. This factor defines the possible path of a default towards non-performing loss status. Three specific components must be calculated to estimate it: a) the composition of the default, b) passages between different categories of default, c) the change in the exposure between different default categories.

The use of internal estimates for purposes other than the calculation of amounts for risk weighted exposures in compliance with IRB approaches

Internal estimates of PD, LGD and Danger Rate are also used for the following purposes:

- Setting approval levels

Internal counterparty ratings play an essential role throughout the entire credit process and they constitute a determining factor in the definition of credit rules for the disbursement and management of loans, especially for corporate clients. Internal ratings also constitute a compulsory input for the grant of loans: processes for the grant, modification or revision of credit authorisations are automatically forbidden if that factor is not available.

In accordance with Group Credit Authorisation Regulations, the powers of credit approval units are assigned on the basis of ratings in terms of the level of risk (high, medium and low) and the expected loss, where approvals for high risk counterparties are performed centrally by the Central Units of the Credit Department.

The approval levels for the "acquisition finance", structured finance exposures in Centrobanca's portfolio are set with account taken of the final ratings obtained using the Structured Finance Model.

➢ Credit monitoring

Activity to monitor ratings is integrated with that for the ordinary monitoring of credit-related behaviours. The monitoring process consists of the periodic observation and analysis of changes in customer ratings and it is organised so that it is proportionate to the counterparty risk. Its purpose is to assess the causes of deteriorations in credit worthiness and to identify action to undertake to rationalise positions and initiate credit recovery where necessary.

Activities to monitor credit ratings are organised at individual bank level (Peripheral Units and Central Units) and at Parent level according to the roles and responsibilities defined in internal regulations and they are supplemented by ordinary monitoring of proper credit-related behaviour.

Monitoring at Peripheral Unit level is performed firstly by Account Managers (supervised by Branch Managers), who assess the quality of their portfolios with direct and up-to-date management of positions. They analyse irregularities and identify corrective action to take if necessary.

The units responsible in the Credit Department (Credit Quality Monitoring Unit) perform counterparty monitoring, supervision and analysis duties, both on single positions and collectively. The intensity and depth of the analysis is graduated as a function of the risk classification and the seriousness of the repayment irregularities, while particular attention is paid to the deterioration of ratings and the assessment of corrective action if necessary.

More specifically, these units co-ordinate, programme and monitor Account Manager activities and they also watch credit rating downgrades, in order to identify high risk positions requiring targeted and prompt, structured intervention to resolve problem loan situations, where priorities for action are based on the credit ratings.

The Credit Quality Monitoring Units also assess and approve override downgrade proposals sent by authorised staff. They independently approve downgrade override proposals which they make themselves and receive upgrade override proposals requested from the Network Banks and make "admissible" proposals to the Parent units.

Further monitoring activity performed by the Network Banks is provided in the monitoring process by another two roles and units:

- the Local Credit Quality Contact, a specialist role within each Local Department introduced for adequate oversight of credit quality in local areas;
- the Local Approval Committee created both to maximise synergies between the commercial network and credit functions and also to act as an approval unit when credit authorisations are granted.

The IT system provides particular types of output (messages and alarms) to support the rating monitoring activity described above. These request immediate action to be taken by Account

Managers and the competent units in banks to update information or to make a prompt assessment of a credit position related to action required to contain credit risk.

- Accounting input processes

Ratings are used in the preparation of financial statements to calculate collective impairment losses on performing loans. The methodology employed to determine this impairment consists of a “Basel 2 like” procedure, in the sense that it uses an expected loss based on management accounting figures calculated on a perimeter comprising the Network Banks and Centrobanca. In this context, the Risk Management Area is responsible for ensuring that decisions concerning the methodology are consistent with Bank of Italy regulations and with any additions made to it to align it with operating practices observed on the market.

- *Reporting*

A quarterly report is prepared and submitted to the Management Board and the Supervisory Board on the risk positioning of the UBI Group at consolidated level. A series of detailed analyses of risk measurements for the perimeter consisting of the Network Banks and Centrobanca is presented consisting of distributions of LGD and expected loss by rating classes (a “master scale”). Similar reports are also prepared for each of the Network Banks and Centrobanca, for presentation by the relative competent units to their respective Boards of Directors.

- Calculation of risk-adjusted pricing levels

The internal rating system constitutes one of the factors evaluated for “commercial” governance and policy-making. The main activities impacted are as follows:

1) pricing management and processes to delegate authority to the distribution network;
2) the preparation of commercial budgets;
3) the definition of commercial action to undertake, supported by targeting and profiling;
4) the co-ordination of intragroup commercial processes.

- Creation of value, capital allocation and incentive schemes

Internal rating models (both for LGD and PD parameters) impact – in the context of value creation measurements (EVA – Economic Value Added) – both components used to calculate value added: measurement of profit (net operating profit after tax – NOPAT) and the cost of equity.

Incentive schemes for staff involved in rating assignments for corporate clients take account of team membership and the achievement of preset goals. The most important of these is gross income net of impairment losses on loans (collective and single position) and of operational losses. The deduction from gross income of the collective loan impairment loss component is calculated on the basis of the PD and LGD indicators.

The process for the management and recognition of credit risk mitigation techniques[6]

The process in the UBI Group to monitor the acquisition of collateral and guarantees and the use of techniques to mitigate credit risk is centred on the definition of appropriate risk management, instruments and processes designed firstly to ensure the verification of compliance with supervisory regulations, distinguishing between:

- "general requirements", such as "legal certainty", the "speed of implementation" and "organisational requirements";
- "specific requirements", with particular attention given to revaluation and monitoring of collateral and guarantees and verification of the absence of substantial correlation between the ability of a debtor to repay (creditworthiness) and the collateral.

The UBI Group employs specific instruments, processes and internal rules, in order to ensure that the above requirements are fully met.

More specifically, processes have been put in place to guarantee that "legal certainty", the "speed of implementation " of the guarantees acquired and the "organisational requirements" are met, which ensure that all aspects are in place to guarantee that guarantee documents acquired are formally valid and that procedures have been complied with.

The rules and processes implemented are designed to:

• to ensure full and freely enforceable rights when agreements are concluded;

• guarantee that all procedures necessary for the validity, effectiveness, binding nature and enforceability of the credit protection are carried out, by means of special check-lists,[7] used to guide Account Managers when checking the regularity of the formal aspects of guarantee documents acquired and compliance with the relative procedures.

The mitigating effects of guarantees considered eligible in the context of the advanced IRB methodology for calculating capital requirements are incorporated in the assignment of a differentiated LGD.

[6] Further details of the management of the process for the recognition of credit risk mitigation techniques are given in Table 8 of the Pillar 3 Disclosures document as at 31st December 2011.

[7] Check-lists are used to "guide" Account Managers when they check the existence of the requirements which guarantee the formal validity of the guarantees acquired and compliance with the relative procedures. To complete the acquisition of guarantees, Account Managers must necessarily compile all the points on the check-lists and they must be verified or validated by a central or higher level unit, depending on the guarantee acquired.

Mechanisms to monitor and revise rating systems

In accordance with the regulations currently in force (Circular No. 263/06), the internal rating system must provide appropriate procedures for verification and checking at all levels of control.
The data employed to calculate ratings is checked at the level of the databases of origin both through automated checks when data is entered and through manual checks carried out by Account Managers and Branch Managers. Further checks are also carried out:

- by the credit units of the banks granting the loans as part of activities to analyse and check the credit authorisations they grant;
- by units responsible for software and database administration, which check the inputs to the rating system and carry out routine checks on the results of processing. Finally, these results are verified by the Parent's Risk Management unit.

The Senior Management of the Parent periodically receives summary reports for the necessary communications to Group control bodies.

Responsibilities for subsequent levels of monitoring have been assigned to the Models and Processes Validation Service and to the Internal Audit function. The methodologies adopted are illustrated below.

a. The validation process

Being authorised to adopt internal models to calculate its capital requirement, the UBI Banca Group has put controls in place to test and verify its rating systems both when they were first rolled out and on a continuous basis (known as the "validation process"). The results of the validation process, appropriately documented, contain a rating of the functioning and performance of the operational processes (models, processes and systems), designed to meet the regulatory requirements of Circular No. 263/2006.
In order to ensure that validation process activities are fully official and properly carried out, the UBI Group has put a structured and official set of procedures in place to verify internal models and (where required) systems, processes and data. The validation process does not in fact end with the authorisation from the Bank of Italy to employ the internal models in question for the types of risk identified, but is conducted annually, or more frequently if changes in the operating conditions of the Group should require it.

The Models and Processes Validation Service, which operates on the staff of the Chief Risk Officer, is the organisational unit responsible for carrying out the validation process on first pillar risks, both at the authorisation stage and continuously and iteratively. The position of the Service in the organisation chart ensures that it is independent of the units involved in activities to develop the models, assign ratings, grant loans and revise rating systems internally. The Service ensures that the rating system constantly complies with regulatory requirements and the operational requirements of banks and responds to developments on the relative markets. To achieve this it periodically reviews and (if necessary) revises validation tools and procedures, in order to conserve the effectiveness of the process in a context in which market variables and the operating conditions of the Group are changing constantly. The Service's activities are carried out in three separate functional areas:

- <u>model validation</u>: the methodologies employed to estimate PD (separately for each rating model for which authorisation has been requested) LGD and EAD/CCF are checked. The analysis evaluates the calibration methods used to estimate risk indicators. The maintenance of set levels of performance (predictive power of the models) is checked and that minimum requirements set by supervisory regulations are met;

- systems and data quality validation: this consists of verifying that the organisation and procedures for IT infrastructures that constitute the rating system are appropriate, that they are integrated and complete with supporting documentation, with particular reference to the scope of the historical data. Checks are also carried out both for the roll-out and continuously on the conformity of the data used to develop the different models (with respect to the historical data actually stored by the banks);
- validation processes: these relate to evaluations of the proper procedural functioning of the rating system and the relative operational processes to assign, update and monitor/revise it, with reference to the "experience requirement" and the "user requirement", as explicitly required by supervisory regulations. The analysis involves an assessment of the results of the various processes, designed to identify possible areas for the improvement of procedures.

b. The internal audit

Internal audit activity carried out within the UBI Banca Group to assess the internal rating system for the measurement of credit risk and the relative calculation of the capital requirement is performed by the Internal Audit function. This unit, which has been headed since 1st February 2012 by the Group Chief Audit Executive, reports directly to the Supervisory Board, a hierarchical and functional reporting position which ensures its independence and autonomy in assessing the process and the results of the activities performed by second level control functions, which includes the validation unit.

With specific reference to internal rating systems, internal audit activities focus on an evaluation of the organisation and functioning of the units, rules and procedures of banks and companies and also of their IT support systems. More specifically, consideration is given to the following aspects:

- the role of Corporate Bodies: in order to examine the functioning of the governing bodies of companies within the AIRB system and to assess their powers, decision-making processes and relative levels of involvement with regard to the "Basel 2" project;
- compliance of risk management systems with regulatory requirements;
- the characteristics of and the rules for the development and functioning of models: to assess compliance of the processes used to develop models to estimate risk parameters through analysis of the methodological documentation and to study the model design and test the performance and predictive power of the models;
- the functioning of control systems: in order to verify that corporate processes relating to the internal rating system are being carried out properly;
- the adequacy and reliability of IT support systems: to verify the appropriateness of the IT architecture in those areas (both at the model development stage and at the process stage when in service);
- data quality: to verify the quality of the databases used in terms of checking their performance and consistency in the development and use of models;
- the management use of risk measurement systems: in order to check the management use of internal rating systems in making strategic and operational decisions and in the internal allocation of capital;
- the internal validation process: in order to assign a rating in terms of the adequacy, completeness, objectivity and consistency of the results of the activities carried out by the Models and Processes Validation Service.

These activities are also used to generate adequate reports to Corporate Bodies to support activities to evaluate the functioning and adequacy of internal systems and their compliance with regulatory requirements, both when authorisation is applied for and after approval by the

Supervisory Authority. Subject to authorisation to use internal systems, the Internal Audit function is responsible, as part of ordinary reporting to Corporate Bodies, for the annual preparation of a final report which illustrates the activities carried out and relative results and underlines all difficulties and malfunction detected together with the proposed corrective action. Also, more generally, Internal Audit activities involve the overall and on-going verification of compliance of the AIRB system with the requirements of the New Regulations for the Prudential Supervision of Banks.

Description of the internal rating system by supervisory class of activity:

Relationship between credit risk segmentation, rating models and supervisory exposure classes

The relationship with credit risk segments for the corporate supervisory class is direct because the supervisory exposure classes correspond to the small business, corporate, large corporate, acquisition finance and specialised lending (not comprised within the validation) credit risk segments. The small business, corporate and large corporate segments correspond to models of the same name which are divided internally depending on the structure of their balance sheets (industrial, commercial and services; property; long-term production; financial[8]).

At present, the Group does not have validated rating or LGD systems for the other classes of supervisory exposures and consequently capital absorption is calculated using the standardised approach.

i) Corporate

Types of exposure

The "Corporate" class includes the following types of counterparty:

- *a) Large Corporate*
- *b) Corporate*
- *c) Small Business*
- *d) Acquisition Finance*
- *e) Specialised Lending.*

As already mentioned, acquisition finance is a credit risk segment which relates exclusively to Centrobanca positions which have performed transactions of that type. This model falls within the perimeter of the Bank of Italy validation. For positions where specialised lending transactions have been performed, identified in accordance with Circular No. 263, the "IRB slotting" approach defined in that same Circular No. 263 is used, which defines evaluation divided into four classes: high, good, sufficient and weak. While this credit risk segment falls within the supervisory corporate class, it is not subject to validation.

PD models and databases

Five different models have been developed based on balance sheet structure and where possible on the counterparty credit risk segment to assess the creditworthiness of customers belonging to the corporate supervisory segment, in order to identify homogeneous risk profile clusters: industrial large corporate and corporate, industrial small business, property, long-

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[8] The financial module for financial companies was not developed internally because only a small number of observations were available and consequently a module developed by an external vendor was used.

term, financial[9]. Each model consists of four basic stages: quantitative estimate of the model (quantitative score), assessment of the qualitative questionnaire (qualitative rating), integration of quantitative and qualitative assessment (total rating), definition or rating classes and PD estimate.

Quantitative score. The quantitative component of the corporate model is composed of three sub-models, which cover all the available data and evaluate the sociological and balance sheet characteristics of the counterparty and the performance of its relationships with the Group and with the banking sector (financial module, performance module, geo-sectoral module). The final model is the result of the statistical integration of the individual models.

The solvency of a company is assessed with particular attention paid to the balance sheet data in order to obtain a score which expresses the financial and operating strength of the counterparty. Different models are used where possible on the basis of the counterparty credit risk segment (large corporate, corporate, small business) and the balance sheet structure. The performance variables are designed to detect signs of deterioration in the risk, by investigating management procedures, the size of and changes in debt to financial intermediaries, both in total terms and at the level of specific types or categories of classification according to the Bank of Italy *Centrale dei Rischi* (central credit register). Finally the objective of the geo-sectoral modules, also differentiated according to the counterparty credit risk segment, is to evaluate the contribution of socio-demographic indicators related to the growth potential of the sectors and geographical areas in which a company operates and the contribution of various systemic risk factors.

All normal statistical analysis procedures were carried out at the development stage of the models: acquisition of a development sample (70%) and of a test sample (30%), pre-treatment of the data, descriptive analyses of the single variables, univariate analysis of the “long list”, analysis of correlations between the significant variables, testing the integrity of the model on a test sample and bootstrapping analyses to test the robustness of the estimates. Once the scores for the single modules were defined, they were recalibrated on an integration sample by correction of the intercept and integrated statistically using logistic regression.

Qualitative rating. The objective of qualitative analysis is to formulate an assessment of a counterparty based on information which, together with information gleaned from financial statements and financial forecast documents (budgets and business plans), contributes to the formulation of the credit rating for the counterparty. Reference is made in particular to information acquired from external sources such as the central credit register, land registers, tax “sector studies”, adverse register entries and other types of information obtained from the performance of the relationship held with the bank. Different types of questionnaire have been drawn up, relating both to the counterparty and to the group of companies to which it belongs. The objective is to calibrate questions on the basis of different general categories of activity, which it is considered should cover all those carried out by the counterparties and the groups in the banking portfolio.

Overall rating. The two components are integrated by using comparison matrices, which differ according to the differing degree to which the qualitative and the quantitative components affect the definition of the final rating of the counterparty. The final rating for use in processes is the result of the integration of the quantitative component with the qualitative component, which for counterparties belonging to groups of companies includes the Group evaluation. Ratings are assigned to foreign counterparties both for the quantitative component and for the qualitative component, by following the same approach employed for Italian counterparties.

[9] See the previous footnote with regard to the financial module.

The calculation of rating and PD classes. The UBI Group made the decision to quantify PD on a size basis differently for large corporate and corporate counterparties on the one hand and for small businesses on the other. Once the scores, integrated with the long-term impairment rates for the respective totals, have been calibrated and an appropriate number of classes has been decided on into which the integrated calibrated score is to be divided, cut-off points are defined to give the rating classes. Different methodologies were tested to achieve this (kernel analysis, cluster analysis and Kohonen maps) and the results were analysed.

Once the cut-off points were identified, the PD was calculated as the average of the simple one year impairment rates measured on historical data for Group banks, using a frequentist or actuarial approach. With this approach, the impairment rates are obtained by comparing the number of performing customers in each rating class on a given date with the number of these who have defaulted over the following twelve months.

The following were evaluated when the PD was defined: the monotonicity; the distribution of the population by classes; and statistical tests to compare the estimated PD with empirically observed impairment rates. The historical period of observation of the data sources considered for the calculation of the PD was from 2005 to 2010, in compliance with Bank of Italy regulatory requirements.

Methodologies and data inputs used to develop the structured finance model

A special model was created based on an experience based assessment approach to assess "acquisition finance", structured finance exposures in the Centrobanca portfolio. It consists of a qualitative questionnaire borrowed from the "slotting criteria" approach, in accordance with supervisory regulations for specialised lending exposures, and it has been appropriately adapted to take account of the specificities of the exposures in the portfolio to which the model is applied.

The assessment questionnaire used for the model consists of a series of questions designed to acquire a summary description of qualitative, quantitative and future outlook aspects and of credit recovery prospects in the case of default.

More specifically, the assessment questionnaire is comprised of questions grouped structurally into two separate sections:

- a section for the calculation of the "1st level rating", designed to assess creditworthiness in relation to the acquisition finance transaction in question;
- a section to calculate "recovery", designed to evaluate the guarantees granted in relation to the transaction evaluated.

The "1st level rating" and the "recovery rating" are integrated by means of an integration matrix, in order to arrive at an overall rating for the acquisition finance transaction in question.

This rating is mapped along four dimensions as occurs for specialised lending transactions, which are based on four classes of risk weighted assets for supervisory reporting purposes. The associated risk weighted assets for defaulted counterparties are nil.

The Group decided to adopt the same definition of default for the structured finance model as that in use for the corporate rating models, in order to maintain uniformity in the definition across models and to comply with supervisory regulations.

The samples used in the analyses carried out to develop the structured finance model consisted solely of internal Group observations. No use was made in the construction of the sample of statistical sampling and/or stratification techniques and no division was made between the development sample and that used to validate the model.

The questions in the qualitative questionnaire for rating in the structured finance model were selected mainly on the basis of creditworthiness assessment considerations.

The Network Bank LGD estimation method and database.

As already mentioned, the UBI Group has developed separate models for the Network Banks and for Centrobanca.

Models have been defined for the **Network Bank** aggregate for corporate and retail supervisory segments, with a specific distinction made for the retail residential real estate (RRE) sub-segment.

The determining parameters for the estimation of LGD are: 1) Non-performing LGD; 2) Downturn LGD; 3) Danger Rate.

Non-performing LGD is calculated as the one's complement of the ratio of the net recoveries observed during the life of a non-performing position and exposure when the classification as non-performing occurs inclusive of the principal reclassified and the interest that has been capitalised. Cash recovered is considered "net", because it includes all cash inflows (principal, interest, recovery of expenses) and also the expenses, consisting of decreases in the principal, cash outflows for direct and indirect management expenses, charges for revocation clawback legal action.

In accordance with the definition of economic LGD given in supervisory regulations, credit recoveries are discounted to present values at a risk-adjusted rate, which reflects the time value of money and a risk premium calculated on the basis of the volatility of credit recoveries observed compared to a preset market benchmark.

Non-performing LGD calculated in this manner is never negative, as specifically required by supervisory regulations.

The historical depth of the data observations for the estimate of Network Bank Non-performing LGD always guarantees at least eight years of closed non-performing loans. The date on which the last non-performing position was closed is 31/12/2009. The sample not only includes closed non-performing loans, but also some that were open as at 31/12/2009, which because of their specific nature were considered "basically closed". Their inclusion in the sample has a prudential impact on the overall estimates.

As concerns the estimation method employed, the Network Bank Non-performing LGD was estimated using an econometric model on the basis of which the dependent variable is approximated to a straight line, the parameters of which measure the marginal contribution of the variable that they represent.

The approach adopted for the **Downturn LGD** was designed to take account of adverse economic conditions for recovery expectations, based on the identification of a period of recession on the basis of the current economic scenario. More specifically, an analysis of the performance of GDP (annual changes in the historical data series for quarterly Italian GDP) showed that the second half of 2008 should be considered as the beginning of a downturn. This period covers all subsequent observations until the cut-off date for the Non-performing LGD sample (31/12/2009).

The **Danger Rate** parameter is used to correct the LGD estimated on non-performing loans only, by considering the following factors: 1) the composition of defaulted loans, because not all new expected defaults are non-performing positions that come directly from the performing category; 2) migration between default categories, because not all defaults that are not in the non-performing category arrive at the most serious and loss-incurring non-performing status;

3) change in the exposure because the exposure may change over time for defaulted positions which migrate to the non-performing category.

The historical depth of the data observation for estimating the Network Bank Danger Rate was five years and corresponded to the period June 2005 – June 2010. This period ensured the presence in the sample of a uniform definition of default during the same period which was also exhaustive because it included positions past-due for 180 days, introduced in June 2005. The default category therefore includes non-performing positions, collectable impaired positions and operational default positions (an aggregate composed of not technically past-due positions, operationally impaired positions and restructured positions).

The Centrobanca LGD estimation method and database.

The calculation of Non-performing LGD for Centrobanca is carried out by following the same procedure as that described for the Network Banks. Similarly the LGD for Centrobanca is never negative.

The estimation sample for Centrobanca Non-performing LGD consists of non-performing positions opened since 1990 and closed between 1990 and 2009.

What has been already reported for the Network Banks for **Downturn LGD** also applies to Centrobanca, because the value calculated for the Network Bank corporate model was borrowed due to the small number of observations for Centrobanca.

The structure of the migration tree described above for the Network Banks is considered valid for Centrobanca with regard to the **Danger Rate**.

The historical depth of the data observation for estimating the Danger Rate was six years (2004-2009): that interval of time is sufficiently representative and exhaustive for all the administrative categories.

In terms of the methodology employed, the small number of observations suggested the use of an average cells model for Centrobanca for both the Non-performing LGD component and for the Danger Rate, with different values for the clusters identified assigned on an expert basis as a function of the products and guarantees axes (Non-performing LGD) and just products axes (Danger Rate).

PD and LGD validation

See the sub-section "*a. The validation process*" of the section "The use of internal estimates for purposes other than the calculation of amounts for risk weighted exposures in compliance with IRB approaches".

Description of exceptions to the definition of default in accordance with supervisory regulations

The definition of default employed to develop the PD and LGD models is based on Bank of Italy Circular No. 263/06. While the definition of default used for supervisory reporting purposes and for the calculation of capital requirements remains unchanged, the Group has excluded exposures past-due and/or in arrears of a technical nature ("technically past-due" positions) for estimates using internal PD and LGD models, as requested by a letter of 29th June 2007.

In compliance with Bank of Italy recommendations, the Group has attended to the following:

- failure to ascertain losses on the positions identified, except for the minimum amounts connected, for example, with the failure to collect interest on arrears or reminder expenses charged to customers;

- failure to initiate operational action for the positions identified, similar to that taken for other loans which are considered uncollectable.

1) in consideration of the specific operating circumstances of the UBI Group, it was decided to use two drivers to identify technically past-due positions: a "significance threshold" and the "length of time past-due".

In those cases where past-due positions migrate to a worse default category, they are no longer considered technical and the default classification starts from the date on which it is classified as past-due.

ii) Retail exposures

Retail exposures do not fall within the first validation perimeter. As stated in the validation application which contains the roll-out plan, this supervisory class with be gradually included in the plan.

iii) Capital instruments

No internal systems have been implemented for this class. Consequently, the capital requirement is calculated using the standardised approach and exposures of this type fall within the perimeter of those managed in "permanent partial use" (PPU) in accordance with the provisions of Circular No. 263.

Quantitative information

Amounts of the exposures by supervisory portfolio

SUPERVISORY PORTFOLIO	Exposures	
	FOUNDATION IRB	ADVANCED IRB
Exposures to or guaranteed by businesses:		
Specialised lending		
SMEs		18,546,683
Other companies		22,784,387

Distribution of exposures by supervisory class of activity and by PD class

	PD Class (*)	Exposure	Average weighting factor (%)	Average weighted LGD (%)	Undrawn credit	Average weighted EAD (%)
Exposures to or guaranteed by corporates						
- SMEs						
	1st class	124,539	13.01	43.21	29,055	7.01
	2nd class	89,794	13.00	30.90	20,665	14.00
	3rd class	1,133,124	22.41	33.16	201,297	14.70
	4th class	2,284,145	28.73	30.58	249,412	15.95
	5th class	1,611,579	44.85	33.36	161,023	18.97
	6th class	1,520,557	38.62	29.20	111,077	19.16
	7th class	3,699,845	56.73	31.16	209,914	18.50
	8th class	1,707,156	74.19	32.30	95,438	20.14
	9th class	1,537,234	68.57	29.17	60,571	22.06
	10th class	1,352,148	85.26	31.30	61,370	26.00
	11th class	670,198	95.00	29.69	11,669	16.00
	12th class	993,761	111.35	29.42	33,590	26.04
	13th class	150,274	126.01	27.52	6,097	35.96
	Default	1,672,329	-	32.33	30,190	23.20
- Other companies	*1st class*	125,602	14.93	42.96	27,641	9.31
	2nd class	3,188	21.00	41.94	972	8.00
	3rd class	1,614,422	33.96	42.34	456,536	13.85
	4th class	3,145,598	46.52	42.14	800,948	14.85
	5th class	4,807,048	65.13	42.85	1,191,590	23.15
	6th class	196,076	56.06	32.91	27,152	36.76
	7th class	4,287,964	84.74	39.97	332,597	18.43
	8th class	2,683,937	99.51	37.84	223,780	24.20
	9th class	225,403	89.33	29.86	11,142	19.00
	10th class	1,480,026	117.20	36.35	52,414	21.34
	11th class	78,905	103.56	24.88	2,080	26.00
	12th class	613,975	144.71	32.21	25,986	23.67
	13th class	115,842	172.60	31.56	3,703	34.76
	Default	2,441,815	-	36.82	53,339	25.60

(*) Master Scale, cf. Qualitative information.

The table *Distribution of exposures by supervisory class of activity and by PD class* does not include €964,584 thousand of acquisition finance exposures (which are included, however, in the table *Amounts of exposures by supervisory portfolio).* These exposures present an average weighting factor of 83%, undrawn credit of €69,459 thousand and a weighted average EAD of 75%.

Comparison between estimates and actual results

The deterioration in the economic environment seen in 2011, with a general slowdown in economic activity and continuing difficulties on financial markets led to losses on loans totalling €306 million (46bps) for the Network Banks and €60 million (84 bps) for Centrobanca. These amounts had fallen compared to the previous year: down by €52 million (-6 bps) for the Network Banks and by €5 million (-10 bps) for Centrobanca, which demonstrates the rigorous management of credit quality performed by the Group.

With a view to checking the consistency of estimates of losses for the Network Banks and Centrobanca for the period ended 31.12.2010[10] and losses actually occurred incurred during the following year, it can be seen that the total collective impairment provision, calculated on the basis of LGD ratings, was quite sufficient with respect to total impairment losses on single

[10] This consistency was checked by using the models available at that time and therefore before refinements were made following Bank of Italy discussions at the prevalidation stage and on a wider scope of application than that of the supervisory corporate category subject to validation.

positions recognised in 2011. Further evidence in this respect is given by the fact that the comparison carried out for the Network Banks between the collective provision for the period ended 31.12.2010 and the losses and forecasts of losses carried out in 2011 on performing positions for the period ended 31.12.2010 shows that the provision was quite sufficient with respect to the losses actually incurred.

In compliance with the memorandum for validation activities approved by senior management, PD and LGD monitoring is performed annually for LGD and half yearly for PD using officially regulated, structured and automated procedures. This activity includes a set of tests applied to a portfolio which does not include the estimate sample and which is continuously updated over time, designed to assess the representativity, performance, predictive power and ordering power of the models compared to the same dimensions measured during the development stage. The memorandum for validation activities also requires, with specific reference to the calibration of PDs, a half yearly comparison to be made between estimated PDs and actual impairment rates observed, also performed using officially regulated, structured and automated procedures in order to ensure that PDs correspond to actually observed rates.

Finally, with the adoption of advanced methods to calculate capital requirements for the corporate portfolio, activities are currently being planned to monitor statistical models by selecting a series of tests and procedures designed to constitute a periodic monitoring process for the portfolio.

Table 8 – Risk mitigation techniques

Quantitative information

The table below gives Group exposures subject to credit risk by supervisory portfolio – the standardised approach with risk mitigated by financial collateral, personal guarantees or credit derivatives. No hedges of exposures using credit derivatives existed which were valid for the purposes of risk mitigation techniques.

EXPOSURES SECURED BY COLLATERAL AND PERSONAL GUARANTEES	Data as at 30.06.2012		Data as at 31.12.2011	
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and banks	-	500,277	-	458,362
Exposures to or guaranteed by regional governments and local authorities	2,945	86,805	27,979	87,445
Exposures to or guaranteed by non commercial and public sector entities	31,456	29,862	118,876	29,867
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	8,517,696	786,685	7,020,022	814,799
Exposures to or guaranteed by corporates	146,517	232,183	594,030	991,513
Retail exposures	597,225	-	1,130,087	-
Exposures secured by real estate property	19,600	-	21,654	-
Past-due exposures	8,670	-	42,633	7,412
High risk exposures	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to supervised intermediaries and corporates	-	-	-	-
Exposures to OICR (collective investment undertakings)	-	-	-	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-

Table 9 – Counterparty risk

Quantitative information

The tables published starting on the next page give information required by supervisory regulations on the subject of financial and credit derivatives.

Financial derivatives - Supervisory trading portfolio: notional, end of period and average figures

Underlying assets/type of derivative	30/06/2012		31/12/2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments and interest rates	**24,480,699**	**1,385,844**	**28,658,326**	**623,007**
a) Options	7,013,151	25,733	7,765,102	-
b) Swaps	17,467,548	-	20,893,224	-
c) Forwards	-	-	-	-
d) Futures	-	1,360,111	-	623,007
e) Other	-	-	-	-
Equity instruments and share indices	**51,634**	**65,317**	**59,681**	**1,440**
a) Options	51,634	47,001	59,681	100
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	18,316	-	1,340
e) Other	-	-	-	-
Currency and gold	**5,405,096**	**-**	**5,342,657**	**-**
a) Options	1,960,356	-	2,030,499	-
b) Swaps	-	-	-	-
c) Forwards	3,444,740	-	3,312,158	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Commodities	**12,470**		**5,785**	**-**
Other underlying	-	-	**-**	**-**
Total	**29,949,899**	**1,451,161**	**34,066,449**	**624,447**
Average amounts	**32,008,174**	**1,037,804**	**41,363,171**	**1,640,207**

Financial derivatives – Banking portfolio: notional, end of period and average figures

For hedging

Underlying assets/type of derivative	30/06/2012		31/12/2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments and interest rates	**47,803,180**	**-**	**47,902,850**	**-**
a) Options	5,718,080	-	5,230,386	-
b) Swaps	42,085,100	-	42,672,464	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Currency and gold	**968,714**	**-**	**1,128,625**	**-**
a) Options	-	-	-	-
b) Swaps	968,714	-	1,128,625	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Commodities	**-**	**-**	**-**	**-**
Other underlying	**-**	**-**	**-**	**-**
Total	**48,771,894**	**-**	**49,031,475**	**-**
Average amounts	**48,901,685**	**-**	**46,398,792**	**-**

Financial derivatives – Banking portfolio: notional, end of period and average figures

Other derivatives

Underlying assets/type of derivative	30/06/2012		31/12/2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments and interest rates	**107,194**	**-**	**126,494**	**-**
a) Options	19,094		19,094	-
b) Swaps			-	-
c) Forwards			-	-
d) Futures			-	-
e) Other	88,100		107,400	-
Equity instruments and share indices	**1,819,731**	**-**	**2,167,983**	**-**
a) Options			2,167,983	-
b) Swaps	1,819,731		-	-
c) Forwards			-	-
d) Futures			-	-
e) Other			-	-
Currency and gold	**-**	**-**	**-**	**-**
a) Options			-	-
b) Swaps			-	-
c) Forwards			-	-
d) Futures			-	-
e) Other			-	-
Commodities			**-**	**-**
Other underlying			**-**	**-**
Total	**1,926,925**	**-**	**2,294,477**	**-**
Average amounts	**2,110,701**	**-**	**5,615,810**	**-**

Financial derivatives - gross positive fair value: by type of product

Portfolio/type of derivative	Positive fair value			
	30/06/2012		31/12/2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**575,190**	**959**	**595,567**	**220**
a) Options	44,444	237	61,106	35
b) Interest rate swaps	519,162		489,384	-
c) Cross currency swaps			23	-
d) Equity swaps			-	-
e) Forwards	11,019		44,024	-
f) Futures		722	-	185
g) Other	565		1,030	-
B. Banking portfolio - for hedging	**1,340,946**	**-**	**1,090,498**	**-**
a) Options			-	-
b) Interest rate swaps	1,313,942		1,010,954	-
c) Cross currency swaps			-	
d) Equity swaps			-	
e) Forwards			-	-
f) Futures	8,895		-	-
g) Other	18,109		79544	-
C. Banking portfolio - other derivatives	**5**	**-**	**1,199**	**-**
a) Options	5		1,199	-
b) Interest rate swaps			-	-
c) Cross currency swaps			-	-
d) Equity swaps			-	-
e) Forwards			-	-
f) Futures			-	-
g) Other			-	-
Total	**1,916,141**	**959**	**1,687,264**	**220**

Financial derivatives - gross negative fair value: by type of product

Portfolio/type of derivative	Negative fair value			
	30/06/2012		31/12/2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**599,826**	**207**	**624,066**	**187**
a) Options	34,231	10	49,123	-
b) Interest rate swaps	551,490		522,968	-
c) Cross currency swaps	610		47	-
d) Equity swaps			-	-
e) Forwards	12,969		50,889	-
f) Futures		197	-	187
g) Other	526		1,039	
B. Banking portfolio - for hedging	**1,966,231**	**-**	**1,739,685**	**-**
a) Options			-	-
b) Interest rate swaps	1,957,629		1,739,328	-
c) Cross currency swaps			-	-
d) Equity swaps			-	-
e) Forwards			-	-
f) Futures			-	-
g) Other	8,602		357	-
C. Banking portfolio - other derivatives	**1,135**	**76**	**1,413**	**106**
a) Options	1,135		1,413	-
b) Interest rate swaps			-	-
c) Cross currency swaps			-	-
d) Equity swaps			-	-
e) Forwards			-	-
f) Futures			-	-
g) Other		76	-	106
Total	**2,567,192**	**283**	**2,365,164**	**293**

Over the counter financial derivatives: supervisory trading portfolio – notional amounts, gross positive and negative fair values by counterparty

contracts not covered by clearing agreements

Contracts not covered by clearing agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	21,819	10,109,175	483,627	-	5,906,945	854,134
- positive fair value	-	1	48,052	6,447	-	362,336	11,277
- negative fair value	-	7	391,621	4,442	-	1,740	636
- future exposure	-	76	68,420	1,329	-	17,188	659
2) Equity instruments and share indices							
- notional amount	-	-	-	-	-	-	51,634
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	603
3) Currencies and gold							
- notional amount	-	-	2,917,519	1,337,501	290	1,103,599	20,446
- positive fair value	-	-	23,641	5,598	6	8,992	119
- negative fair value	-	-	21,608	8,995	2	10,049	173
- future exposure	-	-	28,062	13,375	3	7,673	204
4) Other securities							
- notional amount	-	-	6,297	-	-	6,173	-
- positive fair value	-	-	1,262	-	-	434	-
- negative fair value	-	-	482	-	-	44	-
- future exposure	-	-	567	-	-	617	-

Over the counter financial derivatives: supervisory trading portfolio – notional amounts, gross positive and negative fair values by counterparty

contracts covered by clearing agreements

Contracts covered by clearing agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	6,630,631	474,367	-	-	-
- positive fair value	-	-	101,219	5,789	-	-	-
- negative fair value	-	-	140,185	19,707	-	-	-
2) Equity instruments and share indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	25,741	-	-	-	-
- positive fair value	-	-	17	-	-	-	-
- negative fair value	-	-	134	-	-	-	-
4) Other securities							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Over the counter financial derivatives: banking portfolio – notional amounts, gross positive and negative fair values by counterparty

contracts not covered by clearing agreements

Contracts not covered by clearing agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	8,145,178	379,240	4,050	3,500	16,747
- positive fair value	-	-	200,905	-	-	-	-
- negative fair value	-	-	39,184	4,754	-	-	-
- future exposure	-	-	650,746	277	-	-	-
2) Equity instruments and share indices							
- notional amount	-	-	733,720	137,885	682,821	86,84	178,465
- positive fair value	-	-	5	-	-	-	-
- negative fair value	-	-	1,131	-	-	-	4
- future exposure	-	-	53,846	13,789	3,385	6,957	17,421
3) Currencies and gold							
- notional amount	-	7,749	2,793	20,804	0	25,419	911,950
- positive fair value	-	-	159	768	-	783	25,295
- negative fair value	-	139	-	128	-	253	8,082
- future exposure	-	23	28	208	-	253	8,954
4) Other securities							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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Over the counter financial derivatives: banking portfolio – notional amounts, gross positive and negative fair values by counterparty

contracts covered by clearing agreements

Contracts covered by clearing agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	37,054,336	2,307,323	-	-	-
- positive fair value	-	-	1,068,520	44,518	-	-	-
- negative fair value	-	-	1,725,209	188,482	-	-	-
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) Other securities							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

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Residual maturity of over the counter financial derivatives: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Supervisory trading book	**14,808,401**	**8,404,329**	**6,737,169**	**29,949,899**
A.1 Financial derivatives on debt instruments and interest rate	9,471,079	8,272,451	6,737,169	24,480,699
A.2 Financial derivatives on equity instruments and share ind	33	51,601	-	51,634
A.3 Financial derivatives on exchange rates and gold	5,324,819	80,277	-	5,405,096
A.4 Financial derivatives on other securities	12,470	-	-	12,470
B. Banking book	**11,045,530**	**26,166,923**	**13,486,365**	**50,698,818**
B.1 Financial derivatives on debt instruments and interest rate	10,073,652	24,987,163	12,849,559	47,910,374
B.2 Financial derivatives on equities and share indices	3,164	1,179,760	636,806	1,819,730
B.3 Financial derivatives on exchange rates and gold	968,714	-	-	968,714
B.4 Financial Derivatives on other securities	-	-	-	-
Total 30/06/2012	**25,853,931**	**34,571,252**	**20,223,534**	**80,648,717**
Total 31/12/2011	**27,970,227**	**36,984,785**	**20,437,389**	**85,392,401**

Credit derivatives: end of period and average notional amounts

No transactions in credit derivatives were performed in the first half of 2012.

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

No outstanding transactions in credit derivatives existed as at 30th June 2012.

Residual maturity of over the counter credit derivatives: notional amounts

No outstanding transactions in credit derivatives existed as at 30th June 2012.

Counterparty risk - credit equivalent

	30.06.2012		31.12.2011	
	CREDIT EQUIVALENT		CREDIT EQUIVALENT	
	STANDARDISED APPROACH	IRB APPROACH	STANDARDISED APPROACH	IRB APPROACH
Derivatives contracts	1,730,320	11,869	2,530,526	
Securities financing transactions and long term settlement transactions	8,535,947	0	8,533,419	
Cross product netting agreements				

Table 10 – Securitisation transactions

Qualitative information

Three new securitisations were launched in the first half of 2012, with the transfer to three new special purpose entities named UBI SPV BPA 2012 S.r.l., UBI SPV BPCI 2012 S.r.l. and UBI SPV BBS 2012 S.r.l. of loans to small to medium-sized enterprises classified as performing, held by Banca Popolare di Ancona, Banca Popolare Commercio and Industria ed Banco di Brescia respectively.

These transactions were performed in order to generate assets eligible as collateral for refinancing operations with the European Central Bank (termed self-securitisations). The three transactions can be considered as being at the warehousing stage as at 30th June. Completion is planned for the second half of 2012.

Quantitative information

The amounts shown in the following tables, calculated on the basis of statutory accounting rules, include positions relating to both the supervisory banking portfolio and the trading portfolio. The table, *Securitisations: type of exposure by weighting steps*, which gives amounts for the banking portfolio only, is an exception.

Securitisations: positions for own and third party securitisations

Quality of underlying assets/Exposures	On-balance sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	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. With own underlying assets:																		
a) Deteriorated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying assets of others:																		
a) Deteriorated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisations: positions for third party securitisations by type of asset securitised and by type of exposure

Type of underlying assets/Exposures	On-balance sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals
A.1 CBO INVESTMENT JERSEY LTD																		
Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Cartolarizzazione INPS 19 TV - Società SCCI	-	-																
ABS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Cartolarizzazione INPS 18 TV - Società SCCI	-	-	-															
ABS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Cordusio RMBS Securitisation Srl	-	-																
RMBS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Cordusio RMBS 3 UBCasa 1 Srl	-	-																
RMBS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisations: positions by financial asset portfolio and type

Exposure/portfolio	Trading	At fair value	Available for sale	Held to maturity	Loans	30/06/2012	31/12/2011
1. On-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Senior	-	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Senior	-	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-

Securitisations: total amount of the securitised assets underlying the junior securities or other forms of lending support

Assets/amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:		
A.1 Subject to full derecognition		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.2 Subject to partial derecognition		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.3 Not derecognised		
1. Non performing loans	-	-
2. Impaired loans	-	-
3. Restructured exposures	-	-
4. Past due exposures	-	-
5. Other assets	-	-
B. Underlying assets of others:		
B.1 Non performing loans	-	-
B.2 Impaired loans	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

Securitisations: type of exposure by weighting bands (standardised approach)

SECURITISATIONS: TYPE OF EXPOSURE BY WEIGHTING BANDS (STANDARDISED APPROACH)

Own securitisations	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional							-
Synthetic							-
TOTAL 30.06.12	-	-	-	-	-	-	-
TOTAL 31.12.11	-	-	-	-	-	-	-

Third party securitisations	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional	899		2,397				**3,297**
Synthetic							-
TOTAL 30.06.12	**899**	-	**2,397**	-	-	-	**3,297**
TOTAL 31.12.11	**1,447**	-	**2,402**	-	-	-	**3,849**

Securitisations: servicer activity – payments received on securitised loans and redemptions of securities issued by the special purpose entity

Servicer	Special purpose entity	Securitised assets (end of period figure)		Payments received on loans during year		Percentage of securities redeemed (end of period figure)					
						Senior		Mezzanine		Junior	
		Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets
UBI Banca S.c.p.a.	Albenza 3 Società per la cartolarizzazione S.r.l.	975	16,319	50	5,645	-	-	-	-	-	-
UBI Banca S.c.p.a.	UBI Finance 2 S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Banca S.c.p.a.	UBI Finance 3 S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Leasing S.p.A.	Lombarda Lease Finance 4 S.r.l.	19,879	110,200	1,338	36,038	-	-	-	-	-	-
UBI Leasing S.p.A.	UBI Lease Finance 5 S.r.l.	199,791	3,508,279	2,437	442,885	-	-	-	-	-	-
Banca 24/7 S.p.A.	24-7 Finance S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Banco di Brescia S.p.A.	UBI SPV BBS 2012 Srl	-	-	-	-	-	-	-	-	-	-
UBI Banca Popolare di Ancona S.p.A.	UBI SPV BPCI 2012 Srl	-	-	-	-	-	-	-	-	-	-
UBI Banca Popolare Commercio & Industria S.p.A.	UBI SPV BPA 2012 Srl	-	-	-	-	-	-	-	-	-	-

Securitisations: financial assets transferred not derecognised

	Financial assets held for trading			Financial assets at fair value			Available-for-sale financial assets			Held-to-maturity investments			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	30/06/2012	31/12/2011
A. On-balance sheet assets	**1,622,216**	**0**	**0**	**0**	**0**	**0**	**5,512,089**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,134,305**	**4,628,845**
1 - Debt instruments	1,622,216						5,512,089			0			0						7,134,305	4,396,529
2 - Equity instruments							0												0	232,316
3 - O.I.C.R. (collective investment undertakings)																			0	0
4 - Financing																0			0	0
B. Derivative instruments	**0**																		**0**	**0**
Total 30.06.2012	**1,622,216**	**0**	**0**	**0**	**0**	**0**	**5,512,089**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,134,305**	**4,628,845**
of which deteriorated																			*0*	*0*
Total 31.12.2011	**1,137,977**	**0**	**0**	**0**	**0**	**0**	**3,490,868**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,628,845**	**4,628,845**
of which deteriorated																			*0*	*0*

Legend:

A = Financial assets transferred and fully recognised (carrying amount)

B = Financial assets transferred and partially recognised (carrying amount)

C = Financial assets transferred and partially recognised (entire amount)

Table 12 – Operational risk

Qualitative information

With Provision No. 423940 of 16th May 2012, the Bank of Italy authorised the UBI Banca Group to use the advanced internal model (advanced measurement approach – AMA*)* to calculate the capital requirement for operational risks. The first consolidated supervisory report submitted on the basis of this model was prepared for the results for the period ended 30th June 2012.

More specifically, the UBI Group employs the AMA internal model in combined use with the traditional standardised approach (TSA) and the basic indicator approach (BIA).

The scope of application for the advanced measurement approach includes the Parent, UBI Banca, the Network Banks (Banco di Brescia, Banca Regionale Europea, Banca di Valle Camonica, Banco di San Giorgio, Banca Popolare di Bergamo, Banca Popolare Commercio e Industria, Banca Popolare di Ancona and Banca Carime), UBI Banca Private Investment, Centrobanca and UBI Sistemi e Servizi. The scope of application for the TSA comprises IW Bank, UBI Factor, UBI Pramerica and UBI International, while the remaining companies use the BIA. Total operational segments covered by the BIA and TSA approaches account for 14% of the relevant indicator at consolidated level[11].

The measurement of operational risk using the AMA system is performed using an extreme value theory (EVT) approach, based on operational losses measured internally (loss data collection – LDC), empirical data acquired from outside the Group (DIPO - "Italian database of operational losses") and potential losses evaluated using self risk assessment (SRA) scenarios. The first two information sources represent the quantitative component of the measurement model and furnish a historical view of the internal risk profile and of the Italian banking sector. On the other hand, the scenario analyses constitute a qualitative and quantitative information component, because they are derived from risk assessments provided as part of the internal self risk assessment process, where the purpose is to provide a forward looking view of the internal risk profile, operational context factors and the system of internal controls.

The model developed follows the loss distribution approach and it involves estimating severity distributions for each class of risk on two distinct components: a generalised pareto distribution (GPD) for the tail and an empirical distribution for the body. The estimates of severity obtained on the tails are subsequently integrated, by applying credibility theory, with risk information evaluated by means of the self risk assessment process. The probabilities of events occurring are described by using Poisson curves. The estimate of capital at risk is obtained by cutting the annual loss curve resulting from a convolution between the curve of the probabilities of events occurring and the integrated severity curve at the 99.9th percentile. The consolidated capital requirement is calculated as the sum of the capital at risk estimated on each risk class. The robustness of the model and of the underlying assumptions is tested

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[11] The relevant indicator corresponds to gross income, consisting of item 120 in the income statement of the mandatory consolidated financial statements pursuant to Bank of Italy Circular No. 262 of 22nd December 2005.

by employing a stress testing process, which provides an estimate of the impacts on measurements of expected loss and of VaR when particular stress conditions occur.

The capital requirement with the standardised approach is equal to the average of the last three observations of the contribution from the TSA for the end-of-year position. The TSA contribution is calculated, for each year, as the sum of the relevant indicators for the lines of business weighted on the basis of specific regulatory coefficients.

Finally, the capital requirement according to the basic indicator approach is calculated by multiplying average gross income for the last three years by the "alpha" coefficient defined by supervisory regulations.

The capital requirement calculated using a combined AMA+TSA+BIA approach was €414 million (as at 30th June 2012, down by approximately 10% compared to €461 million calculated using the combined TSA+BIA approach as at 31st December 2011) and it was calculated on the following three components:

- the AMA component: the capital requirement net of expected losses for which provisions have been made, estimated on the legal entities within the AMA perimeter only was €332 million (it was €364 million gross and represented 80% of the total) and it was determined principally by the risk classes "execution, delivery and process management" (26%), "customers, products and professional practices" (23%), "internal fraud" (20%) and "external fraud" (17%);

- the TSA component: the capital requirement calculated for legal entities within the TSA perimeter only was €33 million (8% of the total). It was absorbed mainly by the following lines of business: retail banking (47%), commercial banking (29%), retail brokerage (12%) and trading and sales (9%). The average coefficient of absorption with respect to the relevant indicator was 13%;

- the BIA component: the capital requirement calculated for legal entities within the BIA perimeter only was €49 million (12% of the total).

The UBI Banca Group has taken out adequate insurance policies to cover the principal transferable operational risks with due account taken of the requirements of supervisory regulations. The policies were taken out by UBI Banca Scpa in its own name and on behalf of the Network Banks and product companies of the Group concerned. When the UBI Group applied for validation of its first use of the AMA, it did not take up the option available under the regulations in force[12] to deduct the effects of insurance policies and other risk transfer mechanisms from the capital requirement.

[12] See Bank of Italy Circular No. 263 of 27th December 2006, Title II, Chapter 5, Part three, Section IV.

Table 13 – Equity exposures: disclosures for banking book positions

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.

Quantitative information

	carrying amount		*fair value*		*market value*		*gains/losses/income/expenses realised and impairment*		*unrealised gains/losses recognised in the balance sheet*	
	level 1	*level 2/3*	*level 1*	*level 2/3*	*level 1*	*level 2/3*	*level 1*	*level 2/3*	*level 1*	*level 2/3*
Financial assets designated at fair value:										
- equity instruments	-	-	-	-	-	X	-	-	X	X
- OICR units (collective investment instruments)	105,308	17,068	105,308	17,068	105,308	X	462	-2,977	X	X
Available-for-sale financial assets:										
- equity instruments	217,550	137,497	217,550	137,497	217,550	X	-35,252	608	-351	53,264
- OICR units (collective investment instruments)	35,296	60,774	35,296	60,774	35,296	X	-3,876	-7,149	-2,881	-547

Net losses for the period ended 30th June 2012 that qualify for inclusion in the tier two capital were €10.9 million (€7.8 million as at 31st December 2011).

Table 14 – Interest rate risk on positions in the banking book

Quantitative information

The 2012 Policy to Manage Financial Risks introduced significant changes in terms of sensitivity to the system to monitor exposure to interest rate risk:

- the introduction to the calculation of the exposure of the contribution from on-demand items modelled on the basis of the behaviour profile;
- the indicator used for monitoring will be the absolute figure for negative sensitivity resulting from the application of an increase scenario (+100 bp) and a decrease scenario (-100 bp);
- investments in available-for-sale financial assets are excluded from the calculation of the exposure because they are covered by the system for monitoring market risk.

At the end of the first half the reference scenario used to monitor the Policy indicator was that of a parallel shift in the yield curve of -100 bp. In detail, the exposure on the items as at 30th June 2012 was -€302.1 million, equal to 2.63% of consolidated regulatory capital, with an early warning threshold of -€430 million. The exposure as almost unchanged compared to the end of the first quarter of 2012 (-€320 million)[13].

In compliance with the Financial Risks Policy, the total level of exposure includes an estimate of the impact of early repayments (approximately +€170 million in terms of sensitivity) and modelling of on-demand items on the basis of the internal model for estimating behavioural profiles (approximately -€547 million in terms of sensitivity).

In detail, the core sensitivity originated by the Network Banks amounted to approximately -€443.45 million, while approximately +€107.21 million is attributable to the activities of the product companies. The Parent contributes a total of approximately +€38.3 million, including -€10 million from structural and sensitivity action relating to Group companies. In fact, UBI Banca operates as the sole counterparty for Group companies in hedging derivatives contracts and, if necessary, it then closes the positions on the market on the basis of positioning with respect to the limits set by the Policy to Manage Financial Risks and expected scenarios for future interest rate trends.

Sensitivity analysis of net interest income focuses on changes in profits resulting from a parallel shock on the yield curve measured over a time horizon of 12 months. The overall determination of exposure contributes to the analysis of the viscosity of on-demand items. The 2012 Policy to Manage Financial Risks sets a limit on the change in net interest income of €215 million. The amount to compare with the limit is the absolute figure for maximum potential loss (decrease in the net income) resulting from the application of two separate interest rate scenarios (rise and fall of 100 basis points).

The UBI Group exposure to interest rate risk, estimated in terms of an impact on net interest income of an increase in the reference interest rates of 100 bp, amounted to -€29.43 million

[13] The sensitivity indicator, reconstructed according to the approach used before the entry into force of the 2012 Policy to Manage Financial Risks in a scenario of a change in interest rates of +100 bps, was -€457.23 million (-€243.78 million as at 31st December 2011) equal to 3.72% of the regulatory capital estimated at the end of the period.

for the period ended 30th June 2012. On the other hand, the estimated exposure resulting from a reduction in interest rates of 100 bp was +€61.47 million.

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

Scenario	Currency	Impact on economic value **	Impact on net interest income
+100 BP	EUR	337.51	-29.43
	Other significant currencies*	0.00	0
TOTAL +100 BP		**337.51**	**-29.43**
-100 BP	EUR	-302.10	61.47
	Other significant currencies*	0.00	0.00
TOTAL -100 BP		**-302.10**	**61.47**

* Significant currencies are those which account for more than five percent of the assets or liabilities in the banking portfolio.
** The AFS portfolio, excluded from that indicator in compliance with the 2012 Policy to Manage Financial Risks, has an impact on economic value of -€260.35 million for a shock of +100 bps (total sensitivity of €77.16 million) and of +€271 million for a shock of -100 bps (total sensitivity of -€31.1 million).

RISK INDICATORS

Annual average***	
+200 bp	
Impact on economic value/Tier 1	0.73%
Impact on economic value/Regulatory capital	0.55%
-200 bp	
Impact on economic value/Tier 1	6.48%
Impact on economic value/Regulatory capital	4.82%

End of period values	
+200 bp	
Impact on economic value/Tier 1	1.77%
Impact on economic value/Regulatory capital	1.32%
-200 bp	
Impact on economic value/Tier 1	
Impact on economic value/Regulatory capital	1.46%
	1.09%

*** The behavioural profile of on-demand items has been included in the calculation of sensitivity since

Table 15 – Remuneration and incentive systems and practices

Publication of this table is not required in the Half Year Pillar 3 Disclosures, not even with regard to quantitative information (cf. Circular No. 263/06). The full document already published as at 31st December 2011 may be consulted for information on the remuneration policies and practices in place in the Group.

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 Scpa, 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 disclosure is reliably based on the records contained in corporate documents and accounting records.*

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

Bergamo, 27th August 2012