Pillar 3

Disclosures

as at 30th June 2013

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 as at 10th July 2013: €2,254,371,430 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 bank's 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 2013, therefore provides an update of the quantitative information, except for Table 7 for which full qualitative information is provided, following authorisation received from the Bank of Italy to use internal models for the "Retail" segment[1]. The document "Pillar 3 Disclosures as at 31st December 2012" 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

[1] See the relative Table for details.

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 stated.

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 Disclosure document (the only information required for this Table). The full document already published as at 31st December 2012 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

The table further below lists the consolidated companies as at 30th June 2013, with an indication of the different treatment for statutory and supervisory purposes. The main changes compared to 31st December 2012 are as follows:

- on 3rd January 2013 the company Siderfactor Spa was removed from the Company Register following the completion of liquidation procedures;
- on 5th April SPF Studio Progetti Finanziari Srl, which operates in the field of advisory services to small to medium-sized businesses and in which BPA held a stake, was sold to an individual for €35,000;
- activities for the merger of Centrobanca Spa into the Parent were completed in the first six months of the year. This became effective on 6th May 2013, with effect for accounting and tax purposes from 1st January 2013;
- on 13th June 2013 the entire share capital of Capital Money was used to replenish its losses. UBI did not subscribe to the subsequent increase in capital and no longer holds a stake in the company;
- the securitisations held by the special purpose entities Albenza 3 Srl and Orio Finance Nr. 3 Plc were closed down in advance in May, by transferring the remaining receivables to the originator (Banca Popolare di Bergamo) and by redeeming at the same time the securities placed with institutional investors and issued by Orio Finance Nr. 3;
- BY YOU Spa – in liquidation: the book value of the investment was written off in the fourth quarter of the year in view of the state of progress of the liquidation. Consequently, the company, which was previously accounted for using the equity method, now no longer appears in the consolidation;
– UBI Capital Singapore Pte Ltd – in liquidation: this company was placed in voluntary liquidation on 14th June.

Entities consolidated as at 30/06/2013 for statutory and supervisory purposes

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				Line-by-line	Line-by-line	Bank
2. Banca Carime Spa	Cosenza	1	UBI Banca Scpa	92.837%	Line-by-line	Line-by-line	Bank
3. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa	74.244%	Line-by-line	Line-by-line	Bank
			Banco di Brescia Spa	8.716%			
4. Banca Lombarda Preferred Capital Company LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
5. Banca Lombarda Preferred Securities Trust	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
6. UBI Banca Private Investment Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
7. Banca Popolare Commercio e Industria Capital Trust	Delaware (USA)	1	BPCI Funding Llc - USA	100.000%	Line-by-line	Line-by-line	Financial
8. Banca Popolare Commercio e Industria Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
9. Banca Popolare Commercio e Industria Spa	Milan	1	UBI Banca Scpa	75.077%	Line-by-line	Line-by-line	Bank
10. Banca Popolare di Ancona Spa	Jesi (AN)	1	UBI Banca Scpa	92.986%	Line-by-line	Line-by-line	Bank
11. Banca Popolare di Bergamo Spa	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
12. Banca Regionale Europea Spa	Cuneo	1	UBI Banca Scpa	74.733%	Line-by-line	Line-by-line	Bank

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
13. Banco di Brescia Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
14. Banque de Depots et de Gestion Sa	Lausanne (Switzerland)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
15. UBI Capital Singapore Pte Ltd in liquidazione	Singapore	1	UBI Banca International Sa	100.000%	Line-by-line	Line-by-line	Financial
16. BPB Capital Trust	Delaware (USA)	1	BPB Funding Llc - USA	100.000%	Line-by-line	Line-by-line	Financial
17. BPB Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
18. BPB Immobiliare Srl	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumental
19. UBI Leasing Spa	Brescia	1	UBI Banca Scpa	99.551%	Line-by-line	Line-by-line	Financial
20. Prestitalia Spa	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
21. UBI Factor Spa	Milan	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
22. Centrobanca Sviluppo Impresa SGR Spa	Milan	1	Centrobanca Spa	100.000%	Line-by-line	Line-by-line	Financial
23. Coralis Rent Srl	Milan	1	UBI Banca Scpa	100.000%	Line-by-line	RWA	Other
24. 24-7 Finance Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
25. UBI Trustee Sa	Luxembourg	1	UBI Banca International Sa	100.000%	Line-by-line	Line-by-line	Financial
26. IW Bank Spa	Milan	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
27. UBI Finance 3	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
28. UBI Finance CB 2 Srl	Milan	1	UBI Banca Scpa	60.000%	Line-by-line	Line-by-line	Financial
29. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
30. UBI Management Company Sa	Luxembourg	1	UBI Pramerica Sgr Spa	100.000%	Line-by-line	Line-by-line	Financial
31. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
32. UBI Finance Srl	Milan	1	UBI Banca Scpa	60.000%	Line-by-line	Line-by-line	Financial
33. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumental
34. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	100.000%	Line-by-line	Line-by-line	Financial
35. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumental
36. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
37. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa	91.196%	Line-by-line	Line-by-line	Bank
			Banco di Brescia Spa	5.483%			
			Banca Regionale Europea Spa	0.162%			
			Banca Popolare di Bergamo Spa	3.160%			
38. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	65.000%	Line-by-line	Line-by-line	Financial
39. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
40. UBI Sistemi e Servizi Scpa	Brescia	1	UBI Banca Scpa	71.798%	Line-by-line	Line-by-line	Instrumental
			Banca Popolare di Bergamo Spa	2.877%			
			Banco di Brescia Spa	2.877%			
			Banca Popolare Commercio e Industria Spa	2.877%			
			Banca Popolare di Ancona Spa	2.877%			
			Banca Carime Spa	2.877%			
			Banca Regionale Europea Spa	4.315%			
			Banca di Valle Camonica Spa	1.438%			
			UBI Banca Private Investment Spa	1.438%			
			Centrobanca Spa	1.438%			
			UBI Pramerica Sgr Spa	1.438%			
			Prestitalia Spa	0.072%			
			IW Bank Spa	2.876%			
			UBI Academy Scrl	0.010%			
			UBI Factor Spa	0.719%			
41. UBI SPV BBS 2012 Srl	Milan		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
42. UBI SPV BPCI 2012 Srl	Milan		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
43. UBI SPV BPA 2012 Srl	Milan		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
44. UBI Academy Scrl	Bergamo	1	UBI Banca Scpa	68.500%	Line-by-line	Line-by-line	Instrumental
			Banca Popolare di Bergamo Spa	3.000%			
			Banco di Brescia Spa	3.000%			
			Banca Popolare Commercio e Industria Spa	3.000%			
			Banca Popolare di Ancona Spa	3.000%			
			Banca Carime Spa	3.000%			
			Banca Regionale Europea Spa	3.000%			
			Banca di Valle Camonica Spa	1.500%			
			UBI Banca Private Investment Spa	1.500%			
			UBI Pramerica Sgr Spa	1.500%			
			Prestitalia Spa	1.500%			
			IW Bank Spa	1.500%			
			UBI Leasing Spa	1.500%			
			UBI Sistemi e Servizi Scpa	3.000%			
			UBI Factor Spa	1.500%			
A.2 Companies accounted for using the equity method							
1. Aviva Assicurazioni Vita Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method	Deducted from Reg. Cap.	Insurance

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
2. Aviva Vita Spa	Milan	3	UBI Banca Scpa	50.000%	Equity method	Deducted from Reg. Cap.	Insurance
3. Polis Fondi SGR	Milan	3	UBI Banca Scpa	19.600%	Equity method	Deducted from Reg. Cap.	Financial
4. Zhong Ou Fund Management	Shenzen (China)	3	UBI Banca Scpa	49.000%	Equity method	Deducted from Reg. Cap.	Financial
5. Lombarda Vita Spa	Brescia	3	UBI Banca Scpa	40.000%	Equity method	Deducted from Reg. Cap.	Insurance
6. Prisma Srl	Milan	3	UBI Banca Scpa	20.000%	Equity method	Deducted from Reg. Cap.	Other
7. SF Consulting Srl	Mantua	3	UBI Banca Scpa	35.000%	Equity method	RWA	Other
8. Sofipo Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30.000%	Equity method	Deducted from Reg. Cap.	Financial
9. UBI Assicurazioni Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method	Deducted from Reg. Cap.	Insurance
10. 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

Quantitative information

No capital deficiencies with respect to compulsory capital requirements were recorded for subsidiaries as at 30th June 2013.
On 19th June a shareholders meeting of Prestitalia Spa passed a resolution to replenish the losses recorded in the accounts for the full year 2012 and for the period ended the 30th April 2013, and also to replenish the negative reserve recognised when the "salary and pension backed loans and payment authorisations" operations were contributed by the former B@nca 24-7 (for a total of €68,899,417.71). This was achieved by fully drawing on the loss replenishment reserve, on the share premium reserve and also by reducing the share capital, by the remaining fraction not covered by the aforementioned reserves, for a total amount of €2,587,013 with the cancellation of 2,977 Prestitalia shares. Subsequently, again on the same date, the shareholders meeting voted to strengthen capital by €100 million, with an increase in the share capital from €151,410,215 to €205,722,715, through the issue of 62,500 ordinary new shares with a nominal value of €869 each and a share premium of €731 per share and the re-establishment of the share premium reserve amounting to €45,687,500. The new capitalisation was needed to provide adequate support to develop business. At the end of the first half Prestitalia therefore had share capital of €205,722,715, composed of 236,735 shares (at the end of 2012 the share capital amounted to €153,997,228 and consisted of 177,212 shares).

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 2013 is given below.

	ISSUER	TYPE OF ISSUE			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 30.06.2013	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 fixed rate at 8.364%; from 15-2-2011 floating rate Euribor 3M + 5.94%.	perpetual	(*)	182,095	183,575	182,095
	BANCA LOMBARDA PREFERRED SECURITIES TRUST		2	2000/perpetual - mixed rate - Currency euro ISIN XS0108805564	Until 9-3-2010 fixed rate of 8.17%; from 10-3-2010 to 9-3-2011 floating rate Euribor 3M + 3.375%; from 10-3-2011 floating rate Euribor 3M + 5.94%.	perpetual	(*)	90,314	90,655	90,314
	BPCI CAPITAL TRUST		3	2001/perpetual - mixed rate - Currency euro ISIN XS0131512450	Until 26-6-2011 fixed rate of 9.00%; from 27-6-2011 floating rate Euribor 3M + 5.94%.	perpetual	(*)	65,338	65,771	65,338
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 floating Euribor 3M +1%.	18-11-2018		222,339	222,316	222,339
			5	2010/2017 - fixed rate ISIN IT0004645963 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 4.30%.	5-11-2017	Redemption by repayment schedule at constant annual rates from 5-11-2013	400,000	409,352	400,000
			6	2004/2014 - floating 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		110,979	110,224	44,392
			7	2004/2014 - floating 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		139,021	138,244	55,608
			8	2008/2015 - floating rate ISIN IT0004424435 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 0.85%.	28-11-2015	Redemption by fixed rate annual amortisation schedule from 28-11-2011	359,639	357,403	359,639
			9	2006/2018 - floating rate 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	30-10-2013	181,650	181,590	181,092
			10	2009/2016 - floating rate ISIN IT0004457187 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 1.25%.	13-3-2016	Redemption by fixed rate annual amortisation schedule from 13-3-2012	127,195	126,204	127,195
			11	2009/2019 - mixed rate ISIN IT0004457070 Currency euro - Listed on MOT (electronic bond	Half year fixed rate 4.15% until 2014; subsequently floating rate Euribor 6M + 1.85%.	13-3-2019	13-3-2014	370,000	376,243	370,000
			12	2009/2016 - floating rate ISIN IT0004497068 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 1.25%.	30-6-2016	Redemption by fixed rate annual amortisation schedule from 30-6-2012	94,102	93,165	94,102
			13	2009/2019 - mixed rate ISIN IT0004497050 Currency euro - Listed on MOT (electronic bond	Half year fixed rate 4% until 2014; subsequently floating Euribor 6M + 1.85%.	30-6-2019	30-6-2014	365,000	367,811	365,000
			14	2010/2017 - fixed rate ISIN IT0004572878 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 3.10%.	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	240,000	251,347	240,000
			15	2010/2017 - floating rate ISIN IT0004572860 - Currency euro Listed on MOT (electronic bond market)	Half year floating rate Euribor 6M + 0.40%	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	122,070	121,144	122,070
			16	2011/2018 - fixed rate ISIN IT0004718489 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 5.50%.	16-6-2018	Redemption by fixed rate annual amortisation schedule from 16-6-2014	400,000	420,433	400,000
			17	2011/2018 - fixed rate ISIN IT0004723489 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 5.40%	30-6-2018	Redemption by fixed rate annual amortisation schedule from 30-6-2014	400,000	420,553	400,000
			18	2012/2019 - fixed rate ISIN IT0004842370 - Currency euro	Half yearly fixed rate 6%	08-10-2019	Redemption by fixed rate annual amortisation schedule from 08-10-2015	970,457	984,840	970,457
			19	2012/2019 - mixed rate ISIN IT0004841778 - Currency euro	Quarterly fixed rate 7.25% until 2014 and subsequently variable Euribor 3M + 5%.	08-10-2019		200,000	201,216	200,000
TOTAL al 30/06/2013								**5,040,199**	**5,122,086**	**4,889,641**
Tier two subordinated liabilities not eligible for inclusion in the tier two capital										**292,745**
Total amount eligible as at 30/06/2013										**4,596,896**
TOTAL as at 31/12/2012								**5,203,663**	**5,306,027**	**5,053,836**

(*) 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 supervisory capital as at 30th June 2013, – in compliance with provisions issued by the Bank of Italy in May 2010[2] – of the possibility of completely neutralising the impacts on regulatory capital of gains and losses recognised in the valuation 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 since 30th June 2010.

Operations on capital

A brief summary is given below of the changes in the share capital of the Parent that have occurred over the last six months.

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Merger of Centrobanca into the Parent

Not all the Centrobanca non-controlling shareholders exercised their right to sell or to withdraw in relation to the resolution to merge the company into UBI Banca. As a consequence, on 22nd May 2013 the Parent issued 1,346 new shares with dividend entitlement from 1st January 2013.

Loan "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*"

Following the exercise of conversion rights held by subscribers of the above loan, 16 bonds were presented for conversion in January 2013 with a nominal value of €12.75 each, which gave rise to the issue on 5th February of 16 new shares, with a nominal value of €2.5 each and dividend entitlement from 1st January 2012, with payment in cash in 16 residual fractions[3].
In June, 84 bonds were presented for conversion, which gave rise to the issue on the 3rd July 2013 of 84 new shares with a nominal value of €2.5 each and dividend entitlement from 1st January 2013, with payment in cash of the 0.84 residual fractions. A further 120 bonds were presented for conversion in the period from 1st to 3rd July 2013 in relation to the provisions of article 5, paragraph 4 of the Bond Regulations – the possibility of exercising conversion rights

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2 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 valuation 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.

3 The distribution of the 2011 dividend drawn from the extraordinary reserve involved a change in the conversion ratio (originally set at 1 new share for each bond) to the new ratio of 1.01497 (rounded to 1.01) UBI Banca shares for each convertible bond with a nominal value of €12.75 presented for conversion.

within the five working days prior to maturity of the bond. This gave rise to the issue on the 10th July 2013 of 121 new shares and payment in cash of the 0.20 residual fractions[4].

Finally, on 10th July 2013 the bond in question matured. The 50,128,020 bonds still outstanding were redeemed in cash on the same date for a total of €639,132,255, in accordance with decisions approved by the Management Board and by the Supervisory Board on 28th May and 30th May 2013 respectively.

The table below gives details of the items of which the regulatory capital was composed as at 30th June 2013.

COMPOSITION OF THE REGULATORY CAPITAL	30.06.13	31.12.12
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2,717,448	2,719,788
- Share premiums	4,772,317	4,772,715
- Reserves and profit for the period	3,577,960	3,552,906
- Innovative capital 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)	382,854	382,854
- Prudential filters: increases in tier 1 capital	-	-
- Fair value option: changes in its creditworthiness	-	-
- Redeemable shares	-	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other positive prudential filters	34	240
- Total positive elements of tier 1 capital	11,450,613	11,428,503
- Negative elements:		
- Treasury shares or quotas	6,121	4,375
- Goodwill	2,574,144	2,574,144
- Other intangible assets	327,035	342,679
- Loss for the period	-	-
- 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 on available-for-sale securities	-	-
- Equity instruments and units in OICR (collective investment instruments).	-	-
- Debt instruments	25,013	30,711
- Cumulative net gains on property, plant and equipment	-	-

[4] Consequently as at 10th July 2013 , the share capital of UBI Banca Scpa was €2,254,371,430 divided into 901,748,572 shares with a nominal value of €2.5 each.

COMPOSITION OF THE REGULATORY CAPITAL	30.06.13	31.12.12
- Capital elements subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other negative filters	-	-
- Total negative elements of tier 1 capital	**2,932,313**	**2,951,909**
- Tier 1 capital before items to be deducted	**8,518,300**	**8,476,594**
	-	-
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	6,130	4,531
- Non-innovative capital instruments	-	-
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- 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	3,405	4,508
- Non-innovative capital instruments	-	-
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- 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 capital instruments and non-innovative capital instruments with maturity	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	177,201	127,191
- Subordinated instruments	20,781	5,011
- Excess of expected losses over total net impairment losses recognised	370,445	71,632
- 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	**577,962**	**212,873**
TIER ONE CAPITAL	**7,940,338**	**8,263,721**
	-	-
TIER 2 CAPITAL	-	-
- Positive elements	-	-
- Valuation reserves	63,827	63,201
- 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		

COMPOSITION OF THE REGULATORY CAPITAL	30.06.13	31.12.12
- Tier 2 subordinated liabilities	4,259,150	4,238,297
- Excess of total net impairment losses recognised over expected losses	-	74,054
- Net gains on equity investments	-	-
- Other positive elements	-	-
- Prudential filters: increases in the tier 2 capital:	39,432	23,995
- Total positive elements of the tier 2 capital	**4,362,409**	**4,399,547**
- Negative elements:		
- Net losses on equity investments	-	-
- Loans and receivables	-	-
- Other negative elements	71,885	77,016
- Prudential filters: deductions from tier two capital	19,716	11,998
- Total negative elements of tier 2 capital	**91,601**	**89,014**
- Tier 2 capital before items to be deducted:	**4,270,808**	**4,310,533**
TIER 2 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	6,130	4,531
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	3,405	4,508
- 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	197,982	132,202
- Excess of expected losses over total net impairment losses recognised	370,445	71,632
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on DVP transactions	-	-
- Total elements to be deducted	**577,962**	**212,873**
TIER 2 CAPITAL	**3,692,846**	**4,097,660**
ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 CAPITAL	**-**	**157,762**
REGULATORY CAPITAL	**11,633,184**	**12,203,619**
TIER 3 CAPITAL	**45,309**	**55,873**
REGULATORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL	**11,678,493**	**12,259,492**

(*) Those instruments subject to transitory "grandfathering" provisions as at 30th June 2013 include innovative capital instruments issued before 31.12.2010 (€337.747 million) and savings and privileged shares issued by Banca Regionale Europea, recognised within non-controlling interests (amounting to €45.1 million).

Regulatory capital as at 30th June 2013 stood at €11,633 million (€11,678 including the tier 3 capital), down compared to almost €12,204 million at the end of 2012 (-€570 million), due mainly to the increase in deductions for excess expected losses over impairment losses recognised, applied following the adoption of internal models relating to the retail supervisory segment[5]. These deductions, 50% of which are applied to the tier 1 capital and 50% to the tier 2 capital, are mainly attributable to the fall in tier 1 capital (-€323 million), not offset by other increases which did affect this item, while their impact on tier two capital was greater (-€405 million): the latter result contributes approximately €74 million to the decrease relating to lower positive items for the positive difference between total impairment losses recognised and

[5] Table 7 of this disclosure document may be consulted for further information.

expected losses. We report that from 31st March 2013, shareholdings and subordinated instruments held in insurance companies (until 31st December 2012 these were deducted from the total of the tier one and tier two capital if purchased before 20th July 2006) are now deducted 50% from the tier one capital and 50% from the tier two capital[6]. This change involved a reclassification of the instruments, previously deducted from the total of the tier one and tier two capital, for a total amount of €132 million (as at 30th June).

[6] See Circular No. 263/2006, Title I, Chapter 2, paragraph 11.

Table 4 – Capital adequacy

Quantitative information

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

Categories/Amounts	Amounts not weighted		Weighted amounts/requirements	
	30/06/2013	**31/12/2012**	**30/06/2013**	**31/12/2012**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**128,230,507**	**131,708,851**	**55,951,396**	**70,145,305**
1. Standardised approach	53,450,151	89,706,468	25,059,120	43,976,288
2. Method based on internal ratings	74,777,993	41,999,577	30,889,913	26,166,417
2.1 Basic			-	-
2.2 Advanced	*74,777,993*	*41,999,577*	*30,889,913*	*26,166,417*
3. Securitisations	2,363	2,806	2,363	2,600
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**4,476,112**	**5,611,624**
B.2 Market risk			**63,458**	**78,253**
1. Standard methodology			*63,458*	*78,253*
2.Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			**421,000**	**437,271**
1. Basic indicator approach			*338,570*	*54,753*
2. Standardised approach			*64,795*	*33,446*
3. Advanced measurement approach			*17,635*	*349,072*
B.4 Other capital requirements			-	-
B.5 Other calculations (*)			42,522	-
B.6 Total capital requirements			**5,003,092**	**6,127,148**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk weighted assets			62,538,650	76,589,350
C.2 Tier 1 capital/Risk weighted assets (tier 1 capital ratio)			12.70%	10.79%
C.3 Regulatory capital including tier 3/risk weighted assets (Total capital ratio)			18.67%	16.01%

(*) The item comprises the addition for the floor relating to the calculation of capital requirements for credit risk according to the AIRB approach (see note 7).

The table below gives details of the various capital requirements.

CAPITAL ADEQUACY	Capital requirement 30.06.2013	Capital requirement 31.12.2012
A. SUPERVISORY CAPITAL REQUIREMENTS		
Credit risk		
Standardised approach		
Exposures to or guaranteed by central governments and central banks	170	178

CAPITAL ADEQUACY	Capital requirement 30.06.2013	Capital requirement 31.12.2012
Exposures to or guaranteed by regional government and local authorities	12,687	13,193
Exposures to or guaranteed by non-commercial and public sector entities	73,125	67,825
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	139,817	206,241
Exposures to or guaranteed by corporates	802,387	872,645
Retail exposures	418,632	834,791
Exposures secured by real estate property	139,642	765,030
Past-due exposures	249,981	427,946
High-risk exposures	14,972	14,840
Exposures in the form of covered bonds	-	1,927
Short term exposures to supervised intermediaries and corporates	-	-
Exposures to OICR (collective investment undertakings)	7,240	6,710
Other exposures	105,491	233,206
Securitisations	189	208
Total standardised approach	**1,964,333**	**3,444,740**
Methodology based on internal ratings		
Exposures to or guaranteed by corporates		
Specialised lending	-	-
SME	724,851	759,571
Other enterprises	1,148,303	1,212,858
Retail exposures	-	
Exposures secured by residential real estate property: SMEs	42,410	-
Exposures secured by residential real estate property: private individuals	231,826	-
Qualified retail revolving exposures	-	-
Other retail exposures: SMEs	189,938	-
Other retail exposures: private individuals	-	-
Specialised lending - slotting criteria	126,178	112,978
Total methodology based on internal ratings	**2,463,506**	**2,085,407**
Total credit risk	**4,427,839**	**5,530,147**
Counterparty risk	48,273	81,478
Total counterparty risk	**48,273**	**81,478**
Market risk		
Standardised approach		
Assets included in the supervisory trading portfolio:		
- position risk		

CAPITAL ADEQUACY	Capital requirement 30.06.2013	Capital requirement 31.12.2012
	62,604	77,678
of which specific to positions with securitisations	-	*5,224*
- concentration risk	-	-
Other assets:	-	-
- supervisory risk	-	-
- currency risk	776	531
- position risk in commodities	78	44
Total market risk	**63,458**	**78,253**
Operational risk		
Basic indicator approach	17,635	54,753
Standardised approach	64,795	33,446
Advanced measurement approach	338,570	349,072
Total operational risk	**421,000**	**437,271**

B. SUPERVISORY RATIOS

Core Tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	12.08%	10.29%
Tier 1 ratio (tier 1 capital/risk weighted assets)	12.70%	10.79%
Total capital ratio [(Tier 2 capital+ qualifying tier 3 capital)/risk weighted assets	18.67%	16.01%

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models[7] for the calculation of capital requirements for credit risk – "Corporate" segments ("exposures to businesses") and "Retail" (sub-portfolios "retail: exposures backed by residential real estate" and "retail: other exposures[8]") – and operational risks.

Capital ratios as at 30th June 2013 – calculated on the basis of the Basel 2 AIRB approach – recorded an increase compared to 31st December 2012. The core tier one ratio was in fact 12.08% (10.29% in December 2012). The tier one ratio fell from 10.79% (in December 2012) to 12.70%, while the total capital ratio stands at 18.67% (16.01% in December 2012).

The rise in all the capital ratios was generated by the savings resulting from the application of the advanced methods for credit risk (AIRB, retail segment) – the latter since the supervisory report prepared as at 30th June 2013 – and by the contraction in risk weighted assets (RWA), attributable to trends for volumes of lending. A particular reduction was recorded, compared to December 2012 in the capital requirement for credit risks, down by approximately €1.1 billion along with a decrease for a total of €31 million in the capital requirements for

[7] Tables 7 and 12 of this Pillar 3 disclosure document and the full disclosure document as at 31st December 2012 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 regulations, to which any capital savings obtained using internal models is subject.

[8] Limited to the small to medium-size enterprise portfolio comprised within the "Retail" segment ("SME retail").

operational and market risks. More specifically, the reduction in the capital requirement for operational risks was due to the combined effect of a reduction in the VaR estimated by the advanced calculation model (determined mainly by an update of the system database), an increase in the capital requirement calculated using the standardised approach and by a reduction at the same time in the component for the basic indicator approach (attributable to the adoption of the standardised approach by UBI Leasing and Prestitalia from the supervisory report as at 30th June 2013, to replace the basic indicator approach). The requirement for market risk decreased following the close down of the securitisation held by the special purpose entities Albenza 3 Srl and Orio Finance Nr. 3 Plc (with the relative redemption of the securities) and lower generic risk.

As concerns the objective set by the 2011 EBA recommendation in force at the end of the first half of 2013[9] – designed 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 of the UBI Group for EBA purposes as at 30th June 2013 was 10.79%.

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[9] The Pillar 3 disclosures document as at 31st December 2012 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 and averages, by principal types of exposure

	Banking group																
	Non-performing loans			Impaired loans			Restructured			Past due			Other assets			**TOTAL**	
	Gross	Net	Gross averages (*)	Gross	Net	Gross averages (*)	Gross	Net	Gross averages (*)	Gross	Net	Gross averages (*)	Gross	Net	Gross averages (*)	**Gross**	**Gross averages**
1. Financial assets held for trading	908	873	1,178	4,389	4,389	8,338	3,854	2,638	2,982	681	681	522	4,665,821	4,665,821	4,327,754	**4,675,653**	**4,340,773**
2. Available-for-sale financial assets	-	-	-	-	-	-	2,069	2,069	2,069	-	-	-	13,398,461	13,398,461	13,505,103	**13,400,530**	**13,507,172**
3. Held-to-maturity investments	-	-	-	-	-	-	-	-	-	-	-	-	3,122,272	3,122,272	3,140,143	**3,122,272**	**3,140,143**
4. Loans and advances to banks	-	-	-	1,106	1,106	553	-	-	-	-	-	-	4,570,279	4,570,279	5,241,289	**4,571,385**	**5,241,842**
5. Loans and advances to customers	5,580,098	3,248,720	5,520,280	4,648,023	3,993,947	4,385,682	690,679	590,829	732,307	921,195	891,445	919,883	83,011,580	82,543,561	84,126,778	**94,851,575**	**95,684,928**
6. Financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
7. Financial assets held for disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
8. Hedging derivatives	-	-	-	9	9	5	-	-	-	-	-	-	335,189	335,189	906,756	**335,198**	**906,760**
30/06/2013	**5,581,006**	**3,249,593**	**5,521,458**	**4,653,527**	**3,999,451**	**4,394,577**	**696,602**	**595,536**	**737,357**	**921,876**	**892,126**	**920,405**	**109,103,602**	**108,635,583**	**111,247,821**	**120,956,613**	**122,821,617**
31/12/2012	**5,461,909**	**2,952,476**	**4,920,345**	**4,135,627**	**3,612,656**	**3,494,671**	**778,112**	**663,175**	**843,414**	**918,933**	**891,873**	**672,476**	**113,392,040**	**112,921,462**	**112,459,310**	**124,686,621**	**122,390,215**

(*) annual average

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	5,540,332	3,232,596	34,145	15,905	207	41	4,841	-	643	213	**5,580,168**	**3,248,755**
A.2 Impaired loans	4,525,569	3,901,001	86,608	71,188	23,198	13,918	-	-	12,648	7,840	**4,648,023**	**3,993,947**
A.3 Restructured exposures	666,843	573,097	25,799	19,731	27	26	-	-	44	44	**692,713**	**592,898**
A.4 Past due exposures	900,390	870,676	20,805	20,769	-	-	-	-	-	-	**921,195**	**891,445**
A.5 Other exposures	100,488,540	100,024,487	1,952,233	1,948,406	505,547	505,447	5,114	5,094	160,049	160,030	**103,111,483**	**102,643,464**
TOTAL	**112,121,674**	**108,601,857**	**2,119,590**	**2,075,999**	**528,979**	**519,432**	**9,955**	**5,094**	**173,384**	**168,127**	**114,953,582**	**111,370,509**
B. Off-balance sheet exposures												
B.1 Non-performing loans	21,559	15,015	-	-	-	-	-	-	-	-	**21,559**	**15,015**
B.2 Impaired loans	110,446	105,048	-	-	-	-	-	-	-	-	**110,446**	**105,048**
B.3 Other deteriorated assets	85,743	81,876	828	828	-	-	-	-	-	-	**86,571**	**82,704**
B.4 Other exposures	10,400,707	10,374,189	262,459	262,284	138,927	138,925	1,373	1,373	11,505	11,504	**10,814,971**	**10,788,275**
TOTAL	**10,618,455**	**10,576,128**	**263,287**	**263,112**	**138,927**	**138,925**	**1,373**	**1,373**	**11,505**	**11,504**	**11,033,547**	**10,991,042**
30/06/2013	**122,740,129**	**119,177,985**	**2,382,877**	**2,339,111**	**667,906**	**658,357**	**11,328**	**6,467**	**184,889**	**179,631**	**125,987,129**	**122,361,551**
31/12/2012	**125,738,942**	**122,111,453**	**3,653,020**	**3,601,726**	**854,832**	**845,561**	**13,250**	**8,496**	**217,447**	**216,882**	**130,477,491**	**126,784,118**

Distribution by geographical areas of exposures to banks, 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	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.2 Impaired loans	-	-	1,106	1,106	-	-	-	-	-	-	**1,106**	**1,106**
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.5 Other exposures	2,505,375	2,505,375	2,235,635	2,235,635	365,166	365,166	20,343	20,343	54,673	54,673	**5,181,192**	**5,181,192**
TOTAL	**2,505,375**	**2,505,375**	**2,236,741**	**2,236,741**	**365,166**	**365,166**	**20,343**	**20,343**	**54,673**	**54,673**	**5,182,298**	**5,182,298**
B. Off-balance sheet exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.2 Impaired loans	-	-	1,555	1,555	-	-	-	-	-	-	**1,555**	**1,555**
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.4 Other exposures	728,476	728,474	388,789	388,448	7,076	7,065	60,956	60,856	32,624	32,551	**1,217,921**	**1,217,394**
TOTAL	**728,476**	**728,474**	**390,344**	**390,003**	**7,076**	**7,065**	**60,956**	**60,856**	**32,624**	**32,551**	**1,219,476**	**1,218,949**
30/06/2013	**3,233,851**	**3,233,849**	**2,627,085**	**2,626,744**	**372,242**	**372,231**	**81,299**	**81,199**	**87,297**	**87,224**	**6,401,774**	**6,401,247**
31/12/2012	**3,955,888**	**3,955,669**	**4,869,182**	**4,868,954**	**927,104**	**927,092**	**90,335**	**90,209**	**65,211**	**65,182**	**9,907,720**	**9,907,106**

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

	Governments and Central		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	2	2	9,685	7,726	34,112	12,696	186	170	3,626,775	2,215,531	1,909,408	1,012,630	**5,580,168**	**3,248,755**
A.2 Impaired loans	-	-	381	306	90,470	66,101	30	24	3,065,272	2,627,455	1,491,870	1,300,061	**4,648,023**	**3,993,947**
A.3 Restructured exposures	-	-	7	7	23,926	17,456	-	-	664,728	571,383	4,052	4,052	**692,713**	**592,898**
A.4 Past due exposures	15,882	15,882	26,720	26,717	8,280	7,926	-	-	637,323	616,056	232,990	224,864	**921,195**	**891,445**
A.5 Other exposures	19,661,798	19,661,767	888,213	885,404	3,117,645	3,107,709	149,953	149,937	46,287,432	45,977,701	33,006,442	32,860,946	**103,111,483**	**102,643,464**
TOTAL A	**19,677,682**	**19,677,651**	**925,006**	**920,160**	**3,274,433**	**3,211,888**	**150,169**	**150,131**	**54,281,530**	**52,008,126**	**36,644,762**	**35,402,553**	**114,953,582**	**111,370,509**
B. Off-balance sheet exposures														
B.1 Non-performing loans	-	-	-	-	480	412	-	-	17,550	13,055	3,529	1,548	**21,559**	**15,015**
B.2 Impaired loans	-	-	-	-	3,135	2,198	-	-	84,750	81,828	22,561	21,022	**110,446**	**105,048**
B.3 Other deteriorated assets	-	-	7	7	1,092	1,086	-	-	85,261	81,408	211	203	**86,571**	**82,704**
B.4 Other exposures	295,637	295,637	944,415	943,682	548,266	537,900	40,506	40,450	7,926,987	7,914,140	1,059,160	1,056,466	**10,814,971**	**10,788,275**
TOTAL B	**295,637**	**295,637**	**944,422**	**943,689**	**552,973**	**541,596**	**40,506**	**40,450**	**8,114,548**	**8,090,431**	**1,085,461**	**1,079,239**	**11,033,547**	**10,991,042**
30/06/2013	**19,973,319**	**19,973,288**	**1,869,428**	**1,863,849**	**3,827,406**	**3,753,484**	**190,675**	**190,581**	**62,396,078**	**60,098,557**	**37,730,223**	**36,481,792**	**125,987,129**	**122,361,551**
31/12/2012	**18,480,907**	**18,480,869**	**1,977,217**	**1,971,421**	**4,824,422**	**4,721,357**	**192,874**	**191,017**	**66,901,861**	**64,476,629**	**38,100,210**	**36,942,825**	**130,477,491**	**126,784,118**

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 EURO
On-balance sheet assets	**20,498,957**	**1,512,840**	**1,145,373**	**2,536,914**	**4,950,616**	**5,808,242**	**6,807,796**	**35,693,898**	**37,093,344**	**1,416,803**	**117,464,783**
A.1 Government securities	51,206	-	29,205	82	340,171	1,661,947	1,490,772	11,490,098	4,362,211	2	19,425,694
A.2 Other debt instruments	3,123	1,014	-	487	20,379	82,775	61,964	433,269	700,254	1,073	1,304,338
A.3 Units in OICR (collective investment instruments)	220,230	-	-	-	-	-	-	-	-	-	220,230
A.4 Financing	20,224,398	1,511,826	1,116,168	2,536,345	4,590,066	4,063,520	5,255,060	23,770,531	32,030,879	1,415,728	96,514,521
- Banks	2,193,086	320,683	213,430	509,327	27,824	38,592	60,571	362,679	23,408	768,991	4,518,591
- Customers	18,031,312	1,191,143	902,738	2,027,018	4,562,242	4,024,928	5,194,489	23,407,852	32,007,471	646,737	91,995,930
On-balance sheet liabilities	**51,129,964**	**2,281,359**	**1,177,987**	**2,801,624**	**4,204,171**	**4,856,276**	**7,322,267**	**33,317,666**	**4,748,782**	**86,383**	**111,926,479**
B.1 Deposits and current accounts	44,785,262	483,928	136,644	292,611	654,842	480,115	71,545	382	48	-	46,905,377
- Banks	1,077,570	28,786	22,938	7,646	1,401	-	-	-	-	-	1,138,341
- Customers	43,707,692	455,142	113,706	284,965	653,441	480,115	71,545	382	48	-	45,767,036
B.2 Debt instruments	94,064	1,589,628	1,005,760	1,113,087	2,916,800	4,187,243	7,107,406	20,568,987	4,689,254	69,228	43,341,457
B.3 Other liabilities	6,250,638	207,803	35,583	1,395,926	632,529	188,918	143,316	12,748,297	59,480	17,155	21,679,645
Off-balance sheet transactions	**2,994,312**	**216,239**	**(642,746)**	**(97,996)**	**(88,830)**	**(411,319)**	**(659,602)**	**(1,480,568)**	**270,266**	**(135,907)**	**(36,151)**
C.1 Financial derivatives with exchange of principal	100,356	193,132	(639,629)	(1,359)	(11)	981	(87,622)	(20,027)	460,460	11	(6,292)
- Long positions	6,504	544,485	809,185	424,819	1,961,618	360,218	333,393	333,804	853	(11)	4,774,868
- Short positions	106,860	737,617	169,556	423,460	1,961,607	361,199	245,771	313,777	461,313	-	4,781,160
C.2 Financial derivatives without exchange of principal	(36,104)	(20,446)	479	(1,799)	(41,313)	(27,626)	(4,514)	-	-	-	131,323
- Long positions	462,613	20,721	192	3,535	80,001	94,214	113,740	-	-	-	775,016
- Short positions	426,509	275	671	1,736	38,688	66,588	109,226	-	-	-	643,693
C.3 Deposits and financing to be received	(46,673)	46,673	-	-	-	-	-	-	-	-	-
- Long positions	46,673	-	-	-	-	-	-	-	-	-	46,673
- Short positions	-	46,673	-	-	-	-	-	-	-	-	46,673
C.4 Irrevocable commitments to disburse funds	2,965,223	(3,253)	(4,070)	(99,422)	(67,236)	(399,616)	(574,869)	(1,482,510)	(210,645)	(150,196)	26,594
- Long positions	73,170	3,253	4,070	99,422	67,236	399,616	574,869	1,482,510	210,645	158,527	3,073,318
- Short positions	3,038,393	-	-	-	-	-	-	-	-	8,331	3,046,724
C.5 Financial guarantees issued	11,510	133	474	4,584	19,730	14,942	7,403	21,969	20,451	14,278	115,474
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-

Distribution by economic sector of deteriorated exposures and impairment losses

Exposures/Counterparties	Governments and Central Banks				Other public authorities				Financial companies				Insurance companies				Non-financial companies				Other				Totals		
	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	Gross exposure	Impairment	Net exposure
A. On-balance sheet exposure																											
A.1 Non-performing loans	2	-	X	2	9,685	(1,959)	X	7,726	34,112	(21,416)	X	12,696	186	(16)	X	170	3,626,775	(1,411,244)	X	2,215,531	1,909,408	(896,778)	X	1,012,630	5,580,168	2,331,413	3,248,755
A.2 Impaired loans	-	-	X	-	381	(75)	X	306	90,470	(24,369)	X	66,101	30	(6)	X	24	3,065,272	(437,817)	X	2,627,455	1,491,870	(191,809)	X	1,300,061	4,648,023	654,076	3,993,947
A.3 Restructured exposures	-	-	X	-	7	-	X	7	23,926	(6,470)	X	17,456	-	-	X	-	664,728	(93,345)	X	571,383	4,052	-	X	4,052	692,713	99,815	592,898
A.4 Past-due exposures	15,882	-	X	15,882	26,720	(3)	X	26,717	8,280	(340)	(14)	7,926	-	-	X	-	637,323	(19,428)	(1,839)	616,056	232,990	(8,049)	(77)	224,864	921,195	29,750	891,445
A.5 Other exposures	19,661,798	X	(31)	19,661,767	888,213	-	(2,809)	885,404	3,117,645	X	(9,936)	3,107,709	149,953	X	(16)	149,937	46,287,432	X	(309,731)	45,977,701	33,006,442	X	(145,496)	32,860,946	103,111,483	468,019	102,643,464
TOTAL A	**19,677,682**	**-**	**(31)**	**19,677,651**	**925,006**	**(2,037)**	**(2,809)**	**920,160**	**3,274,433**	**(52,595)**	**(9,936)**	**3,211,888**	**150,169**	**(22)**	**(16)**	**150,131**	**54,281,530**	**(1,961,834)**	**(309,731)**	**52,008,126**	**36,644,762**	**(1,096,636)**	**(145,496)**	**35,402,553**	**114,953,582**	**3,583,073**	**111,370,509**
B. Off-balance sheet exposures																											-
B.1 Non-performing loans	-	-	X	-	-	-	X	-	480	(68)	X	412	-	-	X	-	17,550	(4,495)	X	13,055	3,529	(1,981)	X	1,548	21,559	6,544	15,015
B.2 Impaired loans	-	-	X	-	-	-	X	-	3,135	(937)	X	2,198	-	-	X	-	84,750	(2,922)	X	81,828	22,561	(1,539)	X	21,022	110,446	5,398	105,048
B.3 Other deteriorated assets	-	-	X	-	7	-	X	7	1,092	(6)	X	1,086	-	-	X	-	85,261	(3,853)	X	81,408	211	(8)	X	203	86,571	3,867	82,704
B.4 Other exposures	295,637	X	-	295,637	944,415	X	(733)	943,682	548,266	X	(10,366)	537,900	40,506	X	(56)	40,450	7,926,987	X	(12,847)	7,914,140	1,059,160	X	(2,694)	1,056,466	10,814,971	26,696	10,788,275
TOTAL B	**295,637**	**-**	**-**	**295,637**	**944,422**	**-**	**(733)**	**943,689**	**552,973**	**(1,011)**	**(10,366)**	**541,596**	**40,506**	**-**	**(56)**	**40,450**	**8,114,548**	**(11,270)**	**(12,847)**	**8,090,431**	**1,085,461**	**(3,528)**	**(2,694)**	**1,079,239**	**11,033,547**	**42,505**	**10,991,042**
30/06/2013	**19,973,319**	**-**	**(31)**	**19,973,288**	**1,869,428**	**(2,037)**	**(3,542)**	**1,863,849**	**3,827,406**	**(53,606)**	**(20,302)**	**3,753,484**	**190,675**	**(22)**	**(72)**	**190,581**	**62,396,078**	**(1,973,104)**	**(322,578)**	**60,098,557**	**37,730,223**	**(1,100,164)**	**(148,190)**	**36,481,792**	**125,987,129**	**3,625,578**	**122,361,551**
31/12/2012	**18,480,907**	**-**	**(38)**	**18,480,869**	**1,977,217**	**(1,817)**	**(3,979)**	**1,971,421**	**4,824,422**	**(87,330)**	**(15,735)**	**4,721,357**	**192,874**	**(1,787)**	**(70)**	**191,017**	**66,901,861**	**(2,109,361)**	**(315,871)**	**64,476,629**	**38,100,210**	**(991,411)**	**(165,974)**	**36,942,825**	**130,477,491**	**3,693,373**	**126,784,118**

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	5,540,332	(2,307,736)	34,145	(18,240)	207	(166)	4,841	(4,841)	643	(430)	5,580,168	(2,331,413)
A.2 Impaired loans	4,525,569	(624,568)	86,608	(15,420)	23,198	(9,280)	-	-	12,648	(4,808)	4,648,023	(654,076)
A.3 Restructured exposures	666,843	(93,746)	25,799	(6,068)	27	(1)	-	-	44	-	692,713	(99,815)
A.4 Past due exposures	900,390	(29,714)	20,805	(36)	-	-	-	-	-	-	921,195	(29,750)
A.5 Other exposures	100,488,540	(464,053)	1,952,233	(3,827)	505,547	(100)	5,114	(20)	160,049	(19)	103,111,483	(468,019)
TOTAL	**112,121,674**	**(3,519,817)**	**2,119,590**	**(43,591)**	**528,979**	**(9,547)**	**9,955**	**(4,861)**	**173,384**	**(5,257)**	**114,953,582**	**(3,583,073)**
B. Off-balance sheet exposures												
B.1 Non-performing loans	21,559	(6,544)	-	-	-	-	-	-	-	-	21,559	(6,544)
B.2 Impaired loans	110,446	(5,398)	-	-	-	-	-	-	-	-	110,446	(5,398)
B.3 Other deteriorated assets	85,743	(3,867)	828	-	-	-	-	-	-	-	86,571	(3,867)
B.4 Other exposures	10,400,707	(26,518)	262,459	(175)	138,927	(2)	1,373	-	11,505	(1)	10,814,971	(26,696)
TOTAL	**10,618,455**	**(42,327)**	**263,287**	**(175)**	**138,927**	**(2)**	**1,373**	**-**	**11,505**	**(1)**	**11,033,547**	**(42,505)**
30/06/2013	**122,740,129**	**(3,562,144)**	**2,382,877**	**(43,766)**	**667,906**	**(9,549)**	**11,328**	**(4,861)**	**184,889**	**(5,258)**	**125,987,129**	**(3,625,578)**
31/12/2012	**125,738,942**	**(3,627,489)**	**3,653,020**	**(51,294)**	**854,832**	**(9,271)**	**13,250**	**(4,754)**	**217,447**	**(565)**	**130,477,491**	**(3,693,373)**

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	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Impaired loans	-	-	1,106	-	-	-	-	-	-	-	1,106	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past-due exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	2,505,375	-	2,235,635	-	365,166	-	20,343	-	54,673	-	5,181,192	-
TOTAL	**2,505,375**	**-**	**2,236,741**	**-**	**365,166**	**-**	**20,343**	**-**	**54,673**	**-**	**5,182,298**	**-**
B. Off-balance sheet exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	1,555	-	-	-	-	-	-	-	1,555	-
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	728,476	(2)	388,789	(341)	7,076	(11)	60,956	(100)	32,624	(73)	1,217,921	(527)
TOTAL	**728,476**	**(2)**	**390,344**	**(341)**	**7,076**	**(11)**	**60,956**	**(100)**	**32,624**	**(73)**	**1,219,476**	**(527)**
30/06/2013	**3,233,851**	**(2)**	**2,627,085**	**(341)**	**372,242**	**(11)**	**81,299**	**(100)**	**87,297**	**(73)**	**6,401,774**	**(527)**
31/12/2012	**3,955,888**	**(219)**	**4,869,182**	**(228)**	**927,104**	**(12)**	**90,335**	**(126)**	**65,211**	**(29)**	**9,907,720**	**(614)**

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	**(2,509,245)**	**(520,966)**	**(114,833)**	**(27,002)**
- of which: exposures transferred not derecognised				
B. Increases	**(395,335)**	**(271,985)**	**(33,147)**	**(29,259)**
B.1 impairment losses	(289,998)	(232,460)	(26,329)	(21,174)
B.1.a losses on disposal	(693)	-	-	-
B.2 transfers from other categories of deteriorated exposures	(115,804)	(33,950)	(6,723)	(416)
B.3 other increases	11,160	(5,575)	(95)	(7,669)
C. Decreases	**572,753**	**138,875**	**48,165**	**26,511**
C.1 unrealised reversals of impairment losses	58,570	16,438	1,921	2,118
C.2 realised reversals of impairment losses	32,705	23,599	2,500	2,917
C.2.a profits on the disposal	414	-	-	-
C.3 write-offs	478,541	550	4,829	32
C.4 transfers to other categories of impaired exposures	918	95,971	38,914	21,090
C.5 other decreases	2,019	2,317	1	354
D. Total closing net impairment	**(2,331,827)**	**(654,076)**	**(99,815)**	**(29,750)**
- 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	**-**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-
B.1.a losses on disposal	-	-	-	-
B.2 transfers from other categories of deteriorated exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**
C.1 unrealised reversals of impairment losses	-	-	-	-
C.2 realised reversals of impairment losses	-	-	-	-
C.2.a profits on the disposal	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	-	-	-
D. Total closing net impairment	**-**	**-**	**-**	**-**
- 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 – standardised approach. The exposures are given by credit quality step and by supervisory step 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.

SUPERVISORY PORTFOLIO	Credit quality step	Data as at 30.06.2013: Exposure with credit risk mitigation	Data as at 30.06.2013: Exposure without credit risk mitigation	Data as at 30.06.2013: Exposures deducted from the regulatory capital	Data as at 31.12.2012: Exposure with credit risk mitigation	Data as at 31.12.2012: Exposure without credit risk mitigation	Data as at 31.12.2012: Exposures deducted from the regulatory capital
Exposures to or guaranteed by central governments and banks		**19,628,455**	**20,226,219**	**2,245**	**20,235,789**	**20,791,175**	**2,245**
	0%	19,625,532	20,221,604		20,231,633	20,785,996	
	20%	-	-		742	1,765	
	50%	2,923	4,615		3,414	3,414	
Exposures to or guaranteed by regional governments and local authorities		**1,000,249**	**1,075,354**		**1,078,116**	**1,158,519**	
	0%	-	-		-	-	
	20%	1,000,249	1,075,354		1,078,116	1,158,519	
Exposures to or guaranteed by non-commercial and public sector entities		**2,004,712**	**2,035,586**		**1,989,276**	**2,019,910**	
	0%	1,860	30,927		657	27,911	
	20%	895,539	895,539		953,018	953,018	
	50%	39,603	39,603		19,537	19,537	
	100%	1,067,710	1,069,517		1,016,064	1,019,444	
Exposures to or guaranteed by multilateral development banks		**138,142**	**138,142**		**221,660**	**221,660**	
Exposures to or guaranteed by international organisations							
Exposures to or guaranteed by supervised intermediaries		**5,521,359**	**7,495,323**		**7,823,442**	**11,101,173**	
	0%	197	1,673,021		440	3,018,222	
	20%	3,823,852	4,081,488		5,434,172	5,664,312	
	50%	114,974	115,425		128,025	128,025	
	100%	1,576,717	1,619,770		2,260,377	2,290,186	
	150%	5,619	5,619		428	428	
Exposures to or guaranteed by corporates		**18,918,415**	**19,275,160**		**19,845,988**	**20,274,832**	
	0%	-	99,176		84,119	229,477	
	20%	-	57,577		10,462	76,295	
	35%	1,971	1,971		2,013	2,013	
	50%	2,096,906	2,184,071		2,172,140	2,239,571	
	70%	-	-		-	2,212	
	75%	111,052	111,052		156,815	156,815	
	100%	16,012,300	16,125,127		16,616,615	16,764,625	
	150%	696,186	696,186		803,824	803,824	
Retail exposures		**10,467,103**	**10,817,180**		**18,684,681**	**19,264,394**	
	0%	-	323,003		14,319	529,958	
	100%	22,210	41,807				
	75%	10,444,893	10,452,370		18,670,362	18,734,436	
Exposures secured by real estate property		**3,851,354**	**3,853,749**		**25,548,226**	**25,568,797**	
	0%	-	2,395		-	20,571	
	35%	985,187	985,187		22,445,092	22,445,092	
	50%	2,866,167	2,866,167		3,103,134	3,103,134	
Past-due exposures		**2,623,324**	**2,629,571**		**4,648,972**	**4,676,919**	
	0%	-	6,247		-	15,578	
	50%	3,802	3,802		187,438	187,438	
	100%	1,004,711	1,004,711		2,493,785	2,493,785	
	150%	1,614,811	1,614,811		1,967,749	1,980,118	
High-risk exposures		**124,767**	**124,767**		**124,178**	**124,178**	
	100%	-	-		1,546	1,546	
	150%	124,767	124,767		122,632	122,632	
Exposures in the form of covered bonds					**48,182**	**48,182**	
	20%				**48,182**	**48,182**	
Short-term exposures to supervised intermediaries and corporates							
Exposures to OICR (collective investment undertakings)		**89,025**	**89,025**		**85,515**	**85,515**	
	20%	-	-		-	-	
	100%	89,025	89,025		85,515	85,515	
Other exposures		**2,514,398**	**2,514,398**	**412,787**	**4,108,252**	**4,108,252**	**437,998**
	0%	479,635	479,635		655,849	655,849	
	20%	895,149	895,149		671,654	671,654	
	100%	1,139,614	1,139,614		2,780,749	2,780,749	
Securitisations		**2,363**	**2,363**		**2,806**	**2,806**	

Distribution of exposures by credit quality step: IRB approach

SUPERVISORY PORTFOLIO	CLASS	EXPOSURE 30.06.2013	EXPOSURE 31.12.2012
Exposures to or guaranteed by businesses: specialised lending-slotting criteria	specialised lending supervisory rating - high rating	277,703	199,966
	specialised lending supervisory rating - good rating	1,166,168	1,019,335
	specialised lending supervisory rating - sufficient rating	380,862	411,840
	specialised lending supervisory rating - poor rating	7,488	-

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. 689988 of 19th July 2013, the Bank of Italy authorised the UBI Banca Group to use the advanced internal rating based (AIRB) approach to calculate capital requirements to meet credit risk for the regulatory segments: "*retail: exposures backed by residential real estate*" and "*retail: other exposures (SME-retail)*" as of the supervisory report as at 30th June 2013. The authorisation allows the use of internal estimates for probability of default (PD) and loss given default (LGD) parameters for the RRE (Residential Real Estate - Individuals and Retail Businesses) and Retail Other (Retail Businesses) portfolio.
For the corporate segment, the UBI Banca Group has already been authorised by the Supervisory Authority, with Provision No. 423940 of 16th May 2012, to use advanced internal rating based (AIRB) systems as of the supervisory report as at the 30th June 2012.
For all the other portfolios, the standardised approach will be used, to be applied in accordance with the roll-out plan submitted to the Supervisory Authority.
As at the reporting date, the scope of application, in terms of companies, for the approaches authorised is as follows:

- AIRB: Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Popolare di Ancona, Banca Regionale Europea, Banca Carime, Banca Valle Camonica (the "Network Banks"), UBI Banca Private Investment and UBI Banca[10];
- 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/IRB approach which contains set deadlines for each supervisory customer segment ("corporate", "retail – RRE" and "retail – other") and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan 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;

[10] The legal entity, UBI Banca, includes the exposures of the former B@nca 24-7 and the former Centrobanca to which the internal models validated apply for the calculation of capital requirements.

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

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

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 portfolio "*exposures to corporates*" – 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.

The supervisory class "retail exposures" includes the following credit risk segments:

- private individuals;
- retail businesses, if the size is less than €1.5 million and the exposure is less than €1 million.

In addition to the above, "exposures to corporates" also includes an attribute used for identification and management purposes with a specialised component of the corporate rating model for structured finance exposures that are of the acquisition finance type.

Ratings are calculated using a counterparty approach and they are normally reviewed and updated once a year. For the "exposures to corporates" supervisory portfolio, 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[11] 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 same considerations described above apply for "retail exposure" classes (for retail businesses and private individuals) except that the credit rating assessment does not consider the qualitative component.

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[11] 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.

The output of the models consists of nine rating classes that correspond to the relative PDs, updated as at December 2011 for exposures to businesses and in 2012 for retail exposures. These PDs are mapped on the Master Scale to 14 classes (comparable with the ratings of the main external rating agencies) exclusively for reporting purposes.

Master Scale	PD THRESHOLDS		UBI INTERNAL RATING MODELS				EXTERNAL RATINGS	
	Min PD	Max PD	Corporate and Large Corporate	Small Business	Retail Businesses	Private individuals	*Moody's (1)*	
			class	*class*	*class*	*class*	*class*	*PD*
SM1	0.030%	0.049%	1		1	1	Aaa-Aa3	0.000% - 0.046%
SM2	0.049%	0.084%		1		2	A1-A3	0.060% - 0.078%
SM3	0.084%	0.174%	2	2	2		Baa1-Baa2	0.138% - 0.164%
SM4	0.174%	0.298%	3	3		3	Baa3	0,296%
SM5	0.298%	0.469%	4		3		Baa3/Ba1	0.296% -0.631%
SM6	0.469%	0.732%		4			Ba1 - Ba2	0.631% - 0.730%
SM7	0.732%	1.102%	5		4	4	Ba2/Ba3	0.730%-1.671%
SM8	1.102%	1.867%		5		5	Ba3	1,671%
SM9	1.867%	2.968%	6		5		B1	2,301%
SM10	2.968%	5.370%	7	6	6	6	B2	3,603%
SM11	5.370%	9.103%		7			B3-Caa1	6.616%-8.465%
SM12	9.103%	13.536%	8	8	7	7	Caa1/Caa2	8.465%-17.355%
SM13	13.536%	19.142%	9	9		8	Caa2	17,355%
SM14	19.142%	99.999%			8-9	9	Caa3-C	26.640% - 35.782%

(1) cf. "Moody's "Corporate Default and Recovery Rates, 1920-2011", Exhibit 29, Average One-Year Alphanumeric Rating Migration Rates, 1983-2011.

With regard to loss given default models, the UBI Banca Group has developed models differentiated by regulatory class. The factors that determine the final estimate of loss given default are as follows:

- 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 to include past-due exposures. 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) migrations 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 and LGD are also used for the purposes described below.

- 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. 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 and the Single Credit Authorisation Regulations of the Network Banks, 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.

- 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 analyses, 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 competent units in the Parent.

Further monitoring activity performed by the Network Banks is also provided in the monitoring process by another two roles and units:
• the Local Credit Quality Officer, 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 (irregularity reports in the "New Credit Monitoring" portal) 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.

This portal is accompanied by *PEM - Pratica Elettronica di Monitoraggio* (electronic case monitoring) software, the main support tool for monitoring activity. In this context credit ratings constitute the key factor which causes PEM to open automatically when predetermined exposure levels for a counterparty are exceeded.

PEM is the sole tool employed to manage monitoring activities on both performing and default counterparties in a uniform and consistent manner by defining strategies and actions designed to ensure either repayment of problem loans detected or credit recovery.

- 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 UBI Banca. 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 UBI Banca 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 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.

- Value creation, 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) – on both components used to calculate value created: measurement of profit (net operating profit after tax – NOPAT) and the cost of equity. EVA metrics are also applied in calculations for staff incentive schemes[12].

The process for the management and recognition of credit risk mitigation techniques[13]

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 make certain 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;

• to 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[14], 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.

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[12] The Pillar 3 disclosures document as at 31st December 2012 may be consulted for further information on incentive schemes.

[13] 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 2012.

[14] 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 Risk Management Area at the Parent.

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 Internal Validation Function – which is part of the Risk Governance Service which reports to the Chief Risk Officer – and to the Internal Audit Function. The methodologies adopted are illustrated below.

a. The validation process

The Internal Validation Function is the organisational unit responsible for carrying out the validation process on first pillar risks. The position of the Function in the organisation chart within the Risk Governments Service, reporting directly to the Chief Risk Officer, 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 internal validation process consists of a structured and formal set of procedures and activities designed to assess on a continuous basis, which is to say at first level, the quality of systems for the management and measurement of the risks subject to validation. It must assess their compliance over time with regulatory provisions and that they satisfy operating requirements, respond to market developments and check that that all estimates of risk components are accurate. The validation process concludes with a rating of the proper functioning, predictive power and overall performance of the system adopted.
The Internal Validation Function's activities are carried out in three separate operational areas (models, systems and data quality, processes), each of which has a structured set of tools and analytical procedures as follows:

- <u>models</u>: analysis of the methods adopted to estimate risk parameters (PD, LGD, EAD), analysis of how representative samples are and assessment of performance, i.e. assessment of the capacity of the models to discriminate (ability to separate customers with a high degree of solvency from those that are potentially high-risk) and assessment of the predictive power of risk factors by means of backtesting analysis;
- <u>systems and data quality:</u> verification 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 traceability, archiving of historical data and calculation engines for risk parameters. Regulatory compliance of the operational continuity policy is also assessed;
- <u>processes</u>: these relate to evaluation of the proper procedural functioning of the rating system and the relative operational processes to assign, update, monitor and revise it, with particular reference to organisational and functional requirements, to the

“experience requirement” and the “use test”, as explicitly required by the applicable regulations.

The Internal Validation Function ensures that adequate records are made of the results of the validation process, with emphasis placed on aspects with room for improvement, and it also ensures adequate reporting to development and internal audit functions and to governance bodies and the other functions involved. At least once a year, the Function prepares a report in compliance with regulations and submits it to the attention of the competent Corporate Bodies.

b. *The Internal Audit process*

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 Internal Validation Function.

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 malfunctions 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 Group uses internal rating systems for the following supervisory classes:

i. Exposures to Corporates;
ii. Retail exposures:
    a. backed by residential real estate (private individuals and retail businesses);
    b. other retail exposures (retail businesses only).

The relationship with credit risk segments for the corporate supervisory class is direct because the exposures for the supervisory class correspond to the small business, corporate, large corporate and specialised lending (not comprised within the validation) credit risk segments.

Precise rating models exist for the small business, corporate and large corporate segments which are further divided internally on the basis of the structure of their balance sheets (industrial, commercial and services; property; long-term production; financial[15]) and an LGD model.

Exposures in the "retail exposures" supervisory class relate to the "retail businesses" and "private individual" credit risk segments. The rating models (one for "retail businesses" and two models for "private individuals" – one for counterparties listed in the *Centrale Rischi* credit register and one for counterparties not listed in it) and two LGD models (one for mortgage products and one for other products relating to retail businesses) were updated in 2012.

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) Exposures to Corporates

Types of exposure

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

a) Large corporate
b) Corporate
c) Small businesses
d) Specialised lending.

[15] 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.

Rating models and PD 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-term, financial[16]. 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

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

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.

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 2011, in compliance with Bank of Italy regulatory requirements.

For large corporate, corporate and small business segments, counterparties who are beneficiaries ("borrowers") of loans granted as part of company and/or company asset acquisition transactions ("deals") are defined as "acquisition finance". These generally occur by means of structures that involve leveraged finance, known as "leveraged buyouts".

The credit ratings of corporate counterparties with the basic requirements for assignment to and maintenance of the "acquisition finance" category[17] are calculated by integrating the qualitative and quantitative assessment for the counterparty by using a specific comparison matrix. The qualitative assessment in particular is defined by compiling a special qualitative counterparty questionnaire. Assessment of the quantitative component on the other hand is no different from that described above for corporate counterparties except for the input to the financial module which for all borrower counterparties participating in a deal is performed by using a balance sheet that represents the deal itself, i.e. the final figure, proforma, consolidated or separate balance sheet on which the periodic calculation of balance sheet indicators is based as defined by the loan contract and used as the financial covenant to protect creditors.

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[17] The three requirements necessary for the identification and consequent classification of a customer as an acquisition finance customer are as follows:

1) credit lines are granted to finance the acquisition of control of one or more third party companies and/or activities held by third parties and/or the refinancing of prior exposures relating to the same companies/activities subject to the acquisition (<u>purpose requirement</u>);
2) the effect of the acquisition consists of an increase in the turnover of the "enlarged" group of companies, i.e. the sum of the turnover of the acquiring group and the turnover of the target group is 40% greater than that of the acquiring group alone (<u>size requirement</u>);
3) no more than four years have passed since the date of the first grant of credit lines to finance the acquisition (<u>"vintage" requirement</u>).

This method has been in use since May 2013 and is a development of a specific model validated by the Bank of Italy in May 2012.

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.

The LGD estimation method and database.

As already mentioned, the UBI Group has developed separate models for different supervisory classes.

Two models have been developed for “exposures to corporates” relating to exposures to counterparties with large corporate, corporate and small business credit risk. These models were validated by the Supervisory Authority in 2012 for both the Network Banks and for Centrobanca. Following the merger of Centrobanca into UBI Banca, which took place for operational purposes in the first half of 2013, these two models were integrated (in agreement with the Supervisory Authority). The result is a single LGD model first used for the supervisory report as at the 30th June 2013.

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 as non-performing and of 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 still 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 and it covers all the subsequent observations up to the latest date of 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 Danger Rate corresponds 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, 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).

ii) Retail exposures

Types of exposure

The “retail exposures” class subject to validation includes the following types of counterparty:

a) *Retail exposures backed by residential real estate* which includes counterparties in the “private individual” and “retail businesses” credit risk segment;
b) *Other retail exposures* which includes counterparties in the “retail businesses” credit risk segment;

Rating models and PD databases

One model for “retail businesses” and two models for “private individuals” have been developed to assess the creditworthiness of customers belonging to the *retail exposures* supervisory segment in order to identify clusters with homogenous risk profiles. Each model consists of the following basic stages: quantitative estimate of the model (quantitative score), the definition of the rating classes and the PD estimate.

Quantitative score. The quantitative component of the *retail businesses* model is composed of three sub-models, which cover all the available data sources and evaluate the sociological and economic and financial characteristics of the counterparty and the performance of their relationships with the Group and with the banking sector (business module, performance module, external performance module). The final model is the result of the statistical integration of the individual models. The solvency of a business is assessed with particular attention paid to performance data which is 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). Creditworthiness is also investigated by considering (i) the contribution of social and demographic indicators connected with the availability of financial resources, with the level of customer loyalty and with an analysis of the growth potential of the sectors and geographical regions to which the company belongs and (ii) the contribution of information which assesses economic and financial aspects.

Two models have been developed to assess the creditworthiness of exposures to *private individuals* which, based on the same sub-model that assesses anagraphical aspects, uses risk assessment methods on the basis of two separate sub-models which differ according to whether the counterparty is registered in the central credit register or not. Counterparty solvency is assessed on the basis of internal performance data and Bank of Italy central credit register data for counterparties registered in it and on the basis of internal data only for counterparties with exposures below the registration threshold. A risk assessment is completed by considering the contribution of anagraphical aspects of the counterparty and information connected with the availability of financial resources, with the level of customer loyalty and the type of operations.

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.

The calculation of rating and PD classes. Procedures for identifying rating classes and calculating PD for retail exposures are the same as those described for the "corporate" model. Only details different from what has already been described are reported.

The UBI Group made the decision to quantify a PD for *retail business* counterparties and a PD for *private individual* counterparties. The historical period of observation of the data sources considered for the calculation of the PD was from 2009 to 2012.

The LGD estimation method and database

Two LGD retail models have been developed for the retail classes and validated by the Bank of Italy designed to detect product and counterparty specifics.

- *Retail: exposures backed by residential real estate* (relating to mortgage repayment exposures to the following types of credit risk counterparties: "retail businesses" and "private individuals");
- *Retail: other SME-retail exposures* (relating to mortgage repayment exposures to the following types of credit risk counterparties: "retail businesses").

The historical depth of the data observations for **Non-performing LGD** has been extended compared to what has already been reported for the corporate supervisory class to 31/12/2011. The sample not only includes closed non-performing loans, but also some that were still open as at 31/12/2011, which because of their specific nature were considered "basically closed". Their inclusion in the sample has a prudential impact on the overall estimates.

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 and incorporating historical and prospective macroeconomic trends, appropriately stressed in order to detect, with a view to prudence, the persistence of a negative economic situation which goes beyond the current empirical data. 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 which covers all the subsequent observations up to the latest date of the Non-performing LGD sample (31/12/2011), while analysis of the trend for some macroeconomic indicators, for properties and for the manufacturing sector allowed "stressed" future scenarios to be hypothesised involving a further prudential worsening of the downturn factor.

Finally, with respect to what has already been reported for the corporate supervisory class, the historical depth of the data observations for the **Danger Rate** corresponds to the period June 2005 – December 2011.

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 in relation to the identification of the administrative states to be considered. 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 the estimate of internal PD and LGD models, as requested by a letter of 29th June 2007. The definition of default not only includes impaired, non-performing and restructured loans, but also exposures past due and/or in arrears for a period of longer than 180 days. The historical data series used to calibrate the risk parameters takes into consideration more recent historical data up until December 2012 in some cases.

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.

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.

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		17,755,252
Other companies		22,908,727
Retail exposures		
-Exposures secured by residential real estate: SMES		2,043,619
-Exposures secured by residential real estate: private individuals		21,769,317
-Qualified revolving retail exposures		-
-Other retail exposures: SMES		8,468,852
-Other retail exposures: private individuals		-

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

	PD Class (*)	Exposure	Average weighting factor (%)	Average weighted LGD (%)	Undrawn credit	Average weighted EAD (%)
EXPOSURES TO OR GUARANTEED BY CORPORATES						
- SMEs						
	1st class	140,081	13.00	41.58	34,628	8.00
	2nd class	63,756	16.00	33.58	15,451	11.00
	3rd class	989,453	24.12	33.95	155,827	12.68
	4th class	1,949,552	30.43	30.93	164,907	12.78
	5th class	1,405,199	45.00	32.85	92,775	16.00
	6th class	1,484,390	38.00	27.29	103,045	21.00
	7th class	1,734,328	58.00	31.85	116,980	19.00
	8th class	1,572,672	53.00	28.64	64,119	16.00
	9th class	1,857,191	72.00	31.76	64,556	17.00
	10th class	2,538,444	75.18	29.45	66,296	16.10
	11th class	656,687	91.00	27.41	8,833	14.00
	12th class	1,013,518	107.66	27.69	19,681	19.00
	13th class	172,269	134.77	28.40	6,208	32.73
	14th class	-	-	-	-	-
	Default	2,177,712	-	34.98	44,503	41.00
- Other companies	*1st class*	136,126	14.00	38.16	36,917	11.00
	2nd class	2,116	20.00	38.46	414	4.00
	3rd class	1,478,784	34.88	42.86	423,075	13.18
	4th class	3,245,234	44.74	40.15	668,342	17.00
	5th class	5,295,979	63.00	40.72	1,527,274	29.95
	6th class	203,269	56.00	31.33	11,227	18.00
	7th class	4,095,157	80.00	37.41	400,688	25.00
	8th class	214,102	60.00	25.06	6,509	19.00
	9th class	2,059,477	97.00	36.26	123,696	20.00
	10th class	1,911,474	110.67	34.15	118,896	28.44
	11th class	54,107	124.00	28.10	1,269	13.00
	12th class	728,615	160.82	35.07	25,300	27.85
	13th class	119,581	179.54	32.55	3,243	11.69
	14th class	-	-	-	-	-
	Default	3,364,706	-	46.04	75,578	43.00

(*) Master Scale, cf. Qualitative information.

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

	PD Class (*)	Exposure	Average weighting factor (%)	Average weighted LGD (%)	Undrawn credit	Average weighted EAD (%)
RETAIL EXPOSURES						
- Exposures secured by residential real estate: SMEs	*1st class*	20,099	2.00	13.89	445	48.00
	2nd class	701	2.00	11.22	-	-
	3rd class	206,033	4.00	12.62	2,770	74.00
	4th class	235	7.00	12.45	-	-
	5th class	359,392	8.00	12.88	2,665	65.00
	6th class	-	-	-	-	-
	7th class	325,845	16.00	12.92	2,940	75.00
	8th class	222	21.00	11.18	-	-
	9th class	224,584	28.00	13.08	2,025	73.00
	10th class	230,557	43.07	13.00	1,345	66.00
	11th class	-	-	-	-	-
	12th class	156,303	65.01	13.29	1,048	75.00
	13th class	-	-	-	-	-
	14th class	229,689	77.27	12.83	1,296	-
	Default	289,959	-	20.18	419	75.00
- Exposures secured by residential real estate: private individuals	*1st class*	1,118,473	1.00	11.43	1,368	75.00
	2nd class	3,108,422	2.00	11.44	1,262	75.00
	3rd class	-	-	-	-	-
	4th class	5,227,786	6.00	11.59	4,324	75.00
	5th class	-	-	-	-	-
	6th class	-	-	-	-	-
	7th class	6,818,731	14.00	12.33	2,386	75.00
	8th class	2,324,283	23.00	11.92	617	75.00
	9th class	-	-	-	-	-
	10th class	952,104	39.00	12.13	370	75.00
	11th class	-	-	-	-	-
	12th class	489,559	61.00	12.23	34	75.00
	13th class	-	-	-	-	-
	14th class	460,635	74.36	12.33	90	75.00
	Default	1,269,324	-	19.67	259	75.00
- Other retail exposures: SMEs	*1st class*	31	1.00	10.81	-	-
	2nd class	197,364	5.00	26.51	16,532	7.00
	3rd class	759,522	10.00	24.57	35,370	9.00
	4th class	52	6.00	10.81	-	-
	5th class	1,076,277	18.00	26.34	45,287	11.00
	6th class	-	-	-	-	-
	7th class	1,139,378	30.00	28.35	26,752	7.00
	8th class	-	-	-	-	-
	9th class	942,640	43.00	30.32	18,874	7.00
	10th class	987,296	48.99	30.83	18,085	10.00
	11th class	-	-	-	-	-
	12th class	647,419	55.00	29.92	9,337	11.00
	13th class	-	-	-	-	-
	14th class	698,271	71.64	27.62	6,374	13.00
	Default	2,020,602	-	52.08	14,396	24.00

(*) Master Scale, cf. Qualitative information.

Comparison between estimates and actual results

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

With specific reference to the probability of default (PD,) the analyses conducted by the internal audit functions focus on “out-of-sample” application portfolios and are designed in particular to assess (i) the performance of the models, in terms of their ability to maintain their discriminating capacity and predictive power over time, and (ii) the dynamic rating properties also with respect to the development samples. As concerns loss given default (LGD), the analyses performed on the most recent out-of-sample data regard the stability of the sample and performances with respect to the long-term period sample which determined the estimate of the parameter.

In view of the results of the tests and with account taken of the current recessionary phase in the business cycle, overall robustness in the accuracy and ordering capacities as well as the dynamic rating properties was found in the most recent out-of-sample data for all the authorised PD models. Correct calibration of PD measured by using binomial tests and also considering correlation between defaults was also found to be generally satisfactory overall.

With regard to LGD, the analyses conducted on the last most recent out-of-sample window showed good stability for the empirical loss values and for estimates of the parameter. Furthermore, further prudential elements were introduced during the validation process which led to the authorisation to use IRB models for the following counterparties: "retail: exposures backed by residential real estate" and "retail: other exposures (SME-retail)". The downturn intervention was of particular importance. It was based on an analysis of recovery rates observed during the downturn in the economic cycle, which were further worsened in line with the trend for some macroeconomic indicators which were considered significant.

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	30.06.2013		31.12.2012	
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and banks	-	597,764	-	555,385
Exposures to or guaranteed by regional governments and local authorities	-	75,104	-	80,403
Exposures to or guaranteed by non-commercial and public sector entities	29,067	1,807	28,552	2,083
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	1,793,888	180,076	2,977,694	300,036
Exposures to or guaranteed by corporates	101,323	255,422	149,257	279,586
Retail exposures	350,077	-	579,713	-
Exposures secured by real estate property	2,395	-	20,571	-
Past-due exposures	6,247	-	15,578	12,369
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.

Quantitative information

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

Underlying assets/type of derivative	30/06/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments	**21,610,950**	**1,510,870**	**19,674,568**	**693,493**
a) Options	5,049,993		5,638,399	-
b) Swaps	16,560,957		14,036,169	-
c) Forwards			-	-
d) Futures		1,510,870	-	693,493
e) Other			-	-
Equity instruments	**-**	**42,076**	**54,913**	**54,704**
a) Options		42,076	54,913	42,601
b) Swaps			-	-
c) Forwards			-	-
d) Futures			-	12,103
e) Other			-	-
Currencies and gold	**5,068,162**	**-**	**4,799,924**	**-**
a) Options	2,550,921		1,926,580	-
b) Swaps				-
c) Forwards	2,517,241		2,873,344	-
d) Futures				-
e) Other				-
Commodities	**40,152**		**29,908**	
Other underlying	**1,076**		**1,076**	-
Total	**26,720,340**	**1,552,946**	**24,560,389**	**748,197**
Average amounts	**25,640,365**	**1,150,572**	**29,313,419**	**686,322**

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

For hedging

	30/06/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments	**26,622,504**	**-**	**46,637,562**	**-**
a) Options	5,802,791		5,896,021	-
b) Swaps	20,819,713		40,741,541	-
c) Forwards			-	-
d) Futures			-	-
e) Other			-	-
Equity instruments	**-**	**-**	**-**	**-**
a) Options			-	-
b) Swaps			-	-
c) Forwards			-	-
d) Futures			-	-
e) Other			-	-
Currencies and gold	**826,639**	**-**	**826,659**	**-**
a) Options			-	-
b) Swaps	826,639		826,659	-
c) Forwards			-	-
d) Futures			-	-
e) Other			-	-
Commodities			**-**	**-**
Other underlying			**-**	**-**
Total	**27,449,143**	**-**	**47,464,221**	**-**
Average amounts	**37,456,683**	**-**	**48,247,799**	**-**

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

Other derivatives

Underlying assets/type of derivative	30/06/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
Debt instruments	**65,500**	-	**97,194**	-
a) Options			9,094	
b)Swap				
c) Forwards				
d) Futures				
e) Other	65,500		88,100	
Equity instruments	**1,859,912**	-	**1,812,715**	-
a) Options	1,859,912			
b) Swaps			1,812,715	
c) Forwards				
d) Futures				
e) Other				
Currencies and gold	-	-	-	-
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
Commodities				
Other underlying				
Total	**1,925,412**	-	**1,909,909**	-
Average amounts	**1,917,661**	-	**2,102,193**	-

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

Underlying assets/type of derivative	Positive fair value			
	30/06/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**481,728**	**1,867**	**585,406**	**1,745**
a) Options	24,688	1,662	34,683	1,676
b) Interest rate swaps	440,800		523,805	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	14,087		26,163	
f) Futures		205		69
g) Other	2,153		755	
B. Banking portfolio - for hedging	**335,198**	**-**	**1,478,322**	**-**
a) Options				
b) Interest rate swaps	335,054		1,478,322	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	144			
C. Banking portfolio - other derivatives	**690**	**-**	**673**	**-**
a) Options	690		673	
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**817,616**	**1,867**	**2,064,401**	**1,745**

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

Portfolio/type of derivative	Negative fair value			
	30/06/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**444,150**	**99**	**609,206**	**69**
a) Options	16,959		29,890	
b) Swaps	415,613		552,987	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	9,554		25,695	
f) Futures		99		69
g) Other	2,024		634	
B. Banking portfolio - for hedging	**1,016,669**	**-**	**2,234,988**	**-**
a) Options				
b) Swaps	940,709		2,129,499	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	75,960		105,489	
C. Banking portfolio - other derivatives	**745**	**-**	**729**	**-**
a) Options	691		634	
b) Swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	54		95	
Total	**1,461,564**	**99**	**2,844,923**	**69**

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	-	13,972	95,690	214,409	-	6,306,903	757,889
Positive fair value	-	1	9	2,572	-	304,168	9,173
Negative fair value	-	2	332	46	-	2,340	557
Future exposure	-	-	30	504	-	28,850	679
2) Equity instruments and share indices							
Notional amount	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
Notional amount	-	-	1,551,929	804,834	415	1,338,011	19,033
Positive fair value	-	-	13,019	906	-	3,161	81
Negative fair value	-	-	2,226	5,896	12	8,211	123
Future exposure	-	-	15,519	8,004	4	9,893	190
4) Other securities							
Notional amount	-	-	-	-	-	21,175	-
Positive fair value	-	-	-	-	-	3,244	-
Negative fair value	-	-	-	-	-	119	-
Future exposure	-	-	-	-	-	2,148	-

Over the counter financial derivatives: supervisory trading portfolio – notional amounts, gross positive and negative fair values by counterparty
contracts which form part of 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	-	-	13,469,426	712,610	-	40,050	-
Positive fair value	-	-	132,834	5,006	-	-	-
Negative fair value	-	-	381,405	35,699	-	2,080	-
2) Equity instruments and share indices							
Notional amount	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
Notional amount	-	-	1,228,850	125,090	-	-	-
Positive fair value	-	-	6,824	593	-	-	-
Negative fair value	-	-	2,459	583	-	-	-
4) Other securities							
Notional amount	-	-	18,596	1,457	-	-	-
Positive fair value	-	-	138	2	-	-	-
Negative fair value	-	-	2,028	32	-	-	-

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	-	-	1,781	125,861	9,250	2,100	2,750
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	14	3,028	8	2	3
Future exposure	-	-	9	240	-	-	-
2) Equity instruments and share indices							
Notional amount	-	-	647,819	24	682,821	392,673	99,416
Positive fair value	-	-	162	-	-	-	-
Negative fair value	-	-	-	-	-	-	691
Future exposure	-	-	38,491	-	33,854	37,583	1,045
3) Currencies and gold							
Notional amount	-	249	-	17,731	-	29,730	778,928
Positive fair value	-	-	-	9	-	13	122
Negative fair value	-	2	-	1,934	-	1,764	72,260
Future exposure	-	2	-	177	-	297	7,872
4) Other securities							
Notional amount	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-

Over the counter financial derivatives: banking portfolio – notional amounts, gross positive and negative fair values by counterparty
contracts which form part of 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			24,393,685	2,152,578			
Positive fair value			302,169	32,885			
Negative fair value			790,270	147,440			
2) Equity instruments and share indices							
Notional amount			37,159				
Positive fair value			528				
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							

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 portfolio	**8,286,404**	**11,497,663**	**6,936,273**	**26,720,340**
A.1 Financial derivatives on debt instruments and interest rates	3,377,763	11,297,990	6,935,197	21,610,950
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	4,869,103	199,059	-	5,068,162
A.4 Financial derivatives on other securities	39,538	614	1,076	41,228
B. Banking portfolio	**10,267,559**	**12,354,314**	**6,752,682**	**29,374,555**
B.1 Financial derivatives on debt instruments and interest rates	8,680,054	11,892,135	6,115,815	26,688,004
B.2 Financial derivatives on equities and share indices	760,866	462,179	636,867	1,859,912
B.3 Financial derivatives on exchange rates and gold	826,639	-	-	826,639
B.4 Financial Derivatives on other securities	-	-	-	-
Total 30/06/2013	**18,553,963**	**23,851,977**	**13,688,955**	**56,094,895**
Total 31/12/2012	**21,871,601**	**33,562,596**	**18,500,322**	**73,934,519**

Credit derivatives: end of period and average notional amounts

No transactions in credit derivatives were performed in the first half of 2013.

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

No outstanding transactions in credit derivatives existed as at 30th June 2013.

Residual maturity of over the counter credit derivatives: notional amounts

No outstanding transactions in credit derivatives existed as at 30th June 2013.

Counterparty risk - credit equivalent

	30.06.2013		31.12.2012	
	CREDIT EQUIVALENT		CREDIT EQUIVALENT	
	STANDARDISED APPROACH	IRB APPROACH	STANDARDISED APPROACH	IRB APPROACH
Derivatives contracts	609,710	103,587	1,856,055	115,039
Securities financing transactions and long-term settlement transactions	1,887,908		2,862,118	
Cross product netting agreements				

Table 10 – Securitisation transactions

Qualitative information

On 1st May 2013, the securitisations *Albenza 3 Società per la Cartolarizzazione Srl* and *Orio Finance nr. 3 Plc* were permanently closed down with the consequent redemption of the securities issued by Orio Finance nr. 3 (Class A Notes for €6.8 million, Class B Notes for €1.6 million and Class C Notes for €4.7 million) with the full repurchase of all the receivables (for a portfolio amounting to approximately €9.3 million) by Banca Popolare di Bergamo Spa.

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	224	224	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 / Reversals	Carrying amount	Impairment / Reversals	Carrying amount	Impairment / Reversals	Net exposure	Impairment / Reversals	Net exposure	Impairment / Reversals	Net exposure	Impairment / Reversals	Net exposure	Impairment / Reversals	Net exposure	Impairment / Reversals	Net exposure	Impairment / Reversals
A1. Securitisation																		
FTA UCI 6 A - ABS 00/30 Società UCI																		
Mortgage loans on residential properties	224	-																

Securitisations: positions by financial asset portfolio and type

Exposure / Portfolio	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	30/06/2013	31/12/2012
1. On-balance sheet exposures	**224**	**-**	**-**	**-**	**-**	**224**	**233**
- Senior	224		-			224	233
- 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:	**224**	**-**
B.1 Non-performing loans	-	-
B.2 Impaired loans	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	224	-

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

SECURITISATIONS: TYPE OF EXPOSURE BY WEIGHTING BANDS

Own securitisations	**20%**	**50%**	**100%**	**350%**	**1250%**	**1250% unrated**	**TOTAL**
Traditional							**-**
Synthetic							**-**
TOTAL OWN 30.06.13	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL OWN 31.12.12	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Third party securitisations	**20%**	**50%**	**100%**	**350%**	**1250%**	**1250% unrated**	**TOTAL**
Traditional			2,363				**2,363**
Synthetic							**-**
TOTAL THIRD PARTY 30.06.13	**-**	**-**	**2,363**	**-**	**-**	**-**	**2,363**
TOTAL THIRD PARTY 31.12.12		**412**	**2,395**	**-**	**-**	**-**	**2,807**

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.	UBI Finance 2 S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Banca S.c.p.a.	UBI Finance 3 S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Banca S.c.p.a.	24-7 Finance S.r.l.	-	-	-	-	-	-	-	-	-	-
UBI Leasing S.p.A.	Lombarda Lease Finance 4 S.r.l.	18,204	59,599	1,397	18,547	-	100.00%	-	48.01%	-	-
UBI Leasing S.p.A.	UBI Lease Finance 5 S.r.l.	341,147	2,858,806	7,605	263,519	-	55.69%	-	-	-	-
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

Type of asset / Portfolio	Financial assets held for trading			Financial assets designated at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Loans and advances to banks			Loans and advances to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	30/06/2013	31/12/2012
A. On-balance sheet assets	**1,083,105**	**-**	**-**	**-**	**-**	**-**	**4,989,193**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,072,298**	**4,224,069**
1 - Debt instruments	1,083,105						4,989,193			-			-						6,072,298	4,224,069
2 - Equity instruments							-												-	-
3 - O.I.C.R. (collective investment undertakings)																			-	-
4 - Financing																-			-	-
B. Derivative instruments	**-**																		-	**-**

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

Since 30th June 2012, the UBI Banca Group has been authorised to use the internal advanced measurement approach (AMA) in combined use with the traditional standardised approach (TSA) and with the basic indicator approach (BIA) to calculate capital requirements for operational risks.

The scope of application for the AMA includes the Parent, UBI Banca, the Network Banks (Banco di Brescia, Banca Regionale Europea, Banca di Valle Camonica, Banca Popolare di Bergamo, Banca Popolare Commercio e Industria, Banca Popolare di Ancona and Banca Carime), UBI Banca Private Investment and UBI Sistemi e Servizi. The scope of application for the TSA comprises IW Bank, UBI Factor, UBI Pramerica, UBI International, UBI Leasing and Prestitalia. The remaining companies within the scope of consolidation of the Group, which are consolidated proportionately, adopt the BIA method.

The capital requirements for operational risk as at 30th June 2013 are reported in Table 4 of this Pillar 3 Disclosure document.

In accordance with the provisions of Circular No. 263/06, no qualitative information is published in the Half Year Disclosure document (the only information required for this Table). The full document already published as at 31st December 2012 may be consulted for information of a qualitative nature on the operational risks to which the Group is subject.

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		profits/losses 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	0	81,396	0	81,396	0	x	0	-1,031	x	x
- OICR units (collective investment instruments)	113,684	11,780	113,684	11,780	113,684	x	4,019	-1,406	x	x
Available-for-sale financial assets:										
- equity instruments	100,958	152,114	100,958	152,114	100,958	x	11,799	2,606	9,028	69,221
- OICR units (collective investment instruments)	40,777	52,534	40,777	52,534	40,777	x	-7,784	0	2,723	2,561

Net losses for the period ended 30th June 2013, that qualify for inclusion in the tier two capital were €19.7 million (€12 million as at 31st December 2012).

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

Quantitative information

The 2013 Policy to Manage Financial Risks made no changes to the system for monitoring exposure to interest rate risk in terms of sensitivity. In detail:

- on-demand items are modelled on the basis of their behaviour profile;
- the indicator used for monitoring is 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 2013 was -€304.19 million, equal to 2.60% of consolidated regulatory capital, with an early warning threshold of -€450 million (-€186.55 million as at 31/12/2012).
In compliance with the Financial Risks Policy, the total level of exposure includes an estimate of the impact of early repayments and modelling of on-demand items on the basis of the internal model for estimating the behaviour profile.
The sensitivity originated by the Network Banks amounted to approximately -€162.43 million. The sensitivity generated by the product companies amounted to approximately +€79.63 million and the Parent contributes a total of approximately -€65.72 million.

The sensitivity for an increase in interest rates (+100 bp) was approximately +€417.21 million.

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 effect resulting from the behaviour profile of on-demand items contributes to the overall determination of exposure. The UBI Group's exposure to interest rate risk, estimated in terms of an impact on net interest income of an increase in reference interest rates of 100 bp, amounted to +€41.26 million as at 30th June 2013. This measurement was estimated in a scenario of an instant change in market interest rates over a time horizon for the analysis of 12 months, assuming constant volumes over time. It cannot therefore be considered a forecasting indicator for future levels of net interest income.

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	418.77	36.47
	Other currencies not significant*	-1.57	4.79
TOTAL +100 BP		**417.21**	**41.26**
-100 BP	EUR	-305.06	7.89
	Other currencies not significant*	0.87	-1.96
TOTAL -100 BP		**-304.19**	**5.93**

* Non significant currencies are defined as accounting for less than 5% of the assets or liabilities in the banking portfolio.
** The AFS portfolio, excluded from that indicator in compliance with the 2013 Policy to Manage Financial Risks, has an impact on economic value of -€323.02 million for a shock of +100 bps (total sensitivity of €94.19 million) and of +€300.21 million for a shock of -100 bps (total sensitivity of -€3.98 million).
*** The impact on that income shows the effects of changes in interest rates on the portfolio monitored, excluding hypotheses of future changes in the mix of assets and liabilities. These factors mean that the indicator cannot be used to assess the Bank's future strategy.

RISK INDICATORS

Annual average	
+200 bp	
Impact on economic value/Tier 1	2.43%
Impact on economic value/Regulatory capital	1.65%
-200 bp	
Impact on economic value/Tier 1	3.94%
Impact on economic value/Regulatory capital	2.68%

End of period values	
+200 bp	
Impact on economic value/Tier 1	2.45%
Impact on economic value/Regulatory capital	1.66%
-200 bp	
Impact on economic value/Tier 1	4.12%
Impact on economic value/Regulatory capital	2.80%

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 2012 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.

Il Dirigente Preposto alla redazione dei
documenti contabili societari

Bergamo, 26th August 2013