Reports and Financial Statements

2019

Translation from the Italian original which remains the definitive version

17th Financial year

UBI Banca

Unione di Banche Italiane Società per azioni
abbreviated to **UBI Banca Spa**

Head Office and General Management: Piazza Vittorio Veneto 8, Bergamo (Italy)
Operating offices: Bergamo, Brescia and Milan
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
A member of the UBI VAT Group with VAT No. 04334690163
Tax Identification Number and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of Banking Groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 31st December 2019: Euro 2,843,177,160.24 fully paid up
Certified email address (P.E.C.): ubibanca.pec@pecgruppoubi.it

www.ubibanca.it

Contents

SEPARATE FINANCIAL STATEMENTS OF UBI BANCA SPA AS AT AND FOR THE YEAR ENDED 31ST DECEMBER 2019

The "REPORT ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF UBI BANCA SPA" and the "REPORTS ON THE OTHER ITEMS ON THE AGENDA OF THE SHAREHOLDERS' MEETING" convened for 8th April 2020 are available on the institutional website www.ubibanca.it, under the section Shareholders/Shareholders' Meetings/April 2020 (direct link https://www.ubibanca.it/pagine/shmeet2020.aspx).

Legend

The following abbreviations are used in the tables:

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

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

UBI Banca: company officers

Honorary Chairmen	Gino Trombi Emilio Zanetti

Board of Directors
(appointed by a Shareholders' Meeting on 12th April 2019)

Chairwoman	Letizia Maria Brichetto Arnaboldi Moratti
Deputy Chairman	Roberto Nicastro
Chief Executive Officer	Victor Massiah (*)
	Letizia Bellini Cavalletti
	Paolo Boccardelli
	Paolo Bordogna
	Ferruccio Dardanello
	Silvia Fidanza
	Pietro Gussalli Beretta
	Osvaldo Ranica
	Alessandro Masetti Zannini (**)
	Alberto Carrara (**)
	Francesca Culasso (**)
	Simona Pezzolo De Rossi (**)
	Monica Regazzi (**)

General Management

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

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

(*) Appointed Chief Executive Officer and confirmed in the position of General Manager by the Board of Directors on 16th April 2019.

(**) Members of the Management Control Committee, of which the Chairman is Alessandro Masetti Zannini.

* * *

Reference is made with regard to the Corporate Governance system adopted by UBI Banca and to the roles, responsibilities, composition, functioning and powers of the governing bodies in particular, to the detailed illustration contained in the "Report on Corporate Governance and Ownership Structure (in accordance with Art. 123-bis of the Consolidated Finance Law)" for the financial year 2019, which may also be consulted in the Corporate Governance Section of the Group's corporate website www.ubibanca.it.

UBI Banca Group: key figures and performance indicators

	31.12.2019 IFRS 16	1.1.2019 IFRS 16	31.12.2018 IAS 17
ALTERNATIVE PERFORMANCE MEASURES (1)			
STRUCTURAL INDICATORS			
Net loans and advances to customers at amortised cost/total assets	66.8%	70.8%	71.0%
Direct banking funding from customers/total liabilities	75.5%	73.7%	73.6%
Net loans and advances to customers at amortised cost/direct funding from customers	88.5%	96.1%	96.5%
Equity *(inclusive of profit/loss)* /total liabilities	7.5%	7.3%	7.3%
Assets under management / Indirect banking funding from ordinary customers	72.0%	70.0%	70.0%
Financial leverage ratio *(total assets - intangible assets)/(equity inclusive of profit/loss + equity attributable to minority interests - intangible assets)*	16.0	16.6	16.5
PROFIT INDICATORS			
ROE *(net profit/equity inclusive of profit/loss)*	2.6%	4.6%	4.6%
ROTE *[net profit/tangible equity (equity inclusive of profit/loss - intangible assets)]*	3.2%	5.7%	5.7%
ROA *(net profit/total assets)*	0.2%	0.3%	0.3%
The cost:income ratio *(operating expenses/operating income)*	65.1%	69.6%	69.6%
Staff costs/operating income	39.2%	42.4%	42.4%
Net impairment losses on loans and advances to customers at amortised cost/ net loans and advances to customers at amortised cost *(loan loss ratio)* (2)	0.87%	0.72%	0.72%
Net interest income/operating income	47.4%	50.9%	50.9%
Net fee and commission income/operating income	45.7%	44.9%	44.9%
Net result on financial activities/operating income	2.9%	-0.2%	-0.2%
RISK INDICATORS			
Net bad loans/net loans and advances to customers at amortised cost	2.02%	3.11%	3.11%
Net impairment losses on bad loans / gross bad loans *(coverage for bad loans)*	51.98%	48.96%	48.96%
Coverage for bad loans gross of write-offs	67.12%	59.14%	59.14%
Net non-performing exposures/net loans and advances to customers at amortised cost	4.93%	6,72%	6,72%
CAPITAL RATIOS Basel 3 phased-in			
Tier 1 ratio *(Tier 1 capital after filters and deductions/RWAs)*	12.34%		11.70%
Common Equity Tier 1 ratio *(CET1 after filters and deductions/RWAs)*	12.34%		11.70%
Total capital ratio *(Total own funds/RWAs)*	15.88%		13.80%
Total own funds (figures in thousands of euro)	9,221,356		8,420,375
of which: Tier 1 capital after filters and deductions	7,165,193		7,138,925
Risk weighted assets *(RWAs)*	58,086,349		61,035,275
INCOME STATEMENT, BALANCE SHEET FIGURES (in thousands of euro), **STRUCTURAL DATA** (numbers)			
Profit (loss) for the year attributable to the shareholders of the Parent	251,198	425,608	425,608
Profit (loss) for the year attributable to the shareholders of the Parent before the impact of the Business Plan	344,483	470,419	470,419
Profit (loss) for the year attributable to the shareholders of the Parent normalised	352,876	302,439	302,439
Operating income	3,637,935	3,519,343	3,519,343
Operating expenses	(2,368,499)	(2,448,195)	(2,448,195)
Net loans and advances to customers at amortised cost	84,564,033	88,987,596	88,987,596
of which: net bad loans	*1,707,130*	*2,767,775*	*2,767,775*
net non-performing exposures	*4,171,464*	*5,975,964*	*5,975,964*
Direct banking funding from customers (3)	95,513,706	92,605,312	92,211,085
Indirect banking funding from ordinary customers	101,452,337	94,742,917	94,742,917
of which: assets under management	*73,091,588*	*66,291,471*	*66,291,471*
Total banking funding from customers	196,966,043	187,348,229	186,954,002
Equity attributable to the shareholders of the Parent *(inclusive of profit/loss)*	9,488,681	9,163,288	9,163,288
Intangible assets	1,739,903	1,729,727	1,729,727
Total assets	126,525,297	125,700,424	125,306,197
Branches in Italy	1,575	1,648	1,648
Total staff at the end of the year (4) *(actual employees in service + workers on agency leasing contracts)*	19,940	20,394	20,394
Average total staff (5) *(actual employees in service + workers on agency leasing contracts)*	18,764	19,541	19,541
IW Bank financial advisors	688	684	684

The notes to the table are reported on the following page.

(1) The indicators have been calculated using the reclassified figures contained in the section "Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules" in the Consolidated Management Report.

The Alternative Performance Measures (APM) reported in this document (in the Consolidated Management Report) take account of the ESMA guidelines issued on 5th October 2015, which the Consob incorporated in its supervisory practices (Communication No. 0092543 of 3rd December 2015). Those guidelines became applicable from 3rd July 2016.

In compliance with this, on 18th August 2016, the Management Board approved the new UBI Banca Group guidelines on the identification of non-recurring items.

(2) The loan loss ratio as at the 31st December 2019 was affected by greater disposals of non-performing positions, both concluded and currently under consideration, compared with the previous year.

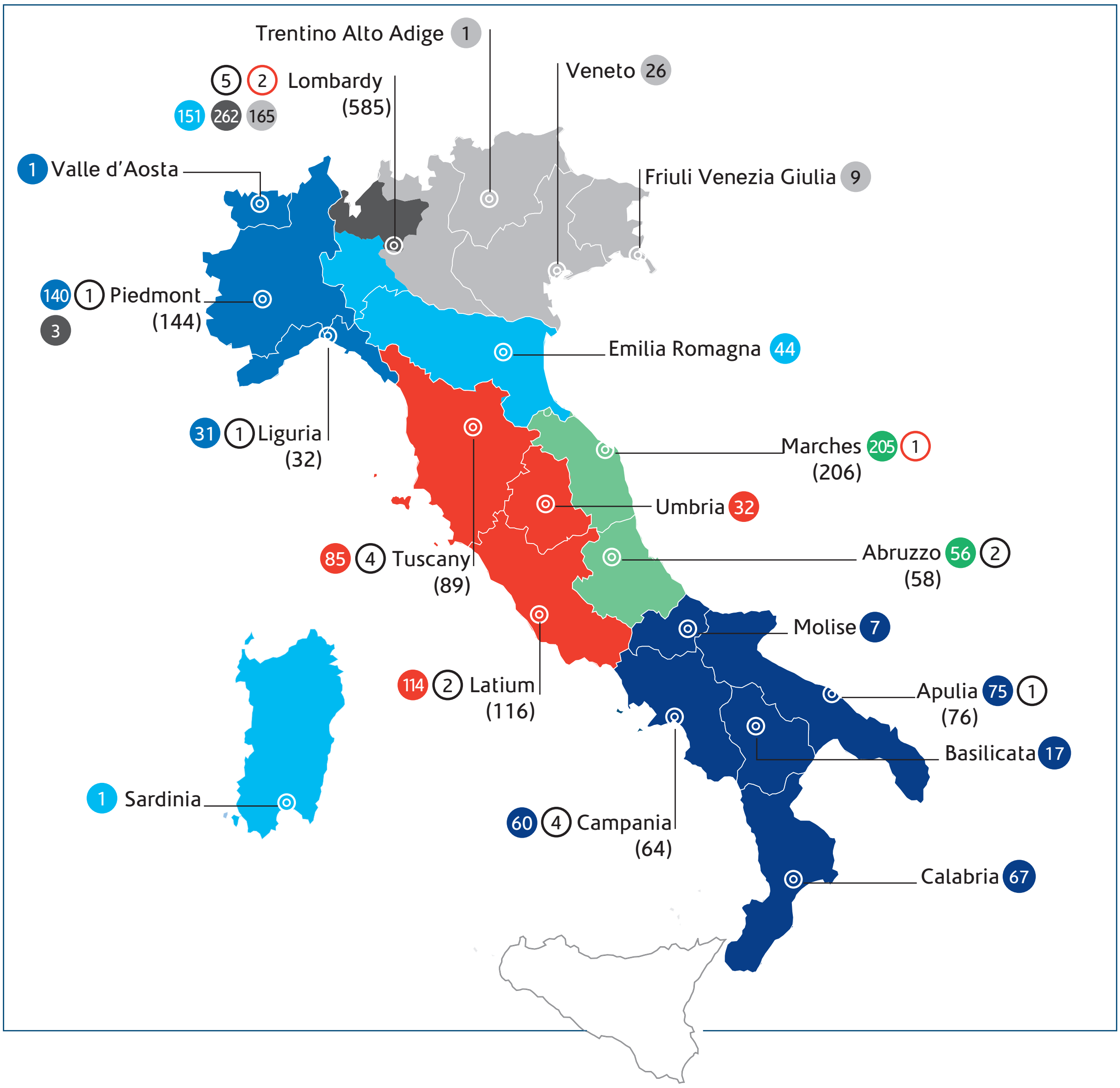
(3) Direct banking funding from customers as at 31st December includes liability items 10 b) and 10 c) and partially includes item 20 "Financial liabilities held for trading" relating to approximately €87 million of certificates, issued for the first time in December 2019.

(4) The figures for total staff at the end of the period may be different from those published previously. Reference is made to the section "Human resources" for details of any changes which may have occurred.

(5) Part-time employees have been calculated within average total staff according to convention on a 50% basis.

Information on the share is reported in the relative section of the UBI Banca Management Report.

UBI Banca Group: branch network as at 31st December 2019



Branches in Italy		1,575
○ (red)	UBI Banca Spa	3
● (blue)	UBI Banca Spa - North West Macro Geographical Area	172
● (light blue)	UBI Banca Spa - Milan and Emilia Romagna Macro Geographical Area	196
● (dark grey)	UBI Banca Spa - Bergamo and West Lombardy Macro Geographical Area	265
● (light grey)	UBI Banca Spa - Brescia and North East Macro Geographical Area	201
● (red)	UBI Banca Spa - Latium Tuscany Umbria Macro Geographical Area	231
● (green)	UBI Banca Spa - Marches and Abruzzo Macro Geographical Area	261
● (dark blue)	UBI Banca Spa - South Macro Geographical Area	226
○	IW Bank Spa	20

Branches abroad 1

UBI Banca Spa
Nizza, (France)

International Presences

UBI Factor Spa
Krakow (Poland)

Pramerica Management Co. Sa
Luxembourg

Zhong Ou Asset Management Co. Ltd
Shanghai (China)

UBI Trustee Sa
Luxembourg

Representative offices
Russia (Moscow), Asia (Mumbai, Shanghai, Hong Kong and Dubai), North America (New York), South America (Sao Paolo) and Africa (Casablanca).

UBI Banca Group: main investments as at 31st December 2019

UBI Banca Spa

BANKS	FINANCIAL COMPANIES	INSURANCE	ASSET MANAGEMENT AND TRUST SERVICES	OTHER
IW Bank Spa 100%	UBI Leasing Spa 100%	Aviva Vita Spa 20%	Pramerica SGR Spa 65%	BPB Immobiliare Srl 100%
	UBI Factor Spa 100%	Lombarda Vita Spa 40%	Pramerica Management Co Sa Luxembourg 100%	Kedomus Srl 100%
	Prestitalia Spa 100%	BancAssurance Popolari Spa 100%	UBI Trustee Sa Luxembourg 100%	UBI Sistemi e Servizi SCpA 98.56%[1]
			Zhong Ou Asset Management Co. Ltd China 25%	UBI Academy SCRL 100%

Fully consolidated companies: IW Bank Spa, UBI Leasing Spa, UBI Factor Spa, Prestitalia Spa, BancAssurance Popolari Spa, Pramerica SGR Spa, Pramerica Management Co Sa Luxembourg, UBI Trustee Sa Luxembourg, BPB Immobiliare Srl, Kedomus Srl, UBI Sistemi e Servizi SCpA, UBI Academy SCRL

Companies accounted for using the equity method: Aviva Vita Spa, Lombarda Vita Spa, Zhong Ou Asset Management Co. Ltd China

(1) The remaining 1.44% is held by Cargas Assicurazioni Spa (the former UBI Assicurazioni Spa).

The percentages relate to the total interests held (directly or indirectly) by the Group in the entire share/quota capital.

The rating

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

MOODY'S	
Long-term Bank Deposits Rating (I)	Baa2 On Watch-Possible Upgrade
Short-term Bank Deposits Rating (I)	Prime-2
Baseline Credit Assessment (BCA) (II)	ba2 On Watch-Possible Upgrade
Long-term Issuer Rating (III)	Baa3 On Watch-Possible Upgrade
Long-term Counterparty Risk Rating (IV)	Baa2 On Watch-Possible Upgrade
Short-term Counterparty Risk Rating (IV)	Prime-2
Long-term Counterparty Risk Assessment (V)	Baa2 (cr)
Short-term Counterparty Risk Assessment (V)	Prime-2 (cr)
Outlook (Long-term Bank Deposits Rating)	Ratings Under Review
Outlook (Long-term Issuer Rating /Senior unsecured debt)	Ratings Under Review
RATINGS ON ISSUES	
Senior unsecured debt	Baa3 On Watch-Possible Upgrade
Senior non-preferred debt	Ba3 On Watch-Possible Upgrade
Subordinated debt	Ba3 On Watch-Possible Upgrade
Hybrid debt (Additional Tier 1 – AT1)	B2 (hyb) On Watch-Possible Upgrade
Covered Bond (First Programme – residential mortgages)	Aa3

(I) Rating on the ability to repay deposits which also reflects the expected loss given default
Long-term: original maturity of one year or more (Aaa: best rating – C: Default)
Short-term: original maturity of 13 months or less
(Prime-1: highest quality – Not Prime: not classifiable within any of the prime categories)

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

(III) Rating on the ability of the issuer to honour senior debt and bonds in the long-term
(Aaa: best rating – C: default)

(IV) The Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (excluding those generated by a bank performing its essential operating functions) and they also reflect the expected financial losses in the event such liabilities are not honoured
(Aaa: best rating – C: default)
[P-1): best rating – Not Prime: not classifiable within any of the prime categories]

(V) The Counterparty Risk (CR) Assessment is not a rating but an opinion on the likelihood of a bank defaulting on payment obligations generated by it performing its essential customer-serving operating functions
[Aaa (cr): best rating – C (cr): Default]
[P-1 (cr): best rating – Not Prime (cr): not classifiable within any of the Prime categories]

After the downgrade in October 2018, on 15th March and 6th September 2019 **Moody's** left its ratings for Italy ("Baa3"/"P-3") and its stable outlook unchanged as part of its usual half-yearly review.
The agency's ratings reflect high levels of public debt (not expected to fall in future years, in view of modest growth prospects and the absence of a consistent economic policy agenda), a banking sector that is still weak and an unstable political environment. Italy's broad and diversified economy is recognised as a strength.

On 30th July 2019 the agency announced that it affirmed UBI Banca's ratings together with a change from negative to stable on the outlook for the Bank's senior debt ratings.
The outlook on the senior unsecured debt ratings was changed to stable, reflecting Moody's expectation that the Bank's senior and subordinated debt issuances over the medium term will be sufficient to keep the risk for this category of debt low, as measured by their loss-given-failure (LGF) analysis (also in light of the Bank's funding plan carried forward in the first seven months of the year). Moody's LGF analysis measures the inherent risk of each type of instrument on the basis of the total amounts outstanding and those of the instruments with the highest subordination.

On 4th December, Moody's changed its outlook for the Italian banking sector from negative to stable.
The outlook was revised in light of the continuous reduction in problem loans, accompanied by improved terms and conditions for access to funding and stable capital levels.
Although profits remain weak due to high loan provisioning and high operating expenses, the agency expects this to either stabilise or show moderate growth in profits over the period 2019-2020.

On 17th February 2020 the agency announced that it had completed its periodic review of UBI Banca's ratings (the previous review had been dated 13th March 2019).
This was a periodic review of the appropriateness of the ratings in light of their methodologies, recent developments and a comparison with the financial and operating profiles of peers with similar ratings.
As this was not the result of decisions taken by a committee, this communication constituted neither a rating action nor an indication of the likelihood of whether a rating action will take place or not in the near future.

On 15th January 2020, at the time of UBI Banca's inaugural Additional Tier 1 issuance, Moody's announced that it had assigned a "B2 (hyb)" rating to this new type of debt issued[1].

On 20th February 2020 the agency placed the Baseline Credit Assessment (BCA) and all UBI Banca's long-term ratings on watch for a possible upgrade, with the sole exception of the Long-term Counterparty Risk Assessment, restricted by a cap linked to the sovereign rating.

S&P GLOBAL RATINGS	
Long-term Issuer Credit Rating (i)	BBB- Watch Positive
Short-term Issuer Credit Rating (i)	A-3 Watch Positive
Long-term Resolution Counterparty Rating (ii)	BBB Watch Positive
Short-term Resolution Counterparty Rating (ii)	A-2
Stand-Alone Credit Profile (SACP) (iii)	bbb-
RATINGS ON ISSUES	
Senior unsecured debt	BBB- Watch Positive
Senior non-preferred debt	BB+ Watch Positive
Subordinated debt	BB Watch Positive
Hybrid debt (Additional Tier 1 – AT1)	B+ Watch Positive

(i) The Issuer Credit Rating reflects the bank's ability to meet its financial commitments. It is based on an assessment of its intrinsic creditworthiness, supplemented by an assessment of the potential extraordinary support (from government or from the group to which it belongs or alternatively from its additional ability to absorb losses) on which the bank could count if it ran into difficulties
Short-term: ability to repay short-term debt with a maturity of less than one year (A-1: best rating – D: default)
Long-term: ability to pay interest and principal on debt with a maturity of longer than one year (AAA: best rating – D: default)

(ii) The Resolution Counterparty Rating is a forward-looking opinion on the ability to honour certain financial liabilities that may be protected from default within a bail-in process [Long-term AAA: best rating – D: default; short-term A-1: best rating – D: default]

(iii) The SACP is a rating of the intrinsic creditworthiness of the bank in the absence of external support (from government, from the group to which it belongs, or from additional capacity to absorb losses). It is calculated on the basis of an "Anchor SACP", which summarises economic and industry risk for the Italian banking sector. This is then adjusted to take account of bank-specific factors such as capital and earnings, business position, exposure to risk, funding and liquidity, which are also assessed from a comparative viewpoint

On 26th April and 25th October 2019 at the time of its half-yearly review, **S&P Global Ratings** maintained its ratings and outlook for Italy unchanged ("BBB"/Negative/"A-2").
In its report dated 26th October 2019, S&P underlined that notwithstanding the government's intention to co-ordinate its economic and fiscal policy with its European partners (the agency considers belonging to the euro zone to be an indicator of institutional strength), the country's weak growth in both real and nominal terms constitutes the main risk in the medium term for Italy's reliability and its budgetary trajectory. The most critical factor for the sovereign rating will be the introduction of reforms able to support employment and productivity.

On 15th January 2020, following UBI Banca's first issuance of Additional Tier 1 (AT1) hybrid debt, the agency assigned a "B+"[1] rating to the new instruments.

On the 19th February 2020 S&P placed all UBI Banca's ratings on positive credit watch.

1 The ratings assigned take account of the high level of this instrument's subordination, similar to Tier 1 capital, the ability to cancel coupons and the clause for reducing the nominal value.

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

(1) The ability to repay debt in the short-term (original maturity of up to 13 months) (F1+: best rating – D: default)

(2) The ability to promptly meet financial commitments in the long-term, independently of the maturity of individual obligations. This rating is an indicator of an issuer's vulnerability to default
(AAA: best rating – D: default)

(3) An assessment of a bank's intrinsic strength in the event that it cannot rely on forms of extraordinary external support
(aaa: best rating – f: default)

(4) A rating of the likelihood of possible extraordinary external support (from the state or large shareholders) if the bank runs into difficulty in honouring its senior obligations
[1: high probability of external support – 5: no reliance may be placed on any possible support (as is the case for European banks subject to the BRRD resolution regime)]

(5) This rating gives additional information, closely linked to the Support Rating, in that for each level of the Support Rating it identifies the minimum level which the Issuer Default Rating could reach if negative events were to occur (No Floor for European banks subject to the BRRD resolution regime)

On 22nd February and 9th August 2019, **Fitch Ratings** confirmed its Long-term Issuer Default Rating for Italy at "BBB", with a negative outlook (the short-term rating of "F2" was also confirmed). The rating and outlook were again confirmed on 7th February 2020.

The Fitch rating was affected by the extremely high level of government debt, the trend of very low growth in GDP and the uncertainty connected with the current economic policies associated with the risk of worse projections for public debt formulated by the agency.

As concerns the entry into force from 1st January 2019 of the "full depositor preference" in the hierarchy of creditors in the event of a bank's insolvency, on 2nd April 2019, when it took action involving 16 Italian-based banks, Fitch gave UBI Banca a rating on its Long-term Deposits of "BBB", one notch above its Long-term Issuer Default Rating ("BBB-"). The action did not affect other ratings which therefore remained unchanged.

The new rating reflects the agency's expectation that the Bank will maintain adequate subordinated and senior liability buffers (preferred and non-preferred), also necessary for compliance with minimum requirements for own funds and eligible liabilities (MREL).

On 7th May 2019 Fitch Ratings placed the "Short-Term" (ST) ratings of 31 EMEA-based banks (Europe, Middle East, Africa) "Under Criteria Observation" (UCO), following the publication of new criteria for assigning short-term-ratings on 2nd May. The action did not affect UBI Banca.

The new criteria introduce changes to the correspondence table between long-term and short-term ratings, to give greater differentiation with new "A" and "BBB+" cusp points. For banks with long-term ratings driven by their standalone profile, as reflected by their "Viability Ratings", this agency will use the funding and the liquidity factor score as the principal determinant of the short-term rating to be assigned.

When carrying out its annual review, on 15th November 2019 Fitch confirmed all its ratings for UBI Banca and its negative outlook on its Long-term Issuer Default Rating

The ratings assigned take account of the reduction in the level of non-performing exposures currently in progress, which remain high compared with other European and international banks, the stable deposit base, free access to wholesale funding markets and the Bank's solid liquidity position. On the other hand the press release underlined weak profitability and capital which, while adequate, is exposed to risks relating to non-performing exposures and to domestic sovereign securities.

On 24th February 2020 the agency placed all UBI Banca's ratings on Rating Watch Positive.

In its half-yearly reviews on the 11th January, 12th July and 15th November 2019 **DBRS Morningstar** confirmed its ["BBB (high)"/"R-1 (low)"] ratings assigned to Italy with a stable trend.

Confirmation of the trend incorporates the agency's opinion that the progressive improvement in the credit quality of domestic banks and a more moderate fiscal policy by the government are mitigating risks for the *sustainability of a public debt, notwithstanding the country's political instability and its economic stagnation.*

On 20th November 2019, as part of its customary annual review, DBRS confirmed all its ratings assigned to UBI Banca with a stable trend.

The press release particularly underlined that the level of the Long-term Issuer Rating ("BBB") and the relative stable trend reflected progress made by the Bank in reducing its stock of non-performing exposures, it's adequate liquidity and the margins available in its level of capital. The ratings nevertheless continue to incorporate stocks of non-performing exposures that are considered high compared with other European banks and high loan impairment levels, related to the divestment process in progress, which continue to be the greatest penalisation factor for profits.

DBRS MORNINGSTAR	
Long-term Issuer Rating (I)	BBB
Short-term Issuer Rating (I)	R-2 (high)
Long-term Senior Debt (II)	BBB
Short-term Debt (II)	R-2 (high)
Long-term Deposits (III)	BBB (high)
Short-term Deposits (III)	R-1 (low)
Intrinsic Assessment (IV)	BBB
Support Assessment (V)	SA3
Long-Term Critical Obligations Rating (VI)	A (low)
Short-Term Critical Obligations Rating (VI)	R-1 (low)
Trend (all ratings)	Stable
RATINGS ON ISSUES	
Senior unsecured debt	BBB
Senior non-preferred debt	BBB (low)
Subordinated debt	BB (high)
Covered Bond (First Programme – residential mortgages)	AA
Covered Bond (Second Programme – commercial mortgages)	A

(I) The Issuer Rating is not a rating on issues but on the issuer, because it is an assessment of its creditworthiness and therefore of the risk of default. The rating is assigned on a long-term basis using the long-term rating scale and on a short-term basis using the relative scale. In the banking sector, the Issuer Rating represents the final rating on the creditworthiness of a bank which incorporates both the Intrinsic Assessment and possible considerations regarding external support
LTIR – AAA: best rating – D: default
STIR – R-1 (high): best rating – D: default

(II) The ability to repay long-term debt (maturing in more than one year), or short-term debt
LTSD – AAA: best rating – D: default
STD – R-1 (high): best rating – D: default

(III) The ability to repay Long-term Deposits (maturing in more than one year) and short-term deposits
LTD – AAA: best rating – D: default
STD – R-1 (high): best rating – D: default

(IV) The Intrinsic Assessment (IA) is a rating of the intrinsic financial strength of a bank in the absence of external support. It assesses a bank's intrinsic fundamentals in five areas: commercial network, earnings capacity, liquidity and funding, risk profile and capitalisation
AAA: best rating – CCC: worst rating

(V) External support assessment (group to which it belongs or government) in case of need
SA1: internal support from the group to which it belongs; SA2: external support (government); SA3: no external support – SA4: potential support to the group to which it belongs

(VI) The Critical Obligations Rating (COR) is a rating on default risks intrinsic to some classes of obligations/exposures with high probabilities of being excluded from bail-in (such as those resulting from derivatives, payment services, covered bond issues, etc.)
LTCOR – AAA: best rating – D: default
STCOR – R-1 (high): best rating – D: default

Notice of call[2]

An ordinary General Meeting of the Shareholders of Unione di Banche Italiane Società per azioni, abbreviated to UBI Banca S.p.A., is convened for the day

Wednesday, 8th April 2020 at 10.00 a.m.

in a single call at the Corrado Faissola Conference Hall of the Brescia Operating Headquarters of UBI Banca S.p.A. (the entrance is at 11, Piazza Monsignor Almici) to discuss and resolve upon the following

Agenda

1. Approval of the financial reports as at and for the year ended 31st December 2019 of UBI Banca S.p.A., together with reports from the Board of Directors, the Management Control Committee and the independent auditors.
2. The allocation of profit for the financial year 2019 and the distribution of a dividend to shareholders.
3. The appointment of external statutory auditors for the financial years 2021-2029 and the determination of their fees.
4. Report on remuneration policies and wages: binding resolution on the section that regards remuneration and incentive policies for the financial year 2020.
5. Report on remuneration policies and wages: non-binding resolution on the section that regards remuneration paid in the financial year 2019.
6. Remuneration schemes based on financial instruments: proposal to pay a portion of the short-term (annual) variable component of remuneration for "Identified Staff" in financial instruments; proposal to authorise the purchase of treasury shares and to make them available to service the incentive scheme.
7. Remuneration schemes based on financial instruments: proposal to pay a portion of the long-term (multi-year) variable component of remuneration for "Identified Staff" in financial instruments; proposal to authorise the purchase of treasury shares and to make them available to service the incentive scheme.
8. Proposal regarding the criteria and limits for determining remuneration to be agreed in the event of the early termination of an employment relationship or early retirement from corporate office.
9. Proposal to set the ratio of the variable component to the fixed component of remuneration for the personnel of Pramerica SGR S.p.A. belonging to the Investments Area up to a limit of 4:1.

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INFORMATION ON THE SHARE CAPITAL

On the date of publication of this Notice, the authorised, subscribed and paid-up share capital of Unione di Banche Italiane Società per azioni (hereinafter also the "Bank" or the "Company") amounts to €2,843,177,160.24, consisting of 1,144,285,146 ordinary shares with no nominal value.

Again at the date of publication of this Notice, the Bank possesses 9,251,800 treasury shares.

PARTICIPATION IN THE SHAREHOLDERS' GENERAL MEETING

Those persons with the right to vote for whom a communication certifying their legitimate right has been received by the Bank within the legal time limits may take part in the Shareholders' General Meeting. According to the provisions of Art. 83-*sexies* of Legislative Decree No. 58/1998 (the "Consolidated Finance Law"), that communication shall be made to the Bank by an authorised intermediary on the basis of the records relating to the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting (30th March 2020 – "record date").

Those who only became owners of shares of the Bank subsequent to that date shall have no right to take part and vote in the Shareholders' General Meeting.

The communication from the intermediary must be received by the Bank by the end of the third market trading day prior to the date set for the Shareholders' General Meeting, and that is by 3rd April 2020. The legitimate right to attend and vote nevertheless remains, should the communications be received by the Bank later than the aforementioned time limit, provided they are received before the commencement of the proceedings of the Shareholders' General Meeting.

It is underlined that each share gives the right to one vote.

Voting by post is not permitted.

2 The notice of call to convene a Shareholders' Meeting was published on the corporate website of UBI Banca on 6th March 2020.
An abstract of that same notice was also published, not only in local newspapers but also in the national daily newspapers Il Sole 24 Ore and Corriere della Sera, as well as in the Financial Times, one of the leading international financial newspapers.

PARTICIPATION AND VOTING BY PROXY

Those with the right to vote may have themselves represented in Shareholders' General Meetings in compliance with the relative provisions of the law by means of a proxy, with the option of using the facsimile proxy form available on the corporate website "*www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2020 Shareholders' Meeting*".

The proxies may be conferred by means of an electronic document with an advanced electronic signature, qualified or digital in accordance with Art. 20, paragraph 1-*bis* of Legislative Decree No. 82/2005.

Proxies may be notified by means of email, at the address "notifica.delega@ubibanca.it".

If a proxy holder transmits or delivers a copy of the proxy to the Company, that person must certify under their own responsibility, when being accredited for access to the proceedings of the Shareholders' General Meeting, that it is a true copy of the original proxy and to the identity of the principal.

PROXY HOLDER DESIGNATED BY THE BANK

A proxy may be granted, free of charge, with voting instructions on all or some of the proposals on the agenda, also to Computershare Spa as the "Designated Proxy Holder" in accordance with Art. 135-undecies of the Consolidated Finance Law by the end of the second trading day prior to the date of the Shareholders' General Meeting (and therefore by 6th April 2020). The proxy is valid solely for proposals in relation to which voting instructions have been given. The proxy and the voting instructions may always be revoked at any time within the time limit indicated above.

A special form must be made to confer a proxy on the Designated Proxy Holder which shall be made available on the corporate website "*www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2020*". The proxy form will be transmitted in hardcopy form, if necessary, to those who request this either of Computershare Spa on the Tel. No. 011/0923200, or of the Corporate Affairs Function of the Bank on Tel. No. 035/3922312.

The proxy must arrive with the voting instructions conferred on the Designated Proxy Holder by the aforementioned time limit of 6th April 2020, following one of the procedures indicated on the proxy form itself.

ADDITIONS TO THE AGENDA AND THE SUBMISSION OF NEW PROPOSALS FOR RESOLUTIONS

On the basis of Art. 126-*bis* of the Consolidated Finance Law, Shareholders who, either alone or jointly, represent at least one fortieth of the share capital may ask, in writing, within at least ten days of the publication of this Notice (i.e. not later than 16th March 2020) for items to be added to the agenda of the meeting, indicating the additional matters proposed, or submitting proposals for resolutions regarding matters already on the agenda.

The application must be submitted according to one of the following procedures:

- delivery to the "Corporate Affairs Function" of the Bank at 8, Piazza Vittorio Veneto, Bergamo by 5.00 p.m. on 16th March 2020;
- delivery by registered mail to the "Corporate Affairs Function" – UBI Banca S.p.A., at 8, Piazza Vittorio Veneto, Bergamo by 16th March 2020;
- by sending them by certified electronic mail to the address "*soci.comunicazioni@pecgruppoubi.it*", attaching the documents in pdf format with a digital signature by 16th March 2020.

The applications must be accompanied by a report which gives the reasons for the proposals for resolutions on new matters which it is proposed should be addressed or the reason for the additional proposals for resolutions submitted on matters already on the agenda.

The applicants must send communications to the Company through their intermediaries certifying to the ownership of shares. If they have requested their intermediary to issue that communication, it is sufficient to provide references to that communication in the application or at least the name of the intermediary.

Any additions to the agenda or the submission of any further proposals for resolutions regarding matters already on the agenda shall be disclosed at least fifteen days before the date set for the Shareholders' Meeting (i.e. by 24th March 2020) following the same procedures as those laid down for the publication of this Notice. At the same time, the reports prepared by shareholders who may, potentially, request additions to the agenda and/or submit further proposals for resolutions, accompanied by any assessments that may be made by the made by the Board of Directors of the Bank, shall be disclosed to the public according to the same procedures applying to documentation relating to the Shareholders' General Meeting.

It is underlined that additions to the agenda are not permitted for matters on which the shareholders vote in accordance with the law on proposals submitted by the Board of Directors or on the basis of a draft document or a report prepared by it, other than those indicated in Art. 125-*ter*, paragraph 1 of the Consolidated Finance Law.

THE RIGHT TO SUBMIT QUESTIONS ON MATTERS ON THE AGENDA

In accordance with Art. 127-*ter* of the Consolidated Finance Law, those holding the right to vote may submit questions on the items on the agenda even before the Shareholders' General Meeting, ensuring that they are received by the end of the fifth trading day prior to the date of the Shareholders' Meeting, which is by 1st April 2020. The questions can be delivered to the "Corporate Affairs Function" of the Bank at 8, Piazza Vittorio Veneto, Bergamo or sent by email to the address "*domande.assemblea@ubibanca.it*".

The applicants must send communications to the Company through their intermediaries certifying that they may legitimately exercise this right. If they have requested their intermediary to issue that communication to participate in the Shareholders' Meeting, it is sufficient to provide references to that communication in the request or at least the name of the intermediary.

Questions received before the Shareholders' General Meeting and which are found to be relevant to the items on the agenda shall be given answers in accordance with the law not later than during the Shareholders' General Meeting. The Bank may provide a single answer to questions with the same content.

DOCUMENTATION FOR THE SHAREHOLDERS' GENERAL MEETING

The documentation relating to the items on the agenda is made available to the public at the registered offices of the Bank at 8 Piazza Vittorio Veneto, Bergamo, on the website of the Bank (www.ubibanca.it, – Shareholders' Section – Shareholders' Meetings – *April 2020 Shareholders' Meeting*) and on the authorised storage facility named "1info" (www.1info.it) within the time limits and according to the procedures of the Law and regulations.

Shareholders may view and obtain copies of the aforementioned documentation at the Registered Office of the Bank in accordance with the law by applying in advance to the "Corporate Affairs Function" of the Bank at 8, Piazza Vittorio Veneto, Bergamo.

This notice to convene is published in accordance with Art. 125-*bis* of the Consolidated Finance Law, with Consob regulations and with the Articles of Association on the corporate website of the Bank (*www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2020 Shareholders' Meeting*) and an abstract of it is published in daily newspapers (*"Il Sole 24 Ore", "Corriere della Sera" and "Financial Times"*) published on the authorised storage facility named "1info" (*www.1info.it*) in accordance with the procedures of the law and regulations.
In accordance with regulation (EU) 679/2016, the personal data controller is Unione di Banche Italiane Società per azioni. Full information on personal data processing is provided on the website *www.ubibanca.it*.

* * *

UBI Banca reserves the right to furnish subsequent updates regarding the Shareholders' General Meeting announced in this Notice in relation to the state of emergency declared by the Council of Ministers as a consequence of the health risk posed by Coronavirus infection and the consequent measures to contain this.

Bergamo, 6th March 2020

The Chairwoman of the Board of Directors
Letizia Maria Brichetto Arnaboldi Moratti

Supplement to the notice to convene an Ordinary General Meeting of the Shareholders

Your attention is brought to the notice to convene ("Notice") an Ordinary Annual General Meeting of the Shareholders of Unione di Banche Italiane Società (abbreviated to UBI Banca S.p.A., hereinafter "UBI Banca" or the "Company") for 8th April 2020 at 10.00 a.m. in a single call at the Corrado Faissola Conference Hall of the Brescia Operating Headquarters of UBI Banca with entrance at 11, Piazza Monsignor Almici (the "Shareholders' General Meeting").

It may be recalled that in the Notice, published on 6th March 2020 on the website of the Company and on the authorised storage facility named "1Info", as well as in the form of an abstract on 7th March 2020 in the daily newspapers "Il Sole 24 Ore" and "Corriere della Sera" and on 10th March 2020 in the daily newspaper the "Financial Times", UBI Banca reserved the right to furnish subsequent updates regarding the Shareholders' General Meeting in relation to the state of emergency declared by the Council of Ministers as a consequence of the health risk posed by Coronavirus infection and the consequent measures to contain this.

As is known, following the publication of the Notice, the competent authorities undertook a series of measures to contain, fight and manage the Covid-19 virus epidemic. Reference is made in particular here to i) the Decree of the President Council of Ministers (Dpcm) dated 8th March 2020, ii) the Dpcm dated 9th March 2020 and iii) the Decree Law No. 18 of 17th March 2020 (the "Decree").

In view of the above, we announce that in accordance with Art. 106, paragraph 4 of the Decree, participation in the Shareholders' General Meeting will take place exclusively through the Designated Proxy Holder pursuant to Art. 135-*undecies* of Legislative Decree No. 58 of the 24th February 1998 (the "Consolidated Finance Law"). Proxies or sub-proxies within the meaning of Art. 135-*novies* of the Consolidated Finance Law, as an exception to Art. 135-*undecies*, paragraph 4, of the Consolidated Finance Law, may also be conferred on the aforementioned Designated Proxy Holder.

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In order to confer a proxy on the Designated Proxy Holder in accordance with Art. 135-undecies of the Consolidated Finance Law, already identified in the Notice as Computershare Spa, the special web app provided and managed directly by Computershare Spa must be used (it can be accessed using a link on the corporate website "*www.ubibanca.it – Shareholders Section – Shareholders' Meetings – April 2020 Shareholders' Meeting*" – *Designated Proxy Holder of the Company*"), with which guided compilation of the form for granting a proxy to the Designated Proxy Order can be completed. The form (*"Proxy form for the Designated Proxy Holder"*) is also available on the corporate website at "*www.ubibanca.it – Shareholders Section - Shareholders' Meetings - April 2020 Shareholders' Meeting – Designated Proxy Holder of the Company*". The proxy must arrive with the voting instructions conferred not later than 6th April 2020.
In order to confer a proxy or sub-proxy, again on the Designated Proxy Holder, in accordance with Art. 135-*novies* of the Consolidated Finance Law, a special form is available ("*Proxy/sub-proxy form pursuant to Art. 135-novies of the Consolidated Finance Law*") on the corporate website at "*www.ubibanca.it – Shareholders Section - Shareholders' Meetings - April 2020 Shareholders' Meeting*".

* * *

Members of the Board of Directors and the Management Control Committee will be able to take part in the Shareholders' General Meeting by means of a telecommunications system which guarantees identification, as required by Art. 106, paragraph 2 of the Decree.

This supplement is published on the corporate website of the Company, on the authorised storage facility named "1info" and in the daily newspapers "Il Sole 24 Ore", "Corriere della Sera" and the "Financial Times".

Bergamo, 23rd March 2020

The Chairwoman of the Board of Directors
Letizia Maria Brichetto Arnaboldi Moratti

Consolidated Financial Statements of the UBI Banca Group

as at and for the year ended 31st December 2019

UBI Banca
UNIONE DI BANCHE ITALIANE

Legislative Decree No. 254 of 30th December 2016, which implemented Directive 2014/95/EU regarding disclosures of a non-financial nature was published in the Official Journal on 10th January 2017. It came into force on 25th January 2017, but the relative provisions relating to declarations and reports were applicable to financial years starting from 1st January 2017.

The new regulations required public-interest entities (including banks) with over 500 employees and assets of more than €20 million to prepare a declaration of a non-financial nature each financial year which covers environmental and social matters relating to personnel, respect for human rights and the proactive and passive fight against corruption that are significant with regard to the activities and nature of the company. The declaration may be contained in the Management Report pursuant to Art. 2428 of the Italian Civil Code and to Art. 41 of Legislative Decree No. 136/2015, or it may constitute a separate report, with similar wording, approved by the management body and made available to the supervisory body and the body engaged to carry out the external statutory audit, within the same time limits set for proposed financial statements and it is subject to publication in the Company Register, together with the Management Report.

In view of the above, UBI Banca decided to prepare a separate report entitled "Consolidated declaration of a non-financial nature" prepared in accordance with Legislative Decree No. 254 of 30th December 2016 ("Sustainability Report"), published at the same time as the Consolidated Management Report. The two reports are therefore to be read jointly, one in relation to the other.

We report that the data and information of a forecast and forward-looking nature contained in this document has been drawn up from a stand-alone viewpoint and therefore they do not reflect the possible effects of the public exchange offer on all the Bank's shares announced by Intesa Sanpaolo Spa on 17th February 2020.

CONSOLIDATED MANAGEMENT REPORT

Gruppo UBI Banca

The macroeconomic scenario[1]

During 2019 the commercial and geopolitical risk factors in the **global scenario** became heightened, with possible repercussions for economic growth, which is already seeing signs of a slowdown, particularly in the Euro area.

While much of the year was marked by trade tensions between the US and China, with an escalation in tariffs on both sides before signs of an easing in tensions at year end[2], in the first few weeks of 2020 there was a sudden and alarming worsening in diplomatic relations between the US and Iran[3], culminating in military action that led to the assassination of Qasem Soleimani, an Iranian major general in the Islamic Revolutionary Guard Corps, and to reprisals by the Islamic Republic against US bases in Iraq.

The overall macroeconomic scenario is still being influenced by many complex variables of a geopolitical nature:

- expansion of the ongoing armed conflict between the two factions in Libya[4];
- delicate diplomatic relations between the US and North Korea[5];
- a continuing state of conflict between the US and Russia[6];
- tensions between the US and Mexico on the issue of immigration[7];
- the request for US President Donald Trump to be impeached[8];
- continuing social tensions in Hong Kong[9];
- the difficult economic and social situations in Argentina, Venezuela and Turkey[10];

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1 Prepared on the basis of data available as at 21st January 2020.

2 China and the US restarted negotiations at the G20 in Osaka at the end of June. But it was not until mid-December 2019 that they reached an agreement, which was signed on 15th January 2020 (the "Phase One Deal"). Its key components include China's pledge to purchase at least an additional USD 200 billion in US agricultural and energy products over the next two years, in exchange for the tariff imposed on Chinese goods on 1st September 2019 being reduced to 7.5%. The agreement reduced the economic tensions between the two countries that began in early 2018, but overall tariffs remain far higher than two years ago.

3 In April 2019 the US announced it was withdrawing the exemptions that had allowed eight countries, including Italy, to continue importing Iranian crude oil for several months notwithstanding the sanctions imposed on the Iranian Republic in November 2018. On 15th May 2019 Iran announced in turn that it had breached its obligations on surplus enriched uranium under the nuclear agreement the US and had been ditched in 2018. For its part, the US strengthened its air and sea presence in the Persian Gulf in response to a number of attacks on oil tankers and oil platforms in the region, which according to the US were carried out by Iran, as well as the subsequent shooting down of a US navy drone by an Iranian missile. The White House has also rolled out new punitive economic sanctions, preventing the leaders of Iran from accessing financial resources, the US banking system and any assets in the US.

4 Since April 2019 Libya has seen a breakdown in the precarious balance between President Serraj's government, recognised by the majority of the international community, and the troops of General Haftar, the strong man of Cyrenaica, which are trying to reach Tripoli to take power. This has led to civil war, with repercussions on oil production and the flow of migrants towards Europe. In early 2020 the Turkish president Erdogan announced that Turkey would be sending a contingent to support president Serraj, while Egypt openly announced its backing for general Haftar's military action. The Berlin Conference on Libya on 19th January 2020 ended with a draft agreement on a ceasefire in the medium to long term that will require international monitoring.

5 At the end of February 2019 the North Korean leader and US President met for the second time since their first meeting in June 2018 to restart talks about the dismantling of the North Korean nuclear arsenal and to seek an agreement on the 1950-1953 postwar treaty The initial optimism was not however followed by a preliminary draft agreement between the two parties.

6 At the beginning of February 2019 the US announced its withdrawal from the INF, the treaty signed by Reagan and Gorbachev in 1987 that bans intermediate-range nuclear missiles. The main purpose of the treaty was to remove the possibility that Europe could be reached by warheads located on Soviet territory, thus avoiding the need for Europe to have US missiles located in its territory as defence.

7 After declaring a state of emergency in February over the border between the US and Mexico, where President Trump plans to build a wall, the White House threatened to introduce tariffs on products imported from Mexico. The plan did not materialise at the last minute thanks to an agreement having been reached in the Spring under which Mexico has agreed to mobilise its own troops to contain the wave of migrants trying to enter the United States.

8 On 18th December 2019, the House of Representatives approved the accusation of abuse of power against the US President, in connection with the pressure put on Ukraine by Trump by blocking USD 400 million in military aid in order to force an investigation into the son of his political rival Joe Biden. The impeachment will also have to be voted on by the Senate, which has a solid Republican majority.

9 Since 15th March 2019 there have been growing protests in the former British colony involving millions of protesters. The ongoing crisis, originally sparked off by the passing of a law - since suspended - that would have allowed the extradition of suspects to China for trial - is the worst since 1997, when China regained sovereignty over Hong Kong.

10 In April 2019 the Argentinian president Macrì launched a package of emergency measures to try and slow down inflation, which rose at an annual rate in excess of 50% in March. In August Argentina also agreed a USD 110 billion debt restructuring with the International Monetary Fund (IMF), which was followed by government measures to control the forex market in order to restrict the flight of valuable currency (US dollars) from the country and the devaluation of the peso. In autumn the presidential elections were won by Alberto Fernandez, unpopular both with the financial community and the IMF, which has been called upon to release the remaining USD 14 billion of the loans agreed with Macrì in exchange for restructuring commitments the new government is not willing to implement. At the end of January 2019 the leader of the Venezuelan opposition Guaidò proclaimed himself acting President, obtaining immediate international recognition from the US, Canada and other heads of state in Latin America and Europe, and promising free and impartial elections to put an end to the disastrous economic crisis aggravated by the extremely

In Europe there have been additional specific political and social factors:

- the uncertainties about the timing and manner of the United Kingdom's exit from the European Union[11];
- the build-up to the European elections that took place on 26th May 2019. The results saw an alliance of the anti-European movements, which did not however manage to take control of the Parliament. The decline in power of the European People's Party and the Socialists was in any case offset by the positive results for the Liberals and the Greens;
- the crisis in the Spanish government brought about by rejection of the budget presented by Prime Minister Sanchez, which led to the end of the government just eight months after the fall of Rajoy's government. The elections that took place on 28th April 2019 essentially confirmed the large traditional parties at the helm of the country, but did not allow the formation of a new government. The country therefore went back to the polls on 10th November, and it was only in early 2020 that it was possible to form a new government, again under Sanchez, albeit with a smaller majority and the support of a left-wing coalition;
- a change in the Italian government in August. The request by Minister of the Interior Salvini for a general election and the subsequent resignation of Prime Minister Conte brought an end to the 14-month "yellow-green" government. After the requisite consultations President Mattarella asked Giuseppe Conte to form a new government with the support of the Democratic Party and Five-star Movement, and on 5th September the proposal received parliamentary approval and the 2020 Budget Law was drawn up;
- the concerns on the part of the European authorities regarding the sustainability of Italy's debt, which on 5th June had led the European Commission to recommend starting proceedings to fine Italy for its excessive debt. Following the presentation by the previous government of an adjustment to the public finances, the Commission decided to withdraw its proposal on 3rd July, thereby avoiding the application of a hitherto unprecedented measure;
- on 7th July Greece held early elections which saw the victory of the centre-right party of the new Prime Minister Mitsotakis, who took over from Tsipras. The focus of the new PM's manifesto is a redefinition of the harsh agreements with the EU entered into by his predecessor at the most critical point of the Greek financial crisis in 2015.

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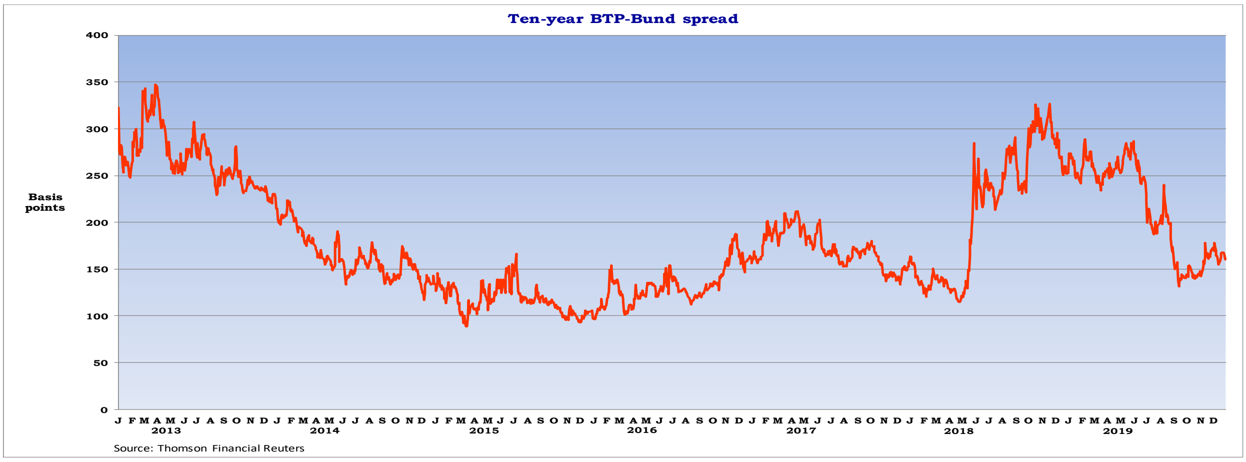
high level of inflation. Russia, China, Cuba and Turkey have instead confirmed their support for Nicolas Maduro. In August the US froze the Venezuelan government's assets and prohibited any transactions, negotiations or export of goods to North America. In Turkey elections were held to appoint the mayor of Istanbul for the second time in June, after President Erdogan petitioned to annul the March elections. The opposition candidate again won the re-run, leading to expectations that there could be a change in the country's leadership given the continuing precarious state of Turkey's economy. After criticising the Turkish Central Bank for failing to cut rates, on 6th July, Erdogan removed the governor and replaced him with his deputy, which has raised considerable concerns about the independence of the Central Bank.

11 After the British Parliament rejected the Agreement with the EU signed on 25th November 2018, in the Spring Prime Minister May tried to renegotiate the text with the 27 EU countries, proposing amendments concerning the issue of the Irish border. In March 2019 the British Parliament ruled out the possibility of the UK leaving the EU without a deal, paving the way to a new vote which postponed the exit beyond the date of 29th March 2019. The lack of time forced the UK to take part in the European Parliament elections on 26th May. On 7th June Theresa May resigned, after failing to receive the backing of her own parliamentary party on several occasions. The elections held in June resulted in the victory of Boris Johnson, former mayor of London and leader of the Conservative party, who reached a new agreement with Europe in October to submit for the approval of the House of Commons. However, on Saturday 19th October 2019 the UK Parliament approved a motion that forced the government to ask the EU to delay Brexit beyond 31st October. The EU granted a three-month extension to 31st January 2020, which led Johnson to request a general election on 12th December, which he won with a comfortable majority, in order to obtain definitive approval for the withdrawal agreement from the new pro-Brexit Parliament. The agreement reached in October involves a period of transition towards a free-trade area before the UK effectively leaves the EU, which will not be until the end of 2020. The details of a trade agreement that will govern trade in various areas will be negotiated in the eleven months after 31st January 2020.



Source: Thomson Financial Reuters

As the graph shows, one repercussion of the events that characterised Italian politics was that the **spread**, the gap between the ten-year government bond (BTP) and its German counterpart the Bund, remained highly volatile in the first half of the year, reaching 290 basis points in the first ten days of February and at the end of May, then falling rapidly in the following weeks, thanks also to growing expectations about new non-conventional steps by the ECB to support the economy. After a brief recovery in conjunction with the summer government crisis, the spread fell sharply to 131 basis points with the formation of the new government, stabilising at above 150 basis points from November - due to the outcome of some local elections and the contrasting positions among the majority parties with regard to the preparation of the Budget Law and the reform of the European Stability Mechanism (ESM)[12].
The year closed at 161 basis points compared with 253 basis points at the end of 2018.

On the **monetary** front, the leading central banks continued to implement accommodative monetary policies, with an increasingly expansive trend to support the continued economic weakness.

As concerns the European Central Bank:

- *the introduction of a new series of seven quarterly targeted longer-term refinancing operations (TLTRO III) was announced at the Governing Council meeting of 7th March. These started in September 2019 and will end in March 2021. The essential parameters, approved on 6th June, were partially revised at the Council meeting of 18th September. The duration of operations was extended from two to three years. The originally planned the increase of 10 basis points over the average rate applied to the Eurosystem's main refinancing operations over the life of the respective TLTROs was eliminated. Counterparties are entitled to borrow up to 30% of the total eligible loans (net of home loans) as at 28th February 2019. Under TLTRO III, banks whose eligible net lending is in excess of a benchmark can benefit from a negative rate lower than the average rate applied to deposits with the Central Bank over the life of the operation[13];*
- *The Governing Council of 18th September approved a package of accommodative monetary policies. In particular: (i) the interest rate on principal refinancing operations was kept at its record low of 0%, while the rate on deposits held by the banks with the ECB was further reduced to -0.50%; (ii) the ECB eliminated the time reference to the first half of 2020, stating that it intended to keep interest rates to their present or lower levels until the inflation outlook has converged to a level sufficiently close to, but below, 2% within its projection horizon; (iii) the Asset Purchase Programme (APP) has been relaunched at a monthly pace of €20 billion as from 1st November 2019; (iv) reinvestments of the payments from securities purchased under the APP are to continue for an extended period of time past the date when the Governing Council starts to raise key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation; (v) tiering has been introduced, with a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt for the negative deposit facility rate;*

12 For more information about the ESM see the paragraph "Developments in the regulatory context" in the following section "Other information".
13 The first two of the seven TLTRO III operations were carried out on 25th September and 18th December 2019, respectively assigning €3.4 billion to 28 counterparties and €98 billion to 122 counterparties, of which €33 billion to 37 Italian banks. At the same time as the December operation, €147 billion borrowed in the previous series of operations (TLTRO II) was repaid, of which 51 billion by Italian banks.

- *the last meeting chaired by Mario Draghi, on 24th October 2019, and the first meeting under the chairmanship of Christine Lagarde, on 12th December 2019, confirmed the decisions taken in September.*

After raising rates four times in 2018, the Federal Reserve increasingly focused on signs of a slowdown in the economy and in inflation - average annual rates having remained below the 2% target - reducing reference rates on three consecutive occasions (in July, September and October) by 25 basis points, bringing them down to 1.50%-1.75%. From mid-September the FED faced strong and unexpected tensions on the US money market, announcing repurchase agreements (sales of liquidity to the banking system for short-term securities as collateral with the promise to sell them back to the original owner), in order to attempt to restore and maintain reserve levels at around the USD 1,500 billion mark. At the December 2019 meeting reference rates were confirmed, suggesting that the next changes could be in 2021.

The Bank of Japan confirmed its reference rate would remain below zero (-0.10%-0%) for the whole year, confirming the expansionist tone of its monetary policy with quantitative and qualitative easing focusing on controlling rates at the various maturities in order to achieve its inflation target of 2%. At its meeting on 25th April 2019 the Central Bank also declared that rates would remain at current levels until at least spring 2020, and an ETF Lending Facility could be introduced that would enable temporary lending to market players on the ETF held by the BOJ.

While it waits to find out about the effects of the UK's exit from the EU, the Bank of England has postponed the adoption of any expansionary measures, leaving its official interest rate at 0.75%.

In the main emerging countries monetary policy trends were more accommodative from the second half of the year, also as an effect of the fall in inflation.

In order to deal with the slowdown in the domestic economy, the People's Bank of China launched a plan to reform interest rates in order to reduce the cost of borrowing for industry. The mechanism for calculating the Loan Prime Rate (LPR) was revised in August, which now stands at 4.15%, linking it to the medium-term loan rate. The reform should help banks to apply interest rates more in line with market rates and curb banks' preference for lending to state-owned rather than smaller companies. On 16th September 2019 a 50 basis point cut to 12.50% was made to the reserve requirement ratio mandatory for all banks in order to increase liquidity by approximately 900 billion yuan.

In Brazil the Central Bank reduced the official interest rate four times (50 basis points in July, September, October and December) bringing it to 4.50%, while the Russian Central Bank made five cuts (25 basis points in June, July, September and December and 50 basis points in October) bringing the reference rate down to 6.25%. Finally, in India the monetary authorities made five cuts (25 basis points in February, April, June and October and 35 basis points in August) reducing the repo rate to 5.15%.

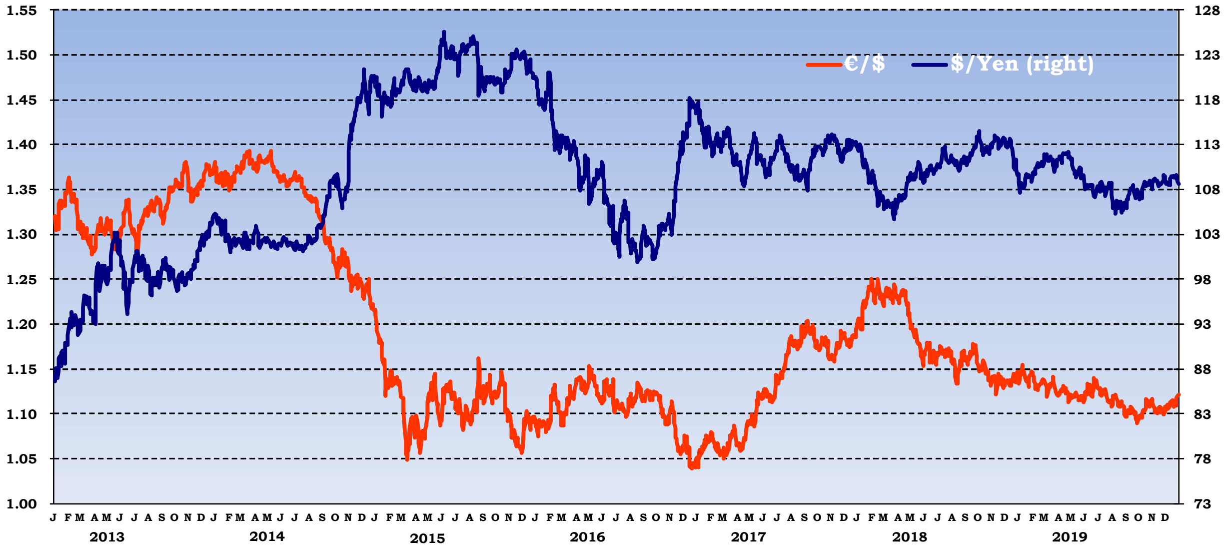
On the **forex** market the euro weakened overall in the twelve months against all the leading international currencies, but not in a uniform manner in the various quarters. In particular, the euro/dollar exchange rate reflected conflicting trends, with the euro recovering in the latter period, also thanks to the new ECB President confirming that its monetary policy would continue along the same lines as it had under her predecessor. In the fourth quarter of 2019 there was on the one hand a sharp halt to the revaluation of the yen against the euro and on the other a rise in sterling due to the new Brexit withdrawal agreement being agreed between the EU and the UK.

The main exchange rates and oil (Brent) and commodities prices

	Dec-19 A	Sep-19 B	Jun-19 C	Mar-19 D	Dec-18 E	%change A/E
Euro/Dollar	**1.1200**	1.0898	1.1368	1.1217	1.1469	-2.3%
Euro/Yen	**121.89**	117.79	122.64	124.33	125.65	-3.0%
Euro/Yuan	**7.823**	7.79	7.804	7.528	7.886	-0.8%
Euro/Franc CH	**1.0850**	1.0870	1.1100	1.1160	1.1260	-3.6%
Euro/Sterling	**0.854**	0.886	0.895	0.861	0.899	-5.0%
Dollar/Yen	**108.86**	108.06	107.88	110.84	109.56	-0.6%
Dollar/Yuan	**6.9860**	7.1480	6.8650	6.7110	6.9430	0.6%
Futures - Brent *(in $)*	**68.44**	60.75	66.51	68.39	54.15	26.4%
CRB Index *(commodities)*	**197.75**	183.35	189.83	191.54	175.96	12.4%

Source: Thomson Financial Reuters

Euro-dollar and dollar-yen exchange rates (2013-2019)



After an initial increase in value, the renminbi was affected by the continued trade tensions still ongoing with the US, showing a reverse trend against both the dollar and the euro from the second quarter which only ended in December as the agreement with the US became imminent[14].

The macroeconomic framework

According to the International Monetary Fund's latest forecasts[15] the **world economy** grew by 2.9% in 2019 (compared with +3.6% in 2018), remaining uneven across different geographical areas (+3.7% in emerging areas and +1.7% in advanced countries). The global cycle therefore continued to be supported by the development of emerging economies, especially in Asia, albeit to a lesser extent than the previous year, against a solid but less vigorous contribution from the US and a continuing weakness in the European economy, which is being held back also by the slowdown in the leading German economy.
The forecasts for 2020[16] suggest there will be a moderate increase in the rate of recovery, again supported by the emerging economies, which should benefit from an easing of the tariff disputes between China and the US, but which could be affected by growing geopolitical tensions and the consequences of the coronavirus health emergency that hit China in the first few weeks of the year.

Despite a context of excess supply and the negative effects of the international trade disputes between the US and China, the **commodities** price index rose 12.4% in the twelve months, due to the sharp increase in the prices of energy raw materials in the first four months of the year and the last quarter following a worsening in hostilities in various oil-producing countries. The price of Brent oil (USD 54.15 at the end of 2018) appreciated to reach USD 75 a barrel in April, mainly driven by the effect of production cuts decided by OPEC in December 2018, and by the reduction in supply on the part of Venezuela and Iran for geopolitical reasons. In the following weeks the fears generated by the trade dispute between the US and China and the increase in US supplies partly reversed the crude price trend, which remained stable at under USD 65 a barrel from the summer, unaffected by the numerous risk factors

14 In the chapter dedicated to currencies of the "Phase One Deal" approved on 15th January 2020, China made a commitment not to use currency devaluation as a competitive tool in trade, while the US removed the Chinese currency from the list of currencies accused of forex manipulation.
15 Word Economic Outlook, update January 2020.
16 +3.3%, of which +4.4% for emerging areas and +1.6% for advanced countries.

that had emerged during the period (such as those connected with the conflict in Yemen, which led to the attack on the largest Saudi oil facilities in mid-September)[17]. In December a worsening of tensions between the US and Iran in the Middle East led to an increase in prices - Brent oil ended the year at USD 66 a barrel and rose above USD 70 a barrel in the first few days of 2020 - which seems to have been quickly reabsorbed.

After a temporary increase in consumer prices in some emerging areas in the first part of the year, the above dynamics led to a global slowdown in **inflation** during the second half of 2019 which in industrialised countries remains below 2%, the medium- to long-term target of the leading central banks.

Actual and forecast data: industrialised countries

Percentages	Gross domestic product			Consumer prices (average annual rate)			Unemployment (average annual rate)			Public Sector Deficit (+) Surplus (-) (% of GDP)			Reference interest rates	
	2018	2019(1)	2020(1)	2018	2019(2)	2020(1)	2018	2019(2)	2020(1)	2018	2019(2)	2020(1)	Dec-18	Dec-19
United States	2.9	**2.3**	2.0	2.4	**1.8**	2.0	3.9	**3.7**	3.7	6.5	**6.7**	6.8	2.25-2.50	**1.50-1.75**
Japan	0.3	**1.0**	0.6	0.7	**1.0**	1.4	2.4	**2.7**	3.1	3.0	**2.3**	2.5	-0.10-0	**-0.10-0**
Euro Area	1.9	**1.2**	1.1	1.8	**1.2**	1.2	8.2	**7.5**	7.2	0.5	**0.8**	0.8	0.00	**0.00**
Italy	*0.8*	***0.2***	*0.5*	*1.2*	***0.6***	*0.7*	*10.6*	***10.0***	*9.9*	*2.2*	***2.2***	*2.2*	-	-
Germany	*1.5*	***0.5***	*1.1*	*1.9*	***1.4***	*1.4*	*3.4*	***3.1***	*3.2*	*-1.9*	***-1.2***	*-0.8*	-	-
France	*1.7*	***1.3***	*1.3*	*2.1*	***1.2***	*1.2*	*9.1*	***8.5***	*8.4*	*2.5*	***3.1***	*2.2*	-	-
Portugal	*2.4*	***1.8***	*1.5*	*1.2*	***0.7***	*0.8*	*7.0*	***6.1***	*5.6*	*0.4*	***0.0***	*0.2*	-	-
Ireland	*6.8*	***4.8***	*4.4*	*0.7*	***0.8***	*0.4*	*5.8*	***5.5***	*5.2*	*-0.1*	***-0.1***	*-0.3*	-	-
Greece	*1.9*	***2.2***	*2.3*	*0.8*	***0.5***	*1.4*	*19.3*	***17.8***	*16.8*	*-1.0*	***-0.5***	*-0.8*	-	-
Spain	*2.4*	***2.0***	*1.6*	*1.7*	***0.7***	*1.0*	*15.2*	***14.0***	*13.7*	*2.5*	***2.1***	*2.0*	-	-
United Kingdom	1.4	**1.2**	1.0	2.5	**1.9**	1.6	4.1	**3.8**	3.9	2.3	**2.4**	2.1	0.75	**0.75**

(1) Forecasts
(2) Official statistics or, if unavailable, forecasts

Source: IMF, Prometeia and Official Statistics

In the third quarter US GDP rose quarter-on-quarter by an annualised 2.1% - in line with the second quarter (+2%), but down from the first quarter (+3.1%) - essentially due to the positive contribution of consumption, against a modest negative contribution of fixed investments (despite recovery in the residential sector), inventories and net exports (caused by the fall in imports) which do not seem to have benefited from the protectionist trade policy[18].

17 The OPEC meeting of 1st July 2019 decided to continue with the production cuts of 1.2 million barrels a year put in place on 1st January 2019 for a further nine months, until 31st March 2020. The decision was shared also in the meeting of OPEC Plus - the coalition between OPEC countries and the countries taking part in the crude oil production cuts agreed on several occasions since November 2016 (including Kazakhstan, Mexico and Russia) - held subsequently.
The OPEC and OPEC Plus meetings of 5th and 6th December 2019 approved an additional reduction in production of 500 barrels a day from 1st January 2020, which brought the total reduction compared with the end of 2018 to 1.7 million barrels. However, the efficacy of these measures could be compromised by increased production by non-OPEC countries such as the US, Brazil, Guyana and Norway.

18 In mid-October US tariffs on some products exported to Europe increased as retaliation against what the US considers aid to the European aeronautical industry, therefore unfair competition. For now the increases in tariffs on vehicle imports and part of those

Despite a solid labour market - with average unemployment rates at their lowest levels in the last 50 years - and a solid services sector, the US economy is expected to slow down also as a result of persisting difficulties in industry, especially in the manufacturing and construction industries. Support from monetary and budget policies will make it possible to avoid a recession, but global weakness and uncertainty about future trade policy will continue to dog growth predictions.

Actual and forecast data: the principal emerging countries

Percentages	Gross domestic product 2018	2019[1]	2020[2]	Consumer prices (average annual rate) 2018	2019[1]	2020[2]	Unemployment (average annual rate) 2018	2019[1]	2020[2]	Reference interest rates Dec-18	Dec-19
China	6.6	**6.1**	5.7	2.1	**2.9**	2.4	3.8	**3.8**	3.8	4.35	**4.15**
India	6.8	**5.8**	6.2	3.4	**3.4**	4.1	n.a.	**n.a.**	n.a.	6.50	**5.15**
Brazil	1.3	**0.8**	1.7	3.7	**3.8**	3.5	12.3	**11.8**	10.8	6.50	**4.50**
Russia	2.3	**1.1**	1.6	2.9	**4.7**	3.5	4.8	**4.6**	4.8	7.75	**6.25**

(1) Official statistics or, if unavailable, forecasts

(2) Forecasts

Source: IMF, Prometeia and Official Statistics

In the last two quarters of the year the Chinese economy appears to have stabilised with annual GDP growth of +6%, the lowest level since 1992 (+6.4% and +6.2% respectively in the first and second quarters). The annual average increase of +6.1% was accompanied by a still favourable, if lower trend in the key short-term indicators. Gross fixed investments remain weak, mainly in the services industry sector, while the real estate and industrial sectors continue to perform well. The addition of political elements into the US-China trade tensions, particularly in relation to the Hong Kong crisis, meant it took longer to reach the agreements, which were only signed at the beginning of 2020. In 2019 this situation led to a slowdown in trade that affected both imports and exports.

Japan's growth continued to slow in the third quarter with 0.4% quarter-on-quarter growth (+0.6% and +0.5% respectively in the first and second quarters) based on consumption remaining essentially stable and a higher contribution from non-residential investments against a zero contribution from the balance of trade. Expectations for the last quarter of the year are not particularly favourable also given the increase (from 8% to 10%) in consumption tax that took effect in October, which could have penalised the main component of household demand. In September the bilateral trade agreement announced in August came into force, but the Japanese economy continues to feel the effects in particular of the ongoing slowdown in China. The export problems have been exacerbated by the South Korean boycott of Japanese goods and tourism, due to political tensions[19].

As an effect of the slowdown in the German economy, quarter-on-quarter GDP growth in the Euro area stabilised from April at a modest +0.2% (+0.4% in the first quarter) supported in the summer months by the positive contribution of domestic demand, against the negative foreign component[20] and a change in inventories. The initial information about the fourth quarter does not appear to indicate a strengthening of the economy, which should remain stable, thanks in particular to the construction industry and to the depreciation of the euro against the dollar. The Bank of Italy's €-coin indicator – which gives an estimate of core trends for European GDP – showed signs of a slight recovery from the lowest point reached in October, while in November industrial output saw a modest quarter-on-quarter increase of 0.2% (unchanged in October), against a negative year-on-year trend (-1.5%; -2.6% in October).

In 2019 the **Italian economy** grew at a modest but uniform rate, with a quarter-on-quarter increase in GDP of +0.1% in each of the first three quarters. In the summer months the trend

announced in spring have been postponed, while President Trump has renewed his threats to increase tariffs on typical European export products should tax be increased on the US communications giants.
At the beginning of December Trump also announced with immediate effect the imposition of tariffs on Brazilian and Argentinian steel and aluminium, accusing both countries of devaluing their currencies for competitive purposes.
Finally, at the end of 2019 the US Congress approved the new trade agreement between the US, Mexico and Canada (the United States-Mexico-Canada Agreement - USMCA), which replaced the 1994 agreement (NAFTA) and introduced more restrictions on the rules of product origin and production standards in the automobile industry.

19 The extreme weakness of the economy has led the Japanese government to approve a new fiscal package worth USD 125 billion to boost the economy until March 2021. Two-thirds will focus on reconstruction of the areas destroyed by recent typhoons and on attempting to ensure a gradual reduction in public and infrastructure investments after the 2020 Olympics. The remaining third will instead be dedicated to measures to avoid a collapse in consumption.

20 On 1st July 2019 the EU and Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) signed a trading agreement that will affect 780 million people and consolidate the close political and economic links between the two blocs. The inter-regional agreement involves abolition of the majority of tariffs on EU exports to Mercosur and will increase the competitiveness of EU companies, saving them €4 billion a year in tariffs.

was supported by an increased contribution from consumption[21] and inventories, partially offset by the negative contribution of net foreign demand, while the contribution of fixed investments remained at zero.
The latest information shows that in the autumn months economic activity appears to have stagnated, as the overall weakness in industrial output seems to indicate.
The seasonally adjusted year-on-year index was down -0.6% in November, the ninth consecutive fall since the year began, due to contrasting trends of varying intensity in categories of products. The main increases were in the "electronics" (+8.1%), "wood, paper and printing" (+7%), "chemicals" (+2.9%) and "other manufacturing industries" (+2.9%) sectors; while the biggest decreases were in the "textiles and clothing" (-5.4%), "manufacture of coke and refined oil products" (-5.3%) and "metallurgical" (-4.9%) sectors.
Also in November the unemployment rate remained unchanged from the previous month at 9.7%, but has continued to fall from the 10.5% reached in February (10.4% in December 2018). Unemployment among 15-24 year olds stood at 28.6%, down since the year began (32.1% in December 2018), but up from the low of 27.8% in August[22].
The overall figure continues to be mitigated by government-backed temporary redundancy schemes, which in the first eleven months of the year saw a year-on-year increase in the Wage Integration Fund over the year. The hours authorised totalled 243.4 million against 202 million in the same period of 2018 (+20.4%), the effect of a higher increase in extraordinary benefits (+33.4%) and a smaller increase in the ordinary fund (+8.3%), against a reduction in exceptional benefits (-66.9%).
Inflation (according to the Harmonised Index of Consumer Prices) – constantly lower than in the Euro area – closed the year at 0.5% (1.2% in December 2018), picking up from the low point reached between September and November (0.2%), with a dynamic that over the year was largely influenced by the trend in energy prices.
In January to November the surplus on the balance of trade totalled €47.9 billion (€36.5 billion in the same period of 2018) due to a substantial increase in the surplus on non-energy products, approximately half of which is attributable to capital goods, which more than offset the energy deficit (-€35.4 billion). However, the total surplus reflects a substantially lower volume of trade, which has felt the effects of trade tensions, with imports down year-on-year (-0.6%) and exports up 2.1%[23].
As concerns public finances, the new government that took office in September prepared a budget for 2020-2022, which was approved on 23rd December 2019. In 2020 the budget eliminates increases in indirect taxation via the safeguard clauses and allocates the majority of resources to reducing the tax wedge for labour, to public investments and to renewing public investments. These expansive measures are funded in part by resources mainly from the fight against tax evasion, higher taxes on gambling and expenditure savings.
In 2019 the deficit to GDP ratio was confirmed at 2.2%, while public debt rose to 135.7% of GDP also due to the revised interest-bearing postal bond valuation method and, to a lesser extent, the perimeter of Public Administrations, which increased the level of debt by approximately €60 billion[24].

21 The growth in consumption from June to September benefited from the increase in citizens' income payments, an improvement in the expectations of families between July and September and moderate dynamism in the labour market with an increase in employment, the number of hours worked and gross earnings.
22 This figure gives young people unemployed as a percentage of total young people in employment and seeking employment.
23 On 23rd March 2019, during the visit to Italy of the Chinese President Xi Jinping, our country joined the Belt and Road Initiative by signing a Memorandum of Understanding, which constitutes a framework agreement within which specific agreements will be subsequently negotiated in specific areas of the economy as part of a project involving 68 countries and approximately 65% of the world's population. On the same occasion another 28 agreements were signed, including framework agreements and trade agreements aiming to strengthen relations with the world's second largest economy.
24 In order to clarify the level of macroeconomic imbalances, in February 2020 the European Commission will be carrying out in-depth research into 13 Member States, including Italy. The high level of public debt, low level of competitiveness of the economy and vulnerability of the banking system could lead Brussels to initiate excessive imbalance proceedings.

Financial markets

Despite a more sluggish performance in the second half of the year, in 2019 all the major share price indices picked up, recovering from the serious losses of the last quarter of 2018. The shift in investor interest from bonds to shares was primarily driven by monetary policy - in particular that of the Federal Reserve with the three cuts made during the year - and by the regular expectations of a positive outcome to the trade war between China and the US, which finally led to the Phase One Deal at the beginning of 2020. On the other hand, the market trend does not appear to have been affected by the weakening of the macroeconomic prospects.

The principal share indices in local currency

	Dec-19 A	Sep-19 B	Jun-19 C	Mar-19 D	Dec-18 E	%change A/E
Ftse Mib *(Milan)*	**23,506**	22,108	21,235	21,286	18,324	28.3%
Ftse Italia All Share *(Milan)*	**25,629**	24,066	23,159	23,314	20,148	27.2%
Xetra Dax *(Frankfurt)*	**13,249**	12,428	12,399	11,526	10,559	25.5%
Cac 40 *(Paris)*	**5,982**	5,678	5,539	5,351	4,731	26.4%
Ftse 100 *(London)*	**7,587**	7,408	7,426	7,279	6,728	12.8%
S&P 500 *(New York)*	**3,221**	2,977	2,942	2,834	2,507	28.5%
DJ Industrial *(New York)*	**28,462**	26,917	26,600	25,929	23,327	22.0%
Nasdaq Composite *(New York)*	**8,946**	7,999	8,006	7,729	6,635	34.8%
Nikkei 225 *(Tokyo)*	**23,657**	21,756	21,276	21,206	20,015	18.2%
Topix *(Tokyo)*	**1,721**	1,588	1,551	1,592	1,494	15.2%
MSCI emerging markets	**1,115**	1,001	1,055	1,058	966	15.4%

Source: Thomson Financial Reuters

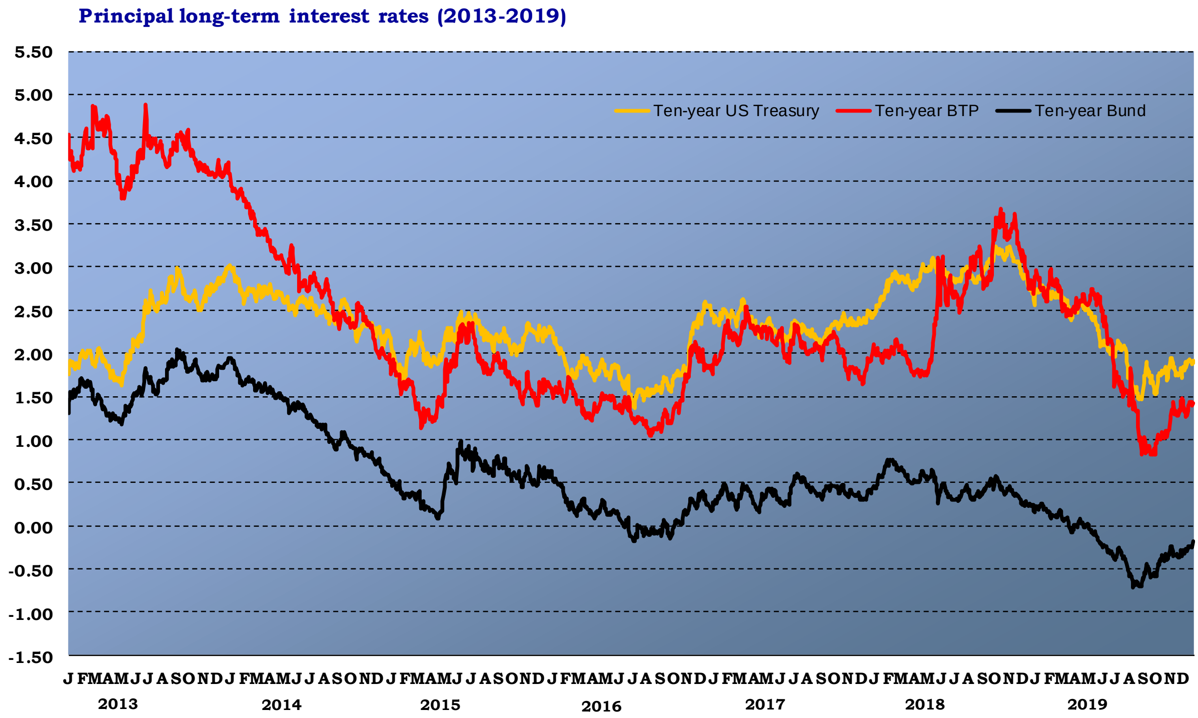
The US indices - which hit new highs - and the European indices closed 2019 with increases in excess of 20%, with the sole exception of the London Stock Exchange, which managed to improve by approximately 13% despite tensions relating to the delay in the Brexit date.
In the above context, the MSCI index – which summarises the performance of emerging countries – recorded a 15.4% increase over the twelve months, essentially in line with the Japanese stock prices.
In the first few weeks of 2020 market trends were temporarily conditioned by developments in the Middle-Eastern crisis between the US and Iran, but the recovery saw stock prices reach record highs.

The markets managed by **Borsa Italiana** outperformed the leading European stock markets, closing the year up more than 27%, thanks to various factors including the ECB easing monetary policy and more relaxed relations between the new government in office since September and the European Commission (including during the preparation of the new Budget). The result was accompanied by a reduction in trading volumes, in terms of both volume (64.3 million; -9.7%) and value (€547.4 billion; -12.6%).

Borsa Italiana confirmed its position as European leader in the volume of trades on the electronic systems, including both ETF Plus and MOT. ETF Plus, in fact, achieved €87.8 billion in terms of volumes traded (+31.8% compared with 2018), while the value of trading fell to €105.8 billion during the year (-2.9%). Equally, the value of trading on the fixed income markets (MOT and ExtraMOT[25]) increased to €190.5 billion (+12%), while trading volumes increased to €4 million (+8.4%).

At the end of the financial year 462 companies were listed on the Milan stock exchange, compared with 452 at the end of 2018. The record number of new admissions was the highest since 2000, with the entry of 41 new companies, six on the MTA market - including Nexi, one of the leading international placements in 2019 and top IPO in Europe in terms of funding - and 35 on the AIM Italia market. On the AIM Italia market trade grew substantially in terms of both value (+19.2%), and especially volume (+56.1%).

25 In September 2019 the new bond segment ExtraMOT PRO[3] dedicated to listing bonds or debt securities was launched, a natural development of the ExtraMOT PRO segment for growing small and medium-sized enterprises not listed on regulated markets and/or with share issue values of below €50 million.
Borsa Italiana is also actively promoting sustainable finance, with a segment present in both the MOT and ExtraMOT markets dedicated to green and/or special instruments, which grew substantially in 2019. The listing of 25 new securities, 15 of which are corporate, confirmed Borsa Italiana's place among Europe's leading financial markets for sustainable products.



Source: Thomson Financial Reuters

Reflecting the favourable trend in share prices, capitalisation reached €644.4 billion, down from €542.4 billion at the end of 2018, equivalent to 36.4% of Italian GDP (30.7% the previous year). Turnover velocity[26] fell from 115.5% in 2018 to 84.9% in 2019, reflecting the different dynamics of trading value and capitalisation.

The banking system

The fragile economic situation – most obvious in investments and only marginally so in household expenditure – is having repercussions on the **banking system** due to the slowdown in lending, while credit quality has continued to improve and there has been an increase at the same time in less risky forms of funding albeit with minimal remuneration.

According to initial estimates published by Italian Banking Association ABI[27], at the end of December the year-on-year trend in *direct funding* (deposits of residents and bonds) in Italian banks was positive at +4.8% (+0.2% in December 2018), after the peak reached in November (+7.3%) following a period of gradual acceleration.
Over the year the gap between the trend in deposits (+5.6% from +2.6% in December 2018[28]) and bond funding (unchanged from the -12.3% of the end of 2018[29]) increased due to the many placements, mainly institutional, made during the year thanks also to the reduction in the spread affecting government bonds.
As shown by detailed Bank of Italy data for November[30], deposits have benefited mainly from an increase in current accounts (+9.8% over twelve months; +7.2% compared with December 2018) and in term deposits (+12.5% over the year; +12.7% compared with end 2018), against a reduction in repurchase agreements (-4.9% over the year; -7.4% since December 2018).

26 An indicator which, as the ratio of the value of the shares traded to the capitalisation, gives a measure of the turnover of the shares traded.
27 ABI Monthly Outlook, Economia e Mercati Finanziari-Creditizi, January 2020.
28 The changes were calculated by excluding amounts relating to disposals of loans and transactions with central counterparties from deposits.
29 The changes were calculated by excluding the portion included within the investments in the securities portfolio from bond funding.
30 Supplement to the Statistics Bulletin "Banche e moneta: serie nazionali", January 2020.

Initial data for December published by the Italian Banking Association (ABI)[31] shows that *loans to residents belonging to the private sector* remained unchanged year-on-year (+2% in December 2018), in terms of borrowers, showing an only marginally positive trend for households and non-financial companies (+0.3% from the +1.9% of end 2018).
The detailed information provided by Bank of Italy[32] for November shows that annual growth in household loans was +2.3%, remaining solid both for residential mortgages (+2.5%) and consumer credit (+8.2%). The trend for businesses moved back into negative territory from January 2019, at -1.9%, also due to the possible end of the effect of investments being brought forward towards the tail end of the year after confirmation of the application in 2020 of super-amortisation and conversion into tax credit. The dynamic reflects a weakness in the demand for loans despite interest rates being at record lows, and is still feeling the effects of the trend in investments and the business cycle.

In terms of risk, asset quality appears to be decidedly improving, boosted by the reduction in flows of new non-performing exposures and by the scheduled sales of bad loans and measures to reduce outstanding loans classified as unlikely-to-pay (UTP). In November *private sector bad loans net of impairment*[30] fell to €80.3 billion, a significant long-term fall (-31.7%). Total outstanding loans comprised €22.8 billion to households (-35.7%) and €55.3 billion to businesses (-30.9%).
The ratio of *gross private sector bad loans to private sector loans* therefore fell to 5.25% (6.50% in December 2018).
Net bad loans, amounting to €29.6 billion, fell by 22.7% year-on-year. The ratio of *net bad loans to total loans* fell as a consequence to 1.70% (1.85% at the end of 2018).
On the basis of the "Financial Stability Report" published by the Bank of Italy in November, gross non-performing exposures (bad loans, unlikely-to-pay exposures and past-due exposures) totalled €177 billion in June 2019, accounting for 8.1% of total gross loans (€2,198 billion[33]). Net of impairment losses, total non-performing exposures amounted to €84 billion, accounting for 4% of total net exposures (€2,094 billion). Coverage, measured as the ratio of impairment losses to gross non-performing exposures, stood at 52.5%, while that for bad loans was 64.9%, compared with 38.9% for unlikely-to-pay exposures and 23.1% for the past-due exposures.

Securities issued by residents in Italy held in the portfolios of Italian banks stood at €602.3 billion in November, up €30.1 billion year-on-year (+5.3%) and €36.5 billion compared with end 2018 (+6.4%).
The trend mainly reflects the performance of "Other securities" (€207.7 billion), up €21.8 billion year-on-year (+11.7%) including bank bonds (+6.9%), which grew more rapidly than at end 2018 (+9.1%). Investments in Italian government securities (€387.1 billion) made progress over the year (+€8.2 billion; +2.2%), due to an increase in longer-term securities, against a reduction in BOTs and CTZs in December 2018.

As concerns business with households and non-financial companies, the *average interest rate on bank funding from customers* calculated by the Italian Banking Association[27] (which includes the yield on deposits, bonds and repurchase agreements in euro) fell to 0.58% (0.61% at the end of 2018), while the *weighted average interest rate on loans in euro* reached a record low of 2.48% (2.55% in December 2018).

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31 ABI Monthly Outlook, Economia e Mercati Finanziari-Creditizi, January 2020. The change was calculated by the Italian Banking Association consistent with the criterion used by the Bank of Italy mentioned in the following footnote 32.
32 Supplement to the Statistics Bulletin "Banche e moneta: serie nazionali", January 2020. The growth rates for lending have been adjusted by the Bank of Italy to take account of securitisations and other loans disposed of and written off the balance sheets of banks.
33 To bring the method for calculating the incidence of non-performing exposures on total loans in line with that used by the ECB, in addition to customer loans the total shown includes interbank and central bank exposures.

Significant events in 2019

The new governance

As part of the process to adopt a new governance system – a one-tier system of management and supervision, in place of the two-tier system, introduced by the new text of the Articles of Association approved by the Extraordinary Shareholders' Meeting of 19th October 2018 – in early 2019 UBI Banca worked hard on a complex series of activities designed on the one hand to complete fine tuning of the procedures for the functioning of the new governance set up and on the other hand to comply with the formalities in preparation for the Ordinary Shareholders' Meeting convened to appoint company officers according to the rules of the new governance system.

At its meeting on 12th April 2019, the Ordinary Shareholders' Meeting, chaired by Andrea Moltrasio (Chairman of the Supervisory Board), approved, amongst other things, the appointment of the members of the Board of Directors and Management Control Committee for the three-year period 2019-2020-2021. The only slate presented, filed on 16th March 2019 by the shareholders Fondazione Cassa di Risparmio di Cuneo, Fondazione Banca del Monte di Lombardia, Mar.Bea Srl and Matteo Zanetti, the holders of a total of 118,153,595 shares (10.33% of the share capital of UBI Banca), received the vote in favour of 98.91% of the share capital represented in the Shareholders' Meeting. The 15 members of the Board of Directors reported in the table were therefore appointed, 5 of whom were also appointed as members of the Management Control Committee.

The following were also elected: (i) Letizia Maria Brichetto Arnaboldi Moratti as Chairwoman of the Board of Directors; (ii) Roberto Nicastro as Deputy Chairman of the Board of Directors; (iii) Alessandro Masetti Zannini as Chairman of the Management Control Committee.

As shown in the table: (i) all members of the Management Control Committee and two thirds of the members of the entire Board of Directors have declared that they are in possession of the requirements of independence; (ii) three members of the Management Control Committee have declared that they are enrolled in the Register of Statutory Auditors of Accounts and that they have practised as statutory auditors of accounts for a period of not less than three years (a minimum of two members is required by the Articles of Association); (iii) female representation is provided by 6 directors out of 15, equal to 40% (the minimum required by the Articles of Association is one third, i.e. five directors);

Composition of the Board of Directors appointed by a Shareholders' Meeting on 12th April 2019	Position	Independence requirements pursuant to Art. 21 of the Articles of Association	Enrolled in the Register of Auditors and practising statutory auditor	Member of the Management Control Committee
Letizia Maria Brichetto Arnaboldi Moratti	Chairwoman			
Roberto Nicastro	Deputy Chairman	X		
Victor Massiah	Board Member			
Ferruccio Dardanello	Board Member	X		
Pietro Gussalli Beretta	Board Member			
Silvia Fidanza	Board Member			
Paolo Bordogna	Board Member	X		
Osvaldo Ranica	Board Member			
Letizia Bellini Cavalletti	Board Member	X		
Paolo Boccardelli	Board Member	X		
Alessandro Masetti Zannini	Board Member	X	X	Chairman
Alberto Carrara	Board Member	X	X	X
Monica Regazzi	Board Member	X		X
Francesca Culasso	Board Member	X		X
Simona Pezzolo De Rossi	Board Member	X	X	X

On 16th April 2019, under the chairmanship of Letizia Maria Brichetto Arnaboldi Moratti, the new Board of Directors of UBI Banca resolved unanimously, with the abstention of the Directors involved, on the following:

- the Appointments, Remuneration, Risks, Related Parties and Connected Persons Committees of the Board of Directors were formed with the functions and powers provided for by the Articles of Association of UBI Banca and by the applicable regulations in force.
  The composition and the relative regulations are published on the corporate website at www.ubibanca.it, in the Corporate Governance section.
  In accordance with the provisions of the Articles of Association of UBI Banca, the majority of the members of the Appointments Committee, the Remuneration Committee, the Risk Committee and the Related Parties and Connected Persons Committee declared that they were in possession of the requirements of independence set out in Art. 21 of the Articles of Association. More specifically, all the members of the Risk Committee and all the members of the Related Parties and Connected Persons Committee declared that they were in possession of the requirements of independence in accordance with Art. 21 of the Articles of Association;
- on the basis of a proposal from the Appointments Committee, the Board of Directors, appointed Victor Massiah as Chief Executive Officer of UBI Banca and delegated to him the necessary and appropriate powers for the management of the Company, also in accordance with the provisions of the Articles of Association;
- on the basis of a proposal from the Management Control Committee and having consulted the Appointments Committee, the Board of Directors appointed the members of the Supervisory Body of UBI Banca, created in accordance with Legislative Decree No. 231/2001.

For further details regarding the resolutions of the Ordinary Shareholders' Meeting of 12th April 2019, the composition of the internal board committees, the appointment of the Chief Executive Officer and the members of the Supervisory Body, see the Report on corporate governance and the ownership structure, which may be consulted in the Corporate Governance section of the institutional website, www.ubibanca.it.

* * *

For information on the changes in the organisational structure of the Parent that accompanied the adoption of the new governance structure, see the section "The organisational structure and human resources of UBI Banca" of UBI Banca's Report on operations.

The reduction of non-performing loans

The annual update of the strategic plan required by the guidelines on non-performing loans (NPLs) published by the European Central Bank in March 2017 was submitted to the ECB in March 2019. It confirms the priority placed on the internal management strategy based on credit recovery, in the light of the strong performance achieved. Non-performing positions are also to be sold on a large-scale in order to continue, as in 2018, to exceed the NPL reduction targets originally set in the 2020 Business Plan prepared in May 2017, thus facilitating the internal management of credit recovery.
In particular, in the final months of the year, the Group took a favourable view of the additional opportunities offered by the market, not contemplated in the NPL Plan for 2019, including with regard to multi-originator sales of loan portfolios classified to the unlikely-to-pay (UTP) category.

Thanks to the robust internal recovery performance, the modest impact of the adoption of the new definition of default[1] and the large-scale disposals closed (with a gross carrying amount of €1.9 billion), at the end of December both the amount and the incidence of UBI Banca Group's

1 With effect from 1st July 2019 the UBI Banca Group has applied the new definition given in the document EBA/GL/2016/07 dated 18th January 2017 (see the sub-section "Developments in the regulatory context" of the section "Other information").

gross non-performing exposures had already fallen significantly below the target level set in the NPL Plan for the end of 2019.

The following is a summary of the main transactions undertaken by the UBI Banca Group.

DISPOSALS OF FACTORING AND REAL-ESTATE LEASING RECEIVABLES SUBJECT TO LITIGATION IN ACCORDANCE WITH THE NPL PLAN FOR 2019

The disposal of factoring receivables subject to litigation to a leading operator was closed in the second quarter. More specifically, as part of a settlement agreement designed to settle an exposure already classified as bad loan, in April 2019 UBI Factor purchased, from a single seller, receivables from performing counterparties belonging to the government sector (health sector). These receivables, purchased for a total gross carrying amount of approximately €157 million, were subsequently sold to another investor in June, followed by the relative deconsolidation.

On 22nd July 2019 the UBI Banca Group reported that it had accepted a binding offer from Credito Fondiario for the disposal, in two phases, of a portfolio of property leases classified as bad loans for a gross carrying amount of approximately €740 million[2] as at the reference date of 31st October 2018. This transaction is subject to the conditions precedent generally applied to transactions of this sort, including certification of the transferability of the assets by a notary.
The first phase, involving 771 contracts with a gross value of €479 million, was concluded on 30th September 2019, resulting in the deconsolidation of the positions sold on the same date.
Following the completion of the necessary formalities, including certification of the transferability of the assets by a notary, the second and last phase of the transaction was completed on 20th December 2019 through the sale of 265 contracts with a gross value of €213 million, resulting in the deconsolidation of the positions concerned.

DISPOSAL OF A PORTFOLIO OF BAD LOANS BY PRESTITALIA

In September Prestitalia, the Group member dedicated to salary and pension-backed lending business, also closed the sale of a portfolio of unsecured bad loans, accordingly almost entirely written down, with a gross carrying value of €15.5 billion. The transaction falls within the scope of "expanded" ordinary operations provided for in the NPL Plan.

* * *

In addition to the transactions mentioned above, contemplated in the NPL Plan for 2019, further large-scale initiatives were undertaken to reduce the amount of non-performing exposures held in portfolio[3].

GACS BACKED SECURITISATION OF A PORTFOLIO OF RESIDENTIAL MORTGAGES CLASSIFIED AS BAD LOANS

On 4th December 2019 UBI Banca completed the transfer of a portfolio of bad loans to the independent securitisation vehicle Iseo SPV Srl for a gross book value as at the reference date (31st March 2019) of €857.6 million (stated gross exposure of €851.5 million).
The portfolio was essentially composed of residential mortgages classified as bad loans, mostly of small amounts (the first 100 positions accounted for 7.4% of GBV), and the related unsecured positions.

On 16th December 2019 the securitisation vehicle Iseo SPV S.r.l. issued senior, mezzanine and junior notes which were fully subscribed by UBI Banca as follows:

- investment grade senior notes with a nominal value of €335 million, corresponding to more than 39% of both gross book value (GBV) and the stated gross exposure calculated at the transaction reference date;
  The ratings of the specialist agencies[4] Scope Ratings GmbH and DBRS Morningstar were of BBBsf and BBB(sf), respectively;

2 The final perimeter of the operation was reduced by approximately €50 million following activities to finalise and optimise it.

3 It should be noted that, in addition to the large-scale transactions described below, during the year the Group also undertook disposals of individual positions classified as bad loans and unlikely-to-pay positions with stated gross values of approximately €81 million and €102 million, respectively. These transactions fall within the scope of the overall management of internal recovery activities.

4 The press releases concerning the ratings assigned by Scope Ratings GmbH and DBRS are available on their respective websites.

- mezzanine notes for a nominal amount of €25 million (with no rating);
- junior notes for a nominal amount of €13.5 million (with no rating).

For the senior securities, a request for the issue by the Italian government of the guarantee was made in accordance with Law Decree 18/2016, converted with amendments by Law No. 49 of 8th April 2016 and Law Decree 22/2019[5], converted with amendments by Law No. 41 of 20th May 2019, as supplemented by the decrees of the Minister of the Economy and Finance dated 3rd August 2016 and 14th October 2019, respectively.

The disposal by UBI Banca of 95% of the nominal value of the mezzanine and junior notes[6] to a major foreign institutional investor was concluded on 20th December 2019, which gave rise to the following:

- the deconsolidation of the bad loans underlying the securitisation, in view of the substantial transfer of the related risks and rewards for a stated gross value of approximately €840 million;
- the recognition, within balance sheet assets, of the notes resulting from the securitisation not subject to transfer to third-party[7] investors, for a total of €334.3 million[8].

At the level of capital, the impact of the securitisation was essentially offset by the reduction in RWAs with respect to the bad loans disposed of and the elimination of the shortfall.

CONTRIBUTION OF UTP POSITIONS TO THE NEW MULTI-ORIGINATOR PLATFORM FOR THE MANAGEMENT OF UTP REAL-ESTATE LOANS

On 27th December 2019 UBI Banca contributed approximately €123 million gross of loans classified as unlikely-to-pay (UTP) to a new multi-originator platform dedicated to the management of UTP real-estate loans. The Prelios Group and AMCO, together with UBI Banca and two other major credit institutions, signed an agreement to create a multi-originator platform for the management of UTP loans relating to the real-estate sector. The operation, named "Cuvée", involves the joint management by AMCO and the Prelios Group of a portfolio of UTP loans originating from loans of between €3 million and €30 million, granted to companies in the real-estate sector, that are now in the restructuring phase or financial difficulty and were contributed by the banks and AMCO.

The structure of the operation is "triangular" and involves the presence of a special purpose entity (SPE). It can be summarised as follows:

- UTP real-estate loans held by the banks participating are transferred to an SPE named Ampre Srl which has issued notes subscribed by the Back2Bonis Fund;
- the loans held by each bank that transferred them to Ampre Srl were transferred at the same time to the fund, which settled its debt to the transferring banks by assigning shares to them for the same amount and then offset its receivables from Ampre Srl with the payables for the same amount resulting from the subscription of the notes.

The loans have already been deconsolidated in the financial statements as at and for the year ended 31st December 2019 with the recognition, within "Financial assets mandatorily measured at fair value" [Item 20. c)], of the interest held in the fund, with a value of €55.5 million, net of a discount which factors in the liquidity risk attaching to the instrument subscribed.

The structure of the Cuvée project should allow the banks to benefit from the potential recovery in the value of the positions through the shares held in the fund. For the debtor companies, the possibility of achieving a recovery is increased by the new funding, in order to permit pro-active management of the loans and the underlying real estate.

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5 Chapter III of the Decree also provides for the continuation of measures to dispose of bad loans recognised in the balance sheets of banks by means of the grant of state guarantees for securitisations which have bad loans as the underlying (bad loan securitisation guarantees – GACS). It has made amendments to the existing 2016 regulations (e.g. the guarantee scheme will last for 24 months from receipt of a positive EU opinion and may be extended for a further 12 months; also the minimum rating for loans eligible for the state guarantee is to be raised to BBB).

6 The remaining 5% must be held in portfolio until maturity (2039) in compliance with supervisory regulations [Regulation EU 575/2013 ("CRR") Art. 405, paragraph 1)].

7 In addition to the 5% of the mezzanine and junior notes already mentioned, UBI Banca also maintained all the senior notes in portfolio.

8 Of which:
- Senior notes amounting to €333.9 million classified within Item 40. b) "Financial assets measured at amortised cost: Loans and advances to customers", with maturity in July 2039 and a coupon equal to the 6M Euribor +0.50%. At the date of this report, the Ministry of the Economy and Finance (MEF) had not yet issued the Decree to the Bank relating to the grant of the state guarantee on the senior notes;
- Mezzanine and junior notes for a total value of €0.4 million (€1.9 million nominal) recognised within Item 20. c) "Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value".

During the year, the transaction described had been preceded by three contributions to other funds (in the second, third and fourth quarters) of more modest amounts, involving exposures classified as unlikely-to-pay for a gross carrying amount transferred of €66 million. Shares in the funds were received in consideration, classified within "Financial assets mandatorily measured at fair value" [Item 20. c)], with a total value as at 31st December 2019 of €35.5 million, net of a discount which factors in the liquidity risk attaching to the instrument subscribed.

See Part E of the notes to the consolidated financial statements for the information required by the Bank of Italy Communication of 23rd December 2019.

ADDITIONAL TRANSACTION UNDER ASSESSMENT

A disposal of bad loans relating to small and medium-sized enterprises (according to the EU definition) with a gross book value (GBV) of approximately €1 billion (gross carrying amount of €800 million), of the approximately €2 billion total in portfolio, is under assessment.
On the basis of the measurement inputs available, the consolidated income statement for the fourth quarter has already incorporated greater impairment losses in relation to adjustments to valuations of the estimated sales price and the probability of sale attributed to the portfolio.

* * *

The large-scale transactions described bear witness to the Group's commitment to significantly speeding the process of reducing non-performing exposures, accompanied by a charge to the annual income statement, in terms of impairment losses on loans, of approximately €222 million. Of this amount, €105.5 million is attributable to sales of the portfolios of UBI Factor and UBI Leasing, whereas the remainder may be ascribed to the securitisation of residential mortgage loans and the measurement effects of the transaction in the process of being formulated for a portfolio of SME bad loans.

Trade union agreements for the implementation of voluntary redundancy schemes

Two additional phases of the voluntary redundancy plan designed to achieve efficiency gains and the synergies identified in the UBI Banca Group's previous 2020 Business Plan were completed in 2019 and on the first days of 2020.

On 27th March 2019 an agreement was signed – followed by the memorandum of 9th May – with all trade union representatives to approve the 215 applications for admission to the Sector Solidarity Fund.

The memorandum, which followed on from the agreement of 6th September 2018, continued along the same path set out in the General Agreement of 26th October 2017 which had received more voluntary applications than could be accepted, which were designed to implement it at the first stage.
Furthermore, in view, amongst other things, of new legislation on pensions (including the "100 quota" legislation), provision was also made for a further 107 staff to leave, with direct access to INPS (State pension and benefits institute) pensions in 2019.

These redundancies – almost entirely completed in 2019 – began as early as May 2019 and the relative costs, amounting to approximately €64 million gross, have been recognised in the consolidated results for the first quarter of 2019.
The consequent cost synergies are estimated at over €25.5 million per year.

On 14th January 2020, at the end of a process that started in the fourth quarter of 2019, an agreement was also signed with all trade union representatives concerning the voluntary redundancies of approximately 300 staff, including the approval of 50 applications for admission to the Solidarity Fund already submitted on the occasion of the redundancy scheme implemented under the framework agreement mentioned above.

These redundancies are scheduled to start on a progressive basis as early as February 2020 and the relative costs, amounting to approximately €70 million gross, have been recognised in the income statement for the first quarter of 2019.
The cost synergies are estimated at over €20 million in 2020 and over €25 million annually, starting in 2021.

In further accordance with the Business Plan, generation turnover also continues, in support of youth employment and in conjunction with redundancy initiatives involving the recruitment of new personnel and the consolidation of personnel on temporary contracts already operating within the Group (see the section "Human resources").

Rationalisation and reorganisation of the Group's branch network in Italy

During the customary meetings with trade union organisations, on 11th July 2019 information was provided with regard to the Bank's intention to proceed in the fourth quarter with a new large-scale closure or transformation of its distribution network. The rationalisation procedure began on 25th November 2019 and primarily involved 117 units operating in six Macro Geographical Areas, through:

- the large-scale closure of 28 branches *[1 in the Bergamo and West Lombardy Macro Geographical Area, 4 in the Brescia and North East Macro Geographical Area, 5 in the Milan and Emilia Romagna Macro Geographical Area, 10 in the Latium, Toscana and Umbria Macro Geographical Area, 2 in the Marches and Abruzzo Macro Geographical Area and 6 in the South Macro Geographical Area];*
- the closure of 34 mini-branches [*12 in the Bergamo and West Lombardy Macro Geographical Area*[9]*, 4 in the Brescia and North East Macro Geographical Area, 1 in the Milan and Emilia Romagna Macro Geographical Area, 3 in the Latium, Toscana and Umbria Macro Geographical Area and 14 in the Marches and Abruzzo Macro Geographical Area);*
- the transformation of 50 branches into mini-branches;
- the conversion of 4 mini-branches into treasuries;
- the closure of a treasury.

Alongside the rationalisation of its geographical presence, in 2019 the UBI Banca Group maintained its commitment to implementing the programme, provided for in the previous 2020 Business Plan, for the refurbishment of branches in view of technological innovation and development of the service model to overcome the growing challenges proposed by the banking market. During the year approximately 130 branches were involved in the renovation process, bringing the number of branches affected by the programme in the past two years to over 300. The work will continue without interruption in 2020.
In completion of the actions taken during the year, the plan to modernise the machine fleet launched in 2018 to facilitate the digitisation of cash services continued. During the twelve months, approximately 380 automatic ATMs and 190 evolved ATMs were replaced and approximately 490 self-service machines were installed.

[9] The closure of 4 mini-branches in the Bergamo and West Lombardy Macro Geographical Area took place on 2nd January 2020.

Rationalisation of the Group's presence abroad

Following the closure with effect from 1st January 2019 of the Madrid and Munich branches, in the first part of the year a feasibility study was performed on the rationalisation of the French foreign distribution network, involving the launch of a plan of activity designed to centralise all relationships relating to the Antibes and Menton branches at the Nice branch. The main activities regarded completing procedures to notify the authorities, inform customers and complete the trade union procedures required by local regulations together with the necessary administrative, accounting and tax formalities and the technical operations to centralise the accounts; The plan was completed on 30th November 2019 with the closure of the two branches.
At the same time, the UBI Banca Group is also pursuing a strategy of strengthening its geographical presence in the main emerging markets. This was the framework for the launch in the second half of the year of the procedures required to open a new representative office in Singapore. On 21st November 2019 the Monetary Authority of Singapore granted authorisation to open the new office, the objective of which will be to further develop relations with the local banking sector and to facilitate relations between companies in Italy and companies in the ASEAN area[10]. The office is expected to become fully operational in the first four months of 2020.

Disposal of UBI Sistemi e Servizi operations

In implementation of the guidelines of the previous 2020 Business Plan, on 27th July 2019, following the signing of preliminary disposal agreements, two informational letters were sent to trade union organisations regarding the transfer to Accenture Services & Technology Srl of operations of UBI Sistemi e Servizi SCpA relating to the following activities: central treasury, cheques, credit transfers, interbank corporate banking, tax and pensions, payment services transfer, cards and mortgage activation and cancellation, whereas archives, records and shipments activities were sold to Bcube Services Srl.
The above letters were followed by discussions with the organisations in question, which on 28th November 2019 resulted in the signing of agreements governing the consequences for the personnel affected by the transaction (approximately 200 individuals), who will render their services to the transferees as employees of the latter or on secondment from UBI Banca Group companies.
The transaction became effective from 1st February 2020, with the stipulation of the procurement contracts between UBI Banca and the acquiring companies regarding the activities disposed of.

The 2019 SREP

On 5th December 2019, UBI Banca received notification of the supervisory authority's decision establishing the regulatory capital requirements for 2020 based on the Supervisory Review and Evaluation Process (SREP) conducted in accordance with Art. 4, paragraph 1, letter f), of Regulation (EU) No. 1024/2013 as at 31st December 2018.
The notification received contains the following requirements – unchanged on 2019 – which the UBI Banca Group is required to meet for 2020:

- a minimum CET1 ratio requirement of 9.25% fully loaded [*the minimum CET1 requirement is result of the sum of the minimum Pillar 1 regulatory capital ratio (4.5%), the Pillar 2 requirement (2.25%) and the Capital Conservation Buffer (2.50%)*];

10 The Association of Southeast Asian Nations, ASEAN (Singapore, Indonesia, Thailand, Vietnam, Malaysia, Philippines, Cambodia, Myanmar, Laos, Brunei) constitutes an area of particular future interest because of the positive forecasts for demographic and economic growth and the potential that these countries may be able to offer Italian companies.

- a minimum total SREP capital requirement of 10.25% [the result of the sum of the minimum Pillar 1 regulatory capital requirement (8%) and the Pillar 2 requirement (2.25%)]. That requirement, added to the Capital Conservation Buffer of 2.50%, gives a minimum requirement in terms of the total capital ratio of 12.75%.

With a fully loaded CET1 ratio of 12.29% and a fully loaded total capital ratio of 15.83%, at the end of 2019 the Group was already amply positioned above the minimum levels indicated by the authority for 2020.

Reorganisation of the Group's real-estate presence in Milan

In the final part of the year, UBI Banca launched an assessment of whether it should reorganise and optimise its presence in Milan, while at the same time enhancing some of its real-estate holdings.
On the basis of the proposals received, on 31st January 2020 UBI Banca's Board of Directors resolved to grant Coima SGR an exclusive mandate to structure and close a complex transaction involving seven properties in Milan.

The new 2020-2022 Business Plan

The process of updating the Group's Business Plan through to 2022 began in the final months of the year.
The new plan, approved by the Board of Directors on 17th February 2020, was presented to the financial community on the same day.
The main features of the document are summarised below, while for greater details reference is made to the press release and the relative presentation, both dated 17th February 2020, available on the corporate website at www.ubibanca.it in the Investor Relations section.

The plan has been formulated on the assumption of a conservative economic scenario[11] and it is based on three pillars of development to generate higher profitability:

1) rigorous attention to credit selection and asset quality;
2) the transformation of retail business, the result of large reductions in the cost-to-serve enabled by digitisation and a further improvement in service (an omnichannel approach), accompanied by a personnel up- and re-skilling project;
3) the further strengthening of high-end customer service (premium, private banking, corporate, CIB), achieved by evolving existing platforms and making a substantial investment in team training and specialisation.

The across-the-board enabling factors, which support the three pillars mentioned above and are needed to achieve these goals are as follows:

- increased data analytics capacities, through the creation of new specialist digital and advanced analytics teams (the Group's digital production unit currently has approximately 325 staff, which will rise to 610 in 2022) and through the further development of partnerships with fintechs and universities. Advanced analytics will be integrated in both commercial and non-commercial processes (automation of compliance and audit controls, digitisation of finance processes, anti-money laundering monitoring etc.). It is planned to adopt an "agile" approach with interfunctional teams and dedicated spaces (projects developed using an agile approach will rise from 5% in 2019 to 30% in 2022);
- the revision of the organisational structure in order to support innovation, based on four lines of action: (i) the development of IT capacities through investments in the cloud, cyber security

11 Negative market interest rates (1-month Euribor) and low growth in GDP (+0.3%, +0.6% and +0.7% over the three years of the plan).

and next generation IT processes; (ii) substantial up- and re-skilling activities for personnel freed up by the digitisation of processes[12]; (iii) enhancement of human capital with a focus on training (both e-learning and partnerships with universities; the creation of "mentor schools" for the development of junior staff and mid-management, etc.), on the creation of career paths for future leaders and also on job families and gender diversity, work flexibility, welfare and life-work balance; and (iv) a reduction in staff numbers[13];

- the availability of a flexible enabling approach to manage possible needs to adjust strategy during the course of the Plan, arising from significant changes in the external context, such as flexibility in terms of business, capital and liquidity;
- the creation of a special-purpose sustainability team. The main development actions in the plan include the following: (i) the creation of an organisational unit dedicated to sustainability; (ii) the development of internal evaluation metrics on sustainability (where not yet present), the development of internal policies and regulations; (iii) the development of the proprietary portfolio in the direction of ESG approaches and the maintenance of leadership on green and social bond issuances; (iv) the development of the range of products and services centred on sustainability; (v) the start of the inclusion of sustainability assessment approaches in the lending and risk management process (e.g. development of the RAF, lending policies, etc.); and (vi) a further focus on the Bank's management of sustainability issues (e.g. employee management policies, supplier selection criteria and management, "green" real estate, etc.).

1) Rigorous attention to credit selection and asset quality

Gross non-performing exposures as a percentage of total loans fell to 7.8% at the end of the year, the result of attention placed by the Group on new grants, the consolidated organisational efficiency of credit recovery units and the careful selection of non-performing exposures when making wholesale disposals carried out during the year. With the conclusion of the last operation, currently under consideration, amounting to €800 million, which should be completed in 2020, it is not deemed necessary to make further wholesale disposals over the course of the plan. This is because internal credit recovery activities, based on the excellence of the Bank's very high-performance NPL platform, should lead to a ratio of gross non-performing exposures in 2022 of 5.2% (down from 7.8% in 2019) and bring total gross exposures down to €4.5 billion from €6.8 billion in 2019.
Rigorous attention to credit selection and asset quality remains one of the key features of the 2022 Business Plan. The main guidelines are as follows:

- the Group will continue to focus on low-risk customers, in line with current strategies. Credit selection and management will be supported, amongst other things, by the use of technologies for process digitisation and automation, data acquisition and controls. Investments are planned to improve monitoring systems and procedures for the settlement of early delinquency positions with a view to preventing and solving possible risk situations in the shortest time possible, in order to reduce migrations to default status;
- in light of the success of the centralisation of bad loan management (2008) and that of unlikely-to-pay positions (2017) it was decided, in organisational terms, to also centralise management of past-due exposures and of high-risk performing exposures, with the creation of a credit recovery platform in which a total of approximately 490 staff are involved.

As a result of the measures planned, in 2022 the default rate is expected to remain stable at 1%, recovery rates are forecast to improve (in terms of payments received and returns to performing status) to 11.9% and the cost of risk should fall to 46 basis points compared with 87 basis points in 2019 (which included higher impairment losses in relation to the wholesale disposals of bad loans).

2) The transformation of retail business

The development of the retail service model focuses strongly on the digitisation of commercial processes (e.g. instant lending) and non-commercial processes (e.g. controls), which help reduce the "cost-to-serve" and provide a more agile and accessible service for customers at the same time.

12 A total of 4,390 staff of which 2,360 involved in reskilling processes.
13 Approximately 2,030 staff including approximately 300 staff covered by the January 2020 trade union agreement.

The service will be developed with new "customer journeys" on the multi-channel platform, already operational, which allows ease of interaction and closeness to customers due to the use of all available communication channels.
Greater use of advanced analytics will allow improved customer understanding and insight and commercial targeting. The range of online products available will be enhanced, and will include the introduction of a digital channel for Prestitalia's range of salary- and pension-backed loans. A further migration of transactions to digital channels is planned (from 80% in 2019 to 87% in 2022).
On the small business front, a further improvement in customer assistance is planned by the use of Relationship Managers, also available remotely, together with development of the segment through increased numbers of developers and by using "digital onboarding" techniques.
High usage of digital interaction will free up commercial time and staff within the Group, some of whom will gain access to re-skilling programmes, designed also for branch managers to upgrade their expertise in an increasingly multi-channel environment.
The distribution model, based on interaction between physical and digital components, will lead to the rationalisation of the distribution network: 175 branches will be closed over the course of the plan; full-cash branches will be reduced by 35% (cash-less branches and cash-light branches will account for 40% of the current distribution network compared with 18% now). At the end of the plan 40% of branches will have been refurbished, inclusive of technology upgrades.

3) The further strengthening of high-end customer service

The Group will invest in quality services for "high-end" customers. The increase in total funding from the two segments (premium[14] and private banking) is forecast to reach approximately €108 billion in 2022 (€101 billion approx. at the end of 2019). It will be enabled by specially designed initiatives: (i) investments are planned for digitisation and to support Relationship Managers in the premium segment (e.g. a new Wealth Advisory Service will be launched for Premium Account Managers leveraging on their consolidated experience in private banking); (ii) new "fee-only" and "fee-on-top" advisory services will be introduced in 2020; and (iii) IW Bank's network of financial advisors will be strengthened and is expected to grow to approximately 830 advisors in 2022 from 688 at the end of 2019. Advanced analytics and account aggregation systems will be used for SOW development.
For corporate clients, on the other hand, service improvement will take place above all through better customer assistance by using specialist teams (strengthening investment banking in the Corporate & Investment Banking – CIB unit) and through a new range of the commission based services.

14 Premium customers are defined as those with total financial assets of between €100,000 and €500,000.

Commercial activity

During the year under review, the UBI Banca Group continued in its commitment to implementing the branch-modernisation plan, as described in the 2019-2020 business plan, including technological innovation and the development of the service model so as to better face the growing challenges arising within the financial services industry.
This restructuring concerned some 130 branches, bringing the total number of branches involved in the programme over the last two years to more than 300. These efforts will be continuing in 2020.
Work to replace and modernise customer-facing technologies, a programme that began in 2018 in order to promote the digitalisation of teller services, continued during the year and has resulted in the replacement of some 380 automated teller machines and 190 Evolved ATMs and the installation of about 490 next-generation self-service kiosks.

In accordance with the distribution model, commercial coverage of the Italian national territory is provided by the seven Macro Geographical Areas and, within these areas, 48 Local Departments and two specialised divisions, Corporate & Investment Banking and Top Private Banking.

In terms of customer segments, the new "360°" customer relationship management (CRM) application has been released for the private individual segment with the goal of improving relationship quality within the commercial network and increase the efficiency and efficacy of in-branch consulting. With this new application, financial advisors now have complete overview of all commercial priorities concerning the customers and the portfolio, including those that are in place by way of non-branch channels.
Innovative new products and services have also been introduced in order to meet evolving customer needs and facilitate the use of multi-channel banking products.

In the business segment, numerous agreements with other organisations have been finalised or implemented in order to promote access to credit for SMEs, with a particular emphasis on businesses in southern Italy and in communities impacted by natural disasters.
The Group has also made great strides in strengthening the commercial mechanisms supporting in-branch financial advisors, including for the business segment, including providing the new 360° advanced CRM dashboard for the centralised management of all commercial and administrative activities and access to all related customer data.

The Product Companies continued efforts to develop and consolidate their commercial offerings and have implemented operational and commercial support mechanisms aimed at achieving increasingly effective synergies with the Parent's commercial branch network.

In confirmation of the importance of ensuring high levels of customer satisfaction, customer satisfaction surveys continued for the twelfth year in a row and reached some 100,000 customers of UBI Banca and of competitor banks and around 6,500 employees of the Group. In 2019, the Mystery Client programme was run again, with at least one visit to each of the Group's branches.
The new process of complaints management was launched during the year and assigned to the Customer Support unit as part of the Group's effort to prevent complaints.

Commercial activity: private individual customers[1]

Technologies and new products continued to be developed in the payment cards and payment systems area. The following are particularly worthy of note:

- completion of the large-scale replacement of personal Libra credit cards with Hybrid cards, which feature characteristics that can be activated by way of multiple channels (i.e. in-branch or by phone, app, or online) such as the ability to set instalments for individual purchases, transfer money from the card into a current account, and to restore the card's available credit in real time with the RePower service;

1 The private individual customers served by retail branches are divided into two categories: Mass Market (natural persons with financial assets – direct and indirect funding – of less than €100,000) and Affluent (natural persons with financial assets of €100,000 to €1,000,000).

- activation of Samsung Pay and Google Pay across the entire range of cards and international networks (i.e. debit, credit and prepaid cards), which will enable cardholders to essentially make payments using their smartphones and smart watches at any contactless POS terminal at participating businesses;
- development of the Italian PagoBancomat® circuit with the release in the UBI Banca app of the ability to activate Samsung Pay, thereby allowing for payment by way of smartphone and smart watch just as for the international networks described above;
- ongoing development of the service 3D Secure for e-commerce payments in response to the indications in the Regulatory Technical Standards (RTS) of Directive 2366/2015/EU (PSD 2) and the mandates of the international networks. The first action in this development roadmap was completed in September 2019 and concerned the authentication of 3D Secure payments using debit and prepaid cards issued by the UBI Banca Group. Other adaptation efforts concerning all types of cards issued by the Group have been planned for 2020, mainly in relation to Strong Customer Authentication (SCA) in order to enhance the authentication process for authorising e-commerce payments;
- on 9th July 2019, UBI Banca launched its instant-transfer service using the SCT Inst scheme, which enables customers to make and receive payments that are credited within ten seconds or less (24/7, currently with a maximum amount allowed by the scheme of €15,000). Following a promotional campaign conducted in September and October 2019, encouraging levels of usage indicated that the service is being well received;
- creation of the service Bancomat Pay following the assignment of Jiffy. UBI Banca, by way of a unilateral move effective as of June 2019, activated the new service, which makes it possible to:
  - send funds to and request funds from others (P2P) whether or not they are on the network (only sending is allowed for those who are not on the network) using the mobile phone number associated with the payment account as the identifier (rather than the IBAN);
  - submit payments to participating businesses or government bodies (P2B and P2G) by innovative means (e.g. QR codes, merchant geolocalisation, loyalty cards, etc.);
  - begin industrialisation of the Bancomat Pay acquiring service following the positive response from merchant customers involved in the pilot stage;
- consolidate commercialisation of the RicariConto current account service (which allows customers to set monthly instalments for previously recorded transactions) with service activation taking place online or by phone or app. Work has also begun to enable RicariConto account holders to set monthly instalments when submitting the order (for future dates even when sufficient funds are not currently available in the account). This feature is expected to be released in the first half of 2020.

Other significant actions taken during the year concerned:

- activation of the full potential of the marketing automation platform, which makes it possible to automatically engage with customers when certain events occur via remote channels (e.g. UBI online, email, text messages, push notifications, etc.) in order to promote the right commercial offering at the most appropriate time. These efforts focused in particular on loan recommendations and the RicariConto service for pre-qualified customers, on the renewal of auto insurance policies, on the best use of instalments (for spending using the Hybrid card or RicariConto), and on promoting the use of digital channels;
- the Group's commitment to increasing the usability of its products and services from an omnichannel perspective, through the development of new IT platforms that allow customers to make combined use of physical and virtual channels. Within the scope of efforts to promote the use of alternative channels, work continued on the Digital Migration programme (launched in 2018), thanks in part to the in-branch actions by the Customer Support and Digital Development units;
- the launch of the new document sharing function, which enables all in-branch advisors and online specialists to have consumer and business customers submit documentation via online banking when it becomes necessary to update information, open new accounts, or provide other post-sale services. Furthermore, with document sharing, it is now also possible for all in-branch advisors and online specialists to sell RicariConto by loading the documentation customers need to read and/or sign directly into their online banking profile;
- the ongoing development of the UBI Banca app, which is characterised by four fundamental aspects supported by a solid security foundation increasingly invisible to the customer:
  - a tailor-made approach, i.e. the application is structured according to the customer's habits and the products possessed;
  - ease of use, meaning the visual language used incorporates easily recognisable elements;
  - immediacy, meaning that the interface is easy to use;
  - conversation, i.e. a channel for launching a personal relationship with customers, responding to their requests and beginning to offer solutions to their needs, designed to evolve into a means of offering products tailored to the customer's specific needs.

New app features include:

- new online sales processes that make it possible to request RicariConto via the app and renew Progetto Sicurezza Auto policies;
- the ability to make account-management investments via the app and subscribing for certificates based on consultant recommendations;
- improvements to the Bancomat Pay user experience;
- the ability to associate a card with Samsung Pay directly in the UBI Banca app;
- improvements to the user experience for executing transactions ordered online, enabling transaction authorisation directly via the app;
- the introduction of other new functions, such as instant transfers and the ability to receive documentation directly online related to: consulting, trading, asset management, and Pramerica funds.

With regard to digital lending, work continued to activate a multi-channel sales process for RicariConto much like that of personal lending. Customers can get financing recommendations based on their specific needs and simultaneously, thanks to the full digitisation of the processes of credit-rating pre-assessment and assessment, have the requested limit activated. The recommendation is the same regardless of the (physical or remote) channel used and, if approved, the product is activated immediately and available for the customer to use.

Activities relating to the activation of the strategic Digital Marketing platforms such as Web Analytics and the Data Management Platform (DMP) also continued during the year.
In the area of web analytics, technical implementation of the platform has been completed, and user-behaviour analysis has begun for the public-facing website with regard to the pages dedicated to the campaign as well as the protected areas, both in-app and via web, on the various devices available (i.e. desktop, phone, or tablet).
As for the digital marketing platform (DMP), a strategic activation roadmap for the platform has been launched, beginning with its gradual integration with the digital marketing campaign via external media. In particular, digital campaigns have been launched with regard to mortgage lending in specific, platform-profiled segments, with results being achieved that were better than the market benchmarks for typical campaign indicators. The next steps in the DMP roadmap will include integration of the platform with marketing automation and the new public-facing website.

From the standpoint of commercial offerings, the main initiatives in the various areas are summarised below.

Lending

Initiatives continued to focus primarily on home purchase and family support plans, particularly for employees and pensioners, in the form of both traditional loans and salary and pension-backed loans.
In 2019, the redesign of the commercial processes of Personal and Home Loans, for both new and existing customers, was released. The new processes have been revised with the goal of increasing the efficiency of operations in order to free up commercial time and reduce disbursement times, thereby ensuring a high-quality customer experience across all channels by way of a sales workflow guided by a simulation of the instalments when acquiring the product in line with applicable laws and regulations.

Investments and Insurance

UBI Banca has continued investing in order to further improve the customer experience, such as by implementing the ability for all recipients of advisory services to receive and accept investment recommendations in the new "Investments" section of QuiUBI online banking;

Asset management and life insurance policies have been offered without overlooking the importance of financial education in connection with the marketing of Pramerica fund-based savings schemes.

The strategy of completing and innovating the range of investment and retirement products and services continued, with specific commercial offers in life *bancassurance* and asset management:

- in partnership with the BancAssurance Popolari (BAP) insurance companies, Aviva and Lombarda Vita, two policies were developed to meet the increasingly clear need by customers for investment solutions for their wealth and protection solutions for their families. The policies in question, Twin Selection and Twin Top Selection, are innovative financial instruments that build on the comprehensive advisory service that the Group offers its customers with all-encompassing planning of family needs over the course of an entire lifetime.
  The two solutions, which combine the traditional "Life Insurance/Pension" component with a "Personal and Family Protection" component, and the "Financial" component with a "Value Added Service" component, represent a response to the situation faced by Italian families.
  These policies also meet customer needs in this area by combining investment solutions (Business Sector I and Business Sector III components) with family protection solutions (term life insurance, dread disease and long-term care cover) in a single product;
- with regard to investment management, we have continued offering the Pramerica "PrimaClasse" Sicav, which represents a major evolution in the commercial offering, given that it was initially opened with

more than 30 segments and six new segments in various asset classes were added in 2019, which make it possible for customers to diversify their investment portfolios based on their risk profile and investment time horizon. In addition, the sub-funds of PrimaClasse pay out periodic coupons – a distinctive trait of this solution, which meets the need for periodic income streams over the course of the year. Due to favourable market conditions during the year, five different editions of the Cedola Certa 2024 fund, a flexible bond fund with a pre-set coupon, were also placed.

The distribution of these investment and pension solutions was accompanied by an extensive training programme for the Group's sales network aimed at presenting and illustrating the related media, tools and arguments needed to be able to win over customers, strengthening the bonds of trust, through a professional advisory service[2].

Finally, in the second half of the year, bond placement resumed, involving mostly fixed-rate instruments, to meet the rising demand for fixed-income solutions with redemption at maturity.

The strategy for completing the range of financial instruments included the launch of certificates issued by UBI Banca for investment customers.

Again in 2019, the year was characterised by the completion of efforts to comply with the new MiFID II, which went into effect in January 2018, and with the IDD for life and non-life insurance policies, which went into effect in October 2018. Aimed at enhancing the protection of investors and improving the transparency of the financial markets, the changes continued with the preparation of reports on all costs incurred in 2018, and these reports were sent to all customers of the Group.

This report was enhanced with information regarding the characteristics of the advisory services provided by the Bank and an analysis of the macroeconomic environment so that customers could better understand the main factors affecting the performance of the financial markets.

In order to improve service quality, the consulting-management front-end system was also revised and enhanced in order to enable account managers to conduct more in-depth analyses of their customers and to improve and strengthen the advisory relationship between the Bank and our customers.

Within this area, work continued on the design of new advisory models to meet the full range of the customers' financing, pension, and insurance needs, and these new models are expected to be released during the current year.

In 2019, the offering of investment and pension products and services in the Retail, Top Private Banking and IW Bank commercial units was supported by the intensive, widespread efforts of the network support unit within the office of the Chief Wealth and Welfare Manager (CWWO). Within the scope of wealth management, these efforts focused on supporting the launch and development of products, services, consulting platforms, and commercial initiatives through training roadshows and other support activities with bankers, consultants, account managers and their respective customers, while also sharing targeted action plans with the units under the Chief Commercial Officer (CCO) and developing training programmes for the commercial network together with UBI Academy.

In the protection segment, the Bank launched an extensive communications campaign[3] based on traditional, digital and social media, emphasising the variety and breadth of the cover offered by the products of our insurance partner Cargeas in the home, health and automotive sectors.

Development has also begun for innovative, integrated and modular solutions, which are soon to be released and which aim to help consumer customers to be more aware of their protection needs from a new lifestyle-based perspective.

As a result, UBI Banca's insurance offering is evolving from product-centric to customer-focused based on the analysis of customer needs in order to offer increasingly customised products and services in line with industry-leading best practice.

2 In support of advisory activity, dedicated FAP (Financial Advisory Planning platform) strategies were dedicated to ad hoc commercial initiatives and a new guided recommendation service was also implemented with the aim of facilitating diversification of the range of products and services offered to customers.

3 The campaign's slogan: *"E vissero tutti sereni e protetti"* ("And they all lived happily and securely ever after").

New Vacanza Smart policy

UBI Banca has participated in the experimental Smart Insurance Platform promoted by a small group of Italian banks and insurance companies in agreement with IVASS and with the scientific co-ordination of CeTIF, the centre for financial technologies, innovation and services of Milan's Università Cattolica.
This instant-insurance initiative – restricted for an initial pilot phase to employees of the Group – led to the configuration of Vacanza Smart, an innovative insurance product developed in collaboration with our insurance partner.
Vacanza Smart is the first parameter-based, micro-insurance policy created by an Italian bancassurance company featuring a smart contract and automatic indemnity made possible by way of blockchain technology.
Successful testing has shown how the use of digital media and big-data analysis can make it possible to offer micro-insurance policies for specific needs when the customer realises the need.

Commercial activity: Corporate[4]

The most important initiatives of 2019 are listed below.

"Uscire per Business" ("Going Out for Business")

During the year under review, efforts again focused on supporting micro-, small and mid-sized businesses, while confirming the efficacy of an approach aimed at enhancing customer relations.
In particular, *"Uscire per Business"* initiatives continued with the aim of supporting corporate customers with the need to fund current activities by increasing short-term credit facilities and encouraging their use, as well as to finance investments with the involvement both of loan approval staff to streamline the grant process and of UBI Leasing and SF Consulting to ensure effective exploitation of the tax relief offered within the various local contexts by way of a specialised consulting service.

Corporate Star

For the corporate segment, improvement measures have been implemented in line with the specific characteristics of the segment in order to allow for better management of the customer relationship.
In particular: (i) a relationship model dedicated to a subset of high-potential corporate accounts (approximately 15% of the total) based on credit rating, revenue and financing granted has been implemented with the goal of maximising the value generated by the relationship by organising quarterly Commercial/MGA Credit working groups in order to establish a commercial plan for each company or group; and (ii) value assessments for customers have been implemented that take advantage of certain high-value partnerships in order to facilitate lending, introduce a number of customer-care and communication initiatives, and conduct ad hoc monitoring.

Agreement with Confindustria

Established in 2017 in order to make better use of the Digital Innovation Hub[5] (DIH), the partnership with Confindustria continued in 2019.
The digital assessment by DIH Lombardy, in collaboration with Politecnico di Milano and limited to customers of the Corporate Centres of the provinces in the region, began in September.
As part of efforts to support investment 4.0 projects with a sustainable development theme, the Group has been working to provide companies with access to a research, development and innovation loan pool for investments resulting, for example, in a reduced environmental impact and/or the protection or addition of jobs. The Bank was also engaged in providing access to methods for assessing sustainable projects aimed at optimising/measuring social impact and in collaborating with Confindustria on developing and protecting a culture of welfare among Confindustria member firms.

PrestiShop

PrestiShop, the business loan designed specifically for retailers with the aim of meeting their short-term financing needs, offering flexible repayment options compatible with each business's cash flow situation, continued to be marketed in 2019. PrestiShop calls for repayment in bullet form, i.e. a single payment, inclusive of principal and interest, at maturity. Customers may gradually repay the loan in advance using sums collected via POS terminals, as well as according to the customary methods.
In 2019, in order to meet the many needs of our customers, who require increasingly flexible products, a new 12-month version was added to the existing six-month version.

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4 The corporate customers served by Retail Branches and Corporate Centres are divided into: Micro-Enterprises (small businesses with turnover of less than €300,000 or total sector credit facilities of less than €50,000); Medium Enterprises (businesses with turnover of €300,000 to €10,000,000 or total sector credit facilities of €50,000 to €6,000,000); and Core Corporate (businesses with turnover of €10,000,000 to €250,000,000 or total sector credit facilities of €6,000,000 to €150,000,000).
5 Technology districts created to help SMEs adapt to the new industrial revolution.

As of November 2019, approximately 6,000 PrestiShop loans had been granted for a total value of €190 million.

SME Initiative Italy Additional Portfolio

Operations in relation to the Small and Medium Enterprise (SME) Initiative Italy began in the second half of 2019. The initiative calls for the UBI Banca Group to commit to disburse approximately €320 million in subsidised financing to SMEs in one of the southern Italian regions listed by the European Commission: Abruzzo, Molise, Basilicata, Campania, Calabria, Apulia, Sicily, and Sardinia. It follows a previous synthetic securitisation completed with the European Investment Fund with the support of European (EIF/COSME – Competitiveness of enterprises and Small and Medium-sized Enterprises) and national funds (MiSE – Italian Ministry for Economic Development). In accordance with the agreement with the EIF, the Bank grants customers financing conditions that are more favourable than the standard. For this type of financing, the Bank is acting as the "granting party" of the funds and is therefore required to file with the National Register of Aid.

Capital Goods Loan Pool (known as the *"Nuova Sabatini"*)

These are loans granted to small and medium-size enterprises, some of the interest payments on which are subsidised by the Ministry for Economic Development.
By decree of Italy's Ministry for Economic Development on 3rd December 2018, the measure was suspended due to insufficient funding and was then reopened on 7th February 2019 as a result of funding approved as part of the national budget.
Furthermore, a MiSE directive of 19th July 2019 adopted the amendments introduced in the "Growth Decree", particularly as concerns increasing the upper limit of financing that banks may grant to individual SMEs from €2 million to €4 million and the ability to distribute the funds to the SMEs in a single lump sum in the event of financing of no greater than €100,000.
From the beginning of the year to November 2019, 271 loans were issued for a total of approximately €56 million. As at that same date, there were 1,367 outstanding loans with a residual balance due of approximately €208 million.

Initiatives in co-operation with the European Investment Bank (EIB)

During the year, the UBI Banca Group continued to offer medium to long-term loans (maximum term of ten years) to companies under attractive terms thanks to the positive collaboration with the European Investment Bank.
In particular during the year, a new credit facility was contracted from the EIB for a total of €250 million to go to SMEs and mid-cap enterprises, €30 million of which has been set aside for the subsidiary UBI Leasing.
At the end of November 2019, 204 loans amounting to approximately €195 million had been granted.

ABI/Invitalia Convention *"Resto al Sud"*

In August 2019, the Bank adhered to the ABI–Invitalia convention *"Resto al Sud"* (lit. "I'm staying in the south") for the regulation of subsidised financing aimed at incentivising new startups by young entrepreneurs in southern Italy. The measure calls for the disbursement of financing equal to 100% of the authorised spending, structured as follows:

- 35% as a grant issued by Invitalia S.p.A. (the managing authority of the subsidy);
- 65% as bank borrowings with an interest grant to cover all interest payments, guaranteed free of charge by a fixed 80% by way of the special guarantee fund established by Italian Law 662/1996 and disbursed by way of a fixed-rate unsecured loan.

In November, the Office of the Prime Minister extended the programme's reach to entrepreneurs under the age of 46 and to freelance professionals, whereas it was initially restricted to entrepreneurs between the ages of 18 and 35.

Loans to SMEs drawn from *Cassa Depositi e Prestiti* (a lending and deposit institution under public control) funds

With adherence, on 4th July 2019, to the 5th ABI-CDP convention named "Enterprise platforms for the financing of small, medium and mid-cap enterprises", the Bank has the ability to disburse financing to SMEs and mid-cap enterprises by making use of funding provided by Cassa Depositi e Prestiti (CDP).
The projects that can be financed concern current or planned capital expenditures or the need to increase working capital.
The Group approved the use of the CDP funding available for unsecured loans with a term of between 37 and 144 months (120 months if backed by the Guarantee Fund for SMEs pursuant to Law No. 662/1996) and mortgage-backed loans with a term of between 61 and 144 months, for planned or existing investments only.
As at 30th November 2019, 250 loans were issued for a total of approximately €58 million.

Guarantee fund for SMEs pursuant to Law No. 662/1996

With a view to facilitating access to credit by SMEs, use of the Guarantee Fund for SMEs pursuant to Law 662/1996, a public sector tool to mitigate credit risk managed by MedioCredito Centrale (MCC), continued.
Decrees of Italy's Ministry for Economic Development on 12th February 2019 updated the operating instructions of the fund, which included the following changes:

- the partial amendment of the eligibility requirements related to beneficiaries and coverage levels;
- the application of a new model for evaluating guarantee requests;
- the introduction of specific procedures for operations to support capital expenditures;
- the distinction between the concepts of "counter-guarantee" and "re-insurance" for operations backed by a guarantee body.

The amount of financing outstanding at the end of November 2019 totalled €1,520 million, whereas total volumes disbursed at that same date came to approximately €650 million.

2019 Credit Accord

On 15th November 2018, the Italian Banking Association and Italy's leading business associations entered into a new agreement, valid until 31st December 2020, for SMEs, updating previously implemented measures to comply with the current legislative context.
In line with the 2015 Credit Accord, this latest initiative – based on the need to continue supporting businesses that have yet to fully latch onto the economic recovery – calls for:

- the introduction of the new Business Recovery (*Imprese in Ripresa 2.0*) measure, which, effective as of 1st January 2019, enables banks to grant 12-month deferments in payment of the principal on instalment financing (both unsecured and mortgage-backed lending) or to extend the amortisation schedules of short, medium and long-term financing by as much as 100% of the residual duration of the current amortisation plan. The amortisation of short-term loans may be extended by up to 270 days, and agricultural loans may be extended by up to 120 days;
- the elimination of the two measures Developing Businesses (*Imprese in Sviluppo*) and Businesses & Public Administration (*Imprese e P.A.*) introduced for the 2015 Credit Accord.

For deferments or extensions, the Bank is committed to maintaining the interest rate of the original agreement, thereby waiving the right to increase the spread as would be allowed for concessions such as this.

Collaboration agreement with CDP to support enterprise in southern Italy

On 13th November, the Bank signed a memorandum of intent with *Cassa Depositi e Prestiti* (CDP - a lending and deposit institution under public control) for a collaboration aimed at promoting joint initiatives to support Italian businesses.
For the initial iteration of implementation of the agreement, CDP has granted UBI Banca €500 million in financing by way of the subscription of a senior unsecured bond, all of which is to be used within the next 18 months to disburse new financing to SMEs based or operating in the eight regions of southern Italy.
These loans, which are to go towards medium and long-term investments or structural needs for working capital, may be in amounts of up to €15 million and be repayable in 36 months or longer.

Initiatives benefiting victims of natural disasters

- Measures aimed at resolving the Morandi Bridge Emergency

Following adherence to the convention with Finanziaria Ligure per lo Sviluppo Economico (Fi.L.S.E.) S.p.A. towards the end of 2018, the Bank has begun operations related to financing aimed at enabling SMEs impacted by the events of 14th August 2018 in Genoa to benefit from the Morandi Bridge emergency guarantee fund established and funded by the Region of Liguria. Through access to the fund, companies can benefit from a direct guarantee or a counter-guarantee backing unsecured loans intended to finance working capital needs to survive the period of emergency caused by the collapse of the Morandi Bridge.

Loans may be granted for amounts of up to €180 thousand, with terms of up to 90 months, inclusive of a pre-amortisation period, at particularly favourable terms and conditions, subject to a fast-track approval procedure.

- ABI Protocol – Central Italy Earthquake Advances

On 12th April 2019, with the goal of promoting bank advances on public grants to construction businesses and individuals working to rebuild in the areas of central Italy impacted by the earthquake, the Bank adhered to the memorandum of understanding signed on 6th September 2018 by the Italian Banking Association (ABI) and the government's Extraordinary Commissioner for Earthquake Reconstruction 2016.

- Agreement between the Italian Banking Association and *Cassa Depositi e Prestiti* on the "Central Italy Earthquake Loan Pool"

The grant of subsidised loans with terms of 15 to 25 years, depending on the amount, for the repair or reconstruction of properties damaged by earthquakes continued under the agreement entitled "Central Italy Earthquake Loan Pool" between the Italian Banking Association and the *Cassa Depositi e Prestiti* (a lending and deposit institution under public control) dated 18th November 2016. These loans, which are guaranteed

by the Italian central government, are funded by the *Cassa Depositi e Prestiti* and issued at fixed interest rates established by the latter institution, with terms of 15 to 25 years.
The borrowers are eligible for a tax credit equal to the instalments due, which they transfer to the Bank as the sole means of repayment of the loans.
In 2019, 237 loans were granted to companies for approximately €23 million.

Enterprise Digitisation – Italia Online Accord

In order to support our business customers through the use of digital channels, the Bank has entered into a major commercial agreement with Italia Online. With this collaboration, UBI Banca is promoting the digitisation services offered by Italia Online, such as the creation of web pages, Facebook pages and e-commerce sites, and web marketing. Within this context, the Bank plays an important role as facilitator for companies looking to digitise their businesses by presenting a digital partner that can guide them through the entire process.

Commercial tool to support Business Consultants ("360")

In 2019, the customer relationship management (CRM) tool was redesigned in order to provide in-branch consultants with a multi-channel dashboard for the centralised management of all their activities, thereby promoting greater control over commercial efforts thanks, in part, to the simplification of administrative activities.
This new tool will provide the entire sales force with easier access to information and is able to harmonise and facilitate interaction with the customer.

POS and digital services

Development in the areas of acquiring (the acceptance of payment cards at POS terminals) and POS continues. In the area of acquiring in particular, development work continued on the domestic circuit in order to enable the acceptance of contactless payments using cards, smartphones, and other devices enabled for Samsung Pay mobile payments. This has led to an upgrade in POS terminals to contactless and tokenised systems termed "PagoDIGIT".
Distribution of the latest generation of POS terminal (SmartPOS) based on the Android operating system also began in June. This system provides businesses with more advanced management of payments in that it provides access to a marketplace from which to download apps related to business administration (e.g. for employee schedule management, food delivery, order management, etc.) and enables them to provide their customers with services such as taxi reservations. Businesses can access the NexiBusiness app directly from the marketplace to have timely, detailed information on trends in their sales.
The line of SmartPOS products recommended by the UBI Banca Group also includes a version with cash register (SmartPOS Cassa). In addition to being an innovative yet practical offering for all businesses, this solution makes it possible to meet the obligations introduced by the 2019 budget as amended, which establishes the obligation for the digital transmission of payments beginning on 1st July 2019 (for businesses with annual revenues of greater than €400,000) or from 1st January 2020 (for all others).

Commercial activity of divisions focused on high-net-worth individuals

Top Private Banking

UBI Top Private Banking is the division of the UBI Banca Group dedicated to the private-banking market[6].
As at 31st December 2019, it manages over €36 billion in assets through 28 dedicated Private-Banking Centres throughout Italy and 286 Private Relationship Bankers.
Customers are managed through personalised service models integrated with their needs, differentiated by type (individuals, entrepreneurs, companies and institutions) and wealth bracket. The service model is designed to meet customers' different needs, ranging from the core wealth management service (based on bespoke advisory solutions) to family advisory service, which provides solutions for managing, governing and protecting the wealth of households and companies and for succession planning, including trusts and fiduciary companies, through specialised offices in Italy and abroad. The Private Relationship Managers are also better able to support business customers with specialist products and services dedicated to them and offered by the Corporate & Investment Banking division.

In 2019, UBI Top Private Banking developed and strengthened its distribution coverage by creating geographical areas, recruiting bankers, opening a new Private-Banking Centre in Verona, and establishing a Private-Banking Centre dedicated primarily to developing a customer base made up of ultra high-net-worth individuals (UHNWIs), which began operations at the beginning of 2020.
The evolved-advisory team was also reorganised by creating an advisory desk and creating specialised units to focus on HNWIs and UHNWIs/institutional accounts.
Training efforts continued with leading universities in order to enhance capabilities in digitisation projects and on aspects of the new evolved-advisory and MiFID models, alongside continuation of the programme aimed at the hiring and development of talented individuals by way of a dedicated "graduate" programme.

During the year, worked continued on the innovation projects concerning the evolved-advisory platforms (joining financial advisory, succession analysis, and real estate analysis), which will be made available in early 2020, and the digitisation of the various offering channels (on-site, off-site and remote), which concerned a large part of investment operations.

In 2019, alongside the traditional offering related to investment management (portfolio management and UCITS) and insurance (multi-sector life, Branch I and Branch III policies), the division provided its network with new investment instruments, such as structured certificates with leading issuers, and began to move towards new, alternative products by way of a dedicated issue of European Long-Term Investment Funds (ELTIF)[7].

With regard to internal communication, the corporate portal has been enhanced with information to support operations for the network of Private Relationship Bankers. Work has also continued on initiatives to develop and promote the visibility of our brand in the media and by way of financial events for customers in local areas, in collaboration with Pramerica SGR, concerning the economy and the performance of financial markets.

In 2019, in line with the past, UBI Top Private Banking received important recognition from the industry, which helped increase UBI Banca's positioning as a leading player in Italy's private banking industry. This included, in particular, a prestigious recognition in the field of digital innovation to the benefit of both our customers and our Private Relationship Managers.

Corporate & Investment Banking

During the year, the Corporate & Investment Banking (CIB) division continued work on its development plan, which included a number of significant organisational and commercial initiatives. Of particular note in terms of organisation, the division accomplished the following:

- further development of the organisational structure of the Large-Corporate GRM unit by introducing four operating units to oversee the 700 large-corporate accounts and 26 Global Relationship Managers

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

7 ELTIFs are closed-end funds to incentivise long-term investment in infrastructure projects, in unlisted companies, and in small and medium enterprises (SMEs) in need of stable sources of financing. The "Growth Decree", as amended and converted into Italian Law no. 58 of 28th June 2019, introduced a special, reduced tax measure for investments in these instruments, which applies beginning with investments made in 2020 and subject to authorisation by the European Commission.

in order to rationalise account management and ensure higher levels of service for the large-corporate accounts handled by the division;
- creation of the Global Markets unit, which will be responsible for completing the value chain in the area of investment banking and ensuring distribution capabilities for product-desk initiatives (i.e. Equity and Debt Capital Markets, Derivatives, Certificates), as well as developing the capability to create new products and services for Group customers.

Of note in terms of commercial efforts was the gradual integration of commercial management of accounts and the systematic offering of investment banking products and services, which has led to:
- the identification of some 60 large-corporate groups around which a team of relationship managers has been formed along with industry coverage in the area of investment banking in order to jointly manage development taking an advisory-centric service approach to customer relationships;
- the selection of some 500 mid-corporate accounts for which the CIB division assists the corporate managers of the macro geographical areas with the goal of developing stronger relationships in areas related to the strategic development of corporate customers.

A testament to the progressive increase in visibility for the Corporate & Investment Banking division with the UBI Banca Group and in the marketplace generally is the significant growth in mergers and acquisitions advisory services provided to the Group's corporate customers and the number of bond placements in which the Bank has played a senior role.
Finally, in November and December, the CIB division, with the help of the Global Markets units, executed the first placement of UBI Banca certificates for the Group's retail and private banking customers.

Commercial activity in specialist areas and companies

UBI Welfare

UBI Banca has continued in its commitment to strengthening and broadening the range of services provided to help business customers manage their employee-welfare plans, which encompasses the set of initiatives employers can activate in order to enhance wellness and social security for employees and their families by integrating public services in the fields of healthcare, pension, education, recreation, protection and work-life balance.
Company welfare is a rapidly expanding concept throughout Italy and is an increasingly popular, determinant factor in negotiations with employer associations and trade unions in a great many industries.
In the same way, we are witnessing the gradual entry of numerous players in this field, including from the financial services industry, which has made the competitive landscape increasingly varied and complex.

As early as 2017, UBI Banca was a first mover among banks with a distinctive offering accompanied by a great many initiatives, including with the collaboration of third-sector and social-service organisations.
With our UBI Welfare[8], UBI Welfare Network[9] and UBI Welfare Light[10] services, we provide integrated services for company welfare that include evolved-advisory services and access to a customisable platform that covers a wide range of goods and services, including: elderly assistance; integrated healthcare solutions; vouchers for goods and services; reimbursement of travel and education costs; supplemental pension benefits; discounts on travel packages, sports and recreational activities; and even the ability to spend welfare credits at pharmacies or other local businesses.
In this regard, UBI Banca offers "local" welfare in that, through our widespread, community-centric presence, we are committed to creating a virtuous system that involves industry associations, businesses, and anyone who provides a service within the community generally. Indeed, the availability of quality services in local communities can more easily meet personal and household needs. From an operational viewpoint, firms can count on total management of company welfare programmes which minimise administrative and operational costs, while employees are provided with easy-to-use platforms that are always accessible via PCs, tablets and smartphones, with constant support.

8 Solution for businesses that, due to reward size, organisational complexity, or the need to comply with laws and regulations, are interested in implementing a complete, flexible and personalised welfare plan. This solution allows for a greater degree of customisation, the activation of optional services, and the option for employees to use welfare credits as reimbursement for costs incurred.
9 Solution governed by an aggregator (industry association, labour consultant, or freelance professional) that has a need for a platform to manage the welfare benefits for employees of the participating businesses. Small businesses, too, can access the welfare benefits that are usually only available to larger organisations, thereby enabling the aggregator to fully express their role as a participating entity.
10 Solution for businesses that, due to size, compliance obligations (e.g. renewal of collective bargaining agreement), or preference, need a basic, streamlined solution to provide flexible benefits, such as granting rewards, without having to give up the support of a platform that can be accessed at any time and with a wide range of spending options.

Amongst their other benefits, welfare solutions provide access to the benefits envisaged by the law[11], in some cases eliminating the tax wedge, thus making companies more competitive and increasing workers' purchasing power, while also improving their satisfaction levels.

UBI Banca's welfare services are marketed with increasing success throughout the distribution network, owing in part to the presence of Welfare Specialists spread throughout the country. Commercialisation is also supported by campaigns to contact businesses, particularly those for which collective bargaining agreements establish obligations for welfare-benefit solutions and are, therefore, directly interested in adopting solutions for the easy, immediate payment of limited sums to their employees.
UBI Welfare today has a network of 15,000 businesses throughout Italy where welfare credits may be spent, as well as more than 1,200 healthcare facilities and a network of over 600 participating services in areas such as culture, wellness, and recreation. More than 400 businesses are being served, and this number is constantly growing. In addition to mid-cap and large corporations, SMEs and even micro-businesses are taking advantage of the Group's welfare offering. Many business leaders have found in UBI Welfare the ability to access all of the benefits that can result in a complete, well-structured company welfare plan at an affordable price point, while actually achieving cost savings in terms of the fiscal and employee benefits it enables.

In line with UBI Banca's mission to be close to our communities, 21 partnership agreements with a range of employer and industry associations throughout Italy were active as at 31st December 2019, including:
- business associations;
- representatives of small and medium enterprise;
- representatives of pharmacy owners.

During the year under review, work continued in relation to the UBI Welfare Observatory promoted by UBI Banca and driven by ADAPT – a school of labour and industrial relations founded in 2000 by Marco Biagi, with scientific co-ordination by Michele Tiraboschi – which, on 26th March 2019, published and presented its second report on employee and company welfare in Italy based on observations acquired in the geographical areas in which the UBI Banca Group operates.
The study provides an update to the work that began in 2018 based on an analysis of the main national collective bargaining agreements which considered the subject and on a reading of a database containing more than 2,000 second-tier collective bargaining agreements (predominantly supplementary company agreements), in addition to the most significant local area agreements ordered by economic sector.

Abroad

Opening up new foreign markets remains an indispensable target/condition for Italian businesses, given the continued moderate growth recorded in the domestic market in recent years.
UBI Global Transaction Banking (UBI GTB) is the area of the Group specialised providing advice and specific services to clients in the field of trade finance through a network of business specialists spread throughout the Group's area of operation and 24 operations centres in Italy.
The advice and operational support provided include a wide range of products focused on the management of contracts and payment methods for the foreign import and export activities of Italian companies, with particular attention to covering the risks related to these activities (country risk, foreign bank risk, currency risk etc.).
During 2019, in line with the previous year, the Bank reinforced and rationalised its network of GTB specialists. Specific joint commercial initiatives between the branch network, Corporate Centres and the specialists themselves were also organised.
We also consolidated the partnership with SACE (the Italian state export credit insurance company) on the insurance of country risk. In this regard, there is a specific convention in place for the support and coverage of lending to SMEs.

For over 20 years, the Group has adopted a direct presence strategy (mainly through representative offices) in the areas of the world that are most attractive for Italian exporters (see the section "The distribution network and market positioning").
The Group's international market presence, together with a co-ordinated range of export-related banking and financial products and services and the specialist services offering advice on planning and studying foreign markets, are able to satisfy the foreign growth requirements of Italian SMEs.

11 Beginning with the 2016 *Legge di Stabilità* ("stability law" – annual finance law) and with the goal of supporting the competitiveness of businesses, significant tax benefits associated with performance bonuses (i.e. for improvements in productivity, profitability, quality, efficiency and innovation) paid by private-sector companies and employee profit-sharing have been introduced and maintained, including:
- the application of a 10% flat rate tax to replace IRPEF (personal income tax) and the relative additional personal income taxes;
- complete elimination of the tax wedge if employees choose to receive their productivity bonuses or share of profits not in cash, but in the form of company welfare services, with advantages both for the companies and for the employees.

The consultancy advice offered, both directly through its representative offices and through partnerships with specialised Italian and foreign companies, is intended to support companies with their projects to go international as well as helping them during the implementation stage of their operational plans. Our close network of relationships with foreign correspondent banks (approximately 2,000) and consolidated network of consultants collaborating with the Group enable us to support the needs of companies in over 140 foreign countries.

This year the Bank once again received awards for transaction management from leading organisations worldwide.

UBI Leasing

In 2019, the commercial efforts of UBI Leasing focused, in particular, on continuing to change its portfolio mix to privilege the automotive and capital goods sectors, which feature optimal characteristics in terms of duration, profitability, and capital absorption, while being more selecting with regard to the real estate segment.
In terms of customer type, work was oriented towards further increasing the weight of the retail segment and was highly successful in this regard, given that the segment has now stabilised at approximately 50% of volumes in terms of new contracts signed in 2019.
In line with last year, business development was achieved through a strong, constant focus on risk allocation, privileging clients of high standing and with a systematic focus on the return on risk-adjusted capital (RORAC)[12] of individual transactions.
In a marketplace that has shown no signs of an increase in expected returns, UBI Leasing's strategies have led to an increasing selectivity with regard to the opportunities presented throughout the network at the expense of volumes achieved. Nonetheless, the Company issued 3,500 new lease agreements totalling €437 million.
The relationship with the banking branch network focused on developing potential target customers in conjunction with the Parent, taking full advantage of the opportunities resulting in part from current tax incentives to support businesses.
During the year, specific commercial initiatives were also aimed at companies in order to support investments in the most attractive segments (equipment and vehicles).

With regard to projects, the year was particularly characterised by completion of the first phase of a major project to replace the application used by the banking network for product placement, a project that will culminate in the gradual digitisation of processes in 2020.
To this end, UBI Leasing's commercial unit conducted intensive classroom training for the network, which reached a total of approximately 1,200 employees of UBI Banca to facilitate use of the new tool.

Lastly, commercial activities relating to the public sector have continued, involving constant monitoring of tenders and participating in those that are considered most interesting and profitable, using an approach of market coverage in the area of operation, particularly for chosen operators with an adequate repayment capacity.

UBI Factor

Excess liquidity in the system continued in 2019, which resulted in increased pricing competition towards customers. Nonetheless, trends have remained essentially stable compared with the previous year, particularly in the large-corporate segment.
Within this context, UBI Factor has focused on developing the mid-corporate customer segment thanks, in large part, to the synergy with the Bank's branch network and the use of a shared platform for managing efforts to develop new customers ("360 Corporate"), which makes it possible to track customer engagement from the first contact to finalisation of the offer.
Within this context, the collaboration between the units of UBI Factor and of the Parent responsible for commercial planning continued in relation to establishing the criteria for target customers, and the "Instant Factor" initiative, aimed at the acquisition of potential customers in the business segment, was developed for a selection of Corporate Centres.
With regard to the large-corporate segment, a database of customer contacts has been created and made available to the account managers of UBI Factor and to the Bank's Global Relationship Managers, enabling them to systematically update positions in a timely manner.

12 A management target used to calculate the return below which transactions are not accepted: it is calculated by using the expected results of the transactions relating to a financial instrument, project or operational activity as the numerator and the capital to be used, corrected to take account of the associated risks, as the denominator.

The company played a significant role on the Marketing Commission of Assifact, the association of factoring companies, leading initiatives aimed at promoting and increasing understanding of factoring as a product. This included the publishing of an article on factoring in *Corriere Economia* that cites a case study involving UBI Factor.

Prestitalia

During the year under review, Prestitalia strengthened its positioning among the top players in the salary-backed lending business, reaching market share of 10% due to both the positive results reported by all sales channels (UBI Banca branches, branch agents and traditional agents) and an organisational structure focused heavily on the value proposition.

The consolidation of relations with the current network continued during the year, which also included the recruitment and hiring of new agents. The company also continued improving its range of products and services and the related operational and commercial support tools by:

- a constant commercial commitment to training of the distribution network with the aim of improving customer relationships;
- changes to the contract model for the lending form and the consequent revision of the sales process, making it possible to finalise a contract in just one meeting;
- the start of distribution of the product "UBI Banca mortgage" by the agent network (promotion and referrals);
- expansion of the catalogue of insurance companies available for policies paired with financing, including activation of two new partnerships with Met Life and Great American. There are currently 11 partnerships in place with insurance companies that have been very carefully selected in terms of solidity, reliability, and reputation;
- interaction between the Prestitalia IT system and the custom systems of the leading agents in order to optimise the time it takes to process paperwork.

Finally, the following new projects have been started and will be launched in 2020:

- activation of the digital sales channel and finalisation of the remote-sales agreement;
- commercialisation of the new "TFS advance" issued directly by Prestitalia and distributed by way of UBI Banca's agent and branch channels;
- distribution of third-party products over the Prestitalia agent network (e.g. company POS/CC, car hire);
- revision of the remuneration system for the agent network, including the adoption of new quality indicators in addition to the existing indicators and the introduction of a system of commissions upon maturity aimed at rewarding operations that have remained active over time and increasing network loyalty.

IW Bank

In 2019, this bank continued development, improving its range of products and services and the related operational and commercial support tools.
In particular, new product and service development related to the following areas:

- innovation aimed at the digitisation of operating processes offered via indirect networks, an area which is seeing the expansion of services and instruments placeable by way of the new advanced, omnichannel electronic OTP signature service, particularly as concerns: a) extension of the package account "IW Conto" and certain optional and standalone services (e.g. the electronic banking service) to all customers; b) the digital management of advisory services and the placement of additional products of asset and investment management, such as certificates; and c) the management of post-sale operations for portfolio management;
- the expansion of the range of asset management products that may be distributed through indirect networks and the process of standardising the asset management catalogue relating to the marketing of Italian funds and SICAVs via the various sales channels by developing the open platform with extension of the distribution channel to new UCITS via indirect networks, with the concurrent activation of the paperless Web Order and OTP signature service and the launch of new services combined with the existing range. The first placement of an ELTIF product was also launched;
- the activation of distribution of a multi-business sector bancassurance solution dedicated to the high-end customer segment;
- the launch of new upfront placements of specifically designed certificates for the customers of the financial advisors;
- the creation of a trading account for institutional customers;
- activation of the instant SEPA transfer service, which makes it possible to transfer funds at any time of day, every day, within no more than a few seconds;

- the update to the banking app in line with European Payment Services Directive No. 2015/2366 (PSD2), which enables customers, in accordance with security standards set by applicable laws and regulations, to manage both access to the secure area of their online banking and authorise payment orders by way of push notifications. On compatible mobile devices, the banking app can also be used to authorise, in just a few seconds, orders issued directly via the app using finger-print or facial recognition;
- providing the entire network with access to the new Lycia platform for basic consulting in order to monitor their customers' investment portfolios, as well as to the new information portal for financial advisors, which has been updated in terms of graphic design and the organisation of information;
- the creation of commercial campaigns and other initiatives aimed at acquiring and/or developing customers (such as "IWin").

At the same time it continued working on a project to develop the application platform for financial advisors with the objective of optimising the existing range and creating new functions that can support advanced financial advisory services, thus increasing the commercial effectiveness of the network, in line with trends and market benchmarks.

UBI Comunità

The positioning strategy of the UBI Comunità area is aimed at growing and consolidating relations with the various communities, including by engaging the various businesses and social partners within those communities, acting as a facilitator of initiatives aimed at promoting and supporting their sustainable development in terms of both their economies and their social services. This goal is being pursued by managing and developing commercial relations with non-profit and religious organisations, with the civil economy, with government bodies, and with associations, while promoting mechanisms of hybridisation and cross-contamination among these members of the community and other economically and socially sustainable initiatives that can generate shared value for the communities themselves.
Initiatives, synergies, ventures and partnerships continued to be promoted and supported together with the various players in the socio-economic ecosystem (public, private and private non-profit sectors) in order to form fruitful relationships, due in part to support from products and services designed to meet specific needs.
Through this support and the sharing of the Group's abilities, professionalism and skills, we have continued promoting and supporting sustainable development and projects to create social value, including in view of the objectives set by the UN in its Agenda 2030.
The continuation of training activities designed to increase specialisation, the implementation of various application and management changes to increase relationship and business development levels and the expansion of the range of specific financing instruments made it possible to enhance both central and network resources.
Finally, synergistic activities with the General Geographical Areas and specialist markets were further consolidated for cross-segment value creation through commercial actions dedicated to development of relationships with current and prospective customers.

Within its division aimed at the civil economy, UBI Comunità works to consolidate and develop its role as strategic partner of third-sector organisations, helping them to pursue their social objectives and achieve innovation and sustainable economic growth, while also supporting them in initiatives of great social value. Indeed, its role is intended not only as a provider of dedicated services, but also as a joint player within a broader system that promotes networks, supports socially oriented investments and decisions, shares capabilities, and intermediates in relationships between economic entities and the community, including in light of the evolved dynamics and situations that are arising as a result of the reform of the third sector.
Beginning in 2012, this strategy has resulted in significant growth in our market share in financing for the third sector, which has always been seen as a true driver of new forms of economics and not as a residual aspect of the economy.
During the year, a number of projects were completed that concerned tests in measuring social impact, including within the scope of the process of evaluating financing requests by third-sector organisations, as well as measuring the social value generated by the Bank's projects.
In an effort to strengthen competitive positioning, a number of agreements have been signed and initiatives launched with leading players in the field, such as *Cooperazione Finanza Impresa* (CFI), *Fondazione con il Sud*, *Con i Bambini Impresa Sociale*, and Torino Social Impact.
While particular attention should be drawn to the following activities, for a complete account of the initiatives carried out during the year reference should be made to the "Consolidated non-financial statement":

- the issue of the UBI Comunità Social Bonds, involving the placement in 2019 of four new bonds with a value of €80 million nominal. Since 2012, the programme has made it possible to support 96 socially relevant projects through the purchase of dedicated bonds of approximately €1,119 million, resulting in charitable contributions of over €5.3 million and access to loan pools of approximately €21 million. For projects supported, social return on investment (SROI) continued to be applied as an instrument for measuring social impact;

- full use of the €50 million EIB Social Activities facility, which, this year, made it possible to support 24 social investments by religious and other non-profit organisations, and the further promotion of the convention between the Ministry for Economic Development, the Italian Banking Association, and CDP of 28th July 2017 for the revolving fund to support enterprises operating in the social economy, with UBI Banca proving to be one of the most proactive financial institutions with 12 well received projects and the disbursement of approximately €18 million in financing;
- launch of the Trust in Life competition to support a number of innovative projects with the theme of "during and after us" and promoted by Anffas and the CGM Co-operative Group by allocating a portion of UBI Banca's revenues related to the commercialisation of the Hybrid card (€250,000), as well as increasing the commitment to financially support social startups by promoting calls for ideas in partnership with leading third-sector players (i.e. foundations, business incubators, universities, and research centres) on a multi-stakeholder basis.

UBI Comunità is also promoting close ties with the community through a service model specialised in managing relations with government and with associations.
Services for government are aimed at the development of efficient solutions, the provision of specialist consulting, the creation of partnerships of value to the community, and the support of economic development, and ongoing research into the best services and co-operation with public bodies contributes to establishing solid, virtuous relationships in order to integrate the Group into the economic and social fabric of the areas concerned. There are more than 1,800 entities served by the Treasury and Collection Services unit.
In 2019, services for public administrations were targeted by efforts to promote digital innovation and support the streamlining of their operations. This led to handling 96.6% of all transactions via IT Ordinance (as at 30th November 2019), which has also been facilitated by the obligations introduced by SIOPE+[13].
The drive towards innovation and ongoing improvement has made it possible to provide increasingly excellent products and services aimed at creating value. As a testament to our marked orientation towards the quality provided to our customers, UBI Banca is certified for the management of the treasury services of public authorities and the provision of financing to public authorities and their shareholdings in accordance with the UNI EN ISO 9001:2015 standards.

In addition to the Treasury and Collection Services unit, the Bank's activities with public administrations involve the participation in tenders and negotiated procedures related to the granting of financing and guarantees and the provision of products to public bodies, publicly-owned enterprises, and private sector organisations by way of well-defined processes and with the involvement of the appropriate units.
In the same way, the activities of UBI Comunità conducted through the Public Authorities and Associations unit are aimed at the development of synergies with the professional and other associations, designing and formalising national and local partnership agreements with the goal of consolidating, developing and building relationships with the association members and other stakeholders.
Within the overall programme for the development of synergies with public and private sector institutions, UBI Comunità again maintained and increased its commitment to assisting with financial and sustainability education, with a special focus on youth. During the 2018-2019 school year, in collaboration with *Fondazione per l'Educazione Finanziaria e al Risparmio* (FEduF), more than 17,500 students were involved in various ways, more than 6,000 of which by participating in training seminars.
During the year, two projects of financial education were of particular importance:

- the standing working group for financial education and inclusion dedicated to third-sector operators in a training programme to provide them with the tools to support their efforts for people experiencing financial hardship;
- training programmes for young athletes.

In order to be an active player, UBI Comunità has also participated in institutional initiatives promoted by various authorities, including European Money Week, the European competition to improve financial literacy among young people between the ages of 13 and 15, and the ASVIS initiative, Festival of Sustainable Development, to promote a culture of sustainability and achieve cultural and political change that will enable Italy to implement the United Nations' 2030 Agenda and achieve the 17 Sustainable Development Goals.

This also included our participation, again this year, in the 2019 Financial Literacy Month promoted by the Committee for the Planning and Co-ordination of Financial Education.

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13 SIOPE is the information system for the operations of public entities in order to track the payments and collections of the treasury offices of all public administrations. SIOPE+ is one of the four platforms that manage the accounts payable and receivable of public administrations. After an initial pilot phase launched in July 2017, the platform became operational in January 2018 with the involvement of the first local authorities, which were then followed by other public administrations.

The importance of these partnerships was consolidated during the year with the launch of new collaborations such as with the Forum for Sustainable Finance, ASVIS, and the Triulza Foundation.
Collaborations with universities have also continued and intensified, with UBI Banca providing treasury services in many cases. One of the most important activities within this collaboration is the provision of digital services and tools for students, including the dedicated "Enjoy" card.

Customer Satisfaction

Customers' perceptions

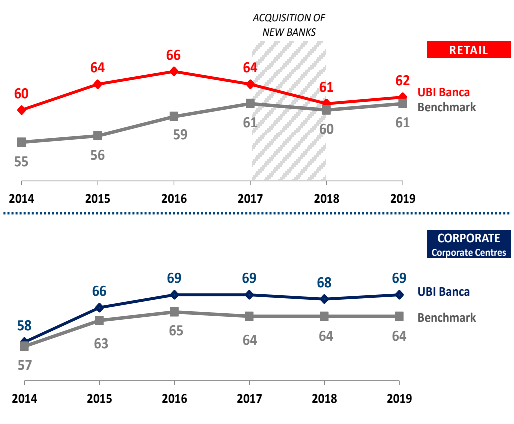
The system for measuring customer satisfaction within the UBI Banca Group includes qualitative and quantitative research conducted for both employees and customers in addition to online surveys. The research methods adopted differ according to the objectives and characteristics of the customers involved.
The set of surveys has been continuously enhanced over the years in order to ensure the ongoing observation of customer satisfaction and to react with the utmost flexibility to changes in their expectations of the Bank.

In 2019, we developed the instant feedback channel with the activation of customer-feedback points immediately after visiting a branch or using the online channels. This instant feedback on the interaction with the Bank is done in a manner that is minimally invasive for the customer, while being highly automated and in harmony with business processes.
During the year, we also implemented text analytics and big-data technology to analyse more than 19,000 customer suggestions and identify specific clusters of customers to act upon.

The great wealth of information gathered by all of the tools used to measure customer satisfaction has enabled us to identify the Bank's strengths as seen by the customers as well as the actions to be taken in the areas for improvement. Every moment of interaction with the customer is monitored, analysed and reported by way of indicators of perceived quality. UBIndex is an *indicator that best expresses the level of customer satisfaction and is made up of four basic components: overall satisfaction; propensity to recommend; loyalty; perceived added value compared to competitors.* This index is assigned to all distribution network operating units within UBI Banca[14] and Group companies and forms a part of the incentive system for all personnel.

In 2019, the Retail UBIndex was 62, surpassing the benchmark of 61. This increase over the previous year (61) was due to the improvement in the UBIndex of the customers of the banks acquired in 2017, which rose to 54 (up 6 points from 2018).
Customers of the Corporate Centres recorded a satisfaction index of 69, maintaining a differential of five points over the related benchmark[15].

UBINDEX – UBI Banca (Macro Geographical Areas) vs. sector
Market trends 2014-2019



14 It is calculated monthly by market, segment, business unit, general geographical area and branch.
15 The surveys affected approximately 100 thousand UBI Banca individual and corporate clients. The comparison benchmark was constructed by interviewing over €10 thousand customers of competitor banks using the same methodology as that used for UBI Banca customers.

In terms of service levels, customer satisfaction has been consolidated with regard to relations with the branches and Corporate Centres, including in comparison to their respective benchmarks.
The monitoring of customer complaints indicated that the phenomenon declined compared with the previous year in the retail market from 13% to 12%.

In 2019 all Group product companies continued to be involved in a wide range of surveys relating to UBIndex analysis subjects. The results indicate that the products and services offered by these companies are a fundamental driver in increasing the satisfaction of the Bank's customers.

The Sustainability Surveys

As concerns the issue of sustainability, a topic of great importance to the UBI Banca Group, there continues to be a need to look more closely at the awareness, satisfaction, and importance given to this issue among the primary stakeholders.

For the second straight year, we have conducted a study involving more than 7,000 stakeholders, including non-profit organisations, authorities, customers, and employees, and this exploration of 31 aspects of sustainability has led to the creation of a sustainability indicator and a materiality matrix.

Those surveyed have again evaluated UBI Banca’s performance to be above the benchmark and deserving of long-term confidence.

Internal Customer Satisfaction and the Mystery Client Programme - Customer service

Internal Customer Satisfaction (CSI) surveys are conducted by interviewing "internal customers", first and foremost the distribution network staff, who are asked for their opinions on different products, apps and processes provided by units at UBI Banca, UBI Sistemi e Servizi and the product companies.
In 2019, surveys were conducted on quality standards in the following areas:
- *services provided by UBIS.S* to the commercial network;
- *training*: training programmes for new employees;
- *finance*: products/services provided by IW Bank and Pramerica SGR to financial advisors;
- *sustainability:* the set of initiatives that contribute to the achievement of long-term economic, social and environmental goals.

Approximately 6,500 employees participated in the surveys for an average redemption rate (active participation in the surveys) of about 50%.

“Mystery Client” surveys, on the other hand, monitor the quality delivered by the Bank during the initial stages of the purchasing process followed for products and services by a potential customer.
During the year, the Mystery Client programme was run with at least one visit to each of the Group’s branches having taken place. The results were positive and improved for all the surveys conducted. The moments for which customers have expressed the greatest satisfaction are the welcome upon arrival and the attention to their needs.

Quality control - Customers' expectations

Expected quality is explored through qualitative and quantitative assessments, through which the Bank gathers strategic information each year to react as quickly as possible to customers’ changing needs and expectations.

In 2019, a representative sample of customers (of UBI Banca and of competitors) to describe how they would ideally like their bank to evolve in the future.

Five main characteristics of the “ideal bank”
(scale of 1 to 10 for level of the importance)

1. It is serious and reliable
2. It is attentive to security and data protection
3. It is sound, well capitalised
4. It is transparent, it tells you how things are
5. It takes great care of its customers

The value that describes the ideal bank is that of customer loyalty, which is achieved mainly by managing the customer relationship and ensuring the bank's financial stability.

There has been a significant increase in the need for data protection, both in terms of the scrupulous management of privacy and in transaction security.

Customer support for complaint prevention

A new process for managing complaints assigned to the Customer Support unit began in 2019. Under this process, specific roles in each Macro Geographical Area monitor negative customer experiences and take timely action to prevent and resolve disputes as they arise.

In 2019, despite being just the first year, approximately 1,100 complaints were handled from the distribution network units and the head office and over the remote channels.

These efforts resulted in higher service levels, and customers have appreciated the interest shown, even in cases when the relationship was already particularly compromised and unlikely to be restored.

The Customer Support unit also took action to support the 270 branches with critical issues in 2018 in terms of their UBIndex and high levels of complaints.

These efforts, too, had positive results, with 78% of the branches achieving increases in their UBIndex (up by an average of five points) and reductions in complaints (down by an average of seven) and in claims (down by an average of two) by year end.

During the year, "Customer Support" also oversaw the new procedure for managing reimbursements, Felix, which has given the branches greater autonomy in managing customer complaints.

Complaint and dispute management

Complaint management is important to the UBI Banca Group, both from a commercial point of view, inherent to customer relations, but also from a strategic point of view, as a means of ensuring the continued development of products, services and company processes.
Disputes are an important source of information in order to detect areas for improvement, identify the causes of the critical issues found, and take corrective action, all in a timely manner.
Within this context, work continued in 2019 on consolidating a constructive, proactive approach to complaints management through our constant commitment to preventing disputes and to providing guidance and co-ordination thanks to the efficient interaction between the unit responsible for complaints management and the various other company functions.
It is, in fact, extremely important to ensure the uniformity of the strategies and joint actions employed throughout the Group, in accordance with the competencies and responsibilities of each sector in order to ensure that the response is clear, timely, and meets the customer's expectations as much as possible.

For a proper interpretation of the number of complaints compared with previous years, it should be noted that studies conducted by the Italian Banking Association (ABI) – which conducts annual monitoring of complaints – has led to the conclusion of presenting data related to payment card fraud separately from complaints. This will allow for more appropriate comparisons with the rest of the system by using measurements that are more homogeneous with those of our primary competitors. Therefore, for a proper interpretation of the results, we have also provided pro-forma *data for 2018.*

Initial complaints received by the Group for 2018 and 2019 were as follows:

	2019	**2018** (pro-forma)
Total UBI Banca Group	19,014	23,403
- of which UBI Banca	*9,426*	*11,502*
- of which other Group companies	*9,588*	*11,901*

From an operational point of view, the UBI Banca Group uses a single app that enables immediate sharing of information on problems, as well as providing an intragroup support and co-ordination tool for monitoring and analysing results.

In line with the directives on transparency and Group guidelines, customers may use all possible means of communication: traditional mail, email, certified email, fax, or links via Internet and apps.

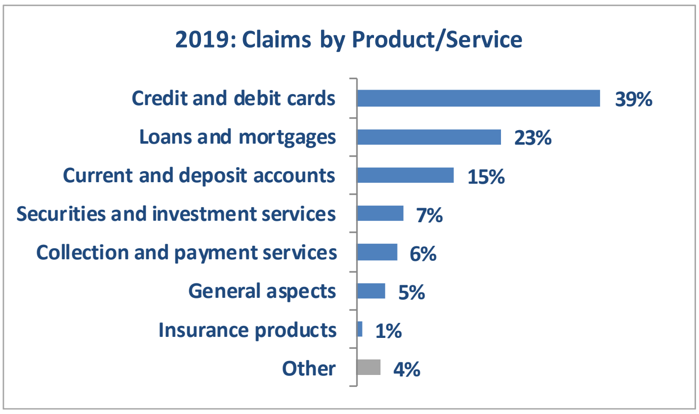
Monitoring shows that 97%, of complaints were filed via remote channels and 3% using hardcopy methods.

Claims and dispute management at the Parent

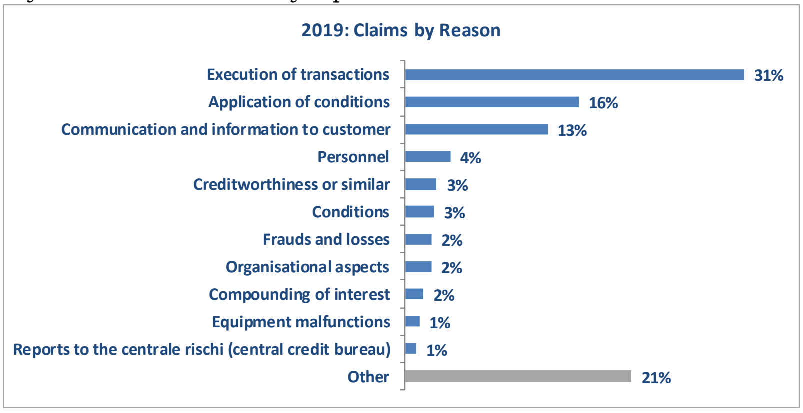
Complaints received by UBI Banca in 2019 totalled 9,426 (down 18% on the previous year) with the total amount paid out decreasing by 31%, 88% of which was related to payment card disputes (other than fraud) and salary-backed financing[16].

The main products/services involved in complaints were:

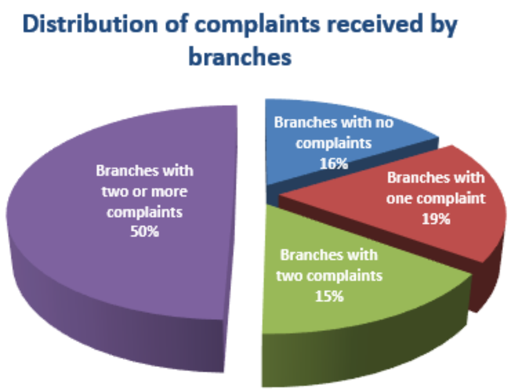
- payment cards, with 3,293 first-instance complaints handled with the Nexi partnership (+9% vs. 2018);
- loans, with 2,141 disputes (-28%), 1,118 of which related to reimbursement requests for loan fees and commissions and insurance costs related to salary and pension-backed loans repaid ahead of schedule over the past ten years and based on outdated loan agreements (a phenomenon that is still very frequent throughout the sector);
- current accounts and savings accounts, with 1,445 complaints (-5% vs. 2018);
- securities and investment services, with 711 disputes, decreasing from 2018 (-71%) due to the gradual end to refund requests related to financial instruments issued by the former Banca della Marche and Banca Popolare dell'Etruria e del Lazio. This reduction essentially reflects the implementation of new legislation that the former shareholders of the aforementioned banks to submit their claims to the *Fondo Indennizzo Risparmiatori* (FIR - Investors Compensation Fund).



Not including the components related to payment card disputes (not related to fraud) and salary-backed loans, the number of disputes actually due to the ordinary operations of the commercial network decreased significantly (-24% vs. 2018) to settle at 5,015 claims.
During the year, the various units within the Customer Satisfaction & Claims area handled 97% of all claims to be managed (with the remaining 3% being in process at 31st December 2019), with 44% of these claims being resolved in favour of the customer (vs. 38% in 2018). Response times came to an average of 19 days, which is well within the threshold set by applicable legislation.



Furthermore analysing the reasons behind the disputes, we see again that they mainly concerned "performance of operations", "other" (mainly disputes concerning payment cards not related to fraud, such as services not provided, forgotten payments, product returns, duplicate charges, or cash not dispensed), "application of conditions" (reimbursements concerning salary-backed loans), and "communication and information to the customer" (stocks and bonds issued by the New Banks).



Finally, it should be noted that 16% of the branches received no claims during the year, whereas the index of total disputes related to the commercial network, not including payment card disputes and as a ratio to the number of customers, came to approximately 1.2 complaints for every 1,000 customers for an average of 3.8

16 Related to activities of the former B@nca 24/7 in loans extinguished prior to June 2012.

claims per branch.

In addition to first-instance complaints, disputes management also involved repeat complaints received during the period under review, i.e.: 1,265 responses; 547 appeals to the Financial Banking Arbitrator; 47 appeals to the Arbitrator for Financial Disputes; 487 mediation applications; and 325 complaints to the supervisory authorities.

With the Nexi partnership, another 11,473 disputes concerning payment card disavowals (fraud), essentially related to online transactions (e.g. unrecognised purchases or goods not received), were also handled. Such cases increased significantly compared to the previous year, both for the Bank and sector-wide.

Complaint and dispute management in other Group companies

During the year, the other UBI Banca Group companies (Prestitalia, IW Bank, UBI Factor, UBI Leasing and Pramerica) received a total of 9,588 first-instance complaints (-19% on the previous year), 3,541 responses, 2,316 appeals to the Financial Banking Arbitrator (ABF), 21 appeals to the Arbitrator for Financial Disputes (ACF), 253 applications for mediation and 70 complaints to the supervisory authority. In addition to the numbers specified above, there were 264 disputes concerning payment card disavowals (fraud) related to IW Bank.

In 2019, 96% of complaints managed by other Group companies was resolved (with the remaining 4% being in progress as at 31st December 2019) with an acceptance rate of 61% (56% in 2018), with almost all sums paid out (99%) related to disputes regarding salary-backed lending.

The distribution network and market positioning

The branch network of the Group

The branch network of the UBI Banca Group in Italy and abroad

Number of branches	31.12.2019	31.12.2018	Change
UBI Banca Spa	1,556	1,633	-77
of which North West Macro Geographical Area (1)	*173*	*175*	*-2*
of which Milan and Emilia Romagna Macro Geographical Area (2)	*196*	*207*	*-11*
of which Bergamo and West Lombardy Macro Geographical Area	*265*	*274*	*-9*
of which Brescia and North East Macro Geographical Area	*201*	*211*	*-10*
of which Latium, Tuscany and Umbria Macro Geographical Area	*231*	*246*	*-15*
of which the Marches and Abruzzo Macro Geographical Area	*261*	*283*	*-22*
of which South Macro Geographical Area	*226*	*232*	*-6*
of which branches not comprised within Macro geographical areas (3)	*3*	*5*	*-2*
IW Bank Spa	20	20	-
TOTAL (4)	**1,576**	**1,653**	**-77**
Total branches in Italy	***1,575***	***1,648***	***-73***
IW Bank Spa financial advisors (5)	**688**	**684**	**4**

(1) The figure includes one foreign branch. These numbered three as at 31st December 2018.

(2) The figures do not include the 12 units dedicated exclusively to pawn credit.

(3) The figure as at 31st December 2018 included two foreign branches closed as of 1st January 2019.

(4) The figures do not include the units dedicated treasury activities (17 as at 31st December 2019)

(5) The figures also include financial advisors belonging to the Wealth Management Area

The branch network of the UBI Banca Group as at 31st December 2019 consisted of 1,576 branches, of which 1,575 operating in Italy, down by 77 compared with the end of 2018, and down even further to 1,568 at the date of this report.

As shown in the table "Action taken on branches in 2019", the fall over twelve months mainly reflects local rationalisation which took place in November, already reported in the previous section "Significant events in 2019"[1], and to a minor extent the closure of 16 branches and mini-branches and the opening of three mini-branches which were not part of the above-mentioned actions[2].

1 The following branches and mini-branches were closed with effect from 25th November 2019: Bodio Lomnago, Lonate Ceppino, Ternate, Caravate, Gornate Olona and Saltrio (Varese), Ubiale Clanezzo and Berbenno (Bergamo) and Senago (Milan) of the Bergamo and West Lombardy MGA; Verona Via Albere, Negrar (Verona), Casalmaggiore (Cremona), Offaga, Seniga, Comezzano, Sale Marasino (Brescia) and Borgofranco sul Po (Mantova) of the Brescia and the North East MGA; Vigevano Via Madonna degli Angeli (Pavia), Milan Via Gioia and Via Mazzini, San Giuliano Milanese Via Pellico Sesto Ulteriano district, Cologno Monzese Via independence (Milan) and Carpaneto Piacentino (PC) of the Milan ed Emilia Romegna MGA; Rome Via Baldovinetti, Via Manzoni, Via Rieti, Via Oderisi da Gubbio, Via dei Castani, Via delle Gondole and Via Nomentana, Perugia Via Angeloni, Montopoli di Sabina and Montebuono (Rieti), Montelupo Fiorentino Via Grieco (Florence), Arezzo Quarata district and Terranuova Bracciolini (Arezzo) of the Latium Tuscany Umbria MGA; Pescara Via Fabrizi, Sulmona (Aquila), Pesaro Via Fratti, Colli al Metauro Saltara District, Fossombrone Via Garibaldi (Pesaro and Urbino), Ancona Via Marconi and Via Mattei, Jesi Via Don Arduino Rettaroli, Osimo Via Oriolo, Poggio San Marcello, Santa Maria Nuova Piazza Mazzini, Senigallia Cesano district (Ancona), Macerata Viale independence, Chieti Brecciarola district, San Salvo c/o Denso Spa, Fara San Martino (Chieti) of the Marches and Abruzzo MGA; Angri (Salerno), Laureana di Borrello (Reggio Calabria), Melito (Naples), Campi Salentina (Lecce), Triggiano and Terlizzi (Bari) of the South MGA. We also report that the following mini-branches have been transformed into treasury branches at: Tignale (Brescia), Belvedere Ostrense, Montemarciano (Ancona) and Monte Grimano Terme (Pesaro and Urbino).

2 Since the beginning of 2019 the following branches and mini-branches have also ceased operations in Italy: at Ospitaletto in Via Padana Superiore and at Salò in the Rive district (Brescia) of the Brescia and North East MGA, at Macerata in Corso Cairoli and in Corso Cavour 34, and at San Severino Marches (Macerata) in Piazza del Popolo, and at Cagli (Pesaro and Urbino) in Via Alessandri and at Osimo (Ancona) in Piazza Boccolino of the Marchess and Abruzzo MGA; in Rome in Via Antonina and in Via Regina Elena of the Latium, Tuscany, Umbria MGA; at Rho (Milan) in Via Meda, at Novafeltria (Rimini) in Via Trieste in the Perticara district, in Milan in Via Boccaccio, at Novate Milanese (Milan) in Via Amendola and Pavia c/o the University of Milan and Emilia Romagna MGA. On the other hand, three new mini-branches commenced operations at Camerino (Macerata) and at the University of Urbino in June and at Verona in Via Giberti in October.

Action taken on UBI Banca branches in 2019

	Openings of:		Closures of:		Transformation of mini-branches into treasury branches	Transformation of branches into mini-
	branches	mini-branches	branches	mini-branches		
- North West Macro Geographical Area	-	-	2	-	-	-
- Milan and Emilia Romagna Macro Geographical Area	-	-	5	6	-	8
- Bergamo and West Lombardy Macro Geographical Area	-	-	1	8	-	-
- Brescia and North East Macro Geographical Area	-	1	4	6	1	3
- Latium, Tuscany and Umbria Geographical Macro Area	-	-	10	5	-	9
- Marches and Abruzzo Macro Geographical Area	-	2	2	19	3	29
- South Macro Geographical Area	-	-	6	-	-	1
- branches not comprised within Macro Geographical Areas	-	-	2	-	-	-
TOTAL	**-**	**3**	**32**	**44**	**4**	**50**

The following closures were also recorded since the beginning of 2020 and until the date of this report:

- 4 mini-branches of the Bergamo and West Lombardy MGA [at Mesenzana, Porto Val Travaglia, Maccagno con Pino and Veddasca (Varese) and Torre de' Roveri (Bergamo)]. The closures were made to complete the 25th November rationalisation action;
- 1 mini-branch of the Latium, Tuscany, Umbria MGA (at Latina, in Corso Matteotti);
- 3 mini-branches of the Marches and Abruzzo MGA (at Pesaro in Piazza Lazzarini, Pescara in Viale Marconi and Castelfidardo in Via Battisti).

The distribution network of the UBI Banca Group – divided into seven Macro Geographical Areas – is shown on the map printed on the initial pages of this publication. A full list of all Group branches in Italy and abroad relating to the date of approval of the proposed UBI Banca Annual Report is, however, given in an attachment.

Furthermore, the distribution model, introduced with the 2019/2020 Business Plan, is fully operational and was composed as follows at the end of the year:

- 28 Top Private Banking Centres and 56 "Corners" that report to the Head of Top Private Banking;

  The Top Private Ranking Centres increased by one unit compared with December 2018 as a result of the opening of a new unit in Verona. A High Net Worth Centre was opened in Milan in January 2020 and the Private Banking Centre in Como was closed.
  The total number of "Corners" also increased by one unit in 2019 (up to 56 from 55 in December 2018), the aggregate result, however, of three new openings and two closures[3]. Finally, a "Corner" was opened in Como in January 2020.
- 49 Corporate Centres and 32 "Corners" belonging to the respective Macro Geographical Areas, also unchanged over the twelve month period;
- a Corporate & Investment Banking (CIB) Division, the exclusive manager of Large Corporate Groups and Companies through its Large Corporate GRM unit in Milan, divided into four units spread throughout Italy, home to 26 Global Relationship Manager (GRMs), who are the sole points of contact for complex, ordinary and extraordinary operations, supported by the coverage unit and product desk specialists in the division (59 specialists).

Corporate & Investment Banking, Corporate Centres and Top Private Banking Centres

	31.12.2019	31.12.2018
Large Corporate GRM	**4**	**1**
Corporate Centres (*)	***49***	***49***
North West Macro Geographical Area	5	5
Milan and Emilia Romagna Macro Geographical Area	7	7
Bergamo and West Lombardy Macro Geographical Area	7	7
Brescia and North East Macro Geographical Area	6	6
Latium, Tuscany and Umbria Macro Geographical Area	8	8
The Marches and Abruzzo Macro Geographical Area	9	9
South Macro Geographical Area	7	7
"Corners"	***32***	***32***
North West Macro Geographical Area	3	3
Milan and Emilia Romagna Macro Geographical Area	9	9
Bergamo and West Lombardy Macro Geographical Area	4	4
Brescia and North East Macro Geographical Area	8	8
Latium, Tuscany and Umbria Macro Geographical Area	1	1
The Marches and Abruzzo Macro Geographical Area	4	4
South Macro Geographical Area	3	3
Total	**81**	**81**
Top Private Banking Centres	**28**	**27**
"Corners"	**56**	**55**
Total	**84**	**82**

(*) The figures do not include the three UBI Banca units in operation since 6th May 2013, which specialise solely in corporate clients.

3 On 15th February the "Corner" at Sassuolo (Modena) closed and the "Corner" at Cassina de' Pecchi (Milan) commenced operations. On the other hand, the "Corners" at Osimo (Ancona) and Reggio Calabria became operational on 1st March, while the units located in Bologna closed.

Finally, we report that geographical market coverage also continues to be provided by a network of 688 financial advisors belonging to IW Bank (684 in December 2018).

The international presence

At the date of this report, the international presence of the UBI Banca Group was structured as follows:

- a UBI Banca foreign branch in France (Nice). The foreign branches operating in Munich and Madrid ceased operations on 1st January 2019, while the French branches at Antibes and Menton were closed with effect from 30th November 2019;
- representative offices in Russia (Moscow), Asia (Mumbai, Shanghai, Hong Kong and Dubai), North America (New York), South America (Sao Paolo) and Africa (Casablanca).

  As already reported in the previous section "Significant events in 2019" a new representative office is expected to open in Singapore in the first four months of 2020;
- equity investments (mainly controlling interests) in three foreign companies: UBI Trustee Sa (Luxembourg), Pramerica Management Co. Sa (Luxembourg) and Zhong Ou Asset Management Co. Ltd (China);
- one branch of UBI Factor Spa in Krakow in Poland;
- a series of commercial co-operation agreements with foreign banks, in addition to three "trade facilitation" agreements with the European Bank for Reconstruction and Development (EBRD), the International Financial Corporation (IFC) and the Asian Development Bank (ADB), and also a "product partnership" in the Middle East and in Asia to guarantee effective assistance on all the principal markets in those areas for our corporate clients.

  As concerns agreements with non-banking counterparties, we report that in Milan on 20th March 2019 UBI Banca and SUMEC International Technology[4] *signed a Memorandum of Understanding aimed at facilitating and supporting Italian exports of goods, plant and services to China with financing solutions. Under the collaboration agreements planned SUMEC will consider UBI Banca as its preferred partner bank for Italy, while the Bank will help introduce this major Chinese company to its corporate clients in Italy. The preferential collaboration will last for at least two years.*

  The joint activities to support Italian exports to China are now producing their first concrete results to assist Italian businesses exporting on the Chinese market.

4 SUMEC ITC, established at Nanjing in 1999, is a leading company in China for imports of machinery and it is controlled by SINOMACH, which is in turn owned by the Chinese state. Its activities cover 21 sectors and the production of textiles and clothing, and parts for automobiles, trains, ships and power stations. This Chinese Group has over 30 thousand customers and it aims to become the leading player for Italian exports to China.

The positioning of the Group

The table summarises the market positioning of the UBI Banca Group at both national and regional level and in provinces where a more significant presence exists.
The figures are based on the latest available data from the Bank of Italy: 31st December 2019 for branches and 30th September 2019 for balance sheet items [the figures relate to branches and banks (including foreign branches and banks) operating in Italy, (and therefore excluding the foreign branches of Italian banks)].
The "matrix items" used are those with a breakdown by residence of the counterparties, which for loans means that it is possible to consider gross loans with the exception of bad loans.

The national market share of branches stood at 6.7% at the end of 2019, unchanged compared with the figure in December 2018, notwithstanding the local rationalisation action undertaken in November, and in confirmation of the relative higher presence in the regions of central Italy due to the strong concentration of the branches of the banks acquired in 2017 in that area.
The Group continues to have a substantial presence with market shares of greater than 10% in as many as 21 Italian provinces.
Although the percentages are lower, the market shares in Milan (8.9%) and in Rome (5.5%) are worth noting.

The national market share of conventional funding in September 2019, which does not include bonds, was 4.3% (4.4% in December 2018), while the share for private sector loans, excluding bad loans, was 5.9% (6.1% in December 2018).

In some areas where the Group's historical presence is stronger, it continues to have a market share of conventional funding and/or lending that is greater than the percentage of branches.

UBI Banca Group: market shares(*)

	31.12.2019	30.9.2019	
	Branches	Deposits (**)	Loans (***)
North Italy	**6.4%**	**4.9%**	**6.5%**
Lombardy	**12.8%**	**9.1%**	**10.4%**
Prov. of Bergamo	*24.0%*	*24.9%*	*23.4%*
Prov. of Brescia	*20.8%*	*20.0%*	*24.8%*
Prov. of Como	*6.0%*	*5.4%*	*8.5%*
Prov. of Cremona	*3.2%*	*3.1%*	*5.0%*
Prov. of Lecco	*4.8%*	*5.0%*	*6.8%*
Prov. of Lodi	*3.2%*	*4.2%*	*5.1%*
Prov. of Mantua	*4.7%*	*3.0%*	*3.3%*
Prov. of Milan	*8.9%*	*5.3%*	*6.7%*
Prov. of Monza Brianza	*9.8%*	*6.3%*	*9.2%*
Prov. of Pavia	*14.5%*	*10.2%*	*9.7%*
Prov. of Sondrio	*4.7%*	*2.5%*	*6.0%*
Prov. of Varese	*24.2%*	*20.2%*	*15.3%*
Piedmont	**7.4%**	**4.0%**	**5.6%**
Prov. of Turin	*2.9%*	*2.0%*	*4.3%*
Prov. of Alessandria	*11.4%*	*4.8%*	*7.6%*
Prov. of Biella	*1.8%*	*1.4%*	*3.9%*
Prov. of Cuneo	*20.4%*	*14.3%*	*11.8%*
Prov. of Novara	*4.6%*	*2.6%*	*4.4%*
Prov. of Vercelli	*2.0%*	*1.1%*	*4.7%*
Prov. of Verbano Cusio Ossola	*3.1%*	*1.8%*	*4.1%*
Liguria	**4.9%**	**3.2%**	**6.4%**
Prov. of Genoa	*4.7%*	*2.8%*	*6.9%*
Prov. of Imperia	*4.8%*	*2.7%*	*5.8%*
Prov. of La Spezia	*5.5%*	*6.5%*	*5.5%*
Prov. of Savona	*4.8%*	*2.8%*	*5.8%*
Emilia Romagna	**2.0%**	**1.2%**	**2.7%**
Prov. of Rimini	*5.4%*	*2.8%*	*6.2%*
Prov. of Bologna	*1.7%*	*0.9%*	*2.7%*
Prov. of Piacenza	*3.5%*	*2.2%*	*4.1%*
Central Italy	**9.0%**	**4.2%**	**5.7%**
Marches	**26.4%**	**19.4%**	**20.0%**
Prov. of Ancona	*29.0%*	*21.8%*	*21.7%*
Prov. of Macerata	*35.1%*	*30.3%*	*25.8%*
Prov. of Pesaro and Urbino	*26.1%*	*17.4%*	*18.9%*
Prov. of Fermo	*22.6%*	*12.3%*	*16.0%*
Prov. of Ascoli Piceno	*10.9%*	*5.4%*	*12.7%*
Umbria	**8.1%**	**3.9%**	**6.7%**
Prov. of Perugia	*9.4%*	*4.5%*	*7.2%*
Prov. of Terni	*4.1%*	*2.0%*	*4.6%*
Latium	**5.8%**	**2.4%**	**4.9%**
Prov. of Rome	*5.5%*	*2.3%*	*4.9%*
Prov. of Viterbo	*15.2%*	*9.0%*	*9.8%*
Prov. of Rieti	*8.9%*	*3.5%*	*5.1%*
Tuscany	**5.0%**	**2.4%**	**2.3%**
Prov. of Arezzo	*20.1%*	*11.9%*	*10.4%*
Prov. of Florence	*4.0%*	*1.9%*	*1.8%*
Prov. of Siena	*7.4%*	*2.9%*	*1.8%*
Prov. of Grosseto	*5.5%*	*3.0%*	*2.7%*
Prov. of Livorno	*4.3%*	*2.0%*	*1.9%*
South Italy	**8.4%**	**4.2%**	**5.7%**
Calabria	**17.4%**	**9.0%**	**9.7%**
Prov. of Catanzaro	*10.7%*	*6.8%*	*7.3%*
Prov. of Cosenza	*20.8%*	*12.0%*	*12.8%*
Prov. of Crotone	*16.1%*	*6.0%*	*7.3%*
Prov. of Reggio Calabria	*19.1%*	*7.0%*	*7.7%*
Prov. of Vibo Valentia	*14.3%*	*10.0%*	*10.5%*
Abruzzo	**11.2%**	**6.2%**	**8.2%**
Prov. of Chieti	*27.9%*	*13.9%*	*12.7%*
Prov. of Aquila	*3.4%*	*1.5%*	*2.3%*
Prov. of Pescara	*7.9%*	*5.3%*	*8.8%*
Prov. of Teramo	*4.2%*	*2.4%*	*6.0%*
Molise	**7.0%**	**2.2%**	**6.2%**
Prov. of Isernia	*14.3%*	*3.4%*	*8.3%*
Prov. of Campobasso	*5.1%*	*1.6%*	*5.6%*
Basilicata	**8.3%**	**5.0%**	**6.5%**
Prov. of Potenza	*8.0%*	*4.8%*	*6.8%*
Prov. of Matera	*9.1%*	*5.6%*	*6.1%*
Apulia	**7.3%**	**4.1%**	**4.6%**
Prov. of Bari	*9.4%*	*5.4%*	*5.1%*
Prov. of Brindisi	*10.4%*	*5.2%*	*4.8%*
Prov. of Foggia	*5.3%*	*3.6%*	*4.7%*
Prov. of Lecce	*3.8%*	*1.4%*	*3.5%*
Prov. of Barletta Andria Trani	*6.3%*	*4.2%*	*3.6%*
Prov. of Taranto	*8.5%*	*4.2%*	*4.5%*
Campania	**5.4%**	**2.3%**	**4.7%**
Prov. of Naples	*4.8%*	*2.4%*	*4.5%*
Prov. of Caserta	*9.1%*	*2.6%*	*6.2%*
Prov. of Benevento	*3.9%*	*2.0%*	*4.0%*
Prov. of Salerno	*6.1%*	*2.8%*	*5.1%*
Total Italy	**6.7%**	**4.3%**	**5.9%**

(*) Source Bank of Italy: regulatory registers and lists for branch shares; matrix reports for balance sheet totals.
(**) Market shares by residence of the counterparty. The matrix report for funding is based on item 58030 relating to current accounts, certificates of deposit, savings deposits and repurchase agreements. Bonds and repurchase agreements with central counterparties are excluded.
(***) Market shares by residence of the counterparty. The matrix report for loans is based on item 58005 for loans to the private sector, excluding bad loans and reverse repurchase agreements of the following types: advances on credits, current accounts, mortgages, credit cards, salary-backed loans, personal loans, factoring, leasing and other financing.

Human resources

Group staff

Number	Employees actually in service 31.12.2019 A	31.12.2018 B	Changes A-B	Employees on the payroll 31.12.2019 C	31.12.2018 D	Changes C-D
UBI Banca Spa*	17,112	17,479	-367	18,037	18,447	-410
IW Bank Spa	270	305	-35	253	251	2
UBI Sistemi e Servizi SCpA	1,807	1,831	-24	1,104	1,123	-19
UBI Leasing Spa	196	218	-22	199	208	-9
Prestitalia Spa	172	173	-1	89	90	-1
Pramerica SGR Spa	164	159	5	131	125	6
UBI Factor Spa	128	138	-10	108	113	-5
BancAssurance Popolari Spa	46	44	2	44	40	4
UBI Academy SCRL	19	16	3	-	-	-
UBI Trustee Sa	7	5	2	7	5	2
Kedomus Srl	6	6	-	-	-	-
BPB Immobiliare Srl	5	5	-	5	5	-
Pramerica Management Company Sa	5	4	1	4	3	1
UBI Sicura Spa**	2	-	2	-	-	-
BancAssurance Popolari Danni Spa***	-	9	-9	-	8	-8
Oro Italia Trading Spa - in liquidation	-	-	-	-	-	-
Centrobanca Sviluppo Impresa Spa - in liquidation****	-	-	-	-	-	-
TOTAL	**19,939**	**20,392**	**-453**	**19,981**	**20,418**	**-437**
Workers on staff leasing contracts	1	2	-1	1	2	-1
TOTAL UBI BANCA GROUP STAFF	**19,940**	**20,394**	**-454**			
TOTAL FTE STAFF	*19,249.7*	*19,692.9*	*-443.2*			
On secondment outside the Group						
- out	*43*	*32*	*11*			
- in				*1*	*6*	
TOTAL WORKFORCE	**19,983**	**20,426**	**-443**	**19,983**	**20,426**	**-443**

* As at 31st December 2019 UBI Banca staff also included nine personnel from the company Palazzo della Fonte SCpA. The company was included within the consolidation from 5th June 2019 following the completion of the purchase by UBI Banca of all its shares and its "profit-sharing equity instruments" (SFP - *Strumenti Finanziari di Partecipativi*) and it was merged into the Parent on 25th November (see the section "The scope of consolidation" in this report for further details).

** The company, 100% controlled by BancAssurance Popolari Spa, was included within the consolidation from 12th November 2019, the date of its formation.

*** The company was sold to AmTrust Italia Holdings Llc on 15th May 2019.

**** The bank was put into liquidation with effect from 4th June 2019 and was removed from the Company Registry on 24th December when that procedure was concluded. As already reported, as at 31st December 2018 one member of staff was in service on partial secondment from another Group company and was not included among employees actually in service.

The table above gives details for each company of the actual distribution of ordinary employees (workers on permanent and temporary contracts and on apprenticeship contracts) as at 31st December 2019 and 31st December 2018 (columns A and B), adjusted to take account of secondments from and to other entities within or external to the Group. On the other hand, columns C and D show, for each company, the number of employees on the payroll as at 31st December 2019 and 31st December 2018.

We report that as compared with figures previously published, staff numbers of UBI Banca as at 31st December 2018 were increased by two, following reinstatements that occurred in the first quarter of 2019.

Total staff of the UBI Banca Group at the end of 2019 numbered 19,940 one of whom on a personnel leasing contract (at Pramerica Management Company). The total reduction over the twelve month period was 454 staff.

In terms of full time equivalents (FTEs), on the other hand, and that is with account taken of the part-time worker effect, Group staff numbered 19,249.7 to give a reduction in numbers of 443.2 over the twelve month period.

The trend continues to be determined mainly by incentivised voluntary redundancies concluded as part of trade union agreements entered into, which is in fact the cause of the substantial reduction in the workforce year-on-year, partially offset by new recruits, hired with a view to generation turnover and support for youth employment, consistent with commitments undertaken by the Group in recent years. The incentivised redundancies, which numbered 605, brought the percentage completion of the existing incentive schemes to 99.3%. Staff still waiting to leave as at 31st December 2019 numbered 19.

The table relating to the type of contract for workers with ordinary employee contracts shows that over the twelve month period a change in the mix of the workforce was seen: in December 2019 staff on temporary contracts and apprentices taken together accounted for 0.79% of total employees on the payroll (1.56% in December 2018).

Employees on the payroll

Number		31.12.2019	31.12.2018	Changes
Total employees		**19,981**	**20,418**	**-437**
of which:	permanent	19,824	20,100	-276
	on temporary contracts	95	77	18
	apprentices (*)	62	241	-179

(*) *An apprenticeship is a contract for young people between the ages of 18 and 29, by which they acquire a qualification through training at work which provides them with specific occupational skills.*

During the year, the Group recorded a decrease of 437 employees on the payroll, the result of 1,058 departures (862 on permanent contracts, 184 on temporary contracts and 12 apprentices) compared with the 608 recruits (356 on permanent contracts, 231 on temporary contracts and 21 apprentices).
In addition to 9 recruits attributable to staff from the former consortium company Palazzo della Fonte and 4 staff who joined from outside the Group, the trend shown in the table also incorporates 217 "stabilisations" resulting from confirmation in their position of staff on apprenticeship contracts and conversions of temporary contracts into permanent contracts.

The percentage of employee workers on part-time contracts at the end of 2019 was 14.8%, while that of female personnel was 43.4% (14.5% and 42.8% respectively in December 2018).

Finally, with regard to the 8th November 2018[1] Framework Agreement on extraordinary leave, in 2019 approximately 150 thousand days were granted and taken, compatibly with the workload and organisational requirements of individual Group units and companies. As on the other hand concerns parental leave, approximately 29 thousand days were requested and granted.

Composition of staff on the payroll of Group Banks* by rank

Number	31.12.2019	%	31.12.2018	%
Senior managers	316	1.7%	321	1.7%
Middle managers 3rd and 4th level	3,078	16.8%	3,123	16.7%
Middle managers 1st and 2nd level	4,666	25.5%	4,634	24.8%
3rd Professional Area (office staff)	10,159	55.6%	10,523	56.3%
1st and 2nd Professional Area (other staff)	71	0.4%	97	0.5%
TOTAL FOR BANKS	**18,290**	**100.0%**	**18,698**	**100.0%**

* The figures reported include UBI Banca and IW Bank staff

The composition of banking staff by rank, details of which are given in the table, was more or less in line with that of the UBI Banca Group in December 2018, except for a partial change in the mix between middle management and professional areas in relation to incentivised redundancies that took place during the year. As already reported, the percentage of staff in the highest rank (senior managers) continues to remain small, in line with the five largest Italian banking groups and below the average figure for the sector (2.1%)[2]. The total percentage of 42.3% for middle managers on the other hand diverged marginally from the sector averages and the five largest Italian banking groups (41.5% and 43.3%)[2].

As at 31st December 2019 the average age of Group employees was 47 years (46 years and 9 months at the end of 2018) and the average length of service was 19 years and 9 months (19 years and 6 months).

1 This agreement renewed voluntary life-work reconciliation measures again for 2019, by use of extraordinary leave and part-time instruments.
2 Source: Italian Banking Association 2018 "Report on the labour market in the finance industry", January 2019.

Reference is made to the specific section in the "Consolidated Non-Financial Statement prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (2019 Sustainability Report)", published at the same time as this report, for further information on Group staff (in terms of enhancement and well-being of personnel, composition, employment and turnover, benefits and life-work reconciliation, health and safety, career development and training) and trade union relations.

* * *

In the fourth quarter of 2019 the total staff numbers of the Group fell from 20,128[3] to 19,940, a decrease of 188 which, in addition to natural attrition and end-of-contract factors, incorporated 63 departures resulting from applications for incentivised voluntary redundancy concluded in the period.
In the period October-December, 42 new appointments were made, of which 35 on permanent contracts and 7 on temporary contracts.

* * *

Remuneration and incentives policies are found in the Report on Remuneration Policies and Wages that may be consulted on the corporate website at www.ubibanca.it under "Reports to Shareholders' Meetings" in the Shareholders Section – Shareholders' Meeting of 8th April 2020.
The report was prepared in accordance with Art. 123 *ter* of the Consolidated Banking Law (Legislative Decree No. 58/1998) as updated by Legislative Decree No. 49 of 10th May 2019 in implementation of Directive (EU) 2017/828 (the "Shareholders' rights Directive II") and on the basis of the requirements of the Consob (Italian securities market authority) Issuers' Regulations and of Bank of Italy supervisory regulations on "Remuneration and incentive policies and practices" of banks and banking groups issued on 18th November 2014 and updated on 23rd October 2018, which implemented the provisions contained in European Union Directive CRD IV (2013/36/EU) and the policies developed internationally.
Reference is made to UBI Banca's Corporate governance and ownership structure report for further information, which may be consulted in the Corporate Governance Section of the Group's corporate website www.ubibanca.it.

3 The number differs by one compared with that published in the Interim consolidated financial report as at and for the period ended 30th September 2019, caused by a backdated dismissal.

The scope of consolidation

The companies that formed part of the consolidation as at 31st December 2019 are listed below, divided into subsidiaries (consolidated line-by-line) and associates (consolidated using the equity method).
The percentage of control or ownership attributable to the Group (direct or indirect), their headquarters (registered address or operating headquarters) and the share capital are also given for each of them.

Fully consolidated companies *(control is by the Parent of the Group where no other indication is given):*

1. **Unione di Banche Italiane Spa - UBI Banca (Parent)**
registered address: Bergamo, Piazza Vittorio Veneto, 8 – share capital: €2,843,177,160.24
2. UBI Trustee Sa (100% controlled)
registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €250,000
3. Prestitalia Spa (100% controlled)
registered address: Bergamo, Via A. Stoppani, 15 – share capital: €205,722,715
4. IW Bank Spa (100% controlled)
registered address: Milan, Piazzale F.lli Zavattari, 12 – share capital: €67,950,000
5. Pramerica SGR Spa (65% controlled)
operating headquarters: Milan, Via Monte di Pietà, 5 – share capital: €19,955,465
6. Pramerica Management Company Sa (100% controlled by Pramerica SGR)
registered address: 37/A, Avenue J.F. Kennedy, L – Luxembourg – share capital: €125,000
7. UBI Leasing Spa (100% controlled)
registered address: Brescia, Via Cefalonia, 74 – share capital: €644,952,808
8. Unione di Banche Italiane per il Factoring Spa - UBI Factor Spa (100% controlled)
registered address[1]: Milan, Via Cavriana, 20 – share capital: €36,115,820
9. BPB Immobiliare Srl (100% controlled)
registered address: Bergamo, Piazza Vittorio Veneto, 8 – share capital: €185,680,000
10. Bancassurance Popolari Spa[1] ("BAP Vita e Previdenza Spa", 100% controlled)
registered address: Milan, Via Monte di Pietà, 7 – share capital: €61,080,900
11. Oro Italia Trading Spa - in liquidation (100% controlled)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €500,000
12. Kedomus Srl (100% controlled)
registered address: Brescia, Via Cefalonia, 74 – share capital: €300,000
13. UBI Sistemi e Servizi SCpA[2] – Consortium Stock Company (91.9362% controlled and 4.3141% interest held by IW Bank; 1.4385% held by Pramerica SGR 0.7192% held by UBI Factor; 0.0719% held by Prestitalia and by BancAssurance Popolari Spa; and 0.0097% held by UBI Academy)
registered address: Brescia, Via Cefalonia, 62 – share capital: €36,149,948.64
14. UBI Academy SCRL - Limited Consortium Company (88% controlled and 3% held by: IW Bank and UBI.S; 1.5% held by: Pramerica SGR, UBI Leasing, UBI Factor and Prestitalia)
registered address: Bergamo, Via F.lli Calvi, 9 – share capital: €100,000

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1 UBI Factor transferred its headquarters from Via Fratelli Gabba, 1 to Via Cavriana, 20, also in Milan, as of 8th March 2019. BancAssurance Popolari transferred its registered address from Arezzo, Via P. Calamandrei, 255 to Milan, Via Monte di Pietà, 7 as of 11th June 2019.
2 The Group holds a controlling 98.5615% interest in the share capital of UBI.S; the remaining 1.4385% is held by Cargeas Assicurazioni Spa (the former UBI Assicurazioni Spa).

15. UBI Finance Srl[3] (60% controlled)
registered address: Milan, Corso Vercelli 40 – share capital: €10,000

16. UBI Finance CB 2 Srl[4] (60% controlled)
registered address: Milan, Corso Vercelli 40 – share capital: €10,000

17. 24-7 Finance Srl[5]

18. UBI Finance 2 Srl - in liquidation[6]

19. UBI SPV Group 2016 Srl[7]

20. UBI SPV Lease 2016 Srl[8]

21. Mecenate Srl[9] - in liquidation (95% controlled)
registered address: Arezzo, Via P. Calamandrei, 255 – share capital: €10,000

22. Marche M6 Srl[10]

23. UBI Sicura Spa (100% controlled by BancAssurance Popolari Spa)
registered address: Milan, Via Monte di Pietà, 7 – share capital: €200,000

Companies consolidated using the equity method *(the investment is by the Parent where no other indication is given)*:

1. Aviva Vita Spa (20% interest held)
registered address: Milan, Via A. Scarsellini, 14 – share capital: €155,000,000

2. Lombarda Vita Spa (40% interest held)
registered address: Brescia, Corso Martiri della Libertà, 13 – share capital: €185,300,000

3. Polis Fondi SGRpA (19.6% interest held)
registered address: Milan, Via Solferino, 7 – share capital: €5,200,000

4. Zhong Ou Asset Management Co. Ltd (25% interest held[11])
registered address: 5th Floor, 333 Lujiazui Ring Road, Shanghai 200120 (China)
share capital: yuan/renminbi 220,000,000

5. SF Consulting Srl (35% interest held)
operating headquarters: Mantova, Via P.F. Calvi, 40 – share capital: €93,600

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3 A special purpose entity in accordance with Law No. 130/1999, this company was formed on 18th March 2008 to allow UBI Banca to implement the first programme to issue covered bonds backed by residential mortgages.

4 A special purpose entity in accordance with Law No. 130/1999, this company, was formed on 20th December 2011 to allow the UBI Banca to implement a second programme to issue covered bonds backed mainly by commercial non-residential mortgages.

5 A special purpose entity used in compliance with Law No. 130/1999 for the securitisations of the former B@nca 24-7 performed in 2008. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

6 A special purpose entity used in accordance with Law No. 130/1999 for the securitisation of a portfolio of Banco di Brescia performing loans at the beginning of 2009. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.
The securitisation was closed down in May 2014. A Shareholders' Meeting held on 26th February 2015 resolved to put the entity into early voluntary liquidation (with the relative records filed with the Company Registrar on 16th March 2015).

7 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of residential mortgages recognised on the books of the former network banks (BPB, BBS, BPCI, BRE, BPA, Carime) carried out in August 2016. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

8 A special purpose entity formed in accordance with Law No. 130/1999 for the securitisation of performing loans by UBI Leasing in July 2016. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. UBI Banca holds a 10% stake.

9 A special purpose entity used in accordance with Law No. 130/1999 for the former Banca dell'Etruria e del Lazio securitisations performed in 2007, 2009 and 2011, relating to performing residential mortgages. The securitisations were closed down early. On 29th November 2019, a Shareholders' Meeting of the company resolved to put it into liquidation with the relative records filed with the Company Registrar on the following 2nd December.

10 A special purpose entity formed in accordance with Law No. 130/1999 for a former Banca delle Marche securitisation performed in 2013 of the RMBS type, for the securitisation of a portfolio of performing residential mortgage loan agreements. It was consolidated because this company is in reality controlled, since its assets and liabilities were originated by a Group member company. The Group holds no equity interests in this company.

11 On the basis of agreements reached at the end of 2013, 1.7% of the share capital was recognised within assets held for sale. In January 2019 the Company increased its share capital from 188 million to 220 million yuan/renminbi. The operation was concluded by the conversion of capital reserves and it therefore had no dilutive effect on the stake held by UBI Banca, which remained unchanged.

6. UFI Servizi Srl (23.1667% interest held by Prestitalia)
registered address: Rome, Via G. Severano, 24 – share capital: €150,000
7. Montefeltro Sviluppo SCRL (26.3699% interest held)
registered address: Urbania (PU), Via A. Manzoni, 25 – share capital: €73,000

Changes in the scope of consolidation

The scope of consolidation underwent the changes reported below compared with 31st December 2018.

- UBI SPV BBS 2012 Srl - in liquidation, UBI SPV BPCI 2012 Srl - in liquidation and UBI SPV BPA 2012 Srl - in liquidation: these three special purpose entities were formed, in accordance with Law No. 130/1999, for the securitisation of the performing loans to SMEs of some former network banks (Banco di Brescia, Banca Popolare Commercio e Industria and Banca Popolare di Ancona) carried out in the last part of 2012. They were put into voluntary liquidation in accordance with company records filed with the Company Registrar on 15th May 2018 after respective Shareholders' Meetings had resolved to voluntarily wind the companies up on 9th May.
They formed part of the scope of consolidation because they were in reality controlled, since their assets and liabilities were originated by Group companies. UBI Banca held a 10% interest in each of them.
In March 2019 (20th March for UBI SPV BBS 2012 and 21st March for the other two companies) the liquidation procedures were concluded with the removal of the three companies from the register of companies.

- Bancassurance Popolari Danni Spa: in compliance with Group strategy and business policy, on 1st November 2018 this company transferred almost all its non-life policies to Cargeas Assicurazioni Spa. The sale of 100% of the share capital of the company to AmTrust Italia Holdings Llc was decided at the time of that operation (a company belonging to the international group AmTrust Financial Services). The transaction was concluded on 15th May 2019 and gave rise to a profit of €208 thousand;

- Assieme Srl: liquidation of the company was completed on 27th May 2019 and it was closed down with its removal from the register of companies.
As already reported, on 10th September 2018 the company signed a contract for the transfer of a line of business consisting of the total assets organised for carrying on its insurance brokerage business to Sinergie Italia Broker di Assicurazioni Srl. On the same day, an Extraordinary Shareholders' Meeting of the company resolved its early dissolution and voluntary liquidation. This was filed with the Company Registrar of Arezzo and took place on the following 18th September 2018;

- Marche Mutui 2 Società per la Cartolarizzazione a r.l.: on 28th May 2019 all the notes were redeemed and the MM2 securitisation was closed down (the relative loans were repurchased by UBI Banca in April 2019).
As the Group held no equity interest in it and substantial control was longer held, the company was excluded from the consolidation scope on that same date.
This securitisation, performed by the former Banca delle Marche in 2006 was of the RMBS type for the securitisation of a portfolio of performing regulated mortgages backed by first mortgage guarantees.
On 30th December 2019, a Shareholders' Meeting approved the final liquidation financial statements and it was removed from the Rome register of companies on 27th February 2020;

- UBI Sicura Spa: formed on 12th November 2019 and wholly-owned by BancAssurance Popolari Spa, the objects of this company are to carry out engagements and/or act as agents for insurance companies to carry out brokerage activities in the life and non-life sectors and to carry out insurance brokerage activities on the basis of independent relations between insurance brokers in application of the rules and regulations in force from time-to-time;

- Centrobanca Sviluppo Impresa Spa: on conclusion of the liquidation procedures, this company was removed from the Company Register of Milan on 24th December 2019.
  As already reported, this company was originally enrolled in the register of asset management companies because it managed the Sviluppo Imprese Fund, which was liquidated on 16th August 2016. On 24th May 2019, a Shareholders' Meeting of the company resolved to dissolve the company in advance and put it into liquidation, with effect from the date on which the resolution was filed with the Company Registrar which took place on the following 4th June;
- Focus Impresa: as of December, following changes made to the plan for the divestment of the fund's investments, this investment was deconsolidated because UBI Banca no longer satisfied the conditions for substantial control. Focus Impresa is a closed-end fund, reserved for institutional investors, invested in originally by the former Banca delle Marche and recognised within financial assets measured at fair value [Item 20 c) in the consolidated balance sheet].

* * *

While it does not constitute any change compared with the scope of consolidation as at 31st December 2018, we report that during the year, in compliance with resolutions passed by the Management Board and Supervisory Board of UBI Banca on 23rd October 2018 and 13th November 2018 respectively, on 5th June 2019 the purchase by UBI Banca of all the shares and "profit-sharing equity instruments" (SFP - *Strumenti Finanziari di Partecipativi*) of Palazzo della Fonte SCpA not yet held by the Group was completed.
More specifically, approximately 91% of the capital with voting rights was acquired together with more than 5% of the capital without voting rights (this totalled over 66% of the overall capital) as well as all of the profit-sharing equity instruments. UBI Banca's 100% equity stake was then also held through its subsidiary BAP Vita e Previdenza, which already held 0.17% of the capital with voting rights (0.12% of the overall capital, as the subsidiary held neither shares without voting rights, nor profit-sharing equity instruments).
As already reported, Palazzo della Fonte was the owner of business premises leased by UBI Banca and had been awarded a facility management contract for the management of real estate assets. UBI Banca's original investment was obtained indirectly as a result of the acquisition of control over and subsequent merger into itself of the former Banca dell'Etruria e del Lazio Spa.
Following the issue by the European Central Bank on 12th September 2019 of the necessary authorisation for the merger of the consortium real estate company into UBI Banca, the relative merger project pursuant to Art. 2501 *ter* of the Italian Civil Code was registered with the competent Company Registrars of Bergamo and Arezzo/Siena on 18th September 2019.
The merger resolution was passed by extraordinary and special Shareholders' Meetings of Palazzo della Fonte SCpA, for the matters within the purview of each, on 30th September 2019. The resolution of merger into UBI Banca Spa was passed by public deed by the Board of Directors on 21st October 2019.
On 12th November the purchase by the Parent of the remaining share capital of Palazzo della Fonte not directly held (0.17% of the share capital with voting rights, held by the subsidiary BancAssurance Popolari Spa) was completed. On the following 18th November the merger deed was signed with effect with regard to third parties from 25th November (effective for accounting and tax purposes from 1st October 2019).
Since the merger involves fully-owned subsidiaries, UBI Banca shares were not issued in the merger process, nor were any amendments made to the Articles of Association of the merging bank as a result of the transaction.

Reclassified consolidated financial statements, reclassified income statement net of the most significant non-recurring items and reconciliation schedules

Reclassified consolidated balance sheet

Figures in thousands of euro		31.12.2019	1.1.2019 (*)	Changes	% changes
	ASSETS				
10.	Cash and cash equivalents	694,750	735,249	-40,499	-5.5%
20.	Financial assets measured at fair value through profit or loss	1,758,730	1,463,529	295,201	20.2%
	1) Loans and advances to banks	*16,213*	*14,054*	*2,159*	*15.4%*
	2) Loans and advances to customers	*260,667*	*274,262*	*-13,595*	*-5.0%*
	3) Securities and derivatives	*1,481,850*	*1,175,213*	*306,637*	*26.1%*
30.	Financial assets measured at fair value through other comprehensive income	12,221,616	10,726,179	1,495,437	13.9%
	1) Loans and advances to banks	-	-	-	-
	2) Loans and advances to customers	-	*15*	*-15*	*-100.0%*
	3) Securities	*12,221,616*	*10,726,164*	*1,495,452*	*13.9%*
40.	Financial assets measured at amortised cost	101,736,289	102,798,587	-1,062,298	-1.0%
	1) Loans and advances to banks	*11,723,923*	*10,065,772*	*1,658,151*	*16.5%*
	2) Loans and advances to customers	*84,564,033*	*88,987,596*	*-4,423,563*	*-5.0%*
	3) Securities	*5,448,333*	*3,745,219*	*1,703,114*	*45.5%*
50.	Hedging derivatives	35,117	44,084	-8,967	-20.3%
60.	Fair value change in hedged financial assets (+/-)	547,019	97,429	449,590	n.s.
70.	Equity investments	287,353	254,128	33,225	13.1%
80.	Technical reserves of reinsurers	-	-	-	-
90.	Property, plant and equipment	2,298,145	2,394,858	-96,713	-4.0%
100.	Intangible assets	1,739,903	1,729,727	10,176	0.6%
	of which: goodwill	*1,465,260*	*1,465,260*	-	-
110.	Tax assets	3,740,039	4,210,362	-470,323	-11.2%
120.	Non-current assets and disposal groups held for sale	265,370	2,972	262,398	n.s.
130.	Other assets	1,200,966	1,243,320	-42,354	-3.4%
	Total assets	**126,525,297**	**125,700,424**	**824,873**	**0.7%**
	LIABILITIES AND EQUITY				
10.	Financial liabilities measured at amortised cost	109,795,016	109,839,891	-44,875	0.0%
	a) Due to banks	*14,367,985*	*17,234,579*	*-2,866,594*	*-16.6%*
	b) Due to customers	*72,577,255*	*68,815,614*	*3,761,641*	*5.5%*
	c) Debt securities issued	*22,849,776*	*23,789,698*	*-939,922*	*-4.0%*
20.	Financial liabilities held for trading	555,296	410,977	144,319	35.1%
30.	Financial liabilities designated at fair value	197,610	105,836	91,774	86.7%
40.	Hedging derivatives	386,778	110,801	275,977	n.s.
50.	Fair value change in hedged financial liabilities (+/-)	145,191	74,297	70,894	95.4%
60.	Tax liabilities	170,937	162,272	8,665	5.3%
70.	Liabilities associated with assets held for sale	2,331	-	2,331	-
80.	Other liabilities	2,735,807	3,092,941	-357,134	-11.5%
90.	Provision for post-employment benefits	289,641	306,697	-17,056	-5.6%
100.	Provisions for risks and charges:	489,485	505,191	-15,706	-3.1%
	a) commitments and guarantees granted	*54,005*	*64,410*	*-10,405*	*-16.2%*
	b) pension and similar obligations	*86,756*	*91,932*	*-5,176*	*-5.6%*
	c) other provisions for risks and charges	*348,724*	*348,849*	*-125*	*0.0%*
110.	Technical reserves	2,210,294	1,877,449	332,845	17.7%
120.+150.+160. +170.+180	Share capital, share premiums, reserves, valuation reserves and treasury shares	9,237,483	8,737,680	499,803	5.7%
190.	Minority interests (+/-)	58,230	50,784	7,446	14.7%
200.	Profit (loss) for the year (+/-)	251,198	425,608	-174,410	-41.0%
	Total liabilities and equity	**126,525,297**	**125,700,424**	**824,873**	**0.7%**

(*) For those items not impacted by the adoption of IFRS 16 (see Part A.1, Section 5 "Other aspects" of the Notes to the Consolidated Financial Statements), the date 1st January 2019 must be interpreted as 31st December 2018.

Reclassified consolidated quarterly balance sheets

	Figures in thousands of euro	31.12.2019	30.9.2019	30.6.2019	31.3.2019	1.1.2019 (*)	30.9.2018	30.6.2018	31.3.2018
	ASSETS								
10.	Cash and cash equivalents	694,750	643,633	616,670	606,459	735,249	625,652	616,368	612,826
20.	Financial assets measured at fair value through profit or loss	1,758,730	1,817,803	1,660,974	1,504,110	1,463,529	1,469,508	1,488,445	1,541,428
	1) Loans and advances to banks	*16,213*	16,797	*15,365*	*14,715*	*14,054*	*13,444*	*14,796*	*14,900*
	2) Loans and advances to customers	*260,667*	270,169	*268,043*	*270,459*	*274,262*	*283,496*	*313,580*	*340,800*
	3) Securities and derivatives	*1,481,850*	1,530,837	*1,377,566*	*1,218,936*	*1,175,213*	*1,172,568*	*1,160,069*	*1,185,728*
30.	Financial assets measured at fair value through other comprehensive income	12,221,616	12,212,586	11,618,770	11,237,472	10,726,179	10,640,301	11,527,974	12,645,089
	1) Loans and advances to banks	-	-	-	-	-	-	-	-
	2) Loans and advances to customers	-	-	-	*15*	*15*	*15*	-	-
	3) Securities	*12,221,616*	*12,212,586*	*11,618,770*	*11,237,457*	*10,726,164*	*10,640,286*	*11,527,974*	*12,645,089*
40.	Financial assets measured at amortised cost	101,736,289	105,186,087	103,356,416	103,161,917	102,798,587	103,431,623	103,886,299	102,740,393
	1) Loans and advances to banks	*11,723,923*	*14,835,531*	*12,393,150*	*11,327,078*	*10,065,772*	*10,248,127*	*9,513,708*	*8,142,802*
	2) Loans and advances to customers	*84,564,033*	*85,179,308*	*86,074,151*	*87,095,528*	*88,987,596*	*89,554,538*	*91,342,643*	*91,575,231*
	3) Securities	*5,448,333*	*5,171,248*	*4,889,115*	*4,739,311*	*3,745,219*	*3,628,958*	*3,029,948*	*3,022,360*
50.	Hedging derivatives	35,117	22,926	22,452	20,298	44,084	65,350	59,804	67,656
60.	Fair value change in hedged financial assets (+/-)	547,019	821,141	541,946	320,370	97,429	-6,002	33,826	-181
70.	Equity investments	287,353	281,005	266,897	263,307	254,128	243,646	240,509	248,267
80.	Technical reserves of reinsurers	-	-	-	-	-	195	373	331
90.	Property, plant and equipment	2,298,145	2,528,242	2,506,708	2,405,055	2,394,858	1,824,737	1,799,295	1,799,070
100.	Intangible assets	1,739,903	1,724,707	1,720,771	1,721,712	1,729,727	1,710,712	1,711,908	1,723,921
	of which: goodwill	*1,465,260*	*1,465,260*	1,465,260	1,465,260	*1,465,260*	*1,465,260*	*1,465,260*	*1,465,260*
110.	Tax assets	3,740,039	3,797,803	3,961,524	4,121,232	4,210,362	4,076,685	4,122,268	4,017,911
120.	Non-current assets and disposal groups held for sale	265,370	7,844	7,349	10,316	2,972	735	1,384	995
130.	Other assets	1,200,966	1,383,295	1,199,827	1,357,159	1,243,320	1,123,257	1,415,721	1,165,674
	Total assets	**126,525,297**	**130,427,072**	**127,480,304**	**126,729,407**	**125,700,424**	**125,206,399**	**126,904,174**	**126,563,380**
	LIABILITIES AND EQUITY								
10.	Financial liabilities measured at amortised cost	109,795,016	111,811,656	111,840,625	111,409,557	109,839,891	110,633,386	111,617,355	111,520,617
	a) Due to banks	*14,367,985*	*15,956,402*	*17,053,172*	*17,776,512*	*17,234,579*	*16,678,273*	*16,607,300*	*17,308,468*
	b) Due to customers	*72,577,255*	*72,145,392*	*70,840,373*	*69,830,403*	*68,815,614*	*70,258,101*	*70,582,753*	*68,944,514*
	c) Debt securities issued	*22,849,776*	*23,709,862*	*23,947,080*	*23,802,642*	*23,789,698*	*23,697,012*	*24,427,302*	*25,267,635*
20.	Financial liabilities held for trading	*555,296*	656,353	571,499	461,254	410,977	347,184	386,959	367,105
30.	Financial liabilities designated at fair value	*197,610*	172,950	149,871	124,296	105,836	95,434	75,488	59,019
40.	Hedging derivatives	*386,778*	572,583	230,655	107,022	110,801	93,351	102,961	98,872
50.	Fair value change in hedged financial liabilities (+/-)	*145,191*	214,504	188,275	124,767	74,297	30,103	54,008	27,825
60.	Tax liabilities	*170,937*	144,308	140,145	166,467	162,272	188,193	208,390	271,990
70.	Liabilities associated with assets held for sale	*2,331*	-	-	-	-	-	-	-
80.	Other liabilities	*2,735,807*	4,385,204	2,290,570	2,271,216	3,092,941	2,116,819	2,654,081	2,035,487
90.	Provision for post-employment benefits	*289,641*	300,476	299,460	307,910	306,697	323,809	328,484	336,807
100.	Provisions for risks and charges:	489,485	429,249	415,665	495,298	505,191	567,401	565,147	584,088
	a) commitments and guarantees granted	*54,005*	*52,523*	*51,951*	*54,026*	*64,410*	*76,803*	*73,964*	*77,284*
	b) pension and similar obligations	*86,756*	*86,104*	*87,892*	*87,111*	*91,932*	*128,496*	*130,215*	*135,190*
	c) other provisions for risks and charges	*348,724*	*290,622*	*275,822*	*354,161*	*348,849*	*362,102*	*360,968*	*371,614*
110.	Technical reserves	*2,210,294*	2,244,737	2,070,095	1,962,495	1,877,449	1,856,585	1,879,072	1,901,000
120.+150.+160.+170.+180	Share capital, share premiums, reserves, valuation reserves and treasury shares	*9,237,483*	9,257,424	9,113,181	9,184,841	8,737,680	8,688,096	8,756,026	9,183,186
190.	Minority interests (+/-)	*58,230*	46,577	39,344	32,076	50,784	55,567	67,336	59,724
200.	Profit (loss) for the period/year (+/-)	*251,198*	191,051	130,919	82,208	425,608	210,471	208,867	117,660
	Total liabilities and equity	**126,525,297**	**130,427,072**	**127,480,304**	**126,729,407**	**125,700,424**	**125,206,399**	**126,904,174**	**126,563,380**

(*) For those items not impacted by the adoption of IFRS 16 (see Part A.1, Section 5 "Other aspects" of the Notes to the Consolidated Financial Statements), the date 1st January 2019 must be interpreted as 31st December 2018. It follows that for those items affected by IFRS 16 only, the end of quarter figures for 2018 are not comparable with those as at the end of the relative quarters in 2019.

Reclassified consolidated income statement

Figures in thousands of euro		FY 2019 (IFRS 16) A	FY 2018 B	Change A-B	% change A/B	4th Quarter 2019 (IFRS 16) C	4th Quarter 2018 D	Change C-D	% change C/D
10.-20.-140.	Net interest income	1,725,105	1,790,231	(65,126)	(3.6%)	412,041	441,066	(29,025)	(6.6%)
	of which: TLTRO II	*48,688*	*50,788*	*(2,100)*	*(4.1%)*	*11,100*	*12,750*	*(1,650)*	*(12.9%)*
	of which: IFRS 9 credit components (*)	*110,595*	*121,985*	*(11,390)*	*(9.3%)*	*21,395*	*29,961*	*(8,566)*	*(28.6%)*
	of which: IFRS 9 contractual modifications without derecognition components	*(25,283)*	*(37,383)*	*(12,100)*	*(32.4%)*	*(11,867)*	*(6,961)*	*4,906*	*70.5%*
70.	Dividends and similar income	7,658	22,931	(15,273)	(66.6%)	77	14,417	(14,340)	(99.5%)
	Profits (losses) of equity-accounted investees	40,343	24,602	15,741	64.0%	9,139	10,460	(1,321)	(12.6%)
40.-50.	Net fee and commission income	1,661,759	1,579,060	82,699	5.2%	446,256	390,578	55,678	14.3%
	of which: performance fees	*40,598*	*13,889*	*26,709*	*192.3%*	*30,127*	*1,755*	*28,372*	*n.s.*
80.+90. +100.+110.	Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	104,284	(5,404)	109,688	n.s.	58,198	(6,770)	64,968	n.s.
160.+170.	Net income from insurance operations	15,314	17,034	(1,720)	(10.1%)	4,030	2,000	2,030	101.5%
230.	Other net operating income/expense	83,472	90,889	(7,417)	(8.2%)	18,797	14,199	4,598	32.4%
	Operating income	**3,637,935**	**3,519,343**	**118,592**	**3.4%**	**948,538**	**865,950**	**82,588**	**9.5%**
190. a)	Staff costs	(1,427,650)	(1,490,626)	(62,976)	(4.2%)	(355,469)	(372,896)	(17,427)	(4.7%)
190. b)	Other administrative expenses	(711,060)	(789,994)	(78,934)	(10.0%)	(162,670)	(198,738)	(36,068)	(18.1%)
	of which: SRF and DGS contributions	*(107,585)*	*(83,794)*	*23,791*	*28.4%*	*(4,448)*	*(2,800)*	*1,648*	*58.9%*
210.+220.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(229,789)	(167,575)	62,214	37.1%	(61,132)	(44,612)	16,520	37.0%
	Operating expenses	**(2,368,499)**	**(2,448,195)**	**(79,696)**	**(3.3%)**	**(579,271)**	**(616,246)**	**(36,975)**	**(6.0%)**
	Net operating income	**1,269,436**	**1,071,148**	**198,288**	**18.5%**	**369,267**	**249,704**	**119,563**	**47.9%**
130.	Net impairment losses for credit risk relating to:	(744,098)	(638,277)	105,821	16.6%	(210,487)	(239,138)	(28,651)	(12.0%)
130. a)	- financial assets measured at amortised cost: loans and advances to banks	137	2,867	(2,730)	(95.2%)	(344)	4,110	(4,454)	n.s.
130. a)	- financial assets measured at amortised cost: loans and advances to customers	(738,438)	(642,786)	95,652	14.9%	(208,167)	(253,481)	(45,314)	(17.9%)
130. a)	- financial assets measured at amortised cost: securities	(2,454)	916	(3,370)	n.s.	(1,355)	1,622	(2,977)	n.s.
130. b)	- financial assets measured at fair value through other comprehensive income	(3,343)	726	(4,069)	n.s.	(621)	8,611	(9,232)	n.s.
200. a)	Net provisions for risks and charges - commitments and guarantees granted	(26)	23,923	(23,949)	n.s.	(1,936)	12,322	(14,258)	n.s.
200. b)	Net provisions for risks and charges - other net provisions	(24,809)	(4,491)	20,318	n.s.	(1,223)	14,767	(15,990)	n.s.
250.+280.	Profits (losses) from the disposal of equity investments	6,101	5,344	757	14.2%	1,813	4,083	(2,270)	(55.6%)
290.	**Profit (loss) before tax from continuing operations**	**506,604**	**457,647**	**48,957**	**10.7%**	**157,434**	**41,738**	**115,696**	**277.2%**
300.	Taxes on income for the year/period from continuing operations	(128,209)	38,754	(166,963)	n.s.	(33,758)	181,828	(215,586)	n.s.
340.	(Profit) loss for the year/period attributable to minority interests	(33,912)	(25,982)	7,930	30.5%	(12,972)	(5,077)	7,895	155.5%
	Profit (loss) for the year/period attributable to the shareholders of the Parent before the Business Plan and other impacts	**344,483**	**470,419**	**(125,936)**	**(26.8%)**	**110,704**	**218,489**	**(107,785)**	**(49.3%)**
190. a)	Redundancy expenses net of taxes and minority interests	(89,413)	(36,983)	52,430	141.8%	(46,830)	(103)	46,727	n.s.
190. b)	Business Plan project expenses net of taxes and minority interests	(145)	(4,930)	(4,785)	(97.1%)	-	(351)	(351)	(100.0%)
210.	Impairment losses on property, plant and equipment net of taxes and minority interests	(3,727)	(2,898)	829	28.6%	(3,727)	(2,898)	829	28.6%
350.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**251,198**	**425,608**	**(174,410)**	**(41.0%)**	**60,147**	**215,137**	**(154,990)**	**(72.0%)**

(*) The components relating to the reversal of time value associated with the measurement of non-performing exposures, to interest recognised on a net basis on non-performing loans, and also to the release of the time value of the PPA relating to loans resulting from the operation to acquire the New Banks. For those items affected by the adoption of IFRS 16 (see in this respect the notes to the preparation of these statements that follow) the figures relating to 2018 (the full year and fourth quarter of 2018) are not fully comparable with those for 2019 (the full year and fourth quarter of 2019).

Reclassified consolidated quarterly income statements

	Figures in thousands of euro	2019 (IFRS 16) 4th Quarter	2019 (IFRS 16) 3rd Quarter	2019 (IFRS 16) 2nd Quarter	2019 (IFRS 16) 1st Quarter	2018 4th Quarter	2018 3rd Quarter	2018 2nd Quarter	2018 1st Quarter
10.-20.-140.	Net interest income	412,041	426,851	440,616	445,597	441,066	452,749	458,605	437,811
	of which: TLTRO II	*11,100*	*12,695*	*12,502*	*12,391*	*12,750*	*12,791*	*12,693*	*12,554*
	of which: IFRS 9 credit components	*21,395*	*22,543*	*35,498*	*31,159*	*29,961*	*30,818*	*35,543*	*25,663*
	of which: IFRS 9 contractual modifications without derecognition components	*(11,867)*	*(2,979)*	*(5,281)*	*(5,156)*	*(6,961)*	*(8,350)*	*(13,412)*	*(8,660)*
70.	Dividends and similar income	77	371	2,040	5,170	14,417	145	3,232	5,137
	Profits (losses) of equity-accounted investees	9,139	11,783	13,106	6,315	10,460	5,129	1,752	7,261
40.-50.	Net fee and commission income	446,256	402,569	411,998	400,936	390,578	380,514	400,630	407,338
	of which: performance fees	*30,127*	*3,318*	*4,171*	*2,982*	*1,755*	*3,645*	*6,745*	*1,744*
80.+90. +100.+110.	Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	58,198	(8,998)	17,649	37,435	(6,770)	(54,739)	22,123	33,982
160.+170.	Net income from insurance operations	4,030	3,848	3,934	3,502	2,000	4,031	5,548	5,455
230.	Other net operating income/expense	18,797	23,938	19,075	21,662	14,199	24,929	23,394	28,367
	Operating income	**948,538**	**860,362**	**908,418**	**920,617**	**865,950**	**812,758**	**915,284**	**925,351**
190. a)	Staff costs	(355,469)	(351,754)	(355,993)	(364,434)	(372,896)	(367,871)	(374,325)	(375,534)
190. b)	Other administrative expenses	(162,670)	(187,198)	(175,161)	(186,031)	(198,738)	(198,699)	(186,643)	(205,914)
	of which: SRF and DGS contributions	*(4,448)*	*(43,069)*	*(18,070)*	*(41,998)*	*(2,800)*	*(38,880)*	*(7,870)*	*(34,244)*
210.+220.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(61,132)	(58,088)	(56,275)	(54,294)	(44,612)	(40,962)	(40,384)	(41,617)
	Operating expenses	**(579,271)**	**(597,040)**	**(587,429)**	**(604,759)**	**(616,246)**	**(607,532)**	**(601,352)**	**(623,065)**
	Net operating income	**369,267**	**263,322**	**320,989**	**315,858**	**249,704**	**205,226**	**313,932**	**302,286**
130.	Net impairment losses for credit risk relating to:	(210,487)	(140,233)	(263,375)	(130,003)	(239,138)	(128,666)	(146,128)	(124,345)
130. a)	- financial assets measured at amortised cost: loans and advances to banks	(344)	(243)	773	(49)	4,110	217	265	(1,725)
130. a)	- financial assets measured at amortised cost: loans and advances to customers	(208,167)	(138,687)	(263,016)	(128,568)	(253,481)	(127,681)	(143,684)	(117,940)
130. a)	- financial assets measured at amortised cost: securities	(1,355)	(335)	(277)	(487)	1,622	(602)	15	(119)
130. b)	- financial assets measured at fair value through other comprehensive income	(621)	(968)	(855)	(899)	8,611	(600)	(2,724)	(4,561)
200. a)	Net provisions for risks and charges - commitments and guarantees granted	(1,936)	(33)	2,505	(562)	12,322	(2,939)	3,477	11,063
200. b)	Net provisions for risks and charges - other net provisions	(1,223)	(21,357)	1,238	(3,467)	14,767	(2,145)	(15,700)	(1,413)
250.+280.	Profits (losses) from the disposal of equity investments	1,813	100	3,915	273	4,083	298	170	793
290.	**Profit (loss) before tax from continuing operations**	**157,434**	**101,799**	**65,272**	**182,099**	**41,738**	**71,774**	**155,751**	**188,384**
300.	Taxes on income for the period from continuing operations	(33,758)	(34,416)	(9,232)	(50,803)	181,828	(26,166)	(55,557)	(61,351)
340.	(Profit) loss for the period attributable to minority interests	(12,972)	(7,239)	(7,286)	(6,415)	(5,077)	(7,102)	(7,794)	(6,009)
	Profit (loss) for the period attributable to the shareholders of the Parent before the Business Plan and other impacts	**110,704**	**60,144**	**48,754**	**124,881**	**218,489**	**38,506**	**92,400**	**121,024**
190. a)	Redundancy expenses net of taxes and minority interests	(46,830)	-	2	(42,585)	(103)	(36,880)	(164)	164
190. b)	Business Plan project expenses net of taxes and minority interests	-	(12)	(45)	(88)	(351)	(22)	(1,029)	(3,528)
210.	Impairment losses on property, plant and equipment net of taxes and minority interests	(3,727)	-	-	-	(2,898)	-	-	-
350.	**Profit (loss) for the period attributable to the shareholders of the Parent**	**60,147**	**60,132**	**48,711**	**82,208**	**215,137**	**1,604**	**91,207**	**117,660**

For those items affected by the adoption of IFRS 16 (see in this respect the notes to the preparation of these statements that follow), the figures relating to quarters in 2018 are not fully comparable with those for 2019.

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

Figures in thousands of euro	FY 2019 (IFRS 16) *net of non-recurring items*	FY 2018 *net of non-recurring items*	Change	% change
Net interest income	1,725,105	1,790,231	(65,126)	(3.6%)
of which: TLTRO II	*48,688*	*50,788*	*(2,100)*	*(4.1%)*
of which: IFRS 9 credit components	*110,595*	*121,985*	*(11,390)*	*(9.3%)*
of which: IFRS 9 contractual modifications without derecognition components	*(25,283)*	*(37,383)*	*(12,100)*	*(32.4%)*
Dividends and similar income	7,658	22,931	(15,273)	(66.6%)
Profits (losses) of equity-accounted investees	40,343	24,602	15,741	64.0%
Net fee and commission income	1,661,759	1,579,060	82,699	5.2%
of which: performance fees	*40,598*	*13,889*	*26,709*	*192.3%*
Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	104,284	16,574	87,710	n.s.
Net income from insurance operations	15,314	17,034	(1,720)	(10.1%)
Other net operating income/expense	83,472	90,889	(7,417)	(8.2%)
Operating income	**3,637,935**	**3,541,321**	**96,614**	**2.7%**
Staff costs	(1,427,650)	(1,490,626)	(62,976)	(4.2%)
Other administrative expenses	(692,974)	(777,109)	(84,135)	(10.8%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(229,203)	(167,575)	61,628	36.8%
Operating expenses	**(2,349,827)**	**(2,435,310)**	**(85,483)**	**(3.5%)**
Net operating income	**1,288,108**	**1,106,011**	**182,097**	**16.5%**
Net impairment losses for credit risk relating to:	(744,098)	(638,277)	105,821	16.6%
- financial assets measured at amortised cost: loans and advances to banks	137	2,867	(2,730)	(95.2%)
- financial assets measured at amortised cost: loans and advances to customers	(738,438)	(642,786)	95,652	14.9%
- financial assets measured at amortised cost: securities	(2,454)	916	(3,370)	n.s.
- financial assets measured at fair value through other comprehensive income	(3,343)	726	(4,069)	n.s.
Net provisions for risks and charges - commitments and guarantees granted	(26)	23,923	(23,949)	n.s.
Net provisions for risks and charges - other net provisions	(24,809)	(4,491)	20,318	n.s.
Profits (losses) from the disposal of equity investments	-	-	-	-
Profit (loss) before tax from continuing operations	**519,175**	**487,166**	**32,009**	**6.6%**
Taxes on income for the year for continuing operations	(132,387)	(158,745)	(26,358)	(16.6%)
Profit (loss) for the year attributable to minority interests	(33,912)	(25,982)	7,930	30.5%
Profit (loss) for the year attributable to the shareholders of the Parent	**352,876**	**302,439**	**50,437**	**16.7%**

For those items affected by the adoption of IFRS 16 (see in this respect the notes to the preparation of these statements that follow), the figures for the full year 2019 are not fully comparable with those for the full year 2018.

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

Figures in thousands of euro	FY 2019	2017-2020 Business Plan: Redundancy expenses	2017-2020 Business Plan: Business Plan project expenses	Other items: Extraordinary contribution to the Resolution Fund	Other items: Disposal of equity and other investments	Other items: Impairment of property, plant and equipment	FY 2019 *net of non-recurring items*
Net interest income	1,725,105						1,725,105
of which: TLTRO II	*48,688*						*48,688*
of which: IFRS 9 credit components	*110,595*						*110,595*
of which: IFRS 9 contractual modifications without derecognition components	*(25,283)*						*(25,283)*
Dividends and similar income	7,658						7,658
Profits (losses) of equity-accounted investees	40,343						40,343
Net fee and commission income	1,661,759						1,661,759
of which: performance fees	*40,598*						*40,598*
Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	104,284						104,284
Net income from insurance operations	15,314						15,314
Other net operating income/expense	83,472						83,472
Operating income	**3,637,935**	**-**	**-**	**-**	**-**	**-**	**3,637,935**
Staff costs	(1,427,650)						(1,427,650)
Other administrative expenses	(711,060)			18,086			(692,974)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(229,789)				586		(229,203)
Operating expenses	**(2,368,499)**	**-**	**-**	**18,086**	**586**	**-**	**(2,349,827)**
Net operating income	**1,269,436**	**-**	**-**	**18,086**	**586**	**-**	**1,288,108**
Net impairment losses for credit risk relating to:	(744,098)						(744,098)
- financial assets measured at amortised cost: loans and advances to banks	137						137
- financial assets measured at amortised cost: loans and advances to customers	(738,438)						(738,438)
- financial assets measured at amortised cost: securities	(2,454)						(2,454)
- financial assets measured at fair value through other comprehensive income	(3,343)						(3,343)
Net provisions for risks and charges - commitments and guarantees granted	(26)						(26)
Net provisions for risks and charges - other net provisions	(24,809)						(24,809)
Profits (losses) from the disposal of equity investments	6,101				(6,101)		-
Profit (loss) before tax from continuing operations	**506,604**	**-**	**-**	**18,086**	**(5,515)**	**-**	**519,175**
Taxes on income for the year for continuing operations	(128,209)			(5,880)	1,702		(132,387)
(Profit) loss for the year attributable to minority interests	(33,912)						(33,912)
Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**344,483**	**-**	**-**	**12,206**	**(3,813)**	**-**	**352,876**
Redundancy expenses net of taxes and minority interests	(89,413)	89,413					-
Business Plan project expenses net of taxes and minority interests	(145)		145				-
Impairment losses on property, plant and equipment net of taxes and minority interests	(3,727)					3,727	-
Profit (loss) for the year attributable to the shareholders of the Parent	**251,198**	**89,413**	**145**	**12,206**	**(3,813)**	**3,727**	**352,876**

Figures in thousands of euro	FY 2018	2017-2020 Business Plan: Redundancy expenses	2017-2020 Business Plan: Business Plan project expenses	Other items: Budget impact	Other items: IDPF Intervention	Other items: Extraordinary contribution to the Resolution Fund	Other items: Profit/losses on disposal of investments	Other items: Impairment of property, plant and equipment	FY 2018 *net of non-recurring items*
Net interest income	1,790,231								1,790,231
of which: TLTRO II	*50,788*								*50,788*
of which: IFRS 9 credit components	*121,985*								*121,985*
of which: IFRS 9 contractual modifications without derecognition components	*(37,383)*								*(37,383)*
Dividends and similar income	22,931								22,931
Profits (losses) of equity-accounted investees	24,602								24,602
Net fee and commission income	1,579,060								1,579,060
of which: performance fees	*13,889*								*13,889*
Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	(5,404)				21,978				16,574
Net income from insurance operations	17,034								17,034
Other net operating income/expense	90,889								90,889
Operating income	**3,519,343**	**-**	**-**	**-**	**21,978**	**-**	**-**	**-**	**3,541,321**
Staff costs	(1,490,626)								(1,490,626)
Other administrative expenses	(789,994)					12,885			(777,109)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(167,575)								(167,575)
Operating expenses	**(2,448,195)**	**-**	**-**	**-**	**-**	**12,885**	**-**	**-**	**(2,435,310)**
Net operating income	**1,071,148**	**-**	**-**	**-**	**21,978**	**12,885**	**-**	**-**	**1,106,011**
Net impairment losses for credit risk relating to:	(638,277)								(638,277)
- financial assets measured at amortised cost: loans and advances to banks	2,867								2,867
- financial assets measured at amortised cost: loans and advances to customers	(642,786)								(642,786)
- financial assets measured at amortised cost: securities	916								916
- financial assets measured at fair value through other comprehensive income	726								726
Net provisions for risks and charges - commitments and guarantees granted	23,923								23,923
Net provisions for risks and charges - other net provisions	(4,491)								(4,491)
Profits (losses) from the disposal of equity investments	5,344						(5,344)		-
Profit (loss) before tax from continuing operations	**457,647**	**-**	**-**	**-**	**21,978**	**12,885**	**(5,344)**	**-**	**487,166**
Taxes on income for the year for continuing operations	38,754			(186,424)	(7,268)	(4,189)	382		(158,745)
(Profit) loss for the year attributable to minority interests	(25,982)								(25,982)
Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**470,419**	**-**	**-**	**(186,424)**	**14,710**	**8,696**	**(4,962)**	**-**	**302,439**
Redundancy expenses net of taxes and minority interests	(36,983)	36,983							-
Business Plan project expenses net of taxes and minority interests	(4,930)		4,930						-
Impairment losses on property, plant and equipment net of taxes and minority interests	(2,898)							2,898	-
Profit (loss) for the year attributable to the shareholders of the Parent	**425,608**	**36,983**	**4,930**	**(186,424)**	**14,710**	**8,696**	**(4,962)**	**2,898**	**302,439**

Reconciliation statement for the year ended 31st December 2019

Items	RECLASSIFIED CONSOLIDATED INCOME STATEMENT Figures in thousands of euro	31.12.2019 Mandatory consolidated financial statements	Reclassifications Tax recoveries	Depreciation for improvements to leased assets	Profit of equity-accounted investees	Net income from insurance operations	Profits (losses) from contractual modifications without derecognition	Impairment losses on real estate properties	2017-2020 BP redundancy expenses	2017-2020 BP project expenses	31.12.2019 Reclassified financial statements
10.-20.-140.	Net interest income	1,802,511				(52,123)	(25,283)				1,725,105
	of which: TLTRO II	*46,688*									*46,688*
	of which: IFRS 9 credit components	*110,595*									*110,595*
	of which: IFRS 9 contractual modifications without derecognition components	-					*(25,283)*				*(25,283)*
70.	Dividends and similar income	8,514				(856)					7,658
	Profits (losses) of equity-accounted investees	-			40,343						40,343
40.-50.	Net fee and commission income	1,665,569				(3,810)					1,661,759
80.+90. +100.+110.	Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	106,904				(2,620)					104,284
160.+170.	Net income from insurance operations	(22,839)				38,153					15,314
230.	Other net operating income/expense	283,120	(221,022)	118		21,256					83,472
	Operating income	**3,843,779**	**(221,022)**	**118**	**40,343**	**-**	**(25,283)**	**-**	**-**	**-**	**3,637,935**
190.a	Staff costs	(1,561,333)							133,683		(1,427,650)
190.b	Other administrative expenses	(932,301)	221,022							219	(711,060)
210.+220.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(235,194)		(118)				5,523			(229,789)
	Operating expenses	**(2,728,828)**	**221,022**	**(118)**	**-**	**-**	**-**	**5,523**	**133,683**	**219**	**(2,368,499)**
	Net operating income	**1,114,951**	**-**	**-**	**40,343**	**-**	**(25,283)**	**5,523**	**133,683**	**219**	**1,269,436**
130.	Net impairment losses for credit risk relating to:	(744,098)									(744,098)
130. a)	- financial assets measured at amortised cost: loans and advances to banks	137									137
130. a)	- financial assets measured at amortised cost: loans and advances to customers	(738,438)									(738,438)
130. a)	- financial assets measured at amortised cost: securities	(2,454)									(2,454)
130. b)	- financial assets measured at fair value through other comprehensive income	(3,343)									(3,343)
140.	Profit (loss) from contractual modifications without derecognition	(25,283)					25,283				-
200. a)	Net provisions for risks and charges - commitments and guarantees granted	(26)									(26)
200. b)	Net provisions for risks and charges - other net provisions	(24,809)									(24,809)
250.+280.	Profits (losses) from the disposal of equity investments	46,444			(40,343)						6,101
290.	**Profit (loss) before tax from continuing operations**	**367,179**	**-**	**-**	**-**	**-**	**-**	**5,523**	**133,683**	**219**	**506,604**
300.	Taxes on income for the year for continuing operations	(82,133)						(1,796)	(44,209)	(71)	(128,209)
340.	(Profit) loss for the year attributable to minority interests	(33,848)							(61)	(3)	(33,912)
	Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**251,198**	**-**	**-**	**-**	**-**	**-**	**3,727**	**89,413**	**145**	**344,483**
190. a)	Redundancy expenses net of taxes and minority interests	-							(89,413)		(89,413)
190. b)	Business Plan project expenses net of taxes and minority interests	-								(145)	(145)
210.	Impairment losses on property, plant and equipment net of taxes and minority interests	-						(3,727)			(3,727)
350.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**251,198**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**251,198**

Reconciliation schedule for the year ended 31st December 2018

Items	RECLASSIFIED CONSOLIDATED INCOME STATEMENT Figures in thousands of euro	FY 2018 Mandatory consolidated financial statements	Reclassifications Tax recoveries	Depreciation for improvements to leased assets	Profit of equity-accounted investees	Net income from insurance operations	Profits (losses) from contractual modifications without derecognition	Impairment losses on real estate properties	2017-2020 BP redundancy expenses	2017-2020 BP project expenses	FY 2018 Reclassified financial statements
10.-20.-140.	Net interest income	1,873,285				(45,671)	(37,383)				1,790,231
	of which: TLTRO II	*50,788*									*50,788*
	of which: IFRS 9 credit components	*121,985*									*121,985*
	of which: IFRS 9 contractual modifications without derecognition components	*-*					*(37,383)*				*(37,383)*
70.	Dividends and similar income	24,779				(1,848)					22,931
	Profits (losses) of equity-accounted investees	-			24,602						24,602
40.-50.	Net fee and commission income	1,580,917				(1,857)					1,579,060
80.+90. +100.+110.	Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	3,815				(9,219)					(5,404)
160.+170.	Net income from insurance operations	(22,320)				39,354					17,034
230.	Other net operating income/expense	293,471	(227,245)	5,422		19,241					90,889
	Operating income	**3,753,947**	**(227,245)**	**5,422**	**24,602**	**-**	**(37,383)**	**-**	**-**	**-**	**3,519,343**
190.a	Staff costs	(1,545,909)							55,283		(1,490,626)
190.b	Other administrative expenses	(1,024,648)	227,245							7,409	(789,994)
210.+220.	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(166,447)		(5,422)				4,294			(167,575)
	Operating expenses	**(2,737,004)**	**227,245**	**(5,422)**	**-**	**-**	**-**	**4,294**	**55,283**	**7,409**	**(2,448,195)**
	Net operating income	**1,016,943**	**-**	**-**	**24,602**	**-**	**(37,383)**	**4,294**	**55,283**	**7,409**	**1,071,148**
130.	Net impairment losses for credit risk relating to:	(638,277)									(638,277)
130. a)	- financial assets measured at amortised cost: loans and advances to banks	2,867									2,867
130. a)	- financial assets measured at amortised cost: loans and advances to customers	(642,786)									(642,786)
130. a)	- financial assets measured at amortised cost: securities	916									916
130. b)	- financial assets measured at fair value through other comprehensive income	726									726
140.	Profit (loss) from contractual modifications without derecognition	(37,383)					37,383				-
200. a)	Net provisions for risks and charges - commitments and guarantees granted	23,923									23,923
200. b)	Net provisions for risks and charges - other net provisions	(4,491)									(4,491)
250.+280.	Profits (losses) from the disposal of equity investments	29,946			(24,602)						5,344
290.	**Profit (loss) before tax from continuing operations**	**390,661**	**-**	**-**	**-**	**-**	**-**	**4,294**	**55,283**	**7,409**	**457,647**
300.	Taxes on income for the year for continuing operations	60,841						(1,396)	(18,282)	(2,409)	38,754
340.	Profit (loss) for the year attributable to minority interests	(25,894)							(18)	(70)	(25,982)
	Profit (loss) for the year attributable to the shareholders of the Parent before the Business Plan and other impacts	**425,608**	**-**	**-**	**-**	**-**	**-**	**2,898**	**36,983**	**4,930**	**470,419**
190. a)	Redundancy expenses net of taxes and minority interests	-							(36,983)		(36,983)
190. b)	Business Plan project expenses net of taxes and minority interests	-								(4,930)	(4,930)
210.	Impairment losses on property, plant and equipment net of taxes and minority interests	-						(2,898)			(2,898)
350.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**425,608**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**425,608**

Notes to the reclassified consolidated financial statements

The mandatory financial statements have been prepared on the basis of Bank of Italy Circular No. 262/2005 of 22nd December 2005, as introduced by the 6th update, dated 30th November 2018[1]. The latter implement the adoption of the international financial reporting standard IFRS 16 "Leases", which superseded IAS 17 "Leases" from 1st January 2019.
The reclassified financial statements have been prepared in order to allow a meaningful management accounting commentary on capital and operating figures, not subject to audit by the independent auditors, on the basis of the financial statements pursuant to the 6th update of Bank of Italy Circular No. 262/2005.

As concerns income statement figures for the year ended 31st December 2019, the following is underlined on the basis of the provisions of IFRS 16:
- net interest income includes interest on financial liabilities for leases within interest expense;
- net depreciation and impairment losses on property, plant and equipment includes depreciation of the right-of-use assets resulting from lease contracts;
- rentals relating to contracts falling within the scope of application of IFRS 16 are no longer recognised within "Other administrative expenses"[2].

In view of the above, the income statement figures for the comparative periods are not fully comparable.

In accordance with the ESMA/2015/1415 guidelines, we report that, with a view to simplification of the presentation of the income statement, as of the half-year financial report for the period ended 30th June 2019, the line items "130. a) Financial assets measured at amortised cost: loans and advances to customers subject to disposal" and "130. b) Financial assets designated at fair value through other comprehensive income subject to disposal" (which included the reclassifications carried out between the items 100 and 130. a)/130. b), in compliance with the recommendations contained in the Bank of Italy addendum letter dated 30th October 2018) have been reclassified within items "130. a) Financial assets measured at amortised cost: loans and advances to customers" and "130. b) Financial assets designated at fair value through other comprehensive income".
The lines that have been eliminated had been introduced at time of the financial statements as at and for the year ended 31st December 2018 in order to show more clearly the amounts reclassified (also with regard to the preceding quarterly reports) in compliance with the provisions of the addendum letter in question, now fully in use.
The comments contained in the section entitled "The income statement" report details of the amounts of credit risk impairment losses for credit risk related to disposal transactions where these are material.
Furthermore, in order to facilitate an immediate perception of the amount of ordinary and extraordinary contributions paid to the Resolution Fund and to the Deposit Guarantee Scheme as a percentage of total administrative expenses, as of the 2019 third quarter financial report the line "of which: contributions to SRF and DGS" has been introduced, stated separately as part of the item "190. b) other administrative expenses".

Given the above, the reclassified financial statements are prepared in application of the following rules:
- net interest income includes the result for item "140. Profits (losses) from contractual modifications without derecognition" in the mandatory income statement in order to ensure consistency with future financial reports, considering that the effect of the release of discounts will be recognised in net interest income. The result for that item is shown on a separate line as part of net interest income;
- the item profits (losses) of equity-accounted investees includes the profits (losses) of equity-accounted investees included within item 250 in the mandatory financial statements;
- net income from insurance operations comprises the following income items of BancAssurance Popolari Spa and BancAssurance Popolari Danni Spa until the date of the deconsolidation of the latter (May 2019): net interest, dividends, net fees and commissions, the result for financial activities, net premiums (item 160), the balance on income and expenses of insurance operations (items 170 and 230). The remaining items have been consolidated line-by-line in the income statement;
- the tax recoveries recognised within item 230 of the mandatory income statement "Other operating income/expenses" have been reclassified as a reduction in indirect taxes included in "Other administrative expenses";
- the item "Other net operating income/expense" includes item 230, net of the reclassifications mentioned under other points;
- the item "Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets" includes items 210 and 220 in the mandatory income statement and also, for the comparative periods, the instalments relating to the depreciation of the costs incurred for leasehold improvements classified within item 230[3];

1 The update is applicable for financial statements ending as at 31st December 2019 or still open on that date.
2 Reference is made in this respect to Part A.1, Section 5 "Other aspects" of the Notes to the Consolidated Financial Statements.
3 With the introduction of IFRS 16, leasehold improvements, relating to right-of-use assets regulated by the new standard, are recognised within property, plant and equipment, thereby increasing the value of the right-of-use assets to which they relate, and within the relative depreciation instalments recognised within net depreciation and net impairment losses on property, plant and equipment.

- the “Profits (losses) from the disposal of equity investments” includes the item 250, net of profits (losses) of equity-accounted investees, and also item 280 in the mandatory income statement;
- expenses incurred in relation to the 2017-2020 Business Plan have been separated and stated on single lines (net of taxes and minority interests) at the foot of the statements as follows:
  - redundancy expenses partially include item 190. a) in the mandatory income statement;
  - “Business Plan Project expenses” comprise part of item 190. b) in the mandatory income statement.

The reconciliation of the items in the reclassified financial statements with the figures in the mandatory financial statements is facilitated, on one hand, by the insertion in the margin of each item, of the corresponding number in the mandatory financial statement and, on the other hand, with the preparation of special reconciliation schedules.
The comments on the performance of the main balance sheet and income statement items are made on the basis of the reclassified financial statements and the tables providing details included in the subsequent sections of the financial report have also been prepared on that same basis In order to facilitate analysis of the Group's operating performance and in compliance with Consob Communication No. DEM/6064293 of 28th July 2006[4], two special schedules have been included. One is a brief summary (which provides a comparison of the normalised results for the period) and one is more detailed, which shows the impact on earnings of the principal non-recurring events and items – since the relative effects on capital and cash flow, being closely linked, are not significant – which are summarised as follows:

Financial year 2019:	expenses incurred in relation to the 2017-2020 Business Plan, redundancy expenses in particular. expenses incurred for the extraordinary contribution to the Resolution Fund; profits from the disposal of equity and other investments; impairment losses on property, plant and equipment (real estate);
Financial year 2018:	expenses incurred in relation to the 2017-2020 Business Plan, redundancy expenses in particular. expenses incurred for the extraordinary contribution to the Resolution Fund; impairment losses on property, plant and equipment (real estate); impact of the government budget on taxes; the contribution to the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF) for action taken to assist Banca Carige; profits from the disposal of investments.

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

The consolidated income statement

The income statement figures commented on are based on the reclassified consolidated financial statements (the income statement and the income statement net of the more significant non-recurring items – in brief and detailed versions) contained in the relative section of this report. The detailed tables are those required by the sixth update of Circular No. 262.
For a description of the changes made in preparing the reclassified statements, see both the explanatory notes following the statements themselves and the related reconciliations.
The commentary examines the results for 2019 compared with the same period in the previous year, and also for the fourth quarter of 2019 compared with the same quarter of 2018 (the latter are in italics in slightly smaller print).

The UBI Banca Group ended 2019 with a **net profit** of €251.2 million, which, however, included net non-recurring expenses of €101.6[1] million, compared with a net profit of €425.6 million in 2018 (which had benefited from net non-recurring income of €123.2 million). In normalised terms, net profit was up by €50.4 million (+16.7%).
Net operating income improved significantly year-on-year (+18.5%), driven by both the growth in income, enabled by the commercial strategy adopted in a market scenario of negative rates, and the reduction in costs, the result of a consistently attentive cost containment policy. The year was adversely affected by the significant efforts made by the Group to speed the process of reducing non-performing credit exposures through wholesale and individual disposals. Nonetheless, profit before tax improved by 10.7% to €506.6 million.
At the quarterly level, in the fourth quarter net profit came to €60.1 million, unchanged on the previous quarter, compared with the €215.1 million recorded in the same quarter of 2018, which included the recognition of a one-off tax benefit due to the amendment of the rules for the deductibility of the IFRS 9 first-time adoption reserve relating to expected credit losses recognised on loans and advances to customers.

In 2019 ordinary operations generated **operating income** of €3.6 billion, up by 3.4% (approximately €119 million) on 2018.

In particular, *net interest income* amounted to €1.73 billion, compared with €1.79 billion in the comparison (-€65.1 million).
Interest income on loans to customers generated by financial activities declined by €58.7 million due to the performance of average volumes of loans (average management accounting levels of gross interest-bearing loans were down by €4.1 billion), only partly offset by the positive effect of the mark-up, which improved by 5 basis points during the year. Interest expense on debt securities issued declined (-€10.2 million), benefiting, on the one hand, from the decrease in the average balances of retail bonds (in management accounting terms -€1.8 billion, of which -€1 billion relating to subordinated bonds, which are more costly), while on the other hand affected by the inclusion of the cost of new institutional issues (+€1.4 billion in average management accounting terms, due to issues primarily undertaken within the EMTN programme). The customer spread was 1.76%, up by 4 basis points due to the aforementioned increase in the mark-up on loans of 5 basis points, made possible by an effective policy of safeguarding spreads to protect capital, whereas the mark-down on funding fell by 1 basis point.
As may be seen from the table, the bottom line was also shaped, with opposite effects, by an increase in interest expense on amounts due to banks (+€18.7 million), in particular to third counterparties, and an improved net positive contribution from hedging derivatives (+€12.7 million).
In detail:

- *general banking business with customers* generated a contribution of €1.57 billion, compared with €1.63 billion in 2018 (-€59.6 million) arising from the aforementioned trends in net interest income (-€50.5 million). However, the item also incorporated a lower positive contribution by hedging derivatives (-€9.1 million);

1 Redundancy expenses of €89.4 million net (€37 million in 2018), charges relating to the Business Plan of €145 thousand (€4.9 million in 2018), the extraordinary contribution to the Resolution Fund of €12.2 million net (€8.7 million in 2018), net income on the disposal of equity and other investments of €3.8 million (approximately €5 million in 2018), and impairment of real estate properties of €3.7 million (€2.9 million in 2018). In addition, the previous year included net income of €186.4 million due to the impact of the 2019 Budget Law and expenses of €14.7 million relating to the payment for the equity stake in the Voluntary Scheme of the Interbank Deposit Protection Fund.

- the *securities portfolio* generated net interest income of €195.3 million, up by €25.7 million, essentially due to the reduction in the negative impact of hedging derivatives of €22.1 million;
- *interbank activities* provided a negative contribution of €39.2 million, up from -€7.7 million in 2018: this change was affected above all by the greater overall cost of repurchase agreements (due to both higher volumes and higher average rates) relating to business with banks other than the ECB, which entailed an increase in the related interest expense (+18.9 million), but also a decrease (-€12.6 million) in net interest income associated with business with the ECB, which was affected by both the increase in interest expense (+€10.5 million) paid on the available compulsory reserve due to the increase in the reserve's average balance and a slight decrease (-€1.8 million) in interest income on TLTRO II funds following the early repayments made in September and December totalling €2.5 billion nominal.

Interest and similar income: composition

Figures in thousands of euro	Debt securities	Financing	Other transactions	FY 2019	FY 2018
1. Financial assets measured at fair value through profit or loss	5,089	5,697	-	10,786	7,809
1.1 Financial assets held for trading	338	-	-	338	119
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	4,751	5,697	-	10,448	7,690
2. Financial assets measured at fair value through other comprehensive income	117,015	-	X	117,015	130,141
3. Financial assets measured at amortised cost	82,235	1,863,493	-	1,945,728	1,991,320
3.1 Loans and advances to banks	1,071	6,219	X	7,290	6,111
3.2 Loans and advances to customers	81,164	1,857,274	X	1,938,438	1,985,209
4. Hedging derivatives	X	X	(29,192)	(29,192)	(51,734)
5. Other assets	X	X	428	428	170
6. Financial liabilities	X	X	X	58,009	59,029
Total	**204,339**	**1,869,190**	**(28,764)**	**2,102,774**	**2,136,735**
of which: interest income on impaired financial assets	-	220,660	-	220,660	278,841
of which: interest income on finance leases	-	131,469	-	131,469	157,157

Interest and similar expense: composition

Figures in thousands of euro	Borrowings	Securities	Other transactions	FY 2019	FY 2018
1. Financial liabilities measured at amortised cost	(111,518)	(402,777)	-	(514,295)	(506,980)
1.1 Due to central banks	(95)	X	X	(95)	-
1.2 Due to banks	(55,015)	X	X	(55,015)	(36,455)
1.3 Due to customers	(56,408)	X	X	(56,408)	(57,540)
1.4 Debt securities issued	X	(402,777)	X	(402,777)	(412,985)
2. Financial liabilities held for trading	(597)	-	-	(597)	(2)
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(59)	(59)	(36)
5. Hedging Derivatives	X	X	187,686	187,686	197,509
6. Financial assets	X	X	X	(50,404)	(36,995)
Total	**(112,115)**	**(402,777)**	**187,627**	**(377,669)**	**(346,504)**
of which: interest expense relating to lease liabilities	(8,207)	-	-	(8,207)	-
			Net interest income	**1,725,105**	**1,790,231**

Quarterly contributions to net interest income

Figures in thousands of euro	2019				2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Banking business with customers	374,049	385,947	399,452	409,126	403,408	410,658	417,184	396,916
Financial activities	50,707	51,824	48,434	44,352	43,798	43,931	42,682	39,177
Interbank business	(12,987)	(10,946)	(7,273)	(7,949)	(6,162)	(1,877)	(1,308)	1,690
Other items	272	26	3	68	22	37	47	28
Net interest income	**412,041**	**426,851**	**440,616**	**445,597**	**441,066**	**452,749**	**458,605**	**437,811**

In the fourth quarter of 2019 net interest income amounted to €412 million, down from €427 million in the third quarter of 2019 and €441 million in the same quarter of 2018.
Average loan volumes declined quarter-on-quarter (-€1.6 billion), whereas funding volumes increased (by slightly more than €900 million). The customer spread improved by 2 basis points, explained by an

increase in the mark-up of 3 basis points and a slight decline in the mark-down. In addition, as may be seen from the quarterly trends for the income statement shown in the reclassified financial statements, there was a significant impact of the IFRS 9 component relating to contractual modifications, which had an effect of €11.9 million, compared with approximately €3 million in the third quarter: the item incorporates the effects of the renegotiation of mortgage loans and restructuring of other loans, an activity that intensified in the fourth quarter due to the decline in the IRS rate (starting in August/September), which made it more attractive to switch to fixed-rate mortgage loans.
Year-on-year, however, there were negative impacts due to average management accounting volumes of both loans (down by €4.9 billion) and funding (up by €3.5 billion), with an overall effect partly mitigated by the stability of the customer spread, up by 2 basis points due to an improvement in the mark-up (which increased by 12 basis points), more than offsetting the increase in the mark-down relating to institutional issues during the period. The IFRS 9 component relating to contractual modifications in the fourth quarter of 2018 had a negative impact of €7 million, compared with the €11.9 million in the fourth quarter of 2019.

During the year, *dividends* of €7.7 million were collected (€22.9 million in 2018), primarily on shareholdings recognised within item 20, including €4.5 million (unchanged year-on-year), on the Bank of Italy shares (collected in the first quarter), €1.2 million attributable to SACBO (unchanged) and €1.8 million on funds and shares measured at fair value through profit or loss (€1.7 million in 2018).

Profits of equity-accounted investees[2] amounted to €40.3 million, up from €24.6 million in the previous year, and relate almost entirely to Lombarda Vita and Aviva Vita (€31.1 million compared with €17.2 million in 2018) and Zhong Ou (€9.2 million from €7 million in 2018).

Net fee and commission income reached €1.66 billion, an improvement on €1.58 billion in the comparative period, and comprised 45.7% of operating income (compared with 47.4% for net interest income), bearing witness to the considerable growth in this item, which is accounting for a constantly increasing share of total revenues, more than offsetting the decline in net interest income. By type of business it is composed of: €926.4 million (€865.8 million in 2018) from management, trading and advisory services[3] (which included performance fees of €40.6 million and placement fees for Group funds and Sicav's amounting to €139.4 million and upfront fees on life policies[4] of €56.4 million), whereas €735.4 million relates to banking services (€713.2 million in the comparative period).

In dettaglio[5]:

- management, trading and advisory services mainly included contributions from portfolio management (€412.3 million compared with €382.9 million in 2018), from securities placement (€255.7 million compared with €240 million in 2018, up considerably despite the marginal increase in the contribution of upfront fees relating to funds and Sicav's, +€5.5 million) and from the distribution of third party services amounting to €269.3 million, of which €233.2 million on insurance products (€249.1 million in the previous year, which had benefited from €214.3 million from insurance products). Upfront fees on the placement of life policies amounted to €56.4 million, compared with €63.7 million in 2018, against premiums placed[6] down from €4.9 billion to nearly €4.5 billion);
- ordinary banking services mainly comprise a contribution from other services amounting to €306.1 million (which includes €143.4 million of commitment fees), compared with €308.4 million in the period ended the 31st December 2018 (inclusive of €151.4 million relating to commitment fees), from current account administration amounting to €266.7 million, an increase compared with €225.8 million previously due to the periodic revisions of pricing conditions undertaken since the second half of 2018, and, finally, from collection and payment services amounting to €123.8 million (€127.3 million in 2018). Commissions on guarantees declined to €17.1 million (€31.1 million in the comparative period) as a result of the inclusion of new synthetic securitisations undertaken in November 2018 and 2019 for a total nominal amount of €4.5 billion.

2 The item consists of the net profits of the companies recognised on the basis of the percentage interest held by the Group.
3 The amount consists of management, trading and advisory services net of the corresponding expense items and is calculated excluding currency trading.
4 Management accounting figure.
5 The contributions were calculated by subtracting commission expense from the respective commission income.
6 Management accounting figures.

Fee and commission income: composition

Figures in thousands of euro	FY 2019	FY 2018
a) guarantees granted	49,347	49,341
c) management, trading and advisory services	1,024,899	957,538
1. trading in financial instruments	8,342	9,194
2. foreign exchange trading	8,532	8,297
3. portfolio management	420,159	391,662
3.1. individual	66,096	70,181
3.2. collective	354,063	321,481
4. custody and administration of securities	10,103	9,070
6. placement of securities	262,839	245,814
7. receipt and transmission of orders	34,241	33,536
8. advisory activities	11,420	10,860
8.1 on investments	11,420	10,860
9. distribution of third party services	269,263	249,105
9.1. portfolio management	667	582
9.1.1. individual	667	582
9.2. insurance products	233,183	214,256
9.3. other products	35,413	34,267
d) collection and payment services	186,113	183,812
f) services for factoring transactions	13,144	12,428
i) current account administration	266,701	225,757
j) other services	350,821	348,191
Total	**1,891,025**	**1,777,067**

Fee and commission expense: composition

Figures in thousands of euro	FY 2019	FY 2018
a) guarantees received	(32,221)	(18,242)
c) management and trading services:	(90,016)	(83,431)
1. trading in financial instruments	(9,842)	(9,615)
2. foreign exchange trading	(6)	(3)
3. portfolio management	(7,883)	(8,751)
3.2. delegated to third parties	(7,883)	(8,751)
4. custody and administration of securities	(6,521)	(6,497)
5. placement of financial instruments	(7,184)	(5,828)
6. financial instruments, products and services distributed through indirect networks	(58,580)	(52,737)
d) collection and payment services	(62,314)	(56,504)
e) other services	(44,715)	(39,830)
Total	**(229,266)**	**(198,007)**
Net fee and commission income	**1,661,759**	**1,579,060**

Quarterly net fee and commission income

Figures in thousands of euro	2019				2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Management, trading and advisory services	252,882	217,204	230,734	225,537	209,131	198,391	227,822	230,469
Banking services	193,374	185,365	181,264	175,399	181,447	182,123	172,808	176,869
Net fee and commission income	**446,256**	**402,569**	**411,998**	**400,936**	**390,578**	**380,514**	**400,630**	**407,338**

The quarterly performance shows growth of €43.7 million due to the rise in both components, albeit driven more significantly by management and trading services, up by €35.7 million due above all to the performance fees recognised in the fourth quarter (€30 million compared with €3.3 million in the third quarter) and upfront fees on insurance products (+€4.4 million), despite the decrease in upfront fees on funds and Sicav's of €6.1 million.
In the comparison with the corresponding period of 2018, the table shows an even larger increase in the management and intermediation services component of +€43.8 million, of which +€28.4 million attributable to performance fees and +€11 million to upfront fees on funds and Sicav's. Banking services also showed a considerable growth trend (+€11.9 million) due primarily to adjustments to prices for current account administration.

Core revenues (net interest income + net fee and commission income) was up by 0.5% annually from €3.37 billion to €3.39 billion: in particular, the year-on-year comparison shows an increase of 3.5% and the quarterly comparison of 3.2%.

Financial activities generated a profit of €104.3 million, compared with the loss of €5.4 million recorded in 2018.

Several significant items were recognised in 2019, and in the fourth quarter in particular: specifically, items 100 "Income (losses) from disposal or repurchase" and 110 "Net income from other financial assets and liabilities measured at fair value through profit or loss" included the results, in item 100, of the wholesale and individual disposals of portfolios of non-performing positions during the twelve months and, in item 110, the revaluation of profit-sharing equity investments and equity instruments following corporate ownership transactions that gave rise to an adjustment of the carrying values of the instruments concerned.

It follows that the results for the year, and for the fourth quarter of 2019 in particular – the highest of those achieved in the 2018-2019 period – cannot be considered the normal level of the item's contribution to operating profitability.

In detail:

- trading (item 80) generated a net income of €28.5 million, compared with €55.6 million in 2018. The change was essentially due to foreign exchange/gold business, primarily generated by corporate clents[7], which showed a loss of €9.3 million, compared with the income of €23.3 million earned in 2018, albeit with greater underlying volumes. The net result of business in equity instruments and the relative derivatives remained positive at €10.6 million (+€10.1 million at the end of 2018) and includes the positive effect, of €9.2 million, of the fair value delta of options on the Group's portfolio of equity investments (this measurement likewise contributed a positive €9.4 million in the previous year). Similarly, derivatives on debt securities and interest rates also continued their positive contribution at €22.9 million (+€21.5 million in 2018); finally, net income relating to debt securities amounted to €3.9 million (+€0.4 million in 2018). Profits on shares of UCITS and the net income on other financial derivatives were of modest amount;

- hedging[8] (item 90), which consists of the net change in the fair value of derivatives and the relative items hedged against the relative risk, generated a loss of €15.4 million, attributable primarily to the mortgage component due to the decline in market interest rates, compared with a loss of €10.3 million recorded in 2018;
- the disposal of financial assets and the repurchase of financial liabilities (item 100) generated a net loss of €22.1 million. In detail, financial assets measured at amortised cost generated a net loss of €50.8 million, essentially deriving, for €25.5 million, from the conclusion of the disposal of a lease portfolio classified as bad loan positions, and €33.9 million from the disposal of residential mortgage loans secured by GACS concluded in December 2019, against profits of €10.3 million attributable to the disposal in September of €120 million nominal of Spanish government bonds. Financial assets designated at fair value through other comprehensive income generated a net profit of €32.6 million, of which €7.1 million attributable to the disposal of mainly foreign bonds and the remainder to the disposal of government bonds, primarily foreign government bonds (€23.7 million in total).
  The net loss for 2018 amounted to €19.1 million, reflecting a total loss of €76.7 million on financial assets measured at amortised cost (affected by charges of €74 million relating to disposal with GACS guarantee), only partly offset by the profits of €63.1 million on the sale of debt securities, almost entirely Italian government bonds, classified among financial assets designated at fair value through other comprehensive income.
  The repurchase of own liabilities (bonds) from customers yielded a net loss of €3.9 million (a net loss of €5.6 million in 2018);
- the net profit (loss) on financial assets/liabilities designated at fair value through profit or loss (item 110) was €113.3 million, almost entirely owing to equity instruments, and in particular, for €67.6 million, to the revaluation of the Sorgenia profit-sharing instruments recognised in item 20 c) of the balance sheet (a nil valuation at the end of 2018), a revaluation that was applied following the acceptance by Nuova Sorgenia Holding of a binding offer for the purchase of the subsidiary's assets. The item also includes the net gain on the fair value of equity instruments, including those of Nexi, whose market valuation progressively increased by a total of €33 million during the year (€10.6 million in the fourth quarter). Fair value changes in shares of UCITS, with particular reference to arising from disposals of non-performing exposures, recorded a loss of €15.2 million, with reference in particular to those resulting from the disposal of non-performing exposures, whereas fair value movements in loans and debt securities were positive at €14.2 million and €0.9 million, respectively.
  In 2018 the loss was €31.6 million, affected by: fair value movements in the loans included in this portfolio of -€16.8 million, downward fair value movments in equity instruments of €10.7 million (which incorporated a non-recurring component of €22 million relating to the impairment of the equity stake in the Voluntary Scheme of the Interbank Deposit Protection Fund - IDPF - for the Banca Carige bail-out) and the result for shares of UCITS of -€7.9 million. Debt securities had also made a positive contribution of €3.8 million.

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7 The Group does not enter into speculative positions and the results relate to business with customers and on own behalf generally balanced on the market. As a consequence, the items in question (line items 1.5, "Currency translation differences" and 3.1 "Currency and gold derivatives") must be considered together as a whole. On the whole the items relate to the results of spot and forward currency trading by customers (transactions closed and/or existing) and also transactions on behalf of customers balanced operationally by UBI Banca on the market.

8 As already reported, the UBI Banca Group has chosen to take the "opt-out" option and therefore to continue to apply IAS 39.

Net trading income (Item 80)

Figures in thousands of euro	Gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net income FY 2019 [(A+B)-(C+D)]	Net income FY 2018 [(A+B)-(C+D)]
1. Financial assets held for trading	**836**	**24,966**	**(362)**	**(1,333)**	**24,107**	**26,217**
1.1 Debt securities	1	4,026	(124)	(842)	3,061	381
1.2 Equity securities	835	201	(238)	(74)	724	(440)
1.3 Shares in UCITS	-	76	-	(4)	72	4
1.4 Financing	-	-	-	-	-	-
1.5 Other	-	20,663	-	(413)	20,250	26,272
2. Financial liabilities held for trading	**192**	**3,953**	**-**	**(3,322)**	**823**	**-**
2.1 Debt securities	192	3,953	-	(3,322)	823	-
2.2 Payables	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Financial assets and liabilities : exchange rate differences	**X**	**X**	**X**	**X**	**(28,771)**	**8,094**
3. Derivative instruments	**253,634**	**135,680**	**(199,139)**	**(157,072)**	**32,317**	**21,261**
3.1 Financial derivatives	253,634	135,650	(199,139)	(157,042)	32,317	21,261
- on debt securities and interest rates	*240,414*	*118,617*	*(194,894)*	*(141,219)*	22,918	*21,471*
- on equity securities and share indices	*9,569*	*5,148*	*(729)*	*(4,141)*	9,847	*10,575*
- on currencies and gold	*X*	*X*	*X*	*X*	(786)	*(11,054)*
- other	*3,651*	*11,885*	*(3,516)*	*(11,682)*	338	*269*
3.2 Credit derivatives	-	30	-	(30)	-	-
of which: natural hedges related to the fair value option	X	X	X	X	-	-
Total	**254,662**	**164,599**	**(199,501)**	**(161,727)**	**28,476**	**55,572**

Net hedging income (loss) (item 90)

Figures in thousands of euro	FY 2019	FY 2018
Net hedging income (loss)	**(15,429)**	**(10,325)**

Profit (loss) from disposal/repurchase (Item 100)

Figures in thousands of euro	Profits	Losses	FY 2019	FY 2018
Financial assets				
1. Financial assets measured at amortised cost	40,109	(90,936)	(50,827)	(76,657)
1.1 Loans and advances to banks	-	-	-	6
1.2 Loans and advances to customers	40,109	(90,936)	(50,827)	(76,663)
2. Financial assets measured at fair value through other comprehensive income	32,878	(238)	32,640	63,133
2.1 Debt securities	32,877	(238)	32,639	63,133
2.2 Financing	1	-	1	-
Total assets (A)	**72,987**	**(91,174)**	**(18,187)**	**(13,524)**
Financial liabilities measured at amortised cost				
1. Due to banks	-	-	-	-
2. Due to customers	-	-	-	356
3. Debt securities issued	118	(4,042)	(3,924)	(5,928)
Total liabilities (B)	**118**	**(4,042)**	**(3,924)**	**(5,572)**
Total (A) + (B)	**73,105**	**(95,216)**	**(22,111)**	**(19,096)**

Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss (Item 110)

Figures in thousands of euro	FY 2019	FY 2018
Net income (loss) from financial assets and liabilities measured at fair value through profit or loss	**113,348**	**(31,555)**

Net income (loss) from trading, hedging and disposal/repurchase activities and from assets/liabilities measured at fair value through profit or loss	**104,284**	**(5,404)**

With regard to item 100 "Income (losses) from disposal or repurchase", it should be noted that since the disposal and contribution of portfolios of non-performing exposures entail the recognition of both gains and losses, the comment is to be understood to be on the overall net income or loss on the transaction, and thus with regard to the totals column.

Quarterly performance by financial activities

Figures in thousands of euro	2019 4th Quarter	2019 3rd Quarter	2019 2nd Quarter	2019 1st Quarter	2018 4th Quarter	2018 3rd Quarter	2018 2nd Quarter	2018 1st Quarter
Net trading income (loss)	38,676	(11,262)	(2,553)	3,615	(1,363)	21,575	22,543	12,817
Net hedging income (loss)	(1,812)	(5,581)	(3,141)	(4,895)	(2,936)	(3,162)	(2,698)	(1,529)
Total profit (loss) from asset disposals	*(37,359)*	*(2,862)*	*9,124*	*12,910*	*13,532*	*(68,610)*	*16,674*	*24,880*
Total profit (loss) from liability disposals	*(1,889)*	*(680)*	*(660)*	*(695)*	*(545)*	*(901)*	*(1,815)*	*(2,311)*
Profit (loss) from disposal or repurchase	(39,248)	(3,542)	8,464	12,215	12,987	(69,511)	14,859	22,569
Net income (loss) on financial assets and liabilities designated at fair value	60,582	11,387	14,879	26,500	(15,458)	(3,641)	(12,581)	125
Net income	**58,198**	**(8,998)**	**17,649**	**37,435**	**(6,770)**	**(54,739)**	**22,123**	**33,982**

The table shows that the net result for financial activities in the fourth quarter of 2019 was the highest of the last eight quarters, despite including fair value movements and the results of disposals and contributions of non-performing exposures that do not recur regularly by nature: in particular, the greatest contribution was attributable to the "net profit (loss) on financial assets/liabilities measured at fair value", which benefited from the revaluations of the Sorgenia and Nexi instruments. Trading activities also incorporated positive fair value movements of €11.3 million during the quarter on options on the Group's portfolio of equity investments. The net loss on disposal and repurchase, which in the fourth quarter includes the loss of €33.9 million recognised on the wholesale disposal of residential mortgage loans with GACS guarantee, completely offset profits from trading.

The significant improvement that emerges both quarter-on-quarter and year-on-year was primarily due to the net profit (loss) on financial assets/liabilities measured at fair value (+€49.2 million on €11.4 million in the third quarter and +€76 million on the -€15.5 million recognised in the fourth quarter of 2018) and the profit from trading, compared with a loss from trading in the comparative quarters. The fourth quarter of 2018 also included net profit on disposal and repurchase of €13 million, which included €6.7 million relating to the first wholesale disposal of loans concluded in December.

The *net income from insurance operations*, relating to the insurance subsidiaries (BancAssurance Popolari and BancAssurance Popolari Danni – the latter for the component generated until its disposal in May), totalled €15.3 million (€17 million in 2018).

Other net operating income/expense

Figures in thousands of euro	FY 2019	FY 2018
Other operating income	**155,058**	**153,254**
Recovery of expenses and other income on current accounts	17,281	20,451
Recovery of insurance premiums	17,097	17,998
Recoveries of taxes	221,022	227,245
Rents and other income for property management	6,686	6,661
Recovery of expenses on finance lease contracts	17,805	15,026
Other income and prior year income	96,189	93,118
Reclassification of "tax recoveries"	*(221,022)*	*(227,245)*
Other operating expenses	**(71,586)**	**(62,365)**
Depreciation of leasehold improvements	(118)	(5,422)
Costs relating to finance lease contracts	(21,811)	(10,846)
Expenses for public authority treasury contracts	(1,424)	(2,099)
Other expenses and prior year expense	(48,351)	(49,420)
Reclassification of depreciation of leasehold improvements	*118*	*5,422*
Total	**83,472**	**90,889**

Other net operating income/expense amounted to €83.5 million, compared with €90.9 million in the comparative period. The change was due, on the one hand, to the rise in income of €1.8 million, as the net effect of an increase in prior year income (which includes €14.3 million in fast credit processing fees compared with the previous €30.6 million) and recoveries of expenses on finance lease contracts, partly offset by lower recoveries on current accounts and, on the other, an increase in operating expenses of €9.2 million, essentially due to expenses relating to finance lease contracts. The latter also included €8.4 million of actual expenses arising from the finalisation of the disposal of the second tranche of leasing receivables for which an allocation had been made to the provision for risks and charges in previous quarters (an amount that was then partially used in the fourth quarter, as explained below in the comment on the item).

Finally, it must be considered that prior year income and expenses, which are heterogeneous in composition and non-structural by nature, may give rise – above all at the quarterly level – to variable performances at the level of the overall item.

In the fourth quarter of this year the item amounted to €18.8 million, compared with €23.9 million in the previous quarter and with €14.2 million in the fourth of 2018. The quarterly change was due to an increase in income (+€9.4 million) attributable mainly to prior year income, and also to the recovery of expenses and other revenues on current accounts, accompanied by a significant increase in expenses (+€14.6 million) attributable to "Costs relating to finance lease contracts" for the reasons described above, and, to a lesser extent, prior year expenses.

A comparison with the fourth quarter of 2018 once again shows an increase in operating income of €5.6 million attributable to prior year income, only partly offset by increased expenses of €1 million.

Operating expenses totalled €2.37 billion (€2.45 billion in 2018), marking a decline of €79.7 million (-€85.5 million in normalised terms).

The following is an analysis of the three components:

- *staff costs* presented an annual decline of €63 million to €1.4 billion, essentially due to the progressive voluntary departures tied to the incentivised redundancy agreements signed in recent years (605 voluntary departures in 2019, which contributed to a decline in the Group's average headcount of 777): the decrease in costs appears clear, in particular, with reference to the items "wages and salaries", "social security contributions" and "other employee benefits". The synergies achieved were partially offset by the natural growth in wages, owing to both staff promotions and the increase for the 2015 national trade union-Italian Banking Association agreement with effect from 1st October 2018;

Staff costs: composition

Figures in thousands of euro	FY 2019	FY 2018
1) Employees	**(1,417,585)**	**(1,480,519)**
a) Wages and salaries	(1,008,343)	(1,048,541)
b) Social security charges	(266,676)	(276,007)
c) Post-employment benefits	(58,406)	(60,439)
d) Pension expense	(99)	(73)
e) Provision for post-employment benefits	(454)	27
f) Pensions and similar obligations:	(899)	66
- defined contribution	-	1,027
- defined benefit	(899)	(961)
g) Payments to external supplementary pension plans:	(44,564)	(44,006)
- defined contribution	(44,564)	(44,003)
- defined benefit	-	(3)
i) Other employee benefits	(38,144)	(51,546)
2) Other staff in service	**(1,180)**	**(993)**
- Other expenses	(1,180)	(993)
3) Directors and statutory auditors	**(8,885)**	**(9,114)**
Total	**(1,427,650)**	**(1,490,626)**

- *other administrative expenses* declined significantly to €711.1 million (-€78.9 million), despite the greater total cost of ordinary and extraordinary membership fees paid to sector funds (+€23.8 million); net of these fees, cost containment amounted to €102.7 million. As already disclosed in the previous periodic reports, the item benefited above all from a reduction in "Rent payable" (-€67.2 million), which includes the effects of the application of IFRS 16 during the reporting year for €53.7 million and the lower expenses recognised following the gradual acquisition, starting in the second half of 2018 and in 2019, of properties attributable to a fund and a consortium acquired through the merger of the former New Banks. The savings continued to relate primarily to "Rentals on hardware, software and other assets" (-€11 million, of which -€4.6 million due to the application of IFRS 16), "Credit recovery expenses" -€15.6 million, following the wholesale disposals undertaken in late 2018) and "Outsourced services" (-€8.2 million, due in part to the disposal of a contract in force in 2018). On the other hand, the aforementioned "Membership fees" increased (+€27 million, including the recognition of the ordinary and extraordinary contribution to the Resolution Fund and the DGS, €107.6 million in the year compared with €83.8 million in 2018).

  "Security" costs also increased (+€3.3 million), due to the additional security services necessitated by the ongoing branch renovations; "Professional and advisory services" were stable year-on-year at €122.2 million, as were "Indirect taxes", which include, on the one hand, the positive effect of the creation of the Group VAT and, on the other, the negative effect of the application of the new accounting standard IFRS 16 (which entailed a different accounting treatment of VAT ordinarily applied to the purchase of certain goods and services).

Other administrative expenses: composition

Figures in thousands of euro	FY 2019	FY 2018
A. Other administrative expenses	**(671,388)**	**(750,698)**
Rent payable	(3,405)	(70,561)
Professional and advisory services	(122,151)	(121,239)
Rentals hardware, software and other assets	(26,987)	(38,001)
Maintenance of hardware, software and other assets	(55,604)	(53,461)
Tenancy of premises	(49,479)	(48,320)
Property maintenance	(30,009)	(30,903)
Counting, transport and management of valuables	(12,037)	(12,989)
Membership fees	(124,168)	(97,139)
Information services and land registry searches	(9,851)	(11,162)
Books and periodicals	(1,191)	(1,064)
Postal	(11,037)	(12,363)
Insurance premiums	(28,089)	(31,421)
Advertising	(20,367)	(19,893)
Entertainment expenses	(1,091)	(1,111)
Telephone and data transmission expenses	(48,955)	(50,710)
Outsourced services	(49,597)	(57,810)
Travel expenses	(15,818)	(18,429)
Credit recovery expenses	(29,224)	(44,873)
Forms, stationery and consumables	(5,752)	(6,019)
Transport and removals	(8,523)	(8,443)
Security	(12,376)	(9,098)
Other expenses	(5,677)	(5,689)
B. Indirect taxes	**(39,672)**	**(39,296)**
Indirect taxes and duties	(10,073)	(11,414)
Stamp duty	(203,711)	(206,684)
Municipal property tax	(23,858)	(22,999)
Other taxes	(23,052)	(25,444)
Reclassification of "tax recoveries"	*221,022*	*227,245*
Total	**(711,060)**	**(789,994)**

- *net impairment losses on property, plant and equipment and intangible assets* amounted to €229.8 million, up by over €62 million on 2018, mainly due to the increased depreciation and amortisation arising from the application of IFRS 16 (+€48.1 million). The remainder was almost entirely due to increased depreciation and amortisation of real estate and IT assets due to the significant investments undertaken for projects.

The table below, which presents quarterly operating expenses in the two years compared, shows the significant containment effort made by the Group at the level of operating expenses: the overall item (net of the extraordinary components, relating almost exclusively to contributions paid to sector funds) declined by €104.1 million at the annual level. The quarterly average for 2019 was €565 million, compared with €591 million in 2018.

It bears recalling that the 2019 figure was affected by the impact of the application of IFRS 16, which entailed a total benefit of €58.1 million at the level of other administrative expenses and a negative impact of €48.1 million on the item "Net impairment losses on property, plant and equipment and intangible assets".

Quarterly operating expenses

		2019				2018			
Figures in thousands of euro		4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Staff costs	(a)	(355,469)	(351,754)	(355,993)	(364,434)	(372,896)	(367,871)	(374,325)	(375,534)
Other administrative expenses	(b)	(162,670)	(187,198)	(175,161)	(186,031)	(198,738)	(198,699)	(186,643)	(205,914)
of which: extraordinary non-recurring items (SRF)		-	-	*(18,086)*	-	-	-	*(12,885)*	-
of which: ordinary payments to the SRF and the DGS		*(4,448)*	*(43,069)*	*16*	*(41,998)*	*(2,800)*	*(38,880)*	*5,015*	*(34,244)*
Other administrative expenses net of SRF and DGS payments	(c)	(158,222)	(144,129)	(157,091)	(144,033)	(195,938)	(159,819)	(178,773)	(171,670)
Net impairment losses on property, plant and equipment and intangible assets	(d)	(61,132)	(58,088)	(56,275)	(54,294)	(44,612)	(40,962)	(40,384)	(41,617)
of which: non-recurring items	(e)	-	-	*(586)*	-	-	-	-	-
Operating expenses (a+b+d)		**(579,271)**	**(597,040)**	**(587,429)**	**(604,759)**	**(616,246)**	**(607,532)**	**(601,352)**	**(623,065)**
Operating expenses net of non-recurring items and payments to the SRF and DGS (a+c+d-e)		**(574,823)**	**(553,971)**	**(568,773)**	**(562,761)**	**(613,446)**	**(568,652)**	**(593,482)**	**(588,821)**

As a result of the performance described above, **net operating income** amounted to €1.3 billion, an improvement of 18.5%.

The quarterly figure of €369.3 million was up by 40.2% at the quarterly level and by 47.9% year-on-year.

During the year a total of €740.8 million was recognised within the item 130. a) *net impairment losses for credit risk relating to financial assets measured at amortised cost* compared with €639 million in 2018.

The table details the following in particular:

- €137 thousand of net reversals of impairment losses on loans and advances to banks, almost entirely attributable to the Parent, against net reversals of €2.9 million in 2018;
- -€2.5 million of impairment losses on debt securities (line items A. and B. of the table), compared with €916 thousand in 2018; during this year, the impairment losses reflect the increase in the portfolio of securities measured at amortised cost, which also includes the senior tranche of the residential mortgage loan securitisation operation;
- -€738.4 million of net impairment losses on loans and advances to customers (€642.8 million in 2018). Overall, net impairment losses on loans and advances to customers increased by €95.6 million, of which €83 million was attributable to positions classified to stage three, and the remaining approximately €12.6 million to the decreased reversals on the measurement of the portfolio classified to stages one and two.
  This performance was affected by the recognition of €222 million relating to the wholesale disposals undertaken or to portfolios for which disposals are being considered; of this sum, €105.5 million relates to the positions held by UBI Factor and UBI Leasing (the amount recognised in the first half of the year, €112.1 million, was subject to a recovery of €6.6 million in the fourth quarter since the volumes disposed of were lower than expected), whereas the remainder is attributable to the securitisation of residential mortgage loans closed in mid-December (the impairment losses on which had already been partially recognised in the second and third quarters) and to valuation effects, calculated on the

basis of the facts available, related to the probability of disposal of a portfolio of bad loans to small and medium-size enterprises.
In detail, of the €738.4 million of impairment losses recognised:

- €762.6 million relates to individual impairment losses on exposures classified to stage three, which in addition to the wholesale transactions described above, incorporated the effects of the updating of the measurement policy for non-performing exposures, which introduced refinements to the measurement models that also extended to write-offs[9] (€679.6 million in 2018);
- €24.2 million refers to reverals of exposures classified as stage one/two, of which €23.8 million attributable to the fourth quarter. The latter sum relates to the synthetic securitisation concluded in November 2019[10], but also to reduced volumes and an improvement in internal ratings (in 2018 net reversals amounted to €36.8 million mainly due to the release, in the first quarter, of collective impairment losses as a result of the application of a "Model Change").

As a percentage of total loans to customers recognised within item 40.2) of the reclassified financial statements, the loan loss rate amounted to 0.87% in 2019, compared with 0.72% recorded at the end of 2018, incorporating the effects of the wholesale disposals concluded and being evaluated.

Net impairment losses for credit risk relating to financial assets measured at amortised cost

Transactions/components of income Figures in thousands of euro	Impairment / Reversals Stages one and two	 Stage three	FY 2019	Impairment / Reversals Stages one and two	 Stage three	FY 2018
A. Loans and advances to banks	**(442)**	**-**	**(442)**	**2,869**	**-**	**2,869**
- Financing	137	-	137	2,867	-	2,867
- Debt securities	(579)	-	(579)	2	-	2
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-
B. Loans and advances to customers	**22,285**	**(762,598)**	**(740,313)**	**37,723**	**(679,595)**	**(641,872)**
- Financing	24,160	(762,598)	(738,438)	36,809	(679,595)	(642,786)
- Debt securities	(1,875)	-	(1,875)	914	-	914
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-
Total	**21,843**	**(762,598)**	**(740,755)**	**40,592**	**(679,595)**	**(639,003)**

As a result of the above, the fourth quarter showed an increase in the item to €209.9 million, from the previous €139.3 million, but a decline on the €247.8 million in the same period of 2018.

Net impairment losses for credit risk relating to financial assets measured at amortised cost - quarterly changes 2019

Transactions / Components of income Figures in thousands of euro	Impairment / Reversals Stages one and two	 Stage three	1Q 2019	Impairment / Reversals Stages one and two	 Stage three	2Q 2019	Impairment / Reversals Stages one and two	 Stage three	3Q 2019	Impairment / Reversals Stages one and two	 Stage three	4Q 2019
A. Loans and advances to banks	**(226)**	**-**	**(226)**	**484**	**-**	**484**	**(260)**	**-**	**(260)**	**(440)**	**-**	**(440)**
- Financing	(49)	-	(49)	773	-	773	(243)	-	(243)	(344)	-	(344)
- Debt securities	(177)	-	(177)	(289)	-	(289)	(17)	-	(17)	(96)	-	(96)
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to customers	**(2,507)**	**(126,371)**	**(128,878)**	**(15,047)**	**(247,957)**	**(263,004)**	**17,315**	**(156,320)**	**(139,005)**	**22,524**	**(231,950)**	**(209,426)**
- Financing	(2,197)	(126,371)	(128,568)	(15,059)	(247,957)	(263,016)	17,633	(156,320)	(138,687)	23,783	(231,950)	(208,167)
- Debt securities	(310)	-	(310)	12	-	12	(318)	-	(318)	(1,259)	-	(1,259)
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,733)**	**(126,371)**	**(129,104)**	**(14,563)**	**(247,957)**	**(262,520)**	**17,055**	**(156,320)**	**(139,265)**	**22,084**	**(231,950)**	**(209,866)**

9 See the Notes to the Consolidated Financial Statements, Section 5 "Other aspects".
10 The securitisation reguarded a portfolio of performing loans to corporate and SME clients with a nominal amount of €2.3 billion. Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed by the market. Since the latter is covered by a financial guarantee, steps were taken to recalculate the related collective provision.

Net impairment losses for credit risk relating to financial assets measured at amortised cost - quarterly changes 2018

Transactions/components of income Figures in thousands of euro	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	1Q 2018	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	2Q 2018	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	3Q 2018	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	4Q 2018
A. Loans and advances to banks	**(1,724)**	**-**	**(1,724)**	**266**	**-**	**266**	**217**	**-**	**217**	**4,110**	**-**	**4,110**
- Financing	(1,725)	-	(1,725)	265	-	265	217	-	217	4,110	-	4,110
- Debt securities	1	-	1	1	-	1	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to customers	**48,821**	**(166,881)**	**(118,060)**	**7,233**	**(150,903)**	**(143,670)**	**6,540**	**(134,823)**	**(128,283)**	**(24,871)**	**(226,988)**	**(251,859)**
- Financing	48,941	(166,881)	(117,940)	7,219	(150,903)	(143,684)	7,142	(134,823)	(127,681)	(26,493)	(226,988)	(253,481)
- Debt securities	(120)	-	(120)	14	-	14	(602)	-	(602)	1,622	-	1,622
of which: purchased or originated credit-impaired loans	-	4,782	4,782	-	(4,782)	(4,782)	-	-	-	-	-	-
Total	**47,097**	**(166,881)**	**(119,784)**	**7,499**	**(150,903)**	**(143,404)**	**6,757**	**(134,823)**	**(128,066)**	**(20,761)**	**(226,988)**	**(247,749)**

Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income (item 130.b) include the net adjustments for expected credit losses related to debt securities recognised within item 30 of the consolidated balance sheet (inclusive also of net impairment losses on performing securities purchased during the year which, in accordance with IFRS 9, require immediate recognition of the expected loss). In 2019 the item showed net impairment losses of €3.3 million, compared with net reversals of €726 thousand recorded in 2018, following the significant recovery recognised by the Parent in the final part of the year.

Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income

Transactions/components of income Figures in thousands of euro	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	FY 2019	Impairment / Reversals: Stages one and two	Impairment / Reversals: Stage three	FY 2018
A. Debt securities	**(3,343)**	**-**	**(3,343)**	**726**	**-**	**726**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-
- To banks	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-
Total	**(3,343)**	**-**	**(3,343)**	**726**	**-**	**726**

Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: quarterly changes

Transactions/components of income Figures in thousands of euro	2019 4Q	2019 3Q	2019 2Q	2019 1Q	2018 4Q	2018 3Q	2018 2Q	2018 1Q
A. Debt securities	**(621)**	**(968)**	**(855)**	**(899)**	**8,611**	**(600)**	**(2,724)**	**(4,561)**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-	-
Total	**(621)**	**(968)**	**(855)**	**(899)**	**8,611**	**(600)**	**(2,724)**	**(4,561)**

In the fourth quarter impairment losses amounted to €621 thousand, down from €968 thousand in the previous quarter, compared to the aforementioned reversal of €8.6 million in the fourth quarter of 2018.

The income statement also recorded *net provisions for risks and charges* of €24.8 million. In the comparative year, there were net reversals of €19.4 million.

There was a net provision of €26 thousand for credit risk, reflecting opposing performances during the year, whereas in 2018 there was a reversal of €23.9 million (of which €11.1 million recognised in the first quarter, reflecting the adjustments with respect to FTA values due to reduced volumes of reference, in addition, in the fourth quarter, to a net reversal of €12.3 million relating to guarantees and commitments, of which €4 million relating to performing and €8.3 million to non-performing exposures).

Other provisions for risks and charges amounted to €24.8 million net, compared

Net provisions for risks and charges

Figures in thousands of euro	FY 2019	FY 2018
Net provisions for credit risk relating to loan commitments and guarantees granted	**(26)**	**23,923**
Net provisions for other risks and charges	**(24,809)**	**(4,491)**
for revocation (clawback) risks	793	(9,459)
Staff costs	-	-
for bonds in default	(384)	(158)
for litigation	(6,699)	(12,146)
other	(18,519)	17,272
Total	**(24,835)**	**19,432**

with net releases of €4.5 million in 2018 (which in the fourth quarter had benefited, in the "other" item, from a reversal of €21.3 million on the termination of onerous contracts relating to real-estate transactions acquired with the New Banks).

In quarterly terms, net impairment losses amounted to €3.2 million, down from €21.4 million in the third quarter. As at 30th September the item "other" included €13.3 million of costs of construction work and notary fees relating to the disposal of the non-performing real-estate exposures of UBI Leasing. In the fourth quarter, following the closing in December of the second phase of the disposal of the UBI Leasing positions, approximately €10 million was released and the expense was concurrently reclassified, mostly to item 230 "Other operating income and expenses", as already mentioned in the comment on this item. The fourth quarter also included the estimate of the risks and expenses prepared by a Group company in the light of recent legislative developments.

The comparison with the fourth quarter of 2018, which presented net reversals of €27.1 million, was influenced by the reversals of €12.3 million relating to credit risk and of €21.3 million relating to other provisions recognised in 2018 and already described in the annual comment on the item.

Finally, the year recorded €6.1 million (€4.4 million attributable to the Parent) as *profit on the disposal of equity and other investments*, almost entirely resulting from the disposal of real estate properties by the Parent, BPB Immobiliare and UBI Leasing and, to a residual extent, from the sale of equity investments, including the sale in May of 100% of BancAssurance Popolari Danni, generating a capital gain of €208 thousand (€5.3 million was recognised in 2018 on the sale of real estate properties by the Parent and, to a marginal extent, by BPB Immobiliare).

As a result of the performance described above, **profit before tax from continuing operations** was €506.6 million, up by 10.7% from €457.6 million during the year ended 31st December 2018.

The pre-tax profit for the fourth quarter amounted to €157.4 million, up significantly from €101.8 million in the previous three months (+€55.6 million) and €41.7 million in the fourth quarter of 2018 (+€115.7 million).

At the consolidated level, *taxes on income for the period from continuing operations* amounted to €128.2 million (of a before-tax profit of €506.6 million), resulting in a tax rate of 25.31%, compared with taxes of €38.8 million during the period ended 31st December 2018 (of a before-tax profit of €457.6 million).

The ordinary tax rate (33.07%, of which an IRES (corporate income tax) tax rate of 27.5%[11] and an IRAP (regional production tax) tax rate of 5.57%) was positively influenced by the effect of the option to realign the tax values with the greater accounting values of property, plant and equipment and intangible assets arising from the company reorganisation operations undertaken in 2017 and 2018 (for approximately 3 percentage points), but also by the net positive measurement of FVTPL equity investments (4.8 percentage points), the measurement of equity investments according to the equity method, not relevant for tax purposes (2.6 percentage points) and, finally, for 1.1 percentage points to the reintroduction of the *Aiuto alla Crescita Economico* ("Aid to Economic Growth"), as provided for in the 2020 Budget Law (Law No. 160 of 27th December 2019).

On the other hand, the items that had a negative affect were primarily attributable to other non-deductible costs for the purposes of both IRES and IRAP of approximately 2.9 percentage points and the non-recoverability of the negative tax basis for IRAP of Group companies (0.84 percentage points).

In 2018 taxes were positive due to the change made by Law No. 145 of 30th December 2018 (the 2019 Budget Law) to the deductibility rules for the IFRS 9 first-time-adoption (FTA) reserve relating to expected losses recognised on loans and advances to customers.

Following the change in the legislation, deferred tax assets of approximately €240 million were recognised in the balance sheet as at 31st December 2018, corresponding to the future benefit relating to the deductibility of the reserve, net of the effects recognised on FTA for that part not deductible, with a total positive impact of approximately €186.4 million.

Net of all non-recurring components, taxes came to €158.7 million, for a tax rate of 32.6%, which is essentially in line with the theoretical tax rate of 33.07%.

11 The ordinary rate of 24% is increased by a surtax of 3.5% for "credit and financial institutions".

As a result of the performance of Group banks and companies, *profit for the period attributable to minority interests* (inclusive of the effects of consolidation entries) rose to €33.9 million from €26 million in 2018.

Finally, the following items (subject to normalisation) have been stated separately net of tax and minority interests:

- *redundancy scheme expenses* of €89.4 million (net of taxes of €44.2 million and minority interests of €61 thousand);
- *Business Plan project expenses* of €145 thousand (net of taxes of €71 thousand and minority interests of €3 thousand);
- *impairment losses on property, plant and equipment (real estate properties)* of €3.7 million (net of taxes of €1.8 million), recognised in the fourth quarter following the annual impairment test.

In 2018 *redundancy scheme expenses* amounted to approximately €37 million (net of taxes of €18.3 million and minority interests of €18 thousand) and *Business Plan project expenses* to €4.9 million (net of taxes of €2.4 million and minority interests of €70 thousand), in addition to *net impairment losses on property, plant and equipment (real estate properties)* of €2.9 million (net of taxes of €1.4 million).

The comments that follow are based on items in the consolidated balance sheet contained in the reclassified consolidated financial statements on which the relative tables furnishing details are also based. The section "Consolidated companies: the principal figures" may be consulted for information on UBI Banca and other Group companies.

General banking business with customers: funding

The 2019 figures for direct banking funding comprise the effects of the adoption of IFRS 16. For a reconciliation of the figures as at 31st December 2018 and those resulting as at 1st January 2019 from the First-Time Adoption of the new Standard, see "Part A - Accounting policies" of the Notes to these financial statements.

Total banking funding

In the sector as whole, the direct funding of Italian banks was up overall at the annual level, with an increase in the growth rate over the course of the year. Over the previous twelve months, the gap between the positive performance of deposits and the negative performance of the bond component narrowed progressively due to the numerous bond placements during the year, above all by institutional issuers, including in the wake of the reduction of spreads on Italian government bonds. In an environment of weakness in the economic cycle, customers continued to show a preference for liquidity and products with reduced risk levels, even though characterised by minimal remuneration. With regard to indirect funding in particular, the rate of outflows from the assets under custody component gradually rose in the final months of the year following the decline in rates, which gave rise to an increase in liquidity, only partly benefiting assets under management.

Within this scenario, the ***Group's funding policies*** *favoured institutional funding.*
In fact, UBI Banca succeeded in gaining access to institutional markets even at particularly complex times, and this allowed an important funding plan to be implemented in 2019 and then continued in the weeks following the end of the year. Opportunities for issuance were taken, including in innovative instruments, allowing lesser recourse to the retail market, despite the significant maturities during the year: accordingly, bonds in issue placed with ordinary customers fell below €5 billion, the lowest level of recent years.
Within the framework of the EMTN programme, new funding related to both public issues of Tier 2 and Senior Non-Preferred subordinated instruments and private placements of senior bonds, including puttable instruments: the intrinsic characteristics of this latter type of securities mean that they are equivalent to instruments for managing shorter-term financial needs. Furthermore, in April UBI Banca brought to the market its first green bond, issued within a broader framework established in accordance with the guidelines set by the ICMA (International Capital Market Association), which in addition to green bonds also includes the possibility of issuing social and sustainable bonds.
Overall, the above issues within the framework of the EMTN Programme totalled €4.585 billion nominal, compared with maturities and redemptions totalling €1.151 billion.
An issue of €500 million nominal was carried out under the first covered bond programme, compared with maturities of just under €1 billion.
Finally, in early 2020 UBI Banca successfully closed its first Additional Tier 1 issue (Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) with a nominal total of €400 million[1]*.*
Owing to the implementation of the funding plan laid out above, the Group has already exceeded its expected total and subordinated MREL (Minimum Requirement for own funds and Eligible Liabilities), which will enter into force in June 2020.
The focus on institutional funding, in the presence of significant cash and cash equivalents in the accounts of retail customers, made it possible to favour channelling part of this liquidity into asset management and insurance instruments, with positive returns in terms of fee and commission revenues, more than offsetting the decline in net interest income.

1 For further details, see the Notes to the consolidated financial statements - Section 4 "Events occurring after the balance sheet date".

Total banking funding from customers

Figures in thousands of euro	31.12.2019 A	%	30.9.2019 B	%	30.6.2019 C	%	31.3.2019 D	%	1.1.2019 (*) E	%	Changes A-E amount	Changes A-E %
Direct banking funding	95,513,706	48.5%	95,855,254	48.7%	94,787,453	48.8%	93,633,045	48.7%	92,605,312	49.4%	2,908,394	3.1%
Indirect funding	101,452,337	51.5%	101,060,399	51.3%	99,459,583	51.2%	98,765,473	51.3%	94,742,917	50.6%	6,709,420	7.1%
of which: assets under management	*73,091,588*	*37.1%*	*71,580,055*	*36.4%*	*70,206,651*	*36.1%*	*69,016,848*	*35.9%*	*66,291,471*	*35.4%*	*6,800,117*	*10.3%*
Total banking funding	**196,966,043**	**100.0%**	**196,915,653**	**100.0%**	**194,247,036**	**100.0%**	**192,398,518**	**100.0%**	**187,348,229**	**100.0%**	**9,617,814**	**5.1%**
Total banking funding net of institutional funding	178,328,566		177,843,338		176,083,736		174,511,723		170,919,757		7,408,809	4.3%
of which: ordinary captive customers	*178,327,741*		*177,842,462*		*176,082,869*		*174,510,483*		*170,736,675*		*7,591,066*	*4.4%*

(*) The date 1st January 2019 must be interpreted as 31st December 2018 for indirect funding and for assets under management.

Total Group banking funding, consisting of total amounts administered on behalf of customers, totalled approximately €197 billion as at 31st December 2019 (+€9.6 billion on 1st January 2019).
As shown in the table, if the total is considered net of institutional and non-captive components, funding from ordinary captive customers amounted to €178.3 billion, recording growth of €7.6 billion over twelve months.

The overall trend in this aggregate in 2019 reflects the positive performance of direct funding, driven above all by the sight component, and an even more pronounced improvement in indirect funding, particularly in assets under management, at the level of both the insurance component, which showed constant progress, and of funds and Sicavs, which also benefited from the sound market performance over twelve months.

Direct banking funding

The UBI Banca Group's direct banking funding amounted to €95.5 billion as at 31st December 2019, an increase of €2.9 billion from €92.6 billion at the beginning of January.
This positive trend was driven by amounts due to customers and in particular by current accounts and sight deposits and repurchase agreements.
Debt securities issued declined: the total maturing securities were not entirely offset by new issuances.

Amounts due to customers rose to €72.7 billion from €68.8 billion in January and comprised in particular:

- *current accounts and sight deposits* of over €69 billion (€65.9 billion as at 1st January). The constant growth of the aggregate over the year continues to be fuelled by a preference for liquidity amongst customers in an environment of permanent uncertainty featuring near-zero returns and extreme market volatility;
- *term deposits* of €668 million (€1 billion approx. in January), originated almost entirely by the New Banks and reducing progressively as no longer subject to renewal on maturity;
- *repurchase agreements with the Cassa di Compensazione e Garanzia* (a central counterparty clearing house) of approximately €851 million (€215 million at the beginning of the year) used to optimise liquidity management partly with a view to supporting net interest income. As such, the comparison with the figures presented in the table is not fully representative of the performance of the item over twelve months.
  By contrast, *repurchase agreements with customers* remained wholly marginal, amounting to €31 million at the end of December (€24 million in January);

Direct banking funding from customers

Figures in thousands of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Current accounts and sight deposits	69,044,286	72.3%	65,887,975	71.1%	3,156,311	4.8%
Term deposits	668,085	0.7%	977,078	1.1%	-308,993	-31.6%
Financing	1,240,323	1.3%	513,092	0.6%	727,231	141.7%
- repurchase agreements	*881,816*	*0.9%*	*239,639*	*0.3%*	*642,177*	*268.0%*
of which: repos with the CCG	*850,609*	*0.9%*	*215,325*	*0.2%*	*635,284*	*295.0%*
- other	*358,507*	*0.4%*	*273,453*	*0.3%*	*85,054*	*31.1%*
Lease liabilities	388,990	0.4%	394,227	0.4%	-5,237	-1.3%
Other payables	1,322,246	1.4%	1,043,242	1.1%	279,004	26.7%
of which: measured at fair value (**)	*86,675*	*0.1%*	*-*	*-*	*86,675*	*-*
Total amounts due to customers *[liabilities item 10. b) + part of liabilities item 20 in the Reclassified Consolidated Balance Sheet]*	**72,663,930**	**76.1%**	**68,815,614**	**74.3%**	**3,848,316**	**5.6%**
Bonds	22,717,564	23.8%	23,422,397	25.3%	-704,833	-3.0%
Certificates of deposit	132,212	0.1%	367,301	0.4%	-235,089	-64.0%
Other certificates	-	-	-	-	-	-
Total debt securities issued (***) *[liabilities item 10. c) Reclassified Consolidated Balance Sheet]*	**22,849,776**	**23.9%**	**23,789,698**	**25.7%**	**-939,922**	**-4.0%**
of which:						
securities subscribed by institutional customers:	17,786,868	18.7%	16,213,147	17.5%	1,573,721	9.7%
EMTN Programme (****)	*7,214,900*	*7.6%*	*3,746,679*	*4.0%*	*3,468,221*	*92.6%*
Covered Bond Programme	*10,571,968*	*11.1%*	*10,961,828*	*11.9%*	*-389,860*	*-3.6%*
Covered Bond Repos	*-*	*-*	*1,504,640*	*1.6%*	*-1,504,640*	*-100.0%*
securities subscribed by ordinary customers:	5,062,908	5.3%	7,576,551	8.2%	-2,513,643	-33.2%
of the Group:						
- Certificates of deposit	*132,212*	*0.1%*	*367,301*	*0.4%*	*-235,089*	*-64.0%*
- Bonds	*4,929,871*	*5.2%*	*7,026,168*	*7.6%*	*-2,096,297*	*-29.8%*
external distribution networks:						
- Former Centrobanca Bonds	*825*	*0.0%*	*183,082*	*0.2%*	*-182,257*	*-99.5%*
Total direct funding	**95,513,706**	**100.0%**	**92,605,312**	**100.0%**	**2,908,394**	**3.1%**
Amounts due to customers net of institutional funding	*71,813,321*		*68,600,289*		*3,213,032*	*4.7%*
Total direct funding net of institutional funding	*76,876,229*		*76,176,840*		*699,389*	*0.9%*

(*) For those items other than "lease liabilities", the date 1st January 2019 must be interpreted as 31st December 2018.
(**) Values included in item 20 "Financial liabilities held for trading" of the consolidated balance sheet.
(***) Within this item, subordinated securities, consisting of Lower Tier 2 issues, amounted to €2,115 million as at 31st December 2019 (consisting of four EMTNs) and to €2,420 million as at 1st January 2019 (of which €1,279 million consisting of two EMTNs).
(****) The corresponding nominal amounts amounted to €7,110 million as at 31st December 2019 (of which €2,050 million nominal subordinated) and to €3,676 million as at 1st January 2019 (of which €1,250 million nominal subordinated).

- *"financing – other"* amounting to €359 million (€273 million at the beginning of 2019) inclusive of funds, of over €333 million (€235 million in January), made available to UBI Banca by the *Cassa Deposito e Prestiti* (CDP – a state controlled fund and deposit institution) as part of intervention to support SMEs. These funds benefited from new disbursements throughout the year, and in the fourth quarter in particular;
- *lease liabilities* amounting to €389 million (€394 million on First-Time Adoption at the beginning of 2019), an item recognised following the adoption of IFRS 16 "Leases" which replaced IAS 17 "Leases" and the relative interpretations from 1st January 2019;
- *other payables* amounting to €1.3 billion (€1 billion in January): the item also includes approximately €87 million of investment certificates[2] – issued for the first time in December 2019 – which represent an alternative form of funding to bonds.

By contrast, **securities issued** declined to €22.8 billion from €23.8 billion in January and were composed of:

2 Investment certificates are securitised derivative financial instruments issued by banks and tradeable on the main regulated markets. Such certificates replicate – with or without leverage – the performance of the underlying asset (shares, equity indices, units in mutual investment funds, commodities futures and foreign exchange rates, considered individually or grouped into baskets).

- *bonds* of €22.7 billion, down by €705 million on the beginning of January due to the net effect of the opposing trends at the level of the institutional component (+9.7% on an annual basis and in particular +92.6% for EMTNs), driven by the significant issuance undertaken in 2019, and of bonds placed with retail customers (-33.2%);
- *certificates of deposit* amounting to €132 million (€367 million in January), consisting almost entirely of instruments held by customers of the New Banks, down progressively due to non-renewal at maturity.

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

- Euro Medium Term Notes (EMTNs) amounting to €7.2 billion (+€3.5 billion in the year), listed in Dublin and issued by UBI Banca as part of a programme for a maximum issuance of €15 billion.

  With value date 4th March 2019, UBI Banca issued a subordinated Tier 2 note, with ten-year maturity and a redemption option after five years, for €500 million at a fixed rate. In the first quarter two puttable senior bonds were issued through private placement, one of €118 million nominal in January maturing in one year and one of €100 million nominal in March maturing in November 2022. Total maturities during the quarter amounted to €1.051 billion nominal.
  The first green bond (senior preferred) issuance was made with settlement date 10th April 2019 for €500 million nominal, with a five-year maturity and a fixed rate.
  The second UBI Banca senior non-preferred benchmark bond was issued on 13th June, with settlement date of 20th June, maturity in five years and a fixed rate, amounting to €500 million nominal. In June, three private senior placements were also made for a total of €180 million nominal, of which two were puttable (€55 million and €120 million respectively, the first maturing in June 2021 and the second in June 2020). There were no maturities in the second quarter.
  New issuance amounted to a total of €1,040 million nominal during the third quarter, whereas there were no maturities. In detail:
  - issuance in July included (i) a puttable private placement of €100 million nominal with a maturity of one year; (ii) a Tier 2 subordinated bond issue with a fixed rate, maturity of ten years and a redemption option after five years of €300 million nominal; and (iii) a senior preferred private placement with a maturity of three years of €500 million nominal;
  - in September there were two private placements of puttable bonds of €70 million nominal each, maturing in one and two years, respectively.

  Finally, during the fourth quarter UBI Banca carried out:
  - in October, (i) a reopening for €250 million nominal of the above senior preferred private issue of €500 million carried out in July with a maturity of 3 years; (ii) a private placement of puttable bonds for €60 million with maturity in two years; (iii) a benchmark issue of €500 million nominal of senior non-preferred notes, with a maturity of 5.5 years and a fixed rate; and (iv) two puttable private placements for €40 million and €117 million nominal, of 1 year and 2 years respectively;
  - in November, a senior preferred private placement for €500 million nominal with a five-year maturity;
  - finally, at year-end three puttable private placements, one of €75 million nominal with a maturity of one year and two with maturities of two years, for €40 million and €64.5 million, respectively.

  In December, a redemption of €100 million nominal occurred.
  It should be noted that the figures shown in the table also incorporate the effects of accounting adjustments on the securities.

  After year-end, within the EMTN programme, UBI Banca made two puttable private placements in late January for €50 million nominal each with a maturity of two years.

- Covered bonds of €10.6 billion (-€389.9 million over twelve months). The stated figure relates to issues outstanding under the first programme, backed by residential mortgages up to a maximum of €15 billion. These consist of 13 covered bond issues for €10,057 million nominal (unchanged at the date of this financial report)[3]. The notes are listed in Ireland, on the Euronext Dublin exchange.
  With value date of 25th February 2019, UBI Banca made a six-year and seven-month benchmark fixed-rate issuance under its first programme for €500 million nominal. No issues were carried out in the remainder of the year, following the amortisation in the first

3 Five self-retained issuances were made under the same programme for €3,500 million nominal, one for €500 million carried out in December 2015, one concluded in October 2018 for €700 million, two carried out in December 2018 for €500 million and €800 million respectively and one for €1 billion carried out in December 2019.
Because these were repurchased by UBI Banca itself, the liabilities are not recognised in the accounts, in accordance with IAS/IFRS.

and third quarters of the amortising bond issue stipulated with the EIB for €11.4 million nominal and the maturity of an instrument for €1 billion nominal in the fourth quarter. The changes shown in the table were also affected by the impacts of accounting adjustments on the securities.

As at 31st December 2019 the residential mortgage asset pool formed at UBI Finance to back the issuances – in terms of residual principal – amounted to €15.8 billion, of which 99.16% originated by UBI Banca and 0.84% by IW Bank.
The portfolio continued to show a high degree of fragmentation, including over 208 thousand mortgages with average residual debt of €76 thousand, distributed with approximately 63.03% in North Italy and in Lombardy especially (44.74% of the total).
With effect from 1st May 2019, UBI Banca transferred residential mortgages with an outstanding balance of over €2.4 billion to the programme with effect for economic purposes from 12th August and for legal purposes from 30th August 2019; UBI Banca repurchased residential mortgage loans classified as bad loans with an outstanding balance of €246.5 million.

As already reported, UBI Banca also has a "Second Programme" operational with a ceiling of €5 billion, backed by commercial mortgages and by residential mortgages not used in the first programme. So far the programme, listed on the Dublin stock exchange, has only been used for self-retained issuances[4].

At the end of December, the commercial and residential mortgage asset pool formed at UBI Finance CB 2 to back the issuances – in terms of residual principal – amounted to €2.8 billion, of which 99.48% originated by UBI Banca and 0.52% by IW Bank.
The portfolio included over 28 thousand mortgages with average remaining debt of €100 thousand, distributed, as for the first programme, with a high concentration in North Italy (59.47%) and in Lombardy especially (40.16% of the total).
With effect from 1st June 2019, a transfer of mortgages to the programme was made by UBI Banca of remaining debt amounting to approximately €675 million. UBI Banca repurchased mortgage loans classified as bad loans with an outstanding balance of €7.5 million with effect for economic purposes from 12th August and for legal purposes from 30th August 2019. Finally, with effect for economic purposes from 6th December and for legal purposes from 13th December, UBI Banca repurchased loans classified as unlikely to pay with a residual balance of over €1 million.

- Covered bond repos were reduced to nil at the end of December 2019 (€1.5 billion as at 1st January 2019). The transactions existing at the beginning of the year were carried out in the final months of 2018 using as the underlying part of the self-retained issues of the First and Second Covered Bond Programme. Over the twelve months the maturities that occurred[5] resulted in the concurrent release of eligible assets for use in refinancing with the ECB.

  This is a form of short-term funding with banking counterparties, accounted for among securities issued in accordance with Bank of Italy rules.

At the end of the year, FUNDING IN SECURITIES FROM ORDINARY CUSTOMERS decreased to €5.1 billion (-€2.5 billion for the year), 97.4% of which comprised of bonds. Within the item:

- bonds issued by UBI Banca were €4.9 billion (-€2.1 billion during the year). In the first quarter the Bank made issuances for €1,079.8 million nominal, of which €20 million of social bonds, while bonds amounting to €838.2 million nominal[6] reached maturity and bonds for €179.9 million nominal were repurchased. In the second quarter, the Parent issued bonds of €629.8 million nominal, of which €20 million of social bonds, against maturities of €663 million nominal[6] and repurchases of €193.3 million nominal. In the third quarter, UBI Banca placed securities for €385.9 million nominal (of which €20 million of social bonds), while securities amounting to €1.2 billion nominal reached maturity and bonds for €73.3 million nominal were repurchased. Finally, in the fourth quarter it issued

4 Totalling €2,150 million nominal: one issuance carried out in 2012 for €300 million (net of €200 million in amortisation), a second issuance of €650 million completed in July 2015, a third for €300 million completed in June 2016, a fourth for €300 million concluded in December 2017, a fifth for €200 million performed in December 2018 and a six for €400 million in December 2019. The €200-million issuance dating to March 2014 matured in March 2019.
Because these were repurchased by UBI Banca itself, the liabilities are not recognised in the accounts, in accordance with IAS/IFRS.

5 During the year €1,707.5 million nominal in covered bond repos reached maturity, of which €1,150 million related to the first programme (€475 million related to the December 2015 issuance, €525 million related to the €700 million issuance in October 2018 and €150 million related to the €500 million issuance in December 2018) and €557.5 million related to the second programme (€60 million related to the issuances in 2012 and 2017, €197.5 million to that of 2015 and €240 million to that of 2017).

6 The maturities reported do not include bonds that had matured at the end of the period and which have not yet been redeemed.

€119.2 million nominal[7] (of which €20 million of social bonds), compared with maturities of €949.5 million nominal and repurchases of €102.6 million nominal;

- the remaining funding from non-captive customers, consisting of securities issued by the former Centrobanca and placed through indirect banking networks was reduced close to zero (€825 thousand) following maturities almost entirely falling within the first three months of 2019.

It should be noted that the figures shown in the table also incorporate the effects of accounting adjustments on the securities.

A summary is given below of maturities for bonds in issue at the end of December 2019.

Maturities of bonds outstanding as at 31st December 2019

Nominal amounts in millions of euro	2020	2021	2022	2023	2024	Subsequent years	Total
UBI BANCA							
Bonds ordinary customers	715	2,316	1,798	54	97	4	4,984
Bonds institutional customers	2,071	1,435	1,611	1,750	3,250	7,050	17,167
of which: EMTNs	*548*	*412*	*1,600*	*500*	*1,500*	*2,550*	*7,110*
Covered bonds	*1,523*	*1,023*	*11*	*1,250*	*1,750*	*4,500*	*10,057*
Total	**2,786**	**3,751**	**3,409**	**1,804**	**3,347**	**7,054**	**22,151**

Listed securities (at the date of this report)

Bonds listed on the MOT (electronic bond market) ISIN number		Nominal amount of issue	Book value as at 31.12.2019	Book value as at 31.12.2018
IT0001300992	Centrobanca 1999/2019 step down indicizzato al tasso swap euro 10 anni	€ 170,000,000	-	€ 109,333,501
IT0001312708	Centrobanca 1999/2019 step down eurostability bond	€ 60,000,000	-	€ 70,272,304
IT0004457070	UBI subordinato lower tier 2 fix to float con rimborso anticipato 13.3.2009-2019	€ 370,000,000	-	€ 371,771,120
IT0004497050	UBI subordinato lower tier 2 fix to float con rimborso anticipato 30.6.2009-2019	€ 365,000,000	-	€ 365,025,603
IT0004841778	UBI subordinato lower tier 2 tasso misto 8.10.2012-8.10.2019 Welcome Edition	€ 200,000,000	-	€ 202,152,591
IT0004842370	UBI subordinato lower tier 2 tasso fisso 6% con ammortamento 8.10.2012-8.10.2019	€ 970,457,000	-	€ 197,013,150

Covered bonds listed on the Dublin stock exchange ISIN number		Nominal amount of issue	Book value as at 31.12.2019	Book value as at 31.12.2018
IT0004558794	UBI Covered Bonds due 16 December 2019 4% guaranteed by UBI Finance Srl	€ 1,000,000,000	-	€ 1,032,585,668
IT0004599491	UBI Covered Bonds due 30 April 2022 floating rate amortising guaranteed by UBI Finance Srl	€ 250,000,000	€ 56,749,696	€ 79,419,245
IT0004682305	UBI Covered Bonds due 28 January 2021 5.25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,084,035,091	€ 1,114,979,119
IT0004966195	UBI Covered Bonds due 14 October 2020 3.125% guaranteed by UBI Finance Srl	€ 1,500,000,000	€ 1,532,414,472	€ 1,557,564,295
IT0004992878	UBI Covered Bonds due 5 February 2024 3.125% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,126,635,700	€ 1,129,118,083
IT0005067076	UBI Covered Bonds due 7 February 2025 1.25% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,047,585,906	€ 1,024,809,713
IT0005140030	UBI Covered Bonds due 27 January 2023 1.00% guaranteed by UBI Finance Srl	€ 1,250,000,000	€ 1,292,756,895	€ 1,286,799,347
IT0005215147	UBI Covered Bonds due 14 September 2026 0.375% guaranteed by UBI Finance Srl	€ 1,000,000,000	€ 1,008,616,632	€ 964,377,205
IT0005283491	UBI Covered Bonds due 4 October 2027 1.125% guaranteed by UBI Finance Srl	€ 1,250,000,000	€ 1,319,315,579	€ 1,256,536,008
IT0005320665	UBI Covered Bonds due 15 January 2030 1.25% guaranteed by UBI Finance Srl	€ 500,000,000	€ 542,313,238	€ 505,334,177
IT0005320673	UBI Covered Bonds due 15 July 2024 0.50% guaranteed by UBI Finance Srl	€ 750,000,000	€ 762,902,377	€ 746,928,359
IT0005325151	UBI Covered Bonds due 23 February 2033 1.78% guaranteed by UBI Finance Srl	€ 90,000,000	€ 103,811,598	€ 95,060,851
IT0005325334	UBI Covered Bonds due 25 February 2033 1.75% guaranteed by UBI Finance Srl	€ 160,000,000	€ 183,949,364	€ 168,315,967
IT0005364663	UBI Covered Bonds due 25 September 2025 1.00% guaranteed by UBI Finance Srl	€ 500,000,000	€ 510,881,849	-

7 The amount also includes the approximately €87 million of certificates mentioned above.

Geographical distribution of funding from customers by the counterparty's region of residence (excluding repurchase agreements with central counterparties and bonds)(*)

Percentage of total	31.12.2019
Lombardy	51.08%
Marches	10.01%
Latium	7.30%
Piedmont	6.90%
Apulia	3.76%
Calabria	3.36%
Campania	3.19%
Tuscany	2.95%
Abruzzo	2.29%
Emilia Romagna	2.26%
Veneto	1.79%
Liguria	1.77%
Umbria	0.95%
Basilicata	0.79%
Friuli Venezia Giulia	0.37%
Molise	0.20%
Trentino Alto Adige	0.17%
Sicily	0.11%
Sardinia	0.07%
Valle d'Aosta	0.02%
Abroad	0.66%
Total	**100.00%**
North	**64.3%**
- North West	*59.7%*
- North East	*4.6%*
Central	**21.2%**
South	**13.8%**
Abroad	**0.7%**

(*) The aggregates relate to banks only.

Finally, the table "Geographical distribution of direct funding from customers by region of residence of the counterparty" gives the *geographical distribution* of conventional funding (consisting of current accounts, savings deposits, certificates of deposit and repurchase agreements) in Italy.

The situation at the end of the year shows consolidation of the primary concentration in North Italy (64.3% of the total) and in particular in the regions of the North-west (which rose to 59.7%).
Central Italy, the main area of reference for the operations of the banks acquired in 2017, was partially downsized, while continuing to account for 21.2 %.
The regions of the South remained stable at 13.8%.

Indirect banking funding and assets under management

In indirect funding, the rate of outflows from the assets under custody component rose in the final months of the year following a fall in interest rates, giving rise to an increase in liquidity, only partly benefiting assets under management. In the third quarter, open-ended mutual funds showed signs of recovery, with outflows slowing compared to the initial months of the year, yet with low inflow volumes from an historical perspective. In a scenario of weakness in the economic cycle, customers continued to prefer liquidity and products with lower risk levels and the segment also benefited, at the level of assets, from the favourable equity market performance over twelve months. The growth of mutual funds may receive a further impetus in 2020 from the recent legislative changes to the individual savings schemes (PIRs), with the lifting of the restrictions on investments introduced in early 2019, blocking them from being offered[8].
Based on Assogestioni figures[9]*, net inflows by the sector in 2019 amounted to €3.8 billion, the aggregate result of a positive trend for foreign registered funds (+€15.2 billion) and a negative contribution from Italian registered funds (-€11.4 billion). By type, the result was driven by bond funds (+€13.6 billion), balanced funds (+€4.7 billion) and money-market funds (+€1 billion), alongside a greater decline in flexible funds (-€11 billion) and equity funds (-€3.4 billion) and a smaller decline in hedge funds (-€1.1 billion), which reflects a change in the mix of investors' portfolios into assets they considered to be safer.*
Among the other managed components, the insurance market continued to show positive signs due to the placement of multi-sector products, which offset the decline in traditional products and the outflows from unit-linked products[10].

Indirect banking funding from ordinary customers

Figures in thousands of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Assets under custody	**28,360,749**	**28.0%**	**28,451,446**	**30.0%**	**-90,697**	**-0.3%**
Assets under management	**73,091,588**	**72.0%**	**66,291,471**	**70.0%**	**6,800,117**	**10.3%**
Customer portfolio management	5,869,382	5.7%	5,823,484	6.1%	45,898	0.8%
of which: fund based instruments	*1,459,681*	*1.4%*	*1,661,780*	*1.8%*	*-202,099*	*-12.2%*
Mutual investment funds and Sicav's	39,961,391	39.4%	35,775,933	37.8%	4,185,458	11.7%
Insurance policies and pension funds	27,260,815	26.9%	24,692,054	26.1%	2,568,761	10.4%
of which: Insurance policies	*27,258,037*	*26.9%*	*24,689,276*	*26.1%*	*2,568,761*	*10.4%*
Total	**101,452,337**	**100.0%**	**94,742,917**	**100.0%**	**6,709,420**	**7.1%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

The indirect funding of the UBI Banca Group at year-end amounted to €101.5 billion, an increase of €6.7 billion over twelve months (+7.1%).
The positive trend in the item – almost entirely attributable to assets under management – continued without interruption throughout the year, with more moderate growth in the last quarter (+€0.4 billion), reflecting a further increase in the managed component overall (+€1.5 billion), offset by a decline in assets under custody (-€1.1 billion) due to the disposal in December of a significant industrial equity investment by a large corporate client.
This trend, both year-on-year and quarter-on-quarter, benefited primarily from good performance by markets, but also from an overall favourable trend for total assets (net of the performance effect[11] and the disinvestment mentioned above, indirect funding rose by €1.3 billion or +1.3% over twelve months and by €0.9 billion or +0.9% in the fourth quarter).
In detail, **assets under management** reached €73.1 billion, accounting for 72% of the total aggregate, up €6.8 billion on the beginning of January (+10.3%), of which +€1.5 billion attributable to the fourth quarter.

8 The new regulatory change provides for the replacement of the two restrictions - at least 3.5% of investments allocated to companies listed on the AIM market and the other 3.5% to venture capital - with a single reserve obligation of 5% of 70% of the total value (equivalent to 3.5% of the scheme's overall assets under management) in financial instruments of small-capitalisation enterprises other than those included in the Borsa Italiana FTSE MIB and FTSE MID index or in equivalent indices of other regulated markets. This restriction is entirely compatible with the operations of open-ended funds.
9 "Monthly map of assets under management", December 2019.
10 Policies for which the performance is linked to that of UCITS.
11 Calculated in management accounting terms net of the insurance component of assets under management.

The table shows that over 60% of the annual change is attributable to mutual funds and Sicav's, which now amount to close to €40 billion, an increase of €4.2 billion, of which +€1 billion in the fourth quarter.

At the same time the life insurance sector recorded constant progress since the beginning of the year, especially with regard to multi-sector policies (insurance policies with lifetime duration which combine the advantages of unit-linked products with those of "Business sector I"[12] policies linked to separately managed portfolios). At the end of the December, total life insurance policies had reached €27.3 billion, an increase of approximately €2.6 billion, of which +€0.5 billion in the last quarter, a trend which is continuing to benefit, amongst other things, from the distribution of two innovative multi-sector life policies[13], which integrate investment and protection solutions with insurance, and also, to a more modest extent, from the life policies of BancAssurance Popolari Spa, Aviva Vita Spa and Lombarda Vita Spa.
Customer portfolio management remained essentially stable over the twelve-month period at approximately €5.9 billion (+0.8%), despite the reduction in fund-based investments (-€202.1 million).

Assets under custody – which amounted to €28.4 billion at the end of December – were essentially stable on an annual basis (-€90.7 million), but down by €1.1 billion in the fourth quarter, due entirely to the aforementioned disposal of a deposit in December. This decrease more than offset the increase in the first nine months of the year, driven by the robust equity market performance, within a scenario of a partial shift in customer investments towards forms of assets under management and insurance products.

* * *

At the end of December, the Assogestioni[14] data relating to Pramerica SGR Spa for MUTUAL FUNDS AND SICAV'S, was as follows for assets under management originated:

- net inflows of €696.7 million for twelve months, amounting to 2.29% of assets under management as at 1st January 2019 (net inflows for the industry nationally, on the other hand, were €3,789 million, amounting to 0.40% of assets at the beginning of 2019);
- an increase in assets over the year (+€3.4 billion; +11.3%), in percent terms in line with the positive performance by the banking sample (+€107.8 billion; +11.3%);
- assets of €33.8 billion, which puts the Group in ninth place with market share of 3.18% (3.18% at the beginning of 2019 as well).

It must nevertheless be considered that Assogestioni's sample also includes non-banking operators. Consequently, market shares for the UBI Banca Group in the asset management sector (mutual investment fund business) are naturally smaller than those for direct funding, lending and number of branches. If the analysis is restricted to banking companies only, the Group's market share as at 31st December 2019 was 6.46% – compared with 6.29% at the beginning of the year – placing UBI Banca stably in fourth position among Italian industry players.

12 Policies which pay financial benefits, if redeemed on expiry and in the event of the death of the insured, which are linked to a separately managed portfolio of the company.
13 Twin Selection and Twin Top Selection policies.
14 "Monthly map of assets under management", December 2019.

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

UBI Banca Group Figures in millions of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Equities	3,267	9.7%	2,800	9.2%	467	16.7%
Balanced	12,442	36.8%	11,121	36.6%	1,321	11.9%
Bond	15,748	46.5%	14,433	47.5%	1,315	9.1%
Money-market	-	-	340	1.1%	-340	-100.0%
Flexible	2,362	7.0%	1,696	5.6%	666	39.3%
TOTAL (a)	**33,819**	**100.0%**	**30,390**	**100.0%**	**3,429**	**11.3%**

Sector Figures in millions of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Equities	236,596	22.3%	197,687	20.7%	38,909	19.7%
Balanced	125,980	11.8%	98,426	10.3%	27,554	28.0%
Bond	410,838	38.6%	375,134	39.3%	35,704	9.5%
Money-market	33,883	3.2%	34,411	3.6%	-528	-1.5%
Flexible	252,830	23.8%	245,961	25.7%	6,869	2.8%
Hedge funds	3,024	0.3%	3,719	0.4%	-695	-18.7%
Unclassified	-	-	22	0.0%	-22	-100.0%
TOTAL (b)	**1,063,151**	**100.0%**	**955,360**	**100.0%**	**107,791**	**11.3%**
Market share of the UBI Banca Group (a)/(b)	**3.18%**		**3.18%**			
Market share of the UBI Banca Group limited to bank-related management companies only (**)	**6.46%**		**6.29%**			

(*) The date 1st January 2019 must be interpreted as 31st December 2018. Compared with the figure published in the 2018 financial statements, the item for UBI Banca Group's bond and money-market funds has been subject to a marginal internal reclassification, whereas the figures at the industry-wide level have been subsequently updated by Assogestioni.

(**) Market share calculated on the basis of a necessarily discretionary criterion in view of the difficulty in precisely identifying the perimeter of operators of a strictly banking nature.

Source: Assogestioni (national association of asset management companies).

As already reported, as part of the periodic surveys performed by Assogestioni, since June 2012 the figure for assets under management for the UBI Banca Group also includes, in consideration of their nature, also the management mandates granted to Pramerica Financial – the brand name used by Prudential Financial Inc. (USA) – a UBI Banca partner through Pramerica SGR (as at 31st December 2019: €5.6 billion of mutual funds and Sicav's, of which €2.1 billion of equity funds and €3.5 billion of bond funds). This presentation provides a more consistent account of the actual assets under management of the UBI Banca Group.

The summary figures given in the table confirm the prudential approach of Group customers, which showed the following:

- a percentage of lower risk funds (money-market funds and bonds) that is again higher than the figure for the sector, but down over twelve months (from 48.6% to 46.5% with the money-market component reduced to zero since September[15]), as also occurred for the Assogestioni sample (down from 42.9% to 41.8%);
- at the same time, a greater percentage of balanced funds, up slightly from 36.6% to 36.8%, compared with an average figure for the industry nationally up from 10.3% to 11.8%;
- a percentage of equity funds up slightly and constantly lower than the benchmark sample (9.7% compared with 22.3%);
- an increase in the percentage of flexible funds (7%), still far below the industry nationally, which also declined (23.8%);
- no investment in hedge funds (0.3% of the Assogestioni sample).

* * *

On the basis of Assogestioni figures for assets under management net of Group funds[16] (which includes COLLECTIVE INSTRUMENTS AND CUSTOMER PORTFOLIO MANAGEMENT), at the end of December the UBI Banca Group was positioned in seventh place[17] (in fifth place among Italian banking groups) with total assets for both ordinary and institutional customers amounting to

15 In the second quarter of 2019, the money-market fund "Pramerica Euro Cash" was converted into "Pramerica Obbligazionario 12M", a short-term bond fund.

16 "Monthly map of assets under management", December 2019. For companies not included the "Quarterly map of assets under management – third quarter of 2019".

17 The Group was in seventh place as at 31st December 2018. The fall in the position is a result of an increase, starting in January 2019, in individual institutional portfolio investment products by BancoPosta Fondi SGR following the acquisition of new management mandates by entities belonging to the Poste Italiane Group (mandates to manage liquidity deposited on current accounts, but also mandates to manage part of Poste Vita Spa's assets used to cover technical reserves).

€62.2 billion and a market share of 3.01%, essentially in line with the beginning of the year (3.02%).
If the analysis is limited to banking companies only, the Group's market share in December 2019 was 6.75%, an improvement compared to the 6.48% at the beginning of January in that it places UBI Banca stably in fourth position among industry players.

Insurance deposits and technical reserves

Insurance deposits and technical reserves

Figures in thousands of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Financial liabilities designated at fair value related to insurance business *[Liability item 30. in the Reclassified Consolidated Balance Sheet]*	**197,610**	**8.2%**	**105,836**	**5.3%**	**91,774**	**86.7%**
of which: Pension funds	*13,192*	*0.5%*	*11,954*	*0.6%*	*1,238*	*10.4%*
Unit-linked products	*184,418*	*7.7%*	*93,882*	*4.7%*	*90,536*	*96.4%*
Technical reserves *[Liability item 110. in the Reclassified Consolidated Balance Sheet]*	**2,210,294**	**91.8%**	**1,877,449**	**94.7%**	**332,845**	**17.7%**
Life business sector	2,210,294	91.8%	1,877,449	94.7%	332,845	17.7%
of which: mathematical reserves	*2,193,511*	*91.1%*	*1,863,880*	*94.0%*	*329,631*	*17.7%*
reserves for sums to be paid	*13,804*	*0.6%*	*12,865*	*0.7%*	*939*	*7.3%*
other reserves	*2,979*	*0.1%*	*704*	*0.0%*	*2,275*	*323.2%*
Non-life business sector (**)	-	-	-	-	-	-
Insurance deposits and technical reserves	**2,407,904**	**100.0%**	**1,983,285**	**100.0%**	**424,619**	**21.4%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.
(**) The company BancAssurance Popolari Danni was disposed of in May 2019 and has therefore been excluded from the scope of consolidation (for further details see the section of this Report entitled "The scope of consolidation").

At year-end, direct insurance funding and the related technical reserves amounted to €2.4 billion and were up by €0.4 billion from the approximately €2 billion as at 1st January 2019.

Financial liabilities relating to insurance business designated at fair value, represented by Business Sector III unit-linked and Business Sector VI pension fund policies, represent a residual, yet growing, share of the policy portfolio of BancAssurance Popolari Spa. In the annual comparison, the increase of 86.7% is in line with the development forecast by the company and is attributable principally to (i) net inflows (premiums collected net of benefits paid) of €81.2 million and (ii) for the remainder, to the positive impact on the measurement of insurance policies relating to the favourable financial market performance.

Technical reserves, consisting of insurance products in "Business Sector I" (policies that may be revalued and term life policies) and "Business Sector V" (policies that may be revalued), continue to represent the main component of the company's policy portfolio and they are composed of the commitments of the company to its insured. The growth of €332.8 million seen in the table derives (i) for €109.2 million from net inflows (premiums collected net of benefits paid) and the reinforcement of reserves and (ii) for €223.6 million from the reserve relating to the value of latent capital gains/losses on separate management portfolios (shadow accounting); the latter reserve is set aside to permit a proper representation of insurance liabilities and equity.

General banking business with customers: lending

Considering that the Group conducts mainly conventional banking business and holds a portfolio of loans originated in order to finance individuals and companies in their business activities as well as households, 'Hold to Collect'[1] is the business model adopted for the management of almost the entirety of the loan portfolio. The contractual characteristics of the UBI Banca Group's loans to customers are normally such that they pass the SPPI test. They are therefore classified predominantly within financial assets measured at amortised cost (asset item 40 in the consolidated balance sheet) with recognition of net impairment losses determined in compliance with IFRS 9 rules on impairment recognised through profit or loss.
However, loans which do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, where the SPPI test has not been passed, are recognised at fair value with changes in fair value recognised through profit or loss (asset item 20 in the consolidated balance sheet).

Total loans and advances to customers

Figures in thousands of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
Loans and advances to customers measured at fair value through profit or loss *[Asset item 20. 2) in the Reclassified Consolidated Balance Sheet]*	260,667	0.3%	274,262	0.3%	-13,595	-5.0%
Financial assets measured at fair value through other comprehensive income (**) *[Asset item 30. 2) in the Reclassified Consolidated Balance Sheet]*	-	-	15	0.0%	-15	-100.0%
Loans and advances to customers measured at amortised cost *[Asset item 40. 2) in the Reclassified Consolidated Balance Sheet]*	84,564,033	99.7%	88,987,596	99.7%	-4,423,563	-5.0%
Total	**84,824,700**	**100.0%**	**89,261,873**	**100.0%**	**-4,437,173**	**-5.0%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.
(**) The former Banca Popolare di Ancona policy that was included in this item as at 1st January 2019 was cancelled in the second quarter.

As at 31st December 2019 the total loans of the UBI Banca Group stood at €84.8 billion which, as stated in the introduction, are primarily classified within "Financial assets measured at amortised cost" and to a residual extent within "Financial assets measured at fair value through profit or loss".
The total decreased by €4.4 billion (-5%) from the start of the year, of which €1.8 billion to want to non-performing exposures (-€0.6 billion in the fourth quarter of which -€0.8 billion relating to non-performing exposures).

Loans and advances to customers measured at fair value through profit or loss

Item 20. 2) of the Reclassified Consolidated Balance Sheet

As shown in the table entitled "Total loans and advances to customers", at the end of December, those loans that had not passed the SPPI test, and which were therefore classified within "Financial assets measured at fair value through profit and loss", totalled €260.7 million, down by €13.6 million year-on-year (-€9.5 million compared with September). Those exposures, which related exclusively to the Parent, were completely negligible compared with the total size of the Group's lending assets, and were related also to business in gold with customers and the financing activity of the Corporate & Investment Banking (CIB) Division.

1 Financial instruments associated with the "Hold to Collect" business model are held within the framework of the management model the objective of which is to collect cash flows the contractual terms of which give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and advances to customers measured at amortised cost

Asset item 40. 2) in the Reclassified Consolidated Balance Sheet

"Financial assets measured at amortised cost" are classified, in accordance with IFRS 9, within three different credit risk stages depending on the state of creditworthiness of the financial instrument as at the measurement date compared with the grant date. In detail:

- *performing exposures are divided into stage 1 (loans for which credit risk has not increased significantly since initial recognition) and stage 2 (loans for which credit risk has increased significantly since initial recognition);*
- *non-performing exposures (past-due exposures, unlikely-to-pay exposures and bad loans) are allocated within stage 3 (loans which present objective evidence of impairment loss).*

Performance of the loan portfolio

Composition of loans and advances to customers measured at amortised cost

	31.12.2019					1.1.2019 (*)					Changes (A+B)-(C+D)	
Figures in thousands of euro	Stages one and two A	Stage three B	*of which: purchased or originated credit-impaired*	Total A+B	%	Stages one and two C	Stage three D	*of which: purchased or originated credit-impaired*	Total C+D	%	amount	%
Current account overdrafts	6,365,913	461,231	*100,795*	6,827,144	8.1%	6,951,328	613,160	*134,164*	7,564,488	8.5%	-737,344	-9.7%
Reverse repurchase agreements	850,699		-	850,699	1.0%	-	-	-	-	-	850,699	-
Mortgage loans and other medium to long-term financing	52,799,167	2,852,501	*257,702*	55,651,668	65.8%	55,500,752	3,771,400	*343,941*	59,272,152	66.6%	-3,620,484	-6.1%
Credit cards, personal loans and salary-backed loans	3,728,056	72,679	*2,251*	3,800,735	4.5%	3,403,660	81,995	*3,095*	3,485,655	3.9%	315,080	9.0%
Finance leases	4,761,923	415,195	*46,388*	5,177,118	6.1%	5,203,961	819,427	*58,922*	6,023,388	6.8%	-846,270	-14.0%
Factoring	2,366,313	33,231	-	2,399,544	2.8%	2,309,088	215,404	-	2,524,492	2.8%	-124,948	-4.9%
Other financing	9,520,498	336,627	*47,727*	9,857,125	11.7%	9,642,843	474,578	*56,999*	10,117,421	11.4%	-260,296	-2.6%
Total Asset item 40. 2) in the Reclassified Consolidated Balance Sheet	**80,392,569**	**4,171,464**	***454,863***	**84,564,033**	**100.0%**	**83,011,632**	**5,975,964**	***597,121***	**88,987,596**	**100.0%**	**-4,423,563**	**-5.0%**
of which: Stage one				*71,606,086*	*84.7%*				*71,420,474*	*80.3%*	*185,612*	*0.3%*
Stage two				*8,786,483*	*10.4%*				*11,591,158*	*13.0%*	*-2,804,675*	*-24.2%*
Stage three				*4,171,464*	*4.9%*				*5,975,964*	*6.7%*	*-1,804,500*	*-30.2%*
of which: Short-term	*19,103,423*			*19,934,512*	*23.6%*	*18,903,259*			*20,206,401*	*22.7%*	*-271,889*	*-1.3%*
Medium to Long-term	*61,289,146*			*64,629,521*	*76.4%*	*64,108,373*			*68,781,195*	*77.3%*	*-4,151,674*	*-6.0%*

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

As at 31st December 2019 loans and advances to customers measured at amortised cost amounted to €84.6 billion (accounting for 99.7% of the Group's total loan portfolio) and were down by €4.4 billion (-5%) over TWELVE MONTHS.

The change in the item incorporates:

- on the one hand, a significant decline in total net non-performing exposures (-€1.8 billion) due to both the sound operating performance and internal recovery and the wholesale reduction initiatives carried out over the previous twelve months (see the section "Significant events in 2019" for details);
- on the other, an increase in exposures to the *Cassa di Compensazione e Garanzia* ("CCG" - central counterparty clearing) (repurchase agreements and margin deposits totalling +€871.4 million)[2], by nature subject to a certain degree of variability over the course of the year.

Isolating the components relating to the CCG, loans to the economy, represented by net performing loans, amounted to €79.4 billion, down by €3.5 billion (-4.2%) on €82.9 million at the beginning of 2019.

In a scenario of persistent weakness of the business cycle, this performance was affected above all by the policy of safeguarding spreads to protect capital launched in the second half of 2018, which influenced the lending trend, while allowing the impact of the persistent

2 At the end of 2019, the exposure to the CCG totalled €950.7 million, of which €850.7 million relating to repurchase agreements with Italian government securities as their underlying, entered into as an investment of liquidity, and €100 million attributable to margin deposits required to secure repurchase agreements, correlated with average volume performance. At the beginning of the year, there were only margin deposits receivable of €79.3 million.

negative interest rate scenario on net interest income to be contained. In parallel, new medium to long-term grants, while offering improved commercial spreads, still fell short of volumes reaching maturity (the remaining debt of loans granted to customers using TLTRO II funds was down by €2.6 billion compared with the beginning of January[3]).

From the standpoint of maturities, the above decline of €3.5 billion in loans to the economy (performing loans considered net of the CCG) over twelve months was due:

- for approximately -€0.7 billion (-3.6%), to types of short-term lending, which totalled approximately €18.2 billion, accounting for 22.9%[4], at the end of December. This reduction is related entirely to the first quarter of the year, given that, in subsequent periods, the total posted progressive recoveries.

  The average balances of short-term interest-bearing gross loans (i.e., excluding bad loans) declined by €1.3 billion (-7.4%) according to management accounting figures.

  The downtrend affected "Current accounts" (-€585.4 million) and "Other loans"[5] (-€143.1 million, net of the CCG) in particular, whereas "Factoring" increased slightly (+€57.2 million).

- for -€2.8 billion (-4.4%) to medium to long-term types of lending, which at the end of the year amounted to €61.3 billion, making up 77.1% of the total.

  The average balances of medium to long-term interest-bearing gross loans (i.e., excluding bad loans) declined by €2.8 billion (-4%) according to management accounting figures.

  By type of lending, the decline in "Mortgage loans and other medium to long-term loans" (-€2.7 billion) was accompanied by a decrease in leases (-€442 million) – where selective policies prevailed – only partially offset by the uptrend in consumer credit (+€324.4 million), due in part to Prestitalia salary and pension-backed lending.

  The €52.8 billion of mortgages and other performing medium to long-term financing outstanding at the end of September were composed, on the basis of management accounting figures, of residential mortgages totalling €24.2 billion, of which €23.1 billion granted to consumer households and €1.1 billion to businesses, a slight decline over twelve months (€24.5 billion at the end of September, of which €23.4 billion granted to consumer households and €1.1 billion to businesses; €24.8 billion at the beginning of the year, of which €23.5 billion disbursed to consumer households and €1.3 billion to businesses). Including loans classified as stage three, mortgages amounted to €25.24 billion, of which €23.77 billion granted to consumer households and €1.47 billion to businesses (€25.94 billion at the end of September, of which €24.38 billion granted to consumer households and €1.56 billion to businesses; €26.3 billion at the beginning of the year, of which €24.6 billion to consumer households and €1.7 billion to businesses).

In the FOURTH QUARTER, outstanding loans measured at amortised cost (performing and non-performing) declined by €615.3 million (-0.7%), due to the significant fall in non-performing exposures (-€803.4 million; -16.1%), owing in part to the wholesale disposals completed in December.
In the October-December period, the trend in performing loans incorporates increased transactions with the CCG (+€696.5 million, of which +€850.7 million relating to repurchase agreements and -€154.2 million to margin deposits)[6]. Net of components relating to the CCG, loans to the economy declined over three months by €508.4 million (-0.6%)[7].
From the viewpoint of type of lending, medium to long-term loans declined by €980 million – due in part to the general economic situation and the policy of safeguarding the spread, and in particular to "Mortgage loans and other medium to long-term loans" (-€985.9 million), which incorporated a reduction of €710 million in the remaining debt for loans drawn on TLTRO funding.
The decline in leasing (-€109.3 million) was offset by the favourable performance of consumer credit (+€115.1 million).
On the basis of management accounting figures, the quarterly performance of average balances of medium to long-term gross interest-bearing loans (i.e., excluding bad loans) showed a continuing decline of €1.1 billion (-1.6%) in the fourth quarter, following on decreases of €0.8 billion (-1.2%) in the third quarter, of €0.7 billion (-1%) in the second quarter and of €1 billion (-1.5%) in the first quarter.

3 In addition to repayments, changes in total TLTRO lending was also affected by a progressive reduction in the maximum duration of new grants and the limits set on the target customers for the loans.
4 Including the CCG, short-term forms of lending increased by €0.2 billion to €19.1 billion (+1.1%).
5 The item includes credit through advances, portfolio lending, import/export transactions, very short term lending, etc.
6 As at 30th September 2019, exposures to CCG were €254.2 million, represented almost entirely by margin deposits.
7 The change over three months, also including business with the CCG, was +€0.2 billion.

By contrast, shorter-term loans, considered net of business with the CCG, were up year-on-year (+€471.7 million),[8] an increase attributable principally to factoring activity (+€592.4 million) and, to a more modest extent, "Other loans" (+€134.8 million), whereas current accounts declined (-€255.5 million).

On the basis of management accounting figures, the quarterly performance of the average balances of interest-bearing gross loans (i.e. excluding bad loans) declined (-€0.5 billion; -3.2%) in the fourth quarter, compared with essential stability in the third quarter (-€0.1 billion; -0.5%), a decline in the second quarter (-€0.8 billion; -4.8%) and modest growth (+€0.1 billion; +0.6%) in the first quarter.

In consideration of the different trend for these two items, the *loan-to-deposit ratio* (net loans and advances to customers at amortised cost to direct funding from customers) stood at 88.5% compared with 96.1%[9] at the beginning of the year (88.9% at the end of September 2019).

Distribution of loans by economic sector and ATECO code
(Bank of Italy classification)

	31.12.2019		
	Total	of which non-performing	of which bad loans
Manufacturing and service companies (non-financial companies and producer households)	**52.6%**	6.4%	3.4%
of which: manufacturing activities:	*14.7%*	*0.9%*	*0.4%*
- Metallurgy, fabrication of metal products and processing of non-metallic minerals	3.9%	0.3%	0.1%
- Foodstuff, beverage and tobacco industries	1.9%	0.1%	0.1%
- Fabrication of oil refinery, chemical and pharmaceutical products	1,6%(*)	0.0%	0.0%
- Fabrication of machinery	1.6%	0.1%	0.0%
- Textile industries, tailoring of articles in leather and fur, fabrication of articles in leather and similar	1.2%	0.2%	0.1%
- Fabrication of articles in rubber and plastic	1.0%	0.0%	0.0%
- Fabrication of electronic products, electrical and non-electrical equipment	0.9%	0.0%	0.0%
- Timber industry and fabrication of furniture	0.7%	0.1%	0.1%
- Fabrication of motor vehicles, trailers, semitrailers and other means of transport	0.7%	0.0%	0.0%
- Fabrication of paper and paper products, printing and reproduction of recorded media	0.5%	0.1%	0.0%
- Other manufacturing industries	0.7%	0.0%	0.0%
Real estate activities	*8.6%*	*1.6%*	*0.7%*
Wholesale and retail commerce, repair of motor vehicles and motorcycles	*7.9%*	*0.7%*	*0.5%*
Constructions	*5.8%*	*2.0%*	*1.1%*
Professional, scientific and technical activities	*3.2%*	*0.2%*	*0.1%*
Supply of electricity, gas, steam and air conditioning	*2.3%*	*0.1%*	*0.0%*
Transport and warehousing	*2.0%*	*0.2%*	*0.1%*
Agriculture, forestry and fishing	*1.8%*	*0.2%*	*0.2%*
Accommodation and catering services	*1.8%*	*0.3%*	*0.2%*
Hire, travel agency, business support services	*1.3%*	*0.1%*	*0.1%*
Information and communication services	*1.0%*	*0.0%*	*0.0%*
Water supply; sewerage, waste management and cleanup activities	*0.8%*	*0.0%*	*0.0%*
Financial and insurance activities	*0.3%*	*0.0%*	*0.0%*
Extraction of minerals from quarries and mines	*0.1%*	*0.0%*	*0.0%*
Residual activities	*1.0%*	*0.1%*	*0.0%*
Consumer households	**37.7%**	1.9%	0.8%
Financial companies	**4.8%**	0.1%	0.1%
Public administrations	**1.1%**	0.0%	0.0%
Other (not-for-profit institutions and the rest of the world)	**3.8%**	0.1%	0.1%
Total	**100.0%**		

Source: management accounting database (ICAAP).
Total gross lending with ATECO codes (€87.87 billion as at 31st December 2019). The amount does not include the restatement in accordance with IFRS 3 of the gross non-performing exposures of the Banks acquired in 2017.
(*) The component relating only to the fabrication of coke and derivative products of oil refining amounts to 0.44%.

As may be seen from the table, which in management accounting figures gives the *distribution of lending by economic sector and ATECO code* (economic sector – Bank of Italy classification) of consolidated loans at amortised cost, considered gross of impairment losses, as at 31st December 2019, 90.3% of outstanding loans continued to be to manufacturing and service

8 The change over three months, also including business with the CCG, was +€1.2 billion.
9 The value is different from that published in the 2018 Annual Report (96.5%) because it is calculated on total direct funding as at 1st January 2019, as recalculated on First-Time Adoption of IFRS 16.

companies and households, which confirms the traditional attention paid by the Group to local communities.
Turning, finally, to financial guarantees issued, which are subject to the impairment rules set out in IFRS 9, at year-end they amounted to €6.08 billion, 84.2% of which had been granted to non-financial companies. Of these, €5.98 billion were classified to stages one and two.

Loan concentration[10]

From the standpoint of *concentration*, the figures at the end of December were essentially stable compared with twelve months previously, with the exception of the first ten exposures, but up slightly on the other comparative periods. The trend described above is principally related to the downtrend in total loans, due in part to the significant decline in non-performing exposures during the year. However, the levels are still low, which confirms the constant attention paid by the Group to this important qualitative aspect of the portfolio.

Concentration of risk
(largest customers or groups as a percentage of total gross loans, unsecured guarantees and securities - management accounting figures)

Customers or Groups	31.12.2019	30.9.2019	30.6.2019	31.3.2019	31.12.2018
Largest 10	4.7%	4.4%	4.6%	4.5%	4.4%
Largest 20	7.3%	7.0%	7.1%	7.0%	7.2%
Largest 30	9.0%	8.7%	8.7%	8.8%	9.1%
Largest 40	10.3%	10.0%	10.1%	10.1%	10.5%
Largest 50	11.5%	11.2%	11.1%	11.1%	11.7%

As concerns "*large exposures*"[11], the supervisory report as at 31st March 2019 reports the UBI Banca Group as compliant with the provisions of Art. 4 of Regulation (EU) 575/2013 (CRR) which, in line with "Guidelines on connected clients under Article 4 (1)(39) of Regulation (EU) 575/2013", requires groups of customers connected on the basis of legal or economic relationships to be reported.

Specifically, with regard to the UBI Banca Group's large exposures, the nominal and weighted values reported in the table also include groups connected with the Ministry of Economics and Finance (MEF) but, in terms of the number of positions, the latter has been considered once only.
Consequently, the supervisory report as at 31st December 2019 shows seven positions (six in the previous quarterly observations) for amounts equal to or greater than 10% of the eligible capital, for a total of approximately €35.88 billion. In detail:

Large exposures

Figures in thousands of euro	31.12.2019	30.9.2019	30.6.2019	31.3.2019
Number of positions	7	6	6	6
Exposure	35,878,381	37,996,841	35,265,157	34,088,207
Risk positions	4,590,240	4,043,917	3,960,660	4,074,174

- €19.19 billion relates to central government (€19.42 billion in September, €19.40 billion in June and €19.26 billion in March). Of this, approximately €14.73 billion relates to the MEF (€15.03 billion, €15 billion and €14.90 billion), consisting mainly of investments in government securities by the Parent (and to a minor extent of current and deferred tax assets), while €4.46 billion (€4.39 billion, €4.40 billion and €4.36 billion) relates to counterparties connected with them (almost entirely corporate), which considered singly would not have exceeded the aforementioned 10% threshold;
- €9.62 billion relates to liquidity deposited with the Bank of Italy (€12.62 billion; €10.45 billion; €9.03 billion);
- €1.82 billion relates to *Cassa di Compensazione e Garanzia* (a central counterparty clearing house), mainly for reverse repurchase agreements (€1.70 billion; €1.48 billion; €1.63 billion);
- €1.78 billion relates to investments in securities issued by the United States Treasury (€1.85 billion; €1.56 billion; €1.69 billion);

10 Concentration, large exposures and the breakdown of loans and advances to customers by geographical area are defined as relating to the total loan portfolio of the Group consisting of the sum of loans to customers classified within "Financial assets measured at amortised cost" and those classified within "Financial assets measured at fair value", even if the unit and overall size of the latter are not sufficient to affect the results of the measurements.
11 Supervisory reporting on the basis of the provisions of the Basel 3 rules, in force from 1st January 2014: Bank of Italy Circulars No 285 and No 286 of 17th December 2013 and subsequent updates.

- €1.30 billion relates to investments in Spanish government securities (€1.14 billion; €1.29 billion; €1.13 billion);
- €1.14 billion relates to a major banking counterparty, primarily for reverse repurchase agreement business and current accounts (€1.27 billion; €1.09 billion; and €1.35 billion);
- €1.03 billion relates to a second major banking group, primarily for repurchase agreement business, derivatives and current accounts in foreign currencies.

As a result, amongst other things, of the predominant application of a zero weighting factor for positions held with governments, actual risk positions of the Group after weighting totalled €4.59 billion, of which €3.50 billion attributable to central government (of which only €81.40 million relating directly to the MEF and the remaining part, on the other hand, to groups of companies connected with it). The percentage of the qualifying capital is well below the limit of 25% set for banking groups for each of the exposures reported, considered singularly.

A summary of the *geographical distribution* of loans in Italy is given in the table “geographical distribution of loans to customers by residency of the counterparty”.
At the end of the year, the bulk of the Group's loan portfolio continuing to be attributable to borrowers based in the northern regions of Italy (67.5% of the total), and in the North West in particular (59.5%). The weight of loans to the central regions of Italy, which also reflects the Group's established presence in the home communities of the banks acquired in 2017, declined slightly to 20%[12], whereas the percentage attributable to the South exceeded 11%.

Geographical distribution of loans to customers by the counterparty's region of residence (*)

Percentage of total	31.12.2019
Lombardy	50.65%
Latium	9.53%
Marches	6.83%
Piedmont	6.51%
Emilia Romagna	4.07%
Campania	3.43%
Veneto	2.67%
Apulia	2.58%
Tuscany	2.36%
Liguria	2.26%
Abruzzo	1.87%
Calabria	1.58%
Umbria	1.29%
Trentino Alto Adige	0.64%
Friuli Venezia Giulia	0.64%
Sardinia	0.49%
Sicily	0.49%
Basilicata	0.42%
Molise	0.20%
Valle d'Aosta	0.07%
Abroad	1.42%
Total	**100.00%**
North	**67.5%**
- North West	*59.5%*
- North East	*8.0%*
Central	**20.0%**
South	**11.1%**
Abroad	**1.4%**

(*) Financing to the private sector, excluding bad loans and reverse repurchase agreements, relating to the banking perimeter only.

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

With regard to targeted longer-term refinancing operations (TLTROs), as already reported, on 10th March 2016, the ECB approved a programme entitled “New series of targeted longer-term refinancing operations (TLTRO II)”, which involves four quarterly operations (from June 2016 to March 2017) each with a life of four years.
The UBI Banca Group applied for funds under that programme totalling €12.5 billion, against a maximum of €14.5 billion[13] that could be applied for. In detail:
- in June 2016 the Group took part in the first of four auctions. It fully repaid funds obtained from the previous TLTRO operations totalling €8.1 billion[14] and was allotted new funds amounting to €10 billion with the due date on 24th June 2020;
- in March 2017 the Group took part in the fourth and last auction and obtained liquidity of €2.5 billion with the due date on 24th March 2021.

In the second half of the year, the Group completed the early repayment, in two instalments, of €2.5 billion in TLTRO II in relation to the €10 billion maturing on 24th June 2020.
- €1.5 billion with a value date of 25th September 2019;
- €1 billion with a value date of 18th December 2019.

These repayments were made possible by the rapid implementation of the funding plan aimed, in part, at replacing extraordinary ECB financing over time with market issues.

As at 31st December 2019, loans to customers drawn on these funds presented a remaining outstanding balance of €6.84 billion (€7.55 billion in September; €8.3 billion in June 2019; €9.4 billion in early 2019).

12 The share for the Latium Region may be affected by seasonal factors relating to business with companies controlled by central government organisations.
13 As communicated by the Bank of Italy.
14 The total amount that had been allotted to the Group with its participation in three of the seven TLTRO I auctions held by the ECB.

Risk

The entry into force of international reporting standard IFRS 9 determined a revision of the procedures used for calculating impairment losses on loans, with a changeover from the concept of incurred credit loss to one of expected credit loss (ECL). The standard requires a different way of calculating impairment (ECL) based on deterioration of credit quality as follows: 1-year ECL for positions classified within the stage one and lifetime ECL of an instrument for those included within stages two and three. Estimates of ECL involve the inclusion of forward-looking scenarios and, in relation to portfolios to be sold, it reflects not only recovery through the ordinary management of loans, but also the presence of a "sales scenario" consistent with the Group's goals for the reduction of its outstanding non-performing exposures.

Despite an unfavourable macroeconomic landscape, due in part to the contained impact of adoption of the new definition of default (DoD)[15] as of 1st July, in 2019 the UBI Banca Group gradually accelerated the reduction of *gross non-performing exposures*, which at the end of the year were significantly lower in terms of both absolute value and as a percentage that the targets set for the end of 2019 in the NPL plan presented to the ECB in March 2019.
As already stated in the section "Significant events in 2019", the ongoing sharp reduction – which is also benefiting from a progressive containment of inflows from performing status – reflects above all the strong result of the priority internal management and recovery strategy, which remained a key element of the prevailing strategy.
At the same time, a wholesale disposal of non-performing positions has also been planned to expedite the process of reducing non-performing exposures and thereby facilitate the internal management of credit recovery.
In the last part of the year, the Group took a favourable view of the additional opportunities offered by the market, not contemplated in the NPL Plan for 2019, including with regard to multi-originator sales of loan portfolios classified to the unlikely-to-pay category.

Total *gross non-performing exposures* amounted to €6.8 billion at the end of December, marking an annual decline of €2.9 billion (-29.6%), of which approximately €1.9 billion attributable to the wholesale disposals completed during the year.
The performance over twelve months summarises the following:

- bad loans fell below €3.6 billion, down by €1.9 billion (-34.4%), benefiting from the following disposals:
  - approximately €0.2 billion of factoring receivables subject to litigation in June;
  - €0.7 billion in total relating to a lease portfolio, in two phases, in September and December;
  - €0.8 billion relating to a securitised portfolio of residential mortgage loans backed by GACS (government guarantees);
  - €15.5 million relating to a Prestitalia portfolio;
- unlikely-to-pay exposures of €3.2 billion decreased by €1.05 billion (-24.9%), due to the good results attributable to internal management of credit recovery, but also to the contribution in December of a portfolio of €0.1 billion to a new multi-originator platform dedicated to managing unlikely-to-pay (UTP) real-estate loans, in addition to transfers to investment funds of smaller amounts undertaken in the previous months for an additional total of €0.1 billion;
- past-due exposures, quantifiable at €110.5 million, increased by €39.5 million, to be viewed in relation to the adoption of the new definition of default (DoD), the effect of which as at 1st July 2019 may be quantified at approximately €86 million.

It should be noted that, during the year, in addition to the aforementioned wholesale disposals of portfolios, disposals of individual positions classified as bad loans and unlikely-to-pay exposures with gross carrying amounts of approximately €81 and €102 million, respectively, were carried out.

15 In this regard, see "Developments in the regulatory context" in the section "Other information" below.

Loans and advances to customers measured at amortised cost as at 31st December 2019 (*)

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures (Stage three)	**(7.80%)**	**6,838,473**	**2,667,009**	**(4.93%)**	**4,171,464**	**39.00%**
- Bad loans	(4.05%)	3,555,090	1,847,960	(2.02%)	1,707,130	51.98%
- Unlikely-to-pay exposures	(3.62%)	3,172,926	809,849	(2.79%)	2,363,077	25.52%
- Past-due exposures	(0.13%)	110,457	9,200	(0.12%)	101,257	8.33%
Performing exposures (Stages one and two)	**(92.20%)**	**80,853,909**	**461,340**	**(95.07%)**	**80,392,569**	**0.57%**
- Stage one	(81.84%)	71,763,886	157,800	(84.68%)	71,606,086	0.22%
- Stage two	(10.36%)	9,090,023	303,540	(10.39%)	8,786,483	3.35%
Total		**87,692,382**	**3,128,349**		**84,564,033**	**3.57%**

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

Loans and advances to customers measured at amortised cost as at 1st January 2019 (***)

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (**)
Non-performing exposures (Stage three)	**(10.42%)**	**9,716,770**	**3,740,806**	**(6.72%)**	**5,975,964**	**38.50%**
- Bad loans	(5.81%)	5,423,214	2,655,439	(3.11%)	2,767,775	48.96%
- Unlikely-to-pay exposures	(4.53%)	4,222,577	1,078,162	(3.53%)	3,144,415	25.53%
- Past-due exposures	(0.08%)	70,979	7,205	(0.08%)	63,774	10.15%
Performing exposures (Stages one and two)	**(89.58%)**	**83,562,023**	**550,391**	**(93.28%)**	**83,011,632**	**0.66%**
Total		**93,278,793**	**4,291,197**		**88,987,596**	**4.60%**

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

(*) The final PPA to the non-performing exposures of the Banks acquired in 2017 gave rise in 2019 to a positive reversal of €25.2 million (€0.3 million in the fourth quarter, €4.7 million in the third quarter; €8.6 million in the second quarter; and €11.6 million in the first quarter).

(**) The coverage ratio is calculated as the ratio of impairment losses to gross exposure.
In accordance with the Group's new policy introduced in the second quarter of 2019, impairment losses and gross exposures for bad loans and unlikely-to-pay loans are net of write-offs. Loan write-offs (corresponding to the cumulative amount of write-offs on financial assets still recognised in the accounts) amounted to €1.7 billion as at 31st December 2019 (of which €1.1 billion of partial write-offs), up compared with €1.35 billion at the beginning of 2019.
When adjusted to take account of loan write-offs, the coverage ratio for total non-performing exposures was 50.92% (49.70% at the end of September; 46.01% at the beginning of the year), while the ratio for bad loans was 67.12% (63.10%; 59.14%).
For further information regarding write-offs, refer to Section A - Accounting policies of the Notes to the consolidated financial statements.

(***) The date 1st January 2019 must be interpreted as 31st December 2018.

The trends and causes discussed above continued into the FOURTH QUARTER: the decline amounted to €1.47 billion (-17.7%), of which -€1.04 billion attributable to bad loans (which benefited from the second phase of the wholesale disposal of the lease portfolio and the disposal of the residential mortgage loan portfolio), -€0.4 billion to unlikely-to-pay positions and -€28.3 billion to past-due exposures.

The significant decline in gross balances since the beginning of the year resulted in a considerable decrease as a percentage of the total from 10.42% to 7.80% (9.34% in September), which, additionally, was not fully shown due to the reduction in total gross loans measured at amortised cost used as the denominator.

Loans and advances to customers measured at amortised cost: quarterly changes in total gross non-performing exposures

	Figures in thousands of euro	1st Quarter 2018	2nd Quarter 2018	3rd Quarter 2018	4th Quarter 2018	Total 2018	1st Quarter 2019	2nd Quarter 2019	3rd Quarter 2019	4th Quarter 2019	Total 2019
A.	**Initial gross exposure at beginning of period**	**12,413,612**	**12,378,749**	**12,008,425**	**10,491,621**	**12,413,612**	**9,716,770**	**9,458,410**	**9,002,822**	**8,312,792**	**9,716,770**
B.	**Increases**	**902,505**	**792,302**	**773,991**	**744,608**	**3,213,406**	**422,342**	**569,824**	**523,253**	**673,326**	**2,188,745**
B.1	inflows from performing exposures	390,350	313,332	312,938	289,209	1,305,829	164,985	251,044	273,261	240,319	929,609
B.3	transfers from other classes of non-performing exposures	239,856	242,930	297,443	315,642	1,095,871	167,072	232,322	200,448	339,940	939,782
B.4	contractual modifications without derecognition	-	-	-	-	-	84	111	63	2	260
B.5	other increases	272,299	236,040	163,610	139,757	811,706	90,201	86,347	49,481	93,065	319,094
C.	**Decreases**	**-937,368**	**-1,162,626**	**-2,290,795**	**-1,519,459**	**-5,910,248**	**-680,702**	**-1,025,412**	**-1,213,283**	**-2,147,645**	**-5,067,042**
C.1	outflows to performing exposures	-95,170	-118,799	-82,733	-165,492	-462,194	-83,187	-249,424	-65,768	-67,130	-465,509
C.2	write-offs (*)	-183,359	-325,929	-934,886	-611,575	-2,055,749	-177,927	-235,477	-194,969	-200,903	-809,276
C.3	payments received	-391,543	-385,201	-294,125	-315,528	-1,386,397	-219,352	-224,226	-199,181	-282,348	-925,107
C.4	profits from disposals	-15,748	-65,642	-660,363	-96,435	-838,188	-17,476	-34,423	-194,530	-535,868	-782,297
C.5	losses from disposals	-1,051	-20,253	-17,928	-12,183	-51,415	-1,702	-6,886	-79,785	-57,418	-145,791
C.6	transfers to other classes of non-performing exposures	-239,856	-242,930	-297,443	-315,642	-1,095,871	-167,072	-232,322	-200,448	-339,940	-939,782
C.7	contractual modifications without derecognition	-	-	-	-	-	-1,119	-737	-644	-3,458	-5,958
C.8	other decreases	-10,641	-3,872	-3,317	-2,604	-20,434	-12,867	-41,917	-277,958	-660,580	-993,322
D.	**Total gross exposure at end of period**	**12,378,749**	**12,008,425**	**10,491,621**	**9,716,770**	**9,716,770**	**9,458,410**	**9,002,822**	**8,312,792**	**6,838,473**	**6,838,473**

The quarterly information for 2019 has been prepared in compliance with the provisions of Bank of Italy Communication of 30th October 2018 (an addendum) with regard to write-offs and disposals for consideration. The items "write-offs", "profits from disposals", "losses from disposals" and "other decreases" 2019 are therefore not comparable with previous periods.

(*) The item includes both cancellations, i.e. write-offs relating to creditor actions concluded during the period, and write-offs of positions on the books according to the broader scope of application of the new measurement policy for non-performing exposures adopted in the second quarter of 2019.

The table "Loans and advances to customers measured at amortised cost: quarterly changes in gross non-performing exposures" confirms the progressive decline in direct net inflows from performing status, which have now fallen below pre-crisis levels: a total of €930 million compared with €1.306 billion for 2018 and with quarterly values far below those of the previous year. The *default rate*[16], calculated for the entire year, therefore fell to 1.11%[17] from 1.55% in 2018, below the target set in the 2020 Business Plan. In the fourth quarter, the annualised default rate fell to 1.19% from 1.34% in the third quarter (0.79% and 1.23%, respectively, in the first two periods).

It should also be noted that new inflows from performing status for the third quarter of 2019, used as the numerator in calculating the ratio above, incorporates the limited effects of application of the aforementioned DoD.

Among the declining values, collections, while at a high for the year in the fourth quarter, fell by more than one third overall compared with 2018, essentially reflecting the progressive reduction in total outstanding non-performing exposures over twelve months and also the specific details of the operation to dispose of factoring receivables subject to litigation in the second quarter[18].

Accordingly, the *recovery rate*[19] stood at 7.8% (8.9% in the entire previous year). If the analysis is limited solely to bad loans, the recovery rate was 6.5% (5.2% in 2018). In the fourth quarter, the annualised recovery rate amounted to 12.6%, from 8.4% in the third quarter (8.7% and 8.9%, respectively, in the first two periods).

Among the decreases, "outflows to performing exposures" - which in the second quarter reflects the reclassification to performing of the portfolio of bad loans of UBI Factor before its disposal - were stable overall in the twelve months in absolute terms.

Finally, the increase in the third and fourth quarters in "profits from disposals", "losses from disposals", and "other decreases" incorporates the effects of deconsolidation for accounting

16 The indicator is calculated according to the following ratio: annualised gross movements from performing to non-performing exposures/initial balances of gross performing loans.

17 1.01% excluding the impact as at 1st July 2019 of the application of the DoD. This percentage is not to be understood as a change in the method of calculating the indicator, since it is aimed solely at providing a more consistent representation of the actual default rate in the reporting period.

18 As part of a settlement agreement designed to settle an exposure already classified as bad loans, in April 2019 UBI Factor purchased, from a single seller, receivables from performing counterparties belonging to the government sector (health sector). These receivables, purchased for a total of €157 million, were subsequently sold to another investor in June, followed by the relative deconsolidation.

19 The indicator is calculated according to the following ratio: annualised receipts/(balance of gross non-performing exposures at the beginning of the period + increases).

purposes related to the aforementioned disposals of non-performing exposures carried out in the second half of the year.

Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures in 2019
(In compliance with Bank of Italy communication dated 30th October 2018)

Figures in thousands of euro	Bad loans	Unlikely-to-pay exposures	Past-due exposures	Total
A. Initial gross exposure as at 1st January 2019	**5,423,214**	**4,222,577**	**70,979**	**9,716,770**
B. Increases	**957,724**	**698,868**	**116,548**	**1,773,140**
B.1 inflows from performing exposures	145,738	571,096	103,094	819,928
B.3 transfers from other classes of non-performing exposures	707,293	32,650	10,738	750,681
B.4 contractual modifications without derecognition	-	271	-	271
B.5 other increases	104,693	94,851	2,716	202,260
C. Decreases	**-2,825,848**	**-1,748,519**	**-77,070**	**-4,651,437**
C.1 outflows to performing exposures	-156,887	-266,893	-13,831	-437,611
C.2 write-offs (*)	-683,460	-119,570	-29	-803,059
C.3 payments received	-377,787	-350,033	-12,715	-740,535
C.4 profits from disposals	-652,787	-129,511	-	-782,298
C.5 losses from disposals	-122,343	-23,448	-	-145,791
C.6 transfers to other classes of non-performing exposures	-7,318	-693,020	-50,343	-750,681
C.7 contractual modifications without derecognition	-668	-5,325	-37	-6,030
C.8 other decreases	-824,598	-160,719	-115	-985,432
D. Final gross exposure as at 31st December 2019	**3,555,090**	**3,172,926**	**110,457**	**6,838,473**

Loans and advances to customers measured at amortised cost: changes in gross non-performing exposures in 2019
(in compliance with Bank of Italy communication dated 30th october 2018)

Figures in thousands of euro	Bad loans	Unlikely-to-pay exposures	Past-due exposures	Total
A. Initial gross exposure as at 1st January 2018	**7,340,234**	**4,910,074**	**163,304**	**12,413,612**
B. Increases	**1,325,252**	**1,194,383**	**59,599**	**2,579,234**
B.1 inflows from performing exposures	268,997	913,438	57,469	1,239,904
B.3 transfers from other classes of non-performing exposures	805,887	67,663	1,129	874,679
B.5 other increases	250,368	213,282	1,001	464,651
C. Decreases	**-3,242,272**	**-1,881,880**	**-151,924**	**-5,276,076**
C.1 outflows to performing exposures	-5,142	-359,400	-34,634	-399,176
C.2 write-offs (*)	-704,740	-75,003	-44	-779,787
C.3 payments received	-433,469	-426,627	-23,752	-883,848
C.4 profits from disposals	-710,976	-130,384	-	-841,360
C.5 losses from disposals	-24,746	-29,883	-	-54,629
C.6 transfers to other classes of non-performing exposures	-8,723	-772,520	-93,437	-874,680
C.8 other decreases	-1,354,476	-88,063	-57	-1,442,596
D. Final gross exposure as at 31st December 2018	**5,423,214**	**4,222,577**	**70,979**	**9,716,770**

(*) The item includes both cancellations, i.e. write-offs relating to creditor actions concluded during the period, and write-offs of positions on the books according to the broader scope of application of the new measurement policy for non-performing exposures adopted in the second quarter of 2019.

The table "Loans to customers measured at amortised cost: changes in gross non-performing exposures in 2019" – prepared in accordance with the provisions of the "Communication of 30th October 2018" (addendum letter) published by the Bank of Italy, which does not consider any movements during the year – shows *new inflows* from performing status of €819.9 million (€1.240 billion in 2018), more than two thirds of which attributable to unlikely-to-pay exposures. The bad loans are again primarily driven by transfers from other categories of non-performing exposures, essentially unlikely-to-pay exposures, against much smaller inflows from performing status of €145.7 million (€269 million in 2018). Conversely, inflows from performing status related to past-due exposures (up from €57.5 to €103.1 million) incorporate the limited effects of application of the DoD.
The decreases include outflows to non-performing exposures of €437.6 million, including the reclassification from non-performing to performing status of the factoring receivables subsequently sold in the second quarter[18] and collections of €740.5 million, whereas write-offs amounted to €803.1 million.

"Profits due to disposals", "losses on disposals" and "other decreases" continued the trends already commented on in the analysis of quarterly migrations.

The decline in gross balances allowed *net non-performing exposures* to fall below €4.2 billion, marking an annual decrease of €1.8 billion (-30.2%), which in addition to the robust internal recovery performance and wholesale disposals carried out over the previous twelve months, benefited from an increase in coverage.
The change was due above all to bad loans (-€1.06 billion), but also to unlikely-to-pay exposures (-€0.78 billion), while past-due exposures rose moderately (+€37.5 million).
The performance of the item over three months (-€803.4 million) was also primarily driven by bad loans (-€561.1 million) and, to a more moderate extent, by unlikely-to-pay positions (-€216.7 million) and past-due exposures (-€25.6 million).

The percentage of net non-performing exposures fell as a result to 4.93% from 6.72% as at 1st January 2019, despite the fall in total net loans measured at amortised cost used as the denominator.

In terms of types of loan, the table "Composition of loans to customers measured at amortised cost", shows that net non-performing loans (stage three) are mainly concentrated in the item "mortgage loans and other medium to long-term loans", backed moreover by collateral and with prudential loan to value (LTV) ratios, which results automatically in a lower level of coverage.

As a result of the reduction in total non-performing exposures, the *Texas Ratio*[20], which measures the ratio of net non-performing exposures to tangible equity, fell to 55.2%[21] at the end of December (65.6% in September and 84.7% at the beginning of January 2019), well below the target for the end of 2020, set in the Business Plan.

Thus, at year-end, the *coverage ratio* for non-performing exposures of 39% was up from 38.50% at the beginning of 2019, but down from 40.15% at the end of September, primarily due to the effects of the disposals carried out in the fourth quarter, associated with impairment levels above the average for the categories concerned (coverage ratio of 50.92% recalculated to take account of write-offs, compared with 46.01% in early 2019 and 49.70% in September).
It should also be noted that the coverage ratio must always be interpreted in close relation to the high percentage of positions backed by collateral which characterises the Group's loan portfolio[22].

In terms of individual categories, the coverage ratio for non-performing exposures rose to 51.98% from 48.96% at the beginning of 2019 (50.66% in September)[23], despite the deconsolidation of the accounting portfolios disposed of, which largely had higher coverage levels than average for the category.
The coverage ratio for unlikely-to-pay positions remained stable at 25.52% at year-end, compared with 25.53% at the beginning of 2019 (27.88% in September), reflecting the increasing impairment losses associated with the rigorous credit risk management policy adopted by the Group and the effects of the contributions of portfolios subject to greater-than-average impairment completed during the year.
Conversely, the coverage ratio for past-due exposures of 8.33% (10.15% in January 2019 and 8.61% in September) reflects the effects of application of the new DoD, which, although limited in relation to the total of non-performing exposures, resulted in the classification as past-due of a series of exposures, the large part of which backed by collateral and consequently written down by less than the category average.

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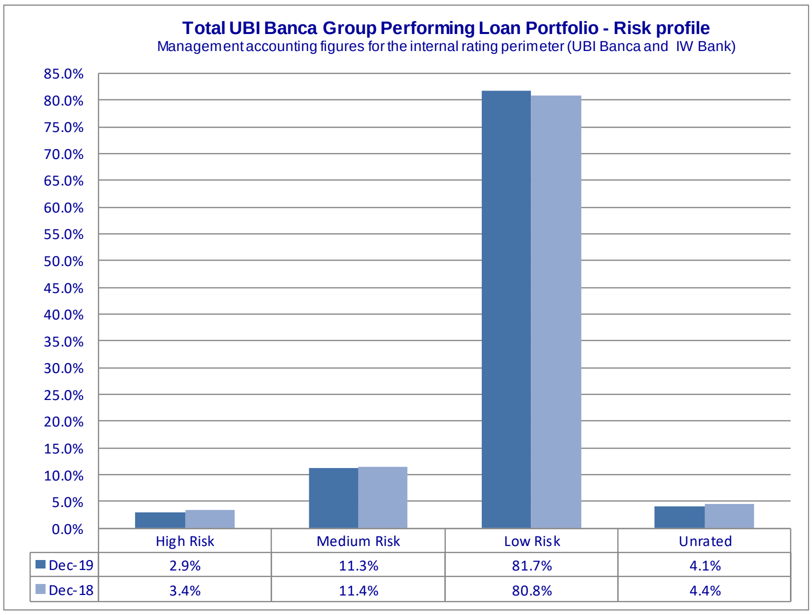
20 This indicator is calculated according to the following ratio: total net non-performing exposures/[book equity attributable to shareholders of the Parent (exclusive of profit/inclusive of loss for the period) + minority interests – total intangible assets].
21 55.6% if calculated excluding minority interests.
22 In particular - as may be seen from table A.3.2 of Part E Section 2 of the Notes to the Consolidated Financial Statements - as at 31st December 2019 85% of gross non-performing exposures and 92% of net non-performing exposures were secured by collateral and/or personal guarantees.
23 When adjusted to take account of loan write-offs, the coverage ratio for bad loans as at 31st December was 67.12% (59.14% in January 2019; 63.10% in September).

As concerns *performing loans*, at the end of December the distribution between stages 1 and 2 showed 84.7% of total net loans in stage 1, up from 80.3% as at 1st January 2019 and 83.4% as at the end of September, and the resulting parallel decline in the weight of stage 2 to 10.4% (13% at the beginning of January 2019 and 10.8% in September). The shift reflects the refinement of the model used to determine possible increases in credit risk, based on historical migrations observed between risk classes.

There again, management accounting figures for the internal rating perimeter confirmed the favourable risk profile of the Group's performing portfolio, with the highest risk classes accounting for 2.9% of the total and the lower classes frising to 81.7%.



The joint action of the factors described above determined a decrease in the total *coverage ratio* for performing loans to 0.57% (0.66% at the beginning of January; 0.61% in September).

Finally, as concerns *forborne exposures*, as may be seen from the relative tables, there was a general, progressive decline in such exposures over the twelve months, extending to both non-performing and performing positions, affected amongst other things by large-scale disposals carried out. Total exposures declined to €4.4 billion gross (-€1.2 billion on January, of which -€593.3 million in the fourth quarter) and to €3.5 billion in net terms (-€990 million, of which -€384 million in the fourth quarter).

As already reported, the performance of forborne exposures and their composition are also affected by the forbearance regulations[24] *introduced in September 2014.*
In fact non-performing positions must pass a minimum period of one year (cure period), after which the return of the customer's credit quality is assessed before it can be reclassified among performing positions. On the other hand forborne positions classified as performing must pass a minimum period of two years ("probation period") before a position can be released from its forborne status and therefore be eliminated from the category in supervisory reports.

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

Forborne exposures measured at amortised cost as at 31st December 2019

Forborne exposures are composed of one of the categories of non-performing exposures (stage 3) and of performing loans (stages 1 and 2) reported in the table "Composition of loans and advances to customers measured at amortised cost"

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(61.86%)**	**2,725,615**	**801,481**	**(54.61%)**	**1,924,134**	**29.41%**
- Bad loans	(18.89%)	832,461	358,545	(13.45%)	473,916	43.07%
- Unlikely-to-pay exposures	(42.48%)	1,871,713	441,281	(40.60%)	1,430,432	23.58%
- Past-due exposures	(0.49%)	21,441	1,655	(0.56%)	19,786	7.72%
Performing exposures	**(38.14%)**	**1,680,467**	**81,245**	**(45.39%)**	**1,599,222**	**4.83%**
Total		**4,406,082**	**882,726**		**3,523,356**	**20.03%**

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

Forborne exposures measured at amortised cost as at 1st January 2019

Forborne exposures are composed of one of the categories of non-performing exposures (stage 3) and of performing loans (stages 1 and 2) reported in the table "Composition of loans and advances to customers measured at amortised cost"

Figures in thousands of euro	Gross exposure		Impairment losses	Carrying amount		Coverage (*)
Non-performing exposures	**(61.22%)**	**3,416,221**	**961,805**	**(54.38%)**	**2,454,416**	**28.15%**
- Bad loans	(18.07%)	1,008,364	401,239	(13.45%)	607,125	39.79%
- Unlikely-to-pay exposures	(42.99%)	2,399,013	559,735	(40.75%)	1,839,278	23.33%
- Past-due exposures	(0.16%)	8,844	831	(0.18%)	8,013	9.40%
Performing exposures	**(38.78%)**	**2,163,839**	**104,945**	**(45.62%)**	**2,058,894**	**4.85%**
Total		**5,580,060**	**1,066,750**		**4,513,310**	**19.12%**

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

(*) The coverage is calculated as the ratio of impairment losses to gross exposure.

(**) The date 1st January 2019 must be interpreted as 31st December 2018.

The interbank market and the liquidity position

The net interbank position of the UBI Banca Group as at 31st December 2019 was one of debt with a negative balance of €2.6 billion, compared with -€7.2 billion as at 1st January. Net of operations with the ECB, which remains the most important transaction counterparty, although the relative total exposure fell during the year as a consequence of the repayment of €2.5 billion nominal of TLTRO II funds, the balance (-€2.1 billion) declined, albeit to a more modest extent, from around -€3 billion at the beginning of the year.

Net interbank position

Figures in thousands of euro	31.12.2019	30.9.2019	30.6.2019	31.3.2019	1.1.2019 (*)
Loans and advances to banks measured at fair value through profit or loss *[Asset item 20. 1) in the Reclassified Consolidated Balance Sheet]*	16,213	16,797	15,365	14,715	14,054
Loans and advances to banks measured at amortised cost *[Asset item 40. 1) in the Reclassified Consolidated Balance Sheet]*	11,723,923	14,835,531	12,393,150	11,327,078	10,065,772
Loans and advances to banks	11,740,136	14,852,328	12,408,515	11,341,793	10,079,826
of which: Loans and advances to central banks	*9,521,517*	*12,520,051*	*10,353,201*	*8,935,116*	*8,204,801*
Due to banks measured at amortised cost *[Asset item 10. a) in the Reclassified Consolidated Balance Sheet]*	14,367,985	15,956,402	17,053,172	17,776,512	17,234,579
of which: Due to central banks	*9,998,976*	*10,862,383*	*12,355,361*	*12,367,894*	*12,380,250*
Net interbank position	**-2,627,849**	**-1,104,074**	**-4,644,657**	**-6,434,719**	**-7,154,753**
Loans and advances excluding central banks	2,218,619	2,332,277	2,055,314	2,406,677	1,875,025
Due to banks excluding central banks	4,369,009	5,094,019	4,697,811	5,408,618	4,854,329
Net interbank position net of central banks	**-2,150,390**	**-2,761,742**	**-2,642,497**	**-3,001,941**	**-2,979,304**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

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

Loans and advances to banks increased to €11.7 billion from €10.1 billion at the beginning of the year. The table presenting quarterly changes in the net interbank position shows the presence of marginal exposures (€16 million at the end of 2019) recognised at fair value through profit or loss (these relate exclusively to business in gold and with banking counterparties, without any substantial changes over the different quarters), while the majority of this item continues to consist of exposures measured at amortised cost.

The table giving details of loans and advances to banks measured at amortised cost shows the following:

- "loans and advances to central banks" amounting to €9.5 billion grew €1.3 billion in the year as a result of greater compulsory reserve requirement deposits, of which the part[2] in excess of the obligatory reserve increased by €1.27 billion to €8.8 billion (see the table

1 In addition, since 30th June 2019 the indicator has included the reduction of the weighting relating to the TLTRO tranche.
2 Until 17th September 2019, a negative rate of -0.40% applied to the amount in excess of the compulsory reserve; this rate was increased to -0.50% with effect from 18th September 2019. The "tiering" on bank deposits introduced by the ECB on 30th October 2019 allows banks to be exempt from payment of the negative rate (-0.50%) for deposits held with the European Central Bank up to six times the minimum compulsory reserve.

entitled "Available liquidity reserve" for details). During the year, an account was also opened with the Bank of Italy for the "Instant credit transfer" service, with a balance of approximately €10 million at the end of 2019;

- "current accounts and sight deposits", amounting to €923 million, compared with €744 million: the item includes deposits relating to ordinary interbank business as well those connected with margin deposits on derivatives held with international counterparties;
- "term deposits" of €5 million, the balance of which is now modest and gradually being reduced (€10.9 million at the beginning of the year);
- "other financing" amounting to €1.3 billion (€1.1 billion at the beginning of 2019): this item includes credit exposures to banks linked to industrial and/or financial groups that operate in the consumer credit sector and those relating to international business with foreign banks used to support commercial transactions with customers. The item also includes lending through reverse repurchase agreements amounting to €2.1 million relating to a foreign counterparty.
  The item "Other" includes an exposure classified as Stage 3 with a value of €1.8 million at year-end: this is a probable obligation to a foreign bank that arose in July.

Composition of loans and advances to banks measured at amortised cost

Figures in thousands of euro	31.12.2019 Stages one and two	31.12.2019 Stage three	31.12.2019 Total	31.12.2019 %	1.1.2019 (*) Stages one and two	1.1.2019 (*) Total	1.1.2019 (*) %	Changes amount	Changes %
A. Loans and advances to central banks	**9,521,517**	**-**	**9,521,517**	**81.2%**	**8,204,801**	**8,204,801**	**81.5%**	**1,316,716**	**16.0%**
2. Compulsory reserve requirement	9,511,521	-	9,511,521	81.1%	8,204,801	8,204,801	81.5%	1,306,720	15.9%
4. Other	9,996	-	9,996	0.1%	-	-	-	9,996	-
B. Loans and advances to banks	**2,200,586**	**1,820**	**2,202,406**	**18.8%**	**1,860,971**	**1,860,971**	**18.5%**	**341,435**	**18.3%**
1. Financing	2,200,586	1,820	2,202,406	18.8%	1,860,971	1,860,971	18.5%	341,435	18.3%
1.1 Current accounts and sight deposits	922,794	-	922,794	7.9%	744,727	744,727	7.4%	178,067	23.9%
1.2 Term deposits	5,006	-	5,006	0.0%	10,869	10,869	0.1%	-5,863	-53.9%
1.3 Other financing:	1,272,786	1,820	1,274,606	10.9%	1,105,375	1,105,375	11.0%	169,231	15.3%
- Reverse repurchase agreements	*2,145*	-	*2,145*	0.0%	*12*	*12*	*0.0%*	*2,133*	*n.s.*
- other	*1,270,641*	*1,820*	1,272,461	10.9%	*1,105,363*	*1,105,363*	*11.0%*	*167,098*	*15.1%*
Total Asset item 40. 1) in the Reclassified Consolidated Balance Sheet	**11,722,103**	**1,820**	**11,723,923**	**100.0%**	**10,065,772**	**10,065,772**	**100.0%**	**1,658,151**	**16.5%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

Interbank funding, amounting to approximately €14.4 billion, fell by €2.9 billion compared with the beginning of the year, due to a decrease in debt to the ECB (-€2.4 billion) following the aforementioned early repayments of funds subscribed through TLTRO II auctions.

Notwithstanding this, the main form of funding, amounting to €10 billion nominal[3], consisted of *unconventional refinancing operations with the ECB*, TLTROs-II (targeted refinancing operations designed to expand lending to businesses and households). UBI Banca was allotted €10 billion nominal of funds with value date 29th June 2016 (maturity June 2020) and a further €2.5 billion nominal with value date 29th March 2017 (maturity March 2021). In the final part of the year, €2.5 billion nominal was repaid in advance against the amount due in June 2020: €1.5 billion with a value date of 25th September and €1 billion with a value date of 18th December.

3 The balance recognised in the accounts shown in the table is inclusive of interest expense accruing. The application of a negative rate of -0.40% is resulting in a decrease in the debt contracted at auction. The decline in debt should be viewed within the framework of Decision (EU) 2016/810 of the European Central Bank, which established that final interest rates applied to the amounts allotted to counterparties in each auction of the second series of longer-term refinancing operations (TLTRO II) are determined according to specific calculation procedures and notified to the participating counterparties from 5th June 2018.

Composition of amounts due to banks measured at amortised cost

Figures in thousands of euro	31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
1. Due to central banks	**9,998,976**	**69.6%**	**12,380,250**	**71.8%**	**-2,381,274**	**-19.2%**
2. Due to banks	**4,369,009**	**30.4%**	**4,854,329**	**28.2%**	**-485,320**	**-10.0%**
2.1 Current accounts and sight deposits	689,520	4.8%	715,782	4.2%	-26,262	-3.7%
2.2 Term deposits	14,532	0.1%	84,618	0.5%	-70,086	-82.8%
2.3 Financing:	3,609,848	25.1%	3,998,518	23.2%	-388,670	-9.7%
2.3.1 Repurchase agreements	*2,405,568*	*16.7%*	*2,460,728*	*14.3%*	*-55,160*	*-2.2%*
2.3.2 other	*1,204,280*	*8.4%*	*1,537,790*	*8.9%*	*-333,510*	*-21.7%*
2.6 Other payables	55,109	0.4%	55,411	0.3%	-302	-0.5%
Total Asset item 10. a) in the Reclassified Consolidated Balance Sheet	**14,367,985**	100.0%	**17,234,579**	**100.0%**	**-2,866,594**	**-16.6%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

With regard to the TLTRO III auctions announced in March by the ECB, the Group did not participate in the first two transactions undertaken in September and December 2019, reserving the right to assess, in its new Business Plan, the amount and structure of any draw-downs, to plan for gradual repayments ensuring greater flexibility for the instrument and substantial alignment with the maturities of the loans disbursed to eliminate possible repayment risks.

Net of that source of funding, amounts due to banks amounted to €4.4 billion (€4.9 billion at the beginning of the year), of which:

- €704.1 million consisting of current accounts and sight deposits, the performance of which (-€96.3 million over twelve months) reflects the natural volatility inherent in ordinary business;
- €2.4 billion for reverse repurchase agreements, down slightly over twelve months: the item primarily reflects financing activity for investments, above all in US Treasuries, and, to a residual extent, starting in the third quarter, in securities denominated in dollars issued by both emerging countries and investment grade corporate issuers. The item includes approximately €245.3 million (€258.4 million at the beginning of 2019) relating to the transaction involving the senior tranche of the securitisation of bad loans carried out in September 2018, self-retained, and fully backed by GACS;
- €1.2 billion of "financing – other", consisting entirely of loans with the EIB, i.e. medium to long-term funding transactions with the European Investment Bank for investments designed to support SMEs. These loans, €1.036 billion of which relating to the Parent and the remainder to UBI Leasing, were the result of amortisations, despite new disbursements (€100 million during the year);
- €55.1 million of other payables, consisting of €46 million of funds relating to the credit card settlement arrangements with Nexi. The amount is in line with the €55.4 million at the beginning of 2019, which related to Nexi in the amount of €48.3 million.

Available liquidity reserve

Management accounting figures in millions of euro - net of haircuts		31.12.2019	%	1.1.2019 (*)	%	Changes amount	Changes %
ECB pool	(a)	19,552	54.4%	18,659	61.3%	893	4.8%
of which government securities		*4,250*	*11.8%*	*5,025*	*16.5%*	*-775*	*-15.4%*
of which Italian government securities		*4,033*	*11.2%*	*4,183*	*13.7%*	*-150*	*-3.6%*
Liquid securities not included in the ECB pool	(b)	5,078	14.1%	2,483	8.2%	2,595	104.5%
of which government securities		*5,019*	*14.0%*	*2,483*	*8.2%*	*2,536*	*102.1%*
of which Italian government securities		*3,207*	*8.9%*	*2,303*	*7.6%*	*904*	*39.3%*
Government securities refinanced	(c)	2,502	7.0%	1,769	5.8%	733	41.4%
of which Italian government securities		*747*	*2.1%*	*193*	*0.6%*	*554*	*287.0%*
Assets eligible for refinancing (**)	(a)+(b)+(c)	27,132	75.5%	22,911	75.3%	4,221	18.4%
Liquid part of compulsory reserve		8,796	24.5%	7,522	24.7%	1,274	16.9%
Total liquidity reserve		**35,928**	**100.0%**	**30,433**	**100.0%**	**5,495**	**18.1%**
ECB auctions (portion pledged)		-9,865	-27.5%	-12,381	-40.7%	-2,516	-20.3%
Government securities refinanced		-2,502	-6.9%	-1,769	-5.8%	733	41.4%
Available liquidity reserve		**23,561**	**65.6%**	**16,283**	**53.5%**	**7,278**	**44.7%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.
(**) The composition by type is given in the table "Assets eligible: composition by type of underlying assets".

The Group's liquidity reserve[4] as at 31st December 2019 amounted to €35.9 billion net of haircuts, up by €5.5 billion on the beginning of the year. The reserve is composed of the following:

- €19.5 billion of assets pledged to the ECB collateral pool to secure TLTRO II financing, of which €4.3 billion consisting of government securities, down by €775 million during the year, with the main part consisting of ABACO loans and self-retained securitisations (see the table on the composition of eligible assets);
- €5.1 billion of securities consisting of readily marketable spot and forward assets not lodged with the collateral pool (almost entirely government securities, and 64% Italian government securities), available to the Parent treasury for short-term liquidity management;
- €2.5 billion of government securities refinanced by means of repurchase agreements, with 30% of the underlying consisting of Italian securities and 70% of USA securities);
- €8.8 billion from the withdrawable part of the compulsory reserve (i.e. the part in excess of the obligatory reserve). The relative availability grew over twelve months, despite the aforementioned early repayment €2.5 billion nominal of TLTRO II funds maturing in June 2020. The excess liquidity characterising the banking system resulted in an increase in cash held with the ECB.

As already reported the Group is pursuing a policy to gradually lighten and diversify the portfolios (by geographical area and by sovereign and corporate issuer), designed nevertheless to maintain sufficiently large investments in European government securities to ensure optimum management of liquidity by means of the eligibility of these.
The total liquidity reserve was equivalent to 52% of direct sight funding as at 31st of December 2019.

In terms of composition by type of financial instrument, assets eligible for refinancing amounting to €27.1 billion, calculated net of haircuts, were up over twelve months, across all types of instruments (with the sole exception of self-retained securitisations, the total value of which remained stable):

- eligible own securities (+€2.9 billion) benefited from higher valuations due to the improvement in the spread compared with December 2018 (from 253 to 161 basis points);
- self-retained covered bonds (+€1.2 billion) incorporated the effects of the maturities in the second, third and fourth quarters of part of the repurchase agreements entered into at the end of 2018 with self-retained issues comprised within the collateral pool[5] as the

4 An asset is considered liquid or marketable if the credit institution is able to convert it into cash rapidly without encountering practical or legal difficulties.
5 See in this respect the information reported in the section entitled "Direct banking funding".

underlying. Their use in repurchase agreements had entailed a partial reduction in the value of the bonds concerned for the part subject to refinancing;

- ABACO loans (+€0.10 billion) saw further contributions.

As a consequence of the movements described above, the margin of available liquidity as at 31st December 2019 amounted to €23.6 billion, a further improvement compared with €16.3 billion at the beginning of the year.

The margin of available liquidity amounted to 34.1% of direct sight funding as at 31st December 2019.
This margin was amply sufficient to meet the Group's bond maturities in the coming years (€9.9 billion until the end of 2022).

Assets eligible: composition by type of underlying assets

Figures in billions of euro	31.12.2019 nominal amount	31.12.2019 amount net of haircuts	1.1.2019 (*) nominal amount	1.1.2019 (*) amount net of haircuts
Own securities (1)	12.94	12.54	10.76	9.63
Covered bonds ("self-retained" issues)	4.25	3.70	2.84	2.49
Securitisation of residential mortgages of the former B@nca 24-7	0.40	0.36	0.55	0.48
Marche M6 Srl securitisation	0.42	0.38	0.43	0.38
UBI Leasing assets securitisation	2.10	1.91	2.10	1.89
Securitisation of performing residential mortgages	2.09	1.87	2.09	1.77
Loans eligible due to participation in ABACO (2)	10.66	6.37	10.52	6.27
Assets eligible for refinancing	**32.86**	**27.13**	**29.29**	**22.91**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

(1) Own securities, stated both at nominal value and net of haircuts, include the amount for refinanced securities. The item is therefore fully comparable with the figures reported in the table "Available liquidity reserve", where the allocation (pool, non-pool, refinanced) of the government securities included here is reported. These represent the most significant part of the Group's liquid assets.

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

Financial activities

The Group's **financial assets** as at 31st December 2019 amounted to €19.15 billion, having recorded progressive growth during the year (€15.65 billion as at 1st January). If financial liabilities held for trading are considered, consisting entirely of financial derivatives, then net assets amounted to €18.68 billion (€15.24 billion at the beginning of 2019).

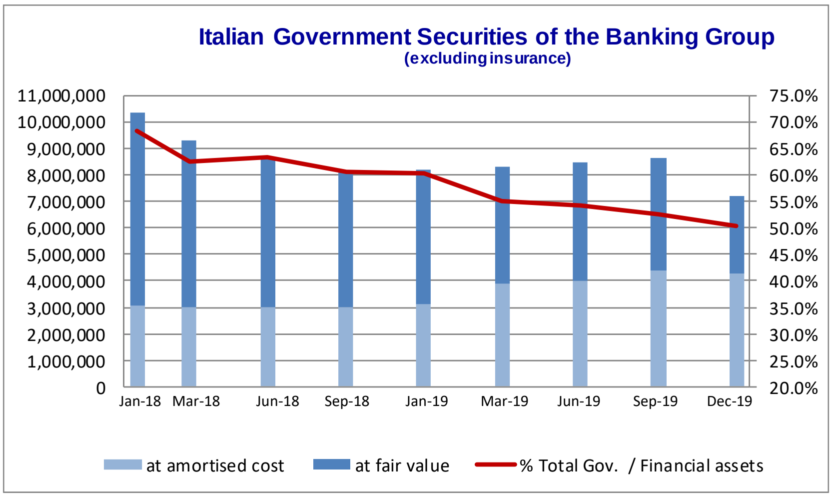
The strategy deployed during 2019 was that of a broader change in the mix and diversification of investments, again with a view to a progressive reduction in the Italian government securities following along the same lines and consistent with the strategic action started at the end of 2015.

As shown in the table, at the end of December the most substantial portfolios consisted again of those classified as "Financial assets measured at fair value through other comprehensive income" and "Financial assets measured at amortised cost", which accounted for 63.8% and 28.5% respectively, of the total.
In terms of types of financial instrument, 51.1% of the total portfolios consisted of Italian government securities, progressively down compared with 60.1% a year earlier, due to actions undertaken. On the other hand, an increase to 41.9%, from 33.1% in January 2019, can be seen in the percentage of other debt securities, due to the already mentioned diversification of investments into corporate and government securities, not only of European countries, but also of emerging countries. Both equity securities and UCITS shares are now of a marginal amount, accounting together for 4.8%. of the total.

Financial assets/liabilities

Figures in thousands of euro	31.12.2019 Carrying amount A	%	30.9.2019 Carrying amount B	%	30.6.2019 Carrying amount C	%	31.3.2019 Carrying amount D	%	1.1.2019 (*) Carrying amount E	%	Changes A/E amount	%
Financial assets measured at fair value through profit or loss *[Asset Item 20. 3) in the Reclassified Consolidated Balance Sheet]*	**1,481,850**	**7.7%**	**1,530,837**	**8.1%**	**1,377,566**	**7.7%**	**1,218,936**	**7.1%**	**1,175,213**	**7.5%**	**306,637**	**26.1%**
Financial assets held for trading	427,980	2.2%	600,089	3.2%	528,103	3.0%	455,158	2.6%	405,716	2.6%	22,264	5.5%
of which: financial derivatives contracts	*422,571*	*2.2%*	*550,520*	*2.9%*	*494,317*	*2.8%*	*445,552*	*2.6%*	*400,316*	*2.5%*	*22,255*	*5.6%*
financial assets designated at fair value	10,278	0.1%	11,084	0.1%	10,054	0.1%	8,937	0.1%	11,028	0.1%	-750	-6.8%
financial assets mandatorily measured at fair value	1,043,592	5.4%	919,664	4.8%	839,409	4.6%	754,841	4.4%	758,469	4.8%	285,123	37.6%
Financial assets measured at fair value through other comprehensive income *[Asset Item 30. 3) in the Reclassified Consolidated Balance Sheet]*	**12,221,616**	**63.8%**	**12,212,586**	**64.6%**	**11,618,770**	**65.0%**	**11,237,457**	**65.3%**	**10,726,164**	**68.6%**	**1,495,452**	**13.9%**
Financial assets measured at amortised cost *[Asset Item 40. 3) in the Reclassified Consolidated Balance Sheet]*	**5,448,333**	**28.5%**	**5,171,248**	**27.3%**	**4,889,115**	**27.3%**	**4,739,311**	**27.6%**	**3,745,219**	**23.9%**	**1,703,114**	**45.5%**
Financial assets (a)	**19,151,799**	**100.0%**	**18,914,671**	**100.0%**	**17,885,451**	**100.0%**	**17,195,704**	**100.0%**	**15,646,596**	**100.0%**	**3,505,203**	**22.4%**
of which:												
- Debt securities	*17,791,763*	*93.0%*	*17,569,947*	*92.9%*	*16,663,100*	*93.2%*	*16,032,726*	*93.2%*	*14,580,129*	*93.2%*	*3,211,634*	*22.0%*
of which: Italian government securities (**)	*9,786,585*	*51.1%*	*10,043,874*	*53.1%*	*9,741,570*	*54.5%*	*9,523,000*	*55.4%*	*9,398,857*	*60.1%*	*387,728*	*4.1%*
of which: Italian government securities excluding Insurance	*8,384,097*		*8,626,177*		*8,454,042*		*8,284,378*		*8,192,417*		*191,680*	*2.3%*
- equity securities	*373,349*	*1.9%*	*311,494*	*1.6%*	*310,601*	*1.7%*	*309,862*	*1.8%*	*278,948*	*1.8%*	*94,401*	*33.8%*
- shares of UCITS	*564,116*	*2.9%*	*482,710*	*2.6%*	*417,433*	*2.3%*	*407,564*	*2.4%*	*387,203*	*2.5%*	*176,913*	*45.7%*
Financial liabilities held for trading (b) (***)	**468,621**	**100.0%**	**656,353**	**100.0%**	**571,499**	**100.0%**	**461,254**	**100.0%**	**410,977**	**100.0%**	**57,644**	**14.0%**
of which: financial derivatives contracts	*468,621*	*100.0%*	*601,890*	*91.7%*	*543,598*	*95.1%*	*461,254*	*100.0%*	*410,977*	*100.0%*	*57,644*	*14.0%*
NET FINANCIAL ASSETS (a-b)	**18,683,178**		**18,258,318**		**17,313,952**		**16,734,450**		**15,235,619**		**3,447,559**	**22.6%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.
(**) The increase shown in the table in the comparative periods relates entirely to accounting adjustments, against net nominal disposals.
(***) The amount of this item differs from the balance sheet because it does not include around €87 million of investment certificates issued during the year, which have been reclassified to "Total amounts due to customers", for the purposes of the Management Report.



It can be clearly seen from the chart showing the trend for the banking group's (excluding insurance companies) Italian government securities portfolio that over the course of 2019, while the total has changed solely as a function of changes in market values, the percentage of the fair value component has progressively reduced and especially so for the part recognised through comprehensive income.

Management accounting figures for 31st December 2019[1], show the following:

- in terms of *type of financial instrument*, the Group's securities portfolio was composed as follows:
  - 83.22% of government securities;
  - 12.45% of corporate securities, almost entirely classified in the banking book. Of these around 59% were issued by the financial sector. As much as 94.24% of total investments in corporate securities had an investment grade rating, concentrated in the BBB segment (45.87%) and in the A segment (35.18%);
  - the remaining 4.33% of hedge funds, funds and equities (these include shares held in the Atlante Fund and in the Bank of Italy);
- from a *financial viewpoint*, floating rate securities accounted for 1.10% of the portfolio, fixed-rate securities for 93.08% and securities for 5.54%, while the remainder was composed of convertible, subordinated and structured securities;
- as regards the *currency of denomination*, 84.27% of the securities were denominated in euro and 15.73% in dollars with natural currency hedges, while in terms of *geographical distribution*, 82.42% of the investments (excluding hedge funds and equity investments) were issued from countries in the euro area;
- an analysis by *rating* (for the bond portfolio only) shows that 99.02% of the portfolio consisted of "investment grade" securities.

Financial assets measured at fair value through profit or loss

"Financial assets measured at fair value through profit or loss", Asset Item 20 in the Consolidated Balance Sheet, were composed of the following categories:

- *Financial assets held for trading [Item 20 a)], i.e.:*
  - *financial instruments managed with the objective of realising cash flows through the sale of the assets because: (i) they were acquired or incurred principally for the purpose of selling or repurchasing them in the short-term; (ii) they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;*
  - *derivatives held for trading;*
- *"Financial assets designated at fair value" [Item 20 b)]: financial instruments classified in this category in application of the fair value option (FVO);*
- *"Other financial assets mandatorily measured at fair value" [Item 20 c)]: financial instruments (i) for which the management strategy is determined on the basis of their fair value or (ii) they are instruments for which the objective contractual characteristics do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding where the solely payments of principal and interest test ("SPPI" test) has not been passed.*

These financial instruments are measured at fair value with changes in fair value recognised through profit or loss.

1 The management accounting analysis relates to a smaller portfolio than that stated in the consolidated financial statements, because they exclude some smaller portfolios and also financial derivatives contracts held for trading. Securities relating to insurance business are not included.

Financial assets held for trading

Financial assets held for trading ***[Asset item 20. a) in the Consolidated Balance Sheet]***

Figures in thousands of euro	31.12.2019				1.1.2019 (*)				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
On-balance sheet assets										
Debt securities	258	11	100	369	340	208	100	648	-279	-43.1%
of which: Italian government securities	*9*	*-*	*-*	*9*	*10*	*-*	*-*	*10*	*-1*	*-10.0%*
Equity securities	5,038	-	2	5,040	4,725	-	26	4,751	289	6.1%
Shares of UCITS	-	-	-	-	1	-	-	1	-1	-100.0%
Total (a)	**5,296**	**11**	**102**	**5,409**	**5,066**	**208**	**126**	**5,400**	**9**	**0.2%**
Derivative instruments										
Financial derivatives	641	335,179	86,751	422,571	1,070	318,532	80,714	400,316	22,255	5.6%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	**641**	**335,179**	**86,751**	**422,571**	**1,070**	**318,532**	**80,714**	**400,316**	**22,255**	**5.6%**
Total (a+b)	**5,937**	**335,190**	**86,853**	**427,980**	**6,136**	**318,740**	**80,840**	**405,716**	**22,264**	**5.5%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

At the end of December, financial assets held for trading totalled around €428 million (€405.7 million at the beginning of January), consisting of on-balance sheet assets of €5.4 million (unchanged from the previous year) and of derivatives amounting to €422.6 million (€400.3 million).

As shown in the table, debt securities, amounting to €369 thousand, were down slightly from the beginning of January due to end-of-period accounting adjustments. The changes that occurred during the year – (i) €23 million nominal of net purchases of *Italian government securities* (€40 million of purchases of BTPs in August and €17 million of sales between August and September) and (ii) investments in *other debt securities*, or more specifically to the purchase in April of €25 million nominal of French OATs and their subsequent sale in July of €10 million – had a zero effect because both the BTPs and the OATs were disposed of entirely in the third quarter of the year.

Equity securities, amounting to €5 million (€4.7 million in January), represent the main item within on-balance sheet assets and were composed of many investments for small amounts made by both the Parent and the insurance business totalling €4.9 million (€4.3 million at the beginning of the year) and €0.1 million (€0.4 million) respectively.

Finally, with regard to derivative instruments, these consisted solely of financial derivatives, for which the changes must be interpreted in strict relation to the corresponding item recognised within financial liabilities held for trading. As at 31st December 2019 they amounted to €422.6 million, recording growth compared with €400.3 million at the beginning of the year. These are contracts without complex structures, consisting mainly of interest rate swaps attributable entirely to UBI Banca's activities.

Financial assets designated at fair value

Financial assets designated at fair value ***[Asset item 20. b) in the Consolidated Balance Sheet]***

Figures in thousands of euro	31.12.2019				1.1.2019 (*)				Changes	
	L 1	L 2	L 3	Carrying amount	L 1	L 2	L 3	Carrying amount	amount	%
Debt securities	10,278	-	-	10,278	11,028	-	-	11,028	-750	-6.8%
of which: Italian government securities	*6,323*	*-*	*-*	*6,323*	*7,049*	*-*	*-*	*7,049*	*-726*	*-10.3%*
Total	**10,278**	**-**	**-**	**10,278**	**11,028**	**-**	**-**	**11,028**	**-750**	**-6.8%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

Financial assets designated at fair value, amounting to €10.3 million and related entirely to the Group's insurance business, decreased slightly during the year (€11 million as at 1st January 2019).

Debt securities, the sole component of this item, included €6.3 million of *Italian government securities* (€7 million at the beginning of 2019), for which the performance was the result of:

- sales and redemptions of BTPs and CTZs for €3.3 million nominal compared with purchases of BTPs and CTZs for €1.1 million nominal, which took place in the first quarter;
- net purchases of BTPs and CTZs for €685 thousand nominal in the second quarter (€5.6 million of purchases and €4.9 million of sales and redemptions);
- net purchases of BTPs, BOTs and CTZs for €1.8 million nominal in the third quarter (€4.3 million of purchases and €2.5 million of sales);
- net sales and redemptions of BTPs, BOTs and CTZs for €1.1 million nominal in the period September-December (€211 thousand of purchases, €1,027 thousand of sales and €268 thousand of redemptions).

As already reported, the changes shown in the tables take account of end-of-period accounting adjustments.

Other debt securities, amounting to approximately €4 million (unchanged compared with January 2019) are composed of government securities of other countries (Germany, Spain, France, Belgium, Holland and the United States) and, to a marginal extent, corporate securities.

Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value ***[Asset item 20. c) in the Consolidated Balance Sheet]***

Figures in thousands of euro	31.12.2019 L 1	31.12.2019 L 2	31.12.2019 L 3	31.12.2019 Carrying amount	1.1.2019 (*) L 1	1.1.2019 (*) L 2	1.1.2019 (*) L 3	1.1.2019 (*) Carrying amount	Changes amount	Changes %
Debt securities	79,435	28,267	46,913	154,615	63,261	34,572	48,087	145,920	8,695	6.0%
of which: Italian government securities	*3,073*	*-*	*-*	*3,073*	*4,581*	*-*	*-*	*4,581*	*-1,508*	*-32.9%*
Equity securities	64,718	35	260,108	324,861	22,241	2,377	200,729	225,347	99,514	44.2%
Shares of UCITS	257,844	112,408	193,864	564,116	154,454	192,184	40,564	387,202	176,914	45.7%
Total	**401,997**	**140,710**	**500,885**	**1,043,592**	**239,956**	**229,133**	**289,380**	**758,469**	**285,123**	**37.6%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

At the end of the year other financial assets mandatorily measured at fair value amounted to over €1 billion compared with €758.5 million at the beginning of 2019.

The table shows debt securities of €154.6 million (€145.9 million at the beginning of January), €3.1 million of which in *Italian government securities* related entirely to the insurance segment; the change over the twelve months was the result of net disinvestments and, in particular, of a redemption in May, as well as end-of-period accounting adjustments.
Other debt securities amounted to €151.5 million (€141.3 million in January), 32% of which mainly relating to the banking business.
The €48.4 million (€49.5 million in January) in the banking segment also included: (i) a bond issued by Sorgenia that was converted for €42.0 million, which had already been revalued by €27.3 million in the last quarter of 2018; and (ii) the remainder of the subordinated bond, amounting to €0.4 million (€2.4 million at the start of January), held in relation to the voluntary scheme created at the Interbank Deposit Protection Fund (IDPF), which, as part of actions to support Banca Carige, had directly subscribed subordinated bonds of the Bank. The decrease of €2 million was due to the conversion of the bond into equity, following the increase in share capital completed by Banca Carige in December[2]; (iii) 5% of the junior and mezzanine

2 The increase in share capital of €700 million was approved by the shareholders of Banca Carige in the General Meeting held on 20th September 2019, thanks to the support from the IDPF. With regard to the capital strengthening operation, the first tranche, amounting to €313.2 million, was subscribed by the Voluntary Scheme by offsetting the credit deriving from subordinated bonds - held since November 2018 - for a corresponding nominal amount, €63 million was subscribed by Cassa Centrale Banca and the third tranche, reserved to historic shareholders, amounting to €85 million was subscribed for approximately €23 million by the former shareholders and €62 million by FITD itself, which also covered the fourth tranche of €238.8 million.

tranches, not sold to third parties, resulting from the securitisations of bad loans backed by GACS (a government bad loan securitisation guarantee) carried out in 2018, for a total book value of €1.1 million[3] and in 2019 for €0.4 million.
The €103.1 million relating to insurance business (€91.8 million at the beginning of 2019) was composed (over 75%) of banking and insurance sector bonds, while the remainder consisted of real estate, automotive and pharmaceutical sector securities; the increase was due to purchases made during the year.

Equity securities, classified mostly within fair value level three, amounted to €324.9 million (€225.3 million in January 2019). The shareholdings recognised in fair value level three were held in (i) the Bank of Italy, SACBO and DepoBank (the former Istituto Centrale delle Banche Popolari), totalling €161.1 million, which increased by €2.4 million in the second quarter of 2019 following the revaluation of SACBO; (ii) the voluntary scheme created at the Interbank Deposit Protection Fund (IDPF), following the actions mentioned taken to support Banca Carige, amounting to €2.4 million[4]; and (iii) Nuova Sorgenia Holding for a total of €67.6 million: the amount – which was nil at the beginning of 2019 – was revalued following the acceptance in December of a binding offer to purchase the assets of the company. The stake held in NEXI, classified within fair value level one after it was listed on the Milan stock exchange in April, was recognised for €44.4 million (€11.3 million at the beginning of January)[5].

Shares in UCITS totalled €564.1 million at the end of December (+€176.9 million compared with January).
In level 1, in addition to the shares subscribed by the insurance companies amounting to €208.2 million (€103.4 million as at 1st January), which showed development following the increase in net inflows from multi-sector and "Business sector III" products and fair value movements, this level mainly contained shares in the Pramerica Global Multi Asset Moderato fund amounting to approximately €44.3 million, in the Polis fund amounting to €1.3 million [three capital redemptions for a total of €5.6 million were carried out over the twelve-month period (€2.8 million in the first three months, €0.7 million in the third quarter and €2.1 million in the fourth quarter)] and the Tages fund, for a residual amount of €2.1 million after disposals carried out at the end of 2017.
Level two was composed of real estate funds (€35.1 million relating to UBI Banca and €26.3 million to UBI Leasing) and it includes insurance investments of over €20 million.
In addition to the value of the shares in the Atlante Fund amounting to around €40 million, level three contained shares of closed-end funds acquired in exchange for the sale of non-performing (unlikely-to-pay) exposures.

Financial liabilities held for trading

Financial liabilities held for trading: composition *[part of liabilities item 20. in the consolidated balance sheet]*

Figures in thousands of euro	31.12.2019 L 1	31.12.2019 L 2	31.12.2019 L 3	31.12.2019 Carrying amount	1.1.2019 (*) L 1	1.1.2019 (*) L 2	1.1.2019 (*) L 3	1.1.2019 (*) Carrying amount	Changes amount	Changes %
On-balance sheet liabilities										
Due to banks	-	-	-	-	-	-	-	-	-	-
Due to customers	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-
Total (a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative instruments										
Financial derivatives	383	468,158	80	468,621	123	410,823	31	410,977	57,644	14.0%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total (b)	**383**	**468,158**	**80**	**468,621**	**123**	**410,823**	**31**	**410,977**	**57,644**	**14.0%**
Total (a+b)	**383**	**468,158**	**80**	**468,621**	**123**	**410,823**	**31**	**410,977**	**57,644**	**14.0%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

3 See the information reported in the section "Significant events in 2018" in the consolidated management report of the UBI Banca Group for the year ended 31st December 2018.
4 For more information, see Part A – Accounting Policies of the notes to the financial statements in this report.
5 The change includes the revaluation of €17.7 million in the first quarter in preparation for the sale and market valuation.

Financial liabilities held for trading amounted to €469 million in December (around €411 million as at 1st January) and consisted solely of financial derivatives, for which the amount and the performance must be interpreted consistently with the corresponding item recognised within financial assets held for trading.
There were no on-balance sheet liabilities outstanding at the end of the year. However, the following movements occurred during the year: (i) a short position of €26.8 million nominal in French OATs entered into in April 2019 and partially closed for €10 million nominal in September and another short position of €15 nominal in OATs in November; the entire amount of the positions was also liquidated in November (€31.8 nominal) and (ii) a short position, uncovered, for €30 million nominal in BTPs entered into in August and fully closed in October.

Financial assets measured at fair value through other comprehensive income

"Financial assets measured at fair value through other comprehensive income", Asset item 30 in the Consolidated Balance Sheet, are composed of the following: (i) financial instruments associated with the "Hold to Collect and Sell" business model, which is to say they are held within the framework of a business model, the objective of which is achieved both by the collection of cash flows and by the sale of the instruments themselves and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI test is passed); (ii) equity securities for which an "OCI election" has been opted for to present changes in fair value in other comprehensive income[6].

The financial instruments referred to in item (i) are measured at fair value with changes recognised within "valuation reserves". Impairment losses and reversals of those losses determined in compliance with IFRS 9 impairment rules are recognised through profit or loss against "valuation reserves" in the statement of comprehensive income, while the equity securities referred to in item (ii) are measured at fair value with changes recognised within "valuation reserves" within the statement of comprehensive income[7].

Financial assets measured at fair value through other comprehensive income
[Asset item 30. 3) in the Reclassified Consolidated Balance Sheet]

Figures in thousands of euro	31.12.2019 L 1	31.12.2019 L 2	31.12.2019 L 3	31.12.2019 Carrying amount	1.1.2019 (*) L 1	1.1.2019 (*) L 2	1.1.2019 (*) L 3	1.1.2019 (*) Carrying amount	Changes amount	Changes %
Debt securities	11,962,483	215,685	-	12,178,168	10,589,504	87,810	-	10,677,314	1,500,854	14.1%
of which: Italian government securities	*5,519,587*	*-*	*-*	*5,519,587*	*6,275,680*	*-*	*-*	*6,275,680*	*-756,093*	*-12.0%*
Equity securities	-	-	43,448	43,448	-	-	48,850	48,850	-5,402	-11.1%
Total	**11,962,483**	**215,685**	**43,448**	**12,221,616**	**10,589,504**	**87,810**	**48,850**	**10,726,164**	**1,495,452**	**13.9%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

As at 31st December 2019 financial assets measured at fair value through other comprehensive income amounted to €12.2 billion, up €1.5 billion over twelve months (€10.7 billion at the beginning of the year).
As shown in the table, debt securities, amounting to €12.2 billion, included €5.5 billion of *Italian government securities*, of which €1.4 billion related to insurance business (€1.2 billion as at 1st January), over 90% of which composed of BTPs and, the remainder, of BOTs and CCTs, which recorded no significant movements during the year. In contrast, Italian government securities held as part of banking business declined compared with January due to the sale of BTPs for €1.11 billion nominal net (€663.4 million nominal in the first quarter of the year, €460 million nominal in the third quarter, and purchases of €15 million nominal net in the fourth quarter).

6 In fact with reference to the provisions of IFRS 9, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.
7 With specific reference to equity securities, the amount recognised within "valuation reserves" is never transferred to the income statement (known as FVOCI with no recycling), not even when the investments are sold.

With regard to *other debt securities*, the total grew to €6.7 billion (€4.4 billion in January). This performance over the twelve months reflects, again in the context of diversification of the portfolio, the purchase of €540 million nominal net of *French OATs*, €210 million nominal net of *Spanish Bonos*, €55 million nominal net of *Portuguese government securities*, €15 million nominal of *Finnish government securities*, €10 million nominal of *Slovenian government securities*, €5 million nominal net of *Belgian government securities* and $170 million nominal of *US Treasuries*.
Transactions were carried out over the same time period, with a nil net effect, in *Greek government securities, Irish government securities* and *supranational securities*.
Government securities of emerging countries recorded net purchases since January of approximately €43 million nominal and of $75.4 million.
Corporate bonds, on the other hand, recorded net investments of €518.2 million nominal and of $294.5 million nominal net.

Debt securities also include BancAssurance Popolari investments of over €2.1 billion in Italian government securities, the €1.4 billion of Italian government securities already mentioned and over €0.7 billion of non-Italian government securities (mainly Spanish Bonos and Portuguese government securities) and corporate securities diversified by sector and geographical area.

It must be considered that the changes in debt securities reported in the tables also take account of end-of-period accounting adjustments.

Equity securities, for which the Group has made an OCI election, consisted of many small investments for a small total amount and came to €43.4 million, down compared with the beginning of January.

Financial assets measured at amortised cost

Asset item 40 in the Consolidated Balance Sheet, "Financial assets measured at amortised cost", includes financial instruments associated with the "Hold to Collect" business model, which is to say they are held within the framework of a business model, the objective of which is to hold the assets in order to collect the cash flows and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI test is passed).

These assets are measured at amortised cost with impairment losses and reversals of those losses determined in compliance with IFRS 9 impairment rules recognised through profit or loss.

Financial assets measured at amortised cost ***[Asset item 40. 3) in the Reclassified Consolidated Balance Sheet]***

	31.12.2019							1.1.2019 (*)							Changes	
	Carrying amount			Fair value				Carrying amount			Fair value					
Figures in thousands of euro	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L 1	L 2	L 3	Total	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L 1	L 2	L 3	Total	amount	%
Debt securities	5,448,333	-	-	4,526,906	3,965	898,238	5,429,109	3,745,219	-	-	2,795,836	106	633,342	3,429,284	1,703,114	45.5%
of which: Italian government securities	*4,257,593*	-	-	*4,225,884*	-	-	*4,225,884*	*3,111,537*	-	-	*2,795,836*	-	-	*2,795,836*	*1,146,056*	*36.8%*
Total	**5,448,333**	**-**	**-**	**4,526,906**	**3,965**	**898,238**	**5,429,109**	**3,745,219**	**-**	**-**	**2,795,836**	**106**	**633,342**	**3,429,284**	**1,703,114**	**45.5%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

At the end of December 2019 financial assets measured at amortised cost amounted to €5.4 billion (€3.7 billion as at 1st January) and they were composed entirely of debt securities classified in stage one according to the rules of the IFRS 9 accounting standard. The majority consisted of *Italian government securities* recognised in fair value level one. The latter had increased by €1.1 billion over the twelve months following the purchase of €975 million nominal of BTPs (€725 million in January and February and €250 million in July).

Other debt securities, amounting to €1.2 billion (up €+557 million compared with January) were mainly composed of (i) the senior tranche, resulting from securitisations of bad loans, not sold to third parties, for a total amount of €858.6 million: the first – backed entirely by GACS – for a total of €524.8 million, down €103.8 million over the twelve months due to the two capital redemptions in the first and the second quarter, and the second – awaiting the finalisation of the guarantee – for €333.8 million resulting from the securitisation of residential mortgages carried out in December; (ii) *Spanish Bonos* of €80 million nominal (€200 million purchased in February and €120 million sold in September); and (iii) investments in bonds issued by banks for a total of €197.4 million nominal made mostly in the first six months of the year (€150.8 million in June).

As already reported, the changes shown in the tables take account of end-of-period accounting adjustments.

Risk

FVOCI debt securities were classified as follows: 98.8% of their gross value within stage one (98.8% in January), 1.1% in stage two (1.1%) and the remainder in stage three. The percentage coverage ratios were 0.05%, 1.41% and 100% respectively (0.04%, 1.51% and 100% at the beginning of 2019).

Debt securities measured at amortised cost, on the other hand, were allocated entirely to stage one with a coverage level of 0.07% (0.04% in January).

Exposure to sovereign debt risk

The table entitled "UBI Banca Group: exposures to sovereign debt risk" (presented with separate figures for the insurance business given the different nature of the underlying risk) shows that the total carrying amount of the sovereign debt risk exposures of the Group as at 31st December 2019 amounted to €15.4 billion, of which €13.6 billion consisting of securities held in portfolio by the banking Group and €1.8 billion attributable to insurance business.

Compared to the beginning of the year (total of €13.6 billion, of which €12.1 billion from banks and €1.5 billion from insurance companies) there was an increase in the overall exposure accompanied by greater diversification.

At country level the risk continued to be concentrated mainly in Italy, with a share falling to 69.56% of the total (from 76% in January 2019), in the United States at 11.58% (11%) and in Spain at 10.50% (9%).

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

UBI Banca Group: exposures to sovereign debt risk

Country/portfolio of classification	31.12.2019					
	Consolidated without insurance			Insurance		
Figures in thousands of euro	Nominal amount	Carrying amount	Fair value	Nominal amount	Carrying amount	Fair value
- Italy	**8,061,399**	**9,291,608**	**9,259,742**	**1,262,447**	**1,402,488**	**1,402,488**
financial assets and liabilities held for trading (net exposure)	7	9	9	-	-	-
financial assets designated at fair value	-	-	-	6,194	6,323	6,323
financial assets mandatorily measured at fair value	-	-	-	3,000	3,073	3,073
financial assets measured at fair value through other comprehensive income	3,721,050	4,126,495	4,126,495	1,253,253	1,393,092	1,393,092
financial assets measured at amortised cost (government securities)	3,440,000	4,257,593	4,225,884	-	-	-
financial assets measured at amortised cost (financing and other securities)	900,342	907,511	907,354	-	-	-
- Spain	**1,175,000**	**1,300,159**	**1,305,305**	**232,109**	**314,583**	**314,583**
financial assets measured at fair value through other comprehensive income	1,095,000	1,217,608	1,217,608	230,550	312,901	312,901
financial assets designated at fair value	-	-	-	1,559	1,682	1,682
financial assets measured at amortised cost (government securities)	80,000	82,551	87,697	-	-	-
- United States	**1,753,605**	**1,779,265**	**1,779,265**	**572**	**576**	**576**
financial assets designated at fair value	-	-	-	572	576	576
financial assets measured at fair value through other comprehensive income	1,753,605	1,779,265	1,779,265	-	-	-
- Belgium	**30,000**	**36,457**	**36,457**	**2,570**	**2,682**	**2,682**
financial assets measured at fair value through other comprehensive income	30,000	36,457	36,457	2,500	2,605	2,605
financial assets designated at fair value	-	-	-	70	77	77
- Finland	**15,000**	**16,850**	**16,850**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	15,000	16,850	16,850	-	-	-
- France	**540,000**	**563,668**	**563,668**	**3,433**	**3,746**	**3,746**
financial assets designated at fair value	-	-	-	433	497	497
financial assets measured at fair value through other comprehensive income	540,000	563,668	563,668	3,000	3,249	3,249
- Germany	**-**	**-**	**-**	**482**	**741**	**741**
financial assets designated at fair value	-	-	-	482	741	741
- Latvia	**-**	**-**	**-**	**2,000**	**2,108**	**2,108**
financial assets measured at fair value through other comprehensive income	-	-	-	2,000	2,108	2,108
- Holland	**-**	**-**	**-**	**771**	**804**	**804**
financial assets designated at fair value	-	-	-	71	74	74
financial assets measured at fair value through other comprehensive income	-	-	-	700	730	730
- Portugal	**130,000**	**152,229**	**152,229**	**37,000**	**44,635**	**44,635**
financial assets measured at fair value through other comprehensive income	130,000	152,229	152,229	37,000	44,635	44,635
- Rumania	**21,091**	**23,576**	**23,576**	**5,000**	**5,797**	**5,797**
financial assets measured at fair value through other comprehensive income	21,091	23,576	23,576	5,000	5,797	5,797
- Abu Dhabi	**16,913**	**17,667**	**17,667**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	16,913	17,667	17,667	-	-	-
- Algeria	**3,786**	**2,290**	**2,290**	**-**	**-**	**-**
financial assets measured at amortised cost (financing and other securities)	3,786	2,290	2,290	-	-	-
- Saudi Arabia	**30,165**	**31,627**	**31,627**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	30,165	31,627	31,627	-	-	-
- Argentina	**720**	**245**	**245**	**-**	**-**	**-**
financial assets and liabilities held for trading (net exposure)	720	245	245	-	-	-
- Bulgaria	**-**	**-**	**-**	**2,000**	**2,291**	**2,291**
financial assets measured at fair value through other comprehensive income	-	-	-	2,000	2,291	2,291
- Brazil	**4,451**	**5,261**	**5,261**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	4,451	5,261	5,261	-	-	-
- Chile	**5,786**	**6,157**	**6,157**	**1,500**	**1,627**	**1,627**
financial assets measured at fair value through other comprehensive income	5,786	6,157	6,157	1,500	1,627	1,627
- Colombia	**35,250**	**38,605**	**38,605**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	35,250	38,605	38,605	-	-	-
- South Korea	**8,902**	**8,950**	**8,950**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	8,902	8,950	8,950	-	-	-
- Croatia	**13,902**	**14,719**	**14,719**	**2,500**	**3,042**	**3,042**
financial assets measured at fair value through other comprehensive income	13,902	14,719	14,719	2,500	3,042	3,042
- Philippines	**22,352**	**26,193**	**26,193**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	22,352	26,193	26,193	-	-	-
- Indonesia	**21,361**	**22,947**	**22,947**	**2,500**	**2,616**	**2,616**
financial assets measured at fair value through other comprehensive income	21,361	22,947	22,947	2,500	2,616	2,616
- Israel	**4,451**	**4,634**	**4,634**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	4,451	4,634	4,634	-	-	-
- Kazakhstan	**10,000**	**10,701**	**10,701**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	10,000	10,701	10,701	-	-	-
- Kuwait	**8,902**	**9,114**	**9,114**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	8,902	9,114	9,114	-	-	-
- Lithuania	**6,231**	**6,653**	**6,653**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	6,231	6,653	6,653	-	-	-
- Morocco	**8,902**	**9,432**	**9,432**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	8,902	9,432	9,432	-	-	-
- Mexico	**25,231**	**27,357**	**27,357**	**2,500**	**2,902**	**2,902**
financial assets measured at fair value through other comprehensive income	25,231	27,357	27,357	2,500	2,902	2,902
- Oman	**8,902**	**9,239**	**9,239**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	8,902	9,239	9,239	-	-	-
- Panama	**21,631**	**22,923**	**22,923**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	21,631	22,923	22,923	-	-	-
- Peru	**5,116**	**6,224**	**6,224**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	5,116	6,224	6,224	-	-	-
- Poland	**25,814**	**27,627**	**27,627**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	25,814	27,627	27,627	-	-	-
- Qatar	**60,457**	**64,244**	**64,244**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	38,722	42,439	42,439	-	-	-
financial assets measured at amortised cost (financing and other securities)	21,735	21,805	21,805	-	-	-
- People's Republic of China	**1,246**	**1,267**	**1,267**	**1,750**	**1,713**	**1,713**
financial assets measured at fair value through other comprehensive income	1,246	1,267	1,267	1,750	1,713	1,713
- Slovak Republic	**3,561**	**3,779**	**3,779**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	3,561	3,779	3,779	-	-	-
- Serbia Montenegro	**8,353**	**9,259**	**9,259**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	8,353	9,259	9,259	-	-	-
- Slovenia	**10,588**	**11,623**	**11,623**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	10,588	11,623	11,623	-	-	-
- South Africa	**4,451**	**4,832**	**4,832**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	4,451	4,832	4,832	-	-	-
- Uruguay	**12,907**	**14,286**	**14,286**	**-**	**-**	**-**
financial assets measured at fair value through other comprehensive income	12,907	14,286	14,286	-	-	-
Total on-balance sheet exposure	**12,116,426**	**13,581,667**	**13,554,947**	**1,559,134**	**1,792,351**	**1,792,351**

* * *

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

Maturities of Italian government securities

Figures in thousands of euro	31.12.2019 Financial assets held for trading [Asset item 20. a) in the Consolidated Balance Sheet]	Financial assets designated at fair value [Asset item 20. b) in the Consolidated Balance Sheet]	Other financial assets mandatorily measured at fair value [Asset item 20. c) in the Consolidated Balance Sheet]	Financial assets measured at fair value through other comprehensive income [Asset item 30. 3) in the Reclassified Consolidated Balance Sheet]	Financial assets measured at amortised cost [Asset item 40. 3) in the Reclassified Consolidated Balance Sheet]	Carrying amount	%
Up to 6 months	1	2,569	-	11,411	-	13,981	0.1%
Six months to one year	-	1,195	-	1,058	-	2,253	0.0%
One year to three years	2	1,108	-	834,220	-	835,330	8.5%
Three years to five years	1	1,122	-	2,574,305	514,107	3,089,535	31.6%
Five years to ten years	2	153	3,073	1,501,868	1,761,707	3,266,803	33.4%
Over ten years	3	176	-	596,725	1,981,779	2,578,683	26.4%
Total	**9**	**6,323**	**3,073**	**5,519,587**	**4,257,593**	**9,786,585**	**100.0%**

Figures in thousands of euro	1.1.2019 (*) Financial assets held for trading [Asset item 20. a) in the Consolidated Balance Sheet]	Financial assets designated at fair value [Asset item 20. b) in the Consolidated Balance Sheet]	Other financial assets mandatorily measured at fair value [Asset item 20. c) in the Consolidated Balance Sheet]	Financial assets measured at fair value through other comprehensive income [Asset item 30. 3) in the Reclassified Consolidated Balance Sheet]	Financial assets measured at amortised cost [Asset item 40. 3) in the Reclassified Consolidated Balance Sheet]	Carrying amount	%
Up to 6 months	1	3,092	1,771	11,945	-	16,809	0.2%
Six months to one year	1	367	-	5,597	-	5,965	0.1%
One year to three years	4	1,973	-	93,240	-	95,217	1.0%
Three years to five years	1	158	-	2,272,239	-	2,272,398	24.2%
Five years to ten years	1	1,355	-	3,463,294	1,273,133	4,737,783	50.4%
Over ten years	2	104	2,810	429,365	1,838,404	2,270,685	24.1%
Total	**10**	**7,049**	**4,581**	**6,275,680**	**3,111,537**	**9,398,857**	**100.0%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

The table shows the almost total concentration of investments in the time ranges "five years to ten years" (33.4% in December, 50.4% in January 2019), "three years to five years" (31.6%, 24.2%) and "over ten years" (26.4%, 24.1%). In addition to the automatic movements between time ranges due to the passage of time, the partial change in the mix between the three ranges that took place since the start of January reflects the aforementioned disposals of financial assets measured at fair value through other comprehensive income as well as new investments made within financial assets measured at amortised cost.

Excluding securities relating to insurance business, amounting to approximately €1.4 billion at the end of December, the average life of the financial assets held for trading portfolio was 7.54 years (6.36 years at the beginning of 2019), that of the other financial assets mandatorily measured at fair value portfolio was 5.38 years (6.16 years), while that of government securities classified within financial assets measured at amortised cost was 10.79 years (13.32 years).

* * *

With a view to greater transparency on credit risk exposures consisting of debt instruments other than sovereign debt – as requested by the European Securities and Markets Authority (ESMA) in Document No. 725/2012 of 12th November 2012 – a table has been provided below summarising total debt securities other than sovereign debt recognised among the assets of the UBI Banca Group balance sheet as at 31st December 2019. The carrying amount of these investments amounted to €3.35 billion, a substantial increase compared with almost €2 billion at the beginning of 2019 as a result of the progressive diversification strategy currently in progress. Of this amount €2.36 billion relates to corporate issuers (€1.44 billion in January) and €0.98 billion relates to banking issuers (€0.55 billion), while the remainder, relating to supranational issuers, is of negligible amount.

Debt securities other than government securities recognised within consolidated assets

Figures in thousands of euro	31.12.2019			
Issuer	Nationality	Carrying amount	Fair value	Nominal amount
Corporate	Italy	1,146,938	1,148,952	1,184,251
Corporate	United States	281,764	281,764	269,100
Corporate	United Kingdom	177,146	177,146	170,994
Corporate	Holland	171,483	171,483	161,842
Corporate	France	125,492	125,492	121,326
Corporate	Luxembourg	77,648	77,648	74,729
Corporate	Spain	65,917	65,917	61,200
Corporate	Japan	65,643	65,643	63,277
Corporate	Germany	57,373	57,373	53,500
Corporate	Switzerland	33,376	33,376	31,803
Corporate	Belgium	28,304	28,304	27,415
Corporate	Jersey	16,196	16,196	16,000
Corporate	Czech Republic	15,585	15,585	14,600
Corporate	Mexico	12,400	12,400	11,725
Corporate	Ireland	11,832	11,832	13,001
Corporate	Denmark	11,623	11,623	10,731
Corporate	Finland	10,620	10,620	10,000
Corporate	Cayman Islands	9,599	9,599	9,451
Corporate	Marshall Islands	9,362	9,362	9,000
Corporate	Sweden	8,048	8,048	7,500
Corporate	Canada	4,404	4,404	4,000
Corporate	Rumania	3,836	3,836	3,500
Corporate	Australia	3,773	3,773	3,500
Corporate	Norway	2,963	2,963	3,000
Corporate	Bermuda	2,698	2,698	2,500
Corporate	Guerney C.I.	2,592	2,592	2,500
Corporate	Hong Kong	2,075	2,075	2,000
Corporate	Cyprus	-	-	9,500
Corporate	Brazil	-	-	62
Total Corporate		**2,358,690**	**2,360,704**	**2,352,007**
Banking	Italy	336,927	342,326	333,036
Banking	Spain	136,163	136,738	131,600
Banking	France	128,179	128,179	123,651
Banking	Germany	105,394	105,394	102,881
Banking	United Kingdom	65,783	65,783	62,774
Banking	United States	35,956	35,956	34,221
Banking	Austria	29,175	29,175	29,770
Banking	Ireland	25,589	25,589	25,000
Banking	Denmark	24,895	24,895	24,566
Banking	Holland	22,576	22,576	21,202
Banking	Sweden	20,328	20,329	20,451
Banking	Australia	15,256	15,256	14,962
Banking	Finland	8,888	8,888	9,000
Banking	Switzerland	6,517	6,517	6,906
Banking	Belgium	6,195	6,195	6,000
Banking	Norway	5,554	5,554	5,000
Banking	Hong Kong	4,588	4,588	4,451
Banking	Canada	2,705	2,705	2,670
Banking	Japan	2,450	2,450	2,335
Total Banking		**983,118**	**989,093**	**960,476**
E.I.B.	Luxembourg	2,928	2,929	2,870
Total Supranational		**2,928**	**2,929**	**2,870**
Total debt instruments		**3,344,736**	**3,352,726**	**3,315,353**

Finally, to complete the disclosures required by the ESMA, the Group held no credit default products as at 31st December 2019 nor did the Group carry out any transactions in those instruments during the year, either to increase its exposure or to acquire protection.

Derivative financial instruments

Management of interest rate risk in the banking book (IRRBB) is performed, in addition to the natural hedges of fixed-rate assets and liabilities, also with the aid of financial derivative instruments.
Most of the financial derivative instruments used are plain-vanilla interest rate swaps taken out as hedges, traded in OTC markets and allocated to a central counterparty.

TRADING ACTIVITIES

As shown in table “A.1 Financial derivatives held for trading: notional, end-of-period figures” in the Notes to the Consolidated Financial Statements, Part E, the notional value of the derivatives recognised in the trading portfolio existing at the end of 2019 was €38.6 billion (€39.2 billion at the end of 2018).
As at 31st December 2019 the gross positive fair value of this portfolio, prior to offsetting in accordance with the provisions of IAS 32, came to €605.3 million, while the gross negative fair value came to €651.7 million.

HEDGING ACTIVITIES

In the first half of 2019, the hedging activities involved the partial reduction in the exposure to the risk of a steepening of the interest curve, which slowed down in the second half of the year due to the tendency of favouring the use of natural hedges of fixed-rate assets and liabilities.
As detailed in table “A.1 Financial derivatives held for hedging: notional end-of- period amounts”, contained in the Notes to the Consolidated Financial Statements, Part E, the notional value of hedging derivatives held in December 2019 was €44.5 billion (€41.9 billion at the end of 2018).
These mainly consisted of instruments to hedge interest rate risk relating to debt securities and, in particular, to fixed-rate bonds and securities classified within “Assets measured at fair value through the comprehensive income”.
As at 31st December 2019 the gross positive fair value of this portfolio, prior to offsetting in accordance with the provisions of IAS 32, came to €629.2 million, while the gross negative fair value came to €980.5 million.
For a proper understanding of overall trading in these instruments, their measurement at fair value must be considered in combination with the fair value of the corresponding hedged assets/liabilities.

Exposures to certain types of products

This section provides an update of the exposure of the UBI Banca Group with regard to some types of financial instruments, which are considered at high risk since the subprime mortgage crisis in 2007.

Special purpose entities

The involvement of the UBI Banca Group in special purpose entities (SPEs[8]) concerns the following types:

1. conventional securitisation transactions[9] performed by Group companies in accordance with Law No. 130 of 30th April 1999;
2. synthetic securitisations[10];
3. the issuance of covered bonds, in accordance with Art. 7 *bis* of Law No,130/1999.

1. The list of special purpose entities (SPEs) used for conventional securitisations in which the Group is involved is as follows:

   24-7 Finance Srl;
   UBI SPV Lease 2016 Srl;
   UBI SPV Group 2016 Srl.

   The securitisations concerning 24-7 Finance Srl, UBI SPV Lease 2016 Srl and UBI SPV Group 2016 Srl were performed in order to create a portfolio of assets eligible as collateral for refinancing with the European Central Bank, consistent with Group policy for the management of liquidity risk.
   They were carried out on the following: performing residential mortgages of the former B@nca 24-7 (24-7 Finance Srl); performing UBI Leasing lease contracts (UBI SPV Lease 2016 Srl); performing residential mortgages granted to individuals and sole traders by the former Banca Popolare Commercio e Industria, the former Banca Regionale Europea, UBI Banca, the former Banca Popolare di Bergamo, the former Banco di Brescia, the former Banca Popolare di Ancona and the former Banca Carime (UBI SPV Group 2016 Srl).

   In 2019 the total payments received for receivables transferred to UBI SPV Lease 2016 Srl amounted to €639.2 million. With regard to revolving activities, two transfers of receivables were transferred under the "revolving" period (which was extended following a revision of the transaction) and more specifically two transactions were concluded (the first in April and the second in October) which involved portfolios amounting to €302.2 million and €280.3 million (in terms of the remaining principal debt) respectively.
   Furthermore, the total payments received in 2019 for the loans transferred to UBI SPV Group 2016 Srl amounted to €273.7 million: assets amounting to €758 million were transferred to the entity UBI SPV Group 2016 Srl in March 2019 and two repurchases of assets were made for €638.7 million in January and €11.9 million in September.
   To complete the information, a further repurchase of assets from the entity UBI SPV Group 2016 Srl took place in January 2020 for €416.2 million.

   Although Group investment in the ownership capital of the SPEs is limited, the entities listed above are included in the consolidated accounts because the aforementioned companies are in reality controlled, since their assets and liabilities were originated by Group companies.
   In the securitisations in question the senior securities issued by the entities – assigned a rating – are listed on the Dublin Stock Exchange.

2. Synthetic securitisations have been added to conventional securitisations since 2017 with the objective of improving the regulatory capital by reducing the degree of credit risk on the underlying portfolios[11].

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8 Special Purpose Entities (SPEs) are special companies formed to achieve a determined objective.
9 With normal securitisations the originator sells the portfolio to a special purpose entity which then issues tranches of asset-backed securities in order to purchase it.
10 With a synthetic securitisation, the originator purchases protection for a pool of assets and transfers the credit risk attaching to the portfolio – either fully or in part – by using credit derivatives (credit default swaps - CDSs) and CLNs (credit-linked notes) or by means of personal guarantees.
11 Reference is made for further information to the information given in the special section of the Notes to the Financial Statements, Part E, C.1 "Securitisations", in the 2019 Consolidated Annual Report.

3. With regard to the issue of covered bonds, the creation of the SPEs UBI Finance Srl (in 2008) and UBI Finance CB 2 Srl (in 2011) was performed for the purchase of loans from banks in order to create cover pools for covered bonds issued by the Parent[12].

   The issuance of covered bonds is designed to diversify sources of funding and to contain its cost as well as to increase eligible reserves.
   A transfer was made in 2019 to the SPE UBI Finance Srl which regarded assets held by UBI Banca amounting to €2.433.2 million (with effect for accounting purposes from May 2019) and a repurchase of non-performing assets took place for €246.5 million (with effect for economic and legal purposes from August 2019).
   A transfer was completed under the second programme to the entity UBI Finance CB 2 Srl which regarded assets held by UBI Banca amounting to €674.8 million (with effect for accounting purposes from June 2019) and two repurchases of non-performing assets took place for €7.5 million and for €1 million with effect for accounting purposes from August and December 2019).
   At the date of this report, UBI Banca has issued covered bonds totalling €13.56 billion nominal (of which €3.5 billion relating to retained issuances) under the first programme (residential mortgages) for a maximum issuance of €15 billion and for a total of €2.15 billion nominal (all retained issuances) under the second programme (mainly commercial mortgages) with a maximum issuance of €5 billion.
   The originator banks issued subordinated loans to the entity UBI Finance Srl and to the entity UBI Finance CB 2 Srl, equal to the value of the loans progressively transferred, in order to fund the purchase. As at 31st December 2019 these loans amounted to €16.51 billion for UBI Finance Srl (€16.08 billion in December 2018) and to €2.89 billion for UBI Finance CB 2 (€2.7 billion in December 2018).

Ordinary lines of liquidity existed at the end of the year granted by the Parent to the entity 24-7 Finance Srl for a total of €97.6 million, which had been entirely drawn on (€97.6 million entirely drawn on also in December 2018).

No exposures exist to SPEs or other conduit operations with underlying securities or investments linked to United States subprime and Alt-A loans.

The total assets of SPEs relating to securitisations and to covered bonds amounted to €24.48 billion (€24.35 billion at the end of 2018). The table[13] below reports details by asset class.

SPE underlying assets

Figures in millions of euro		Classification of underlying assets of the securitisation		31.12.2019		31.12.2018	
Entity	Total assets	Class of underlying asset	Measurement criterion adopted	Gross of impairment losses	Net of impairment losses	Gross of impairment losses	Net of impairment losses
24-7 Finance	734.5	Mortgages	AC	673.6	669.5	767.2	761.7
UBI SPV Lease 2016	2,903.3	Leasing	AC	2,857.6	2,834.4	2,868.4	2,840.7
UBI Finance	15,743.4	Mortgages	AC	15,473.5	15,405.4	15,155.3	15,079.9
UBI Finance CB 2	2,729.6	Mortgages	AC	2,516.1	2,500.1	2,291.2	2,269.4
UBI SPV GROUP 2016	2,371.1	Mortgages	AC	2,342.8	2,331.7	2,475.6	2,461.7
		Total impaired assets, mortgages and loans		888.4	671.8	1,234.9	877.2
		Total impaired assets, leasing		84.6	69.0	73.8	61.0
Total	**24,481.9**			**24,836.6**	**24,481.9**	**24,866.4**	**24,351.6**

* * *

With regard to the New Banks acquired, the only securitisations originated by them still in existence at the end of 2019 held by UBI Banca following the mergers which took place in the last quarter of 2017 is the following:

12 The transfers are designed to create segregated portfolios to back the issues and do not involve derecognition of the assets in the financial statements of the originators.
13 We report that most of the assets transferred and not derecognised reported in this table have been recognised within asset item 40 “Financial assets measured at amortised cost – Loans and advances to customers” in the balance sheet and to a residual extent within item 20 “Other financial assets mandatorily measured at fair value”.

- Marche M6 Srl[14], a securitisation of the residential mortgage backed securities (RMBS) type, with residential and commercial mortgages as the underlying. The total assets as at 31st December 2019 amounted to €938.9 million.

As already reported with regard to the two following operations:

- *Mecenate 2007[15] was closed down with the repurchase of all the loans concluded in September 2019 and the subsequent redemption of the notes which took place in October 2019. The SPE Mecenate Srl was placed in liquidation and will continue to exist until the activities required under the contracts to close down the operation are completed;*
- *Marche Mutui 2 Società per la Cartolarizzazione a r.l.[16] was closed down with the repurchase of all the loans concluded in April 2019 and the subsequent redemption of the notes which took place in May 2019. The procedure to liquidate the company was concluded on 30th December 2019.*

Exposures in ABS, CDO, CMBS and other structured credit products

As at 31st December 2019 the Group held a direct investment in ABS instruments with a value of zero, while no indirect exposures existed to structured CDO and CMBS products.

Other subprime, Alt-A and monoline insurer exposures

As at 31st December 2019 no indirect exposures to subprime and Alt-A mortgages and to monoline insurers existed.

Leveraged Finance

As part of project work to implement ECB guidance[17], the UBI Banca Group amended its definition of leveraged finance to bring it into line with the recommendations of that guidance. Committed financing to borrowers with a post-financing debt to EBITDA ratio that exceeds 4.0 times and/or to borrowers owned by one or more of the financial sponsors fall within this category. Loans with natural persons, institutions, credit institutions, investment firms, financial sector entities, public sector entities, specialised lending loans and exposures to borrowers with an internal or external investment-grade rating are excluded from the leveraged finance perimeter. Furthermore, exposures to small and medium-sized enterprises are not included except where they are owned by one or more financial sponsors. Finally, the transactions where the Group's exposure to the borrowers is below €5 million are also not included.

UBI Banca leveraged finance business

Figures in millions of euro	On-balance sheet exposure gross exposure to customers		Off-balance sheet exposure gross exposure to customers	
	used	impairment	used	impairment
31st December 2019	5,546.2	46.4	699.6	6.4
31st December 2018	3,956.9	21.5	585.2	3.5

The table summarises on- and off-balance sheet exposure for leveraged finance by the UBI Banca Group at the end of December 2019. These on-balance sheet loans (inclusive of the relative margins) as a percentage of total on-balance sheet loans amounted to approximately 6.7%. It is underlined that the increase observable from the comparison with December 2018 is attributable to progress made with project activities to implement ECB Guidelines.

The charts below show the distribution of leveraged exposures by geographical area and sector.

14 An RMBS securitisation, structured in July 2013 by the former Banca delle Marche, with a portfolio of loans originating from performing residential mortgage loan agreements as the underlying. The three senior classes (A1, A2, A3) were listed on the Luxembourg stock exchange and repurchased by the Bank to create a portfolio of assets eligible for refinancing operations mainly with the European Central Bank. The junior class was also subscribed by the originator and the senior classes were assigned a rating. The classes A1 and A2 were sold on the market in June 2015. As at 31st December 2019, following the full redemption of the A1 and A2 senior notes placed on the market, only the A3 class and junior notes held entirely by UBI Banca remained. The operation then became in reality the same as a self-retained securitisation

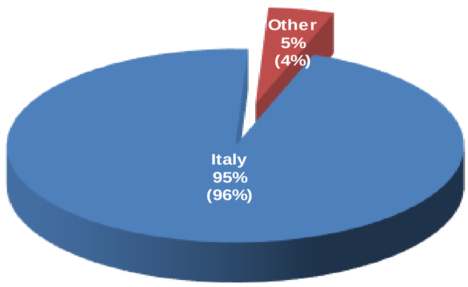
15 A securitisation originated on 29th March 2007 by the former Banca dell'Etruria e del Lazio with the transfer *en bloc* and without recourse of loans, classified as performing, and the relative legal relations attaching to a portfolio of ordinary and regulated mortgage loans, granted to private individual customers in the period between 31st March 1998 and 30th June 2006.

16 An RMBS market securitisation, structured in October 2006 by the former Banca delle Marche, with a portfolio of performing loans as the underlying, originated from regulated mortgages backed by first mortgage agreements.

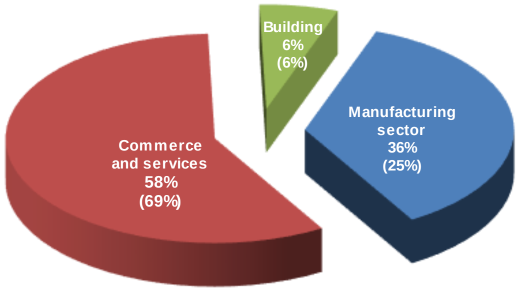
17 Guidance on Leveraged Transactions (May 2017).

Distribution of UBI Banca leveraged exposures as at 31st December 2019 (figures relating to 31st December 2018 are given in brackets)

EXPOSURE BY GEOGRAPHICAL AREA



EXPOSURE BY SECTOR



Financial derivative instruments for trading with customers

The periodic analysis performed for internal monitoring purposes confirms that the risks assumed by customers continue to remain generally low and they outlined a conservative profile for UBI Group business in OTC derivatives with customers.

A quantitative data update as at 31st December 2019 showed the following:

- the notional amount for existing contracts, totalling €8.5 billion, was attributable to interest rate derivatives amounting to approximately €8.0 billion and currency derivatives amounting to €492.3 million, while the notional amount for commodities contracts (€65 million) was relatively negligible;
- transactions in hedging derivatives accounted for all the notional amount traded in the case of interest rate derivatives and commodities and 93.2% of the notional amount in the case of currency derivatives;
- the net total mark-to-market value (interest rate, currency and commodities derivatives) amounted to -€278.2 million. Those contracts with a negative mark-to-market for customers were valued at approximately -€286.1 million;
- the total negative mark-to-market for customers stood at 3.4% of the notional amount of the contracts.

The rules governing trading in OTC derivatives with customers are contained in the "Policy for the trading, sale and subscription of financial products", the "Policy for the management of counterparty risk" and the relative documents to implement them, updated in 2019, which provide details of the following:

- customer segmentation and classes of customers associated with specific classes of products, stating that the purpose of the derivatives transactions must be hedging and that transactions containing speculative elements must be of a residual nature;
- rules for assessing the appropriateness of transactions, defined on the basis of the products sold to each class of customer;
- principles of integrity and transparency on which the range of OTC derivatives offered to customers must be based, in compliance with the guidelines laid down by the Italian Banking Association (and approved by the Consob) for illiquid financial products and with the recent ESMA opinions and a Consob communication on complex products;
- rules for assessing credit exposure, which grant credit lines with maximum limits for trading with "qualified", "professional" and "non-individual retail" counterparties and provide credit lines for single transactions for trading with individual retail counterparties, while counterparty risk is assessed on the basis of Regulation EU 575/2013 (the "CRR");
- rules for managing restructuring operations, while underlining their exceptional nature;
- the rules for the settlement of transactions in OTC derivative instruments with customers that are subject to verbal or official dispute;
- the catalogue of products offered to customers and the relative credit equivalents.

OTC derivatives: first five counterparties by bank (amounts in euro)

Data as at 31st December 2019

Bank	Classification	MtM	of which negative MtM
UBI Banca	2: Non-private individual retail	-23,400,909	-24,037,830
	2: Non-private individual retail	-9,250,504	-9,250,504
	3: Professional	-8,937,636	-8,937,636
	3: Professional	-8,701,406	-8,701,406
	3: Professional	-6,802,591	-6,802,591

OTC interest rate derivatives: details of instrument types and classes of customer (amounts in euro)

Data as at 31st December 2019

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Purchase of caps	Qualified	12	102,969,183	17,550	-
		3: Professional	54	381,551,501	517,896	-
		2: Non-private individual retail	751	277,070,416	417,102	-
		1: Private individual retail	340	34,652,074	21,233	-
	Purchase of caps Total		***1,157***	***796,243,174***	***973,781***	***-***
	Purchase of floors	3: Professional	1	41,716,761	-	-
	Purchase of floors Total		***1***	***41,716,761***	***-***	-
	Capped swaps	Qualified	2	17,529,666	-403,794	-403,794
		3: Professional	38	193,666,614	-3,852,491	-3,852,491
		2: Non-private individual retail	769	432,285,039	-7,627,188	-7,627,188
		1: Private individual retail	853	90,560,956	-1,443,982	-1,443,982
	Capped swaps Total		***1,662***	***734,042,275***	***-13,327,455***	***-13,327,455***
	Plain Vanilla IRS	Qualified	14	136,061,621	-5,817,811	-5,817,811
		3: Professional	465	3,013,161,059	-95,120,617	-95,748,841
		2: Non-private individual retail	2,048	2,377,070,113	-129,461,229	-130,366,515
		1: Private individual retail	440	78,913,430	-4,139,163	-4,157,699
	Plain Vanilla IRS Total		***2,967***	***5,605,206,223***	***-234,538,820***	***-236,090,866***
	IRS Step up	3: Professional	3	15,677,611	-1,307,388	-1,307,388
		2: Non-private individual retail	23	40,919,318	-5,238,204	-5,238,204
	IRS Step up Total		***26***	***56,596,929***	***-6,545,592***	***-6,545,592***
	Floored Swaps	3: Professional	86	445,773,087	-8,734,046	-8,734,046
		2: Non-private individual retail	250	242,353,936	-5,184,777	-5,184,777
		1: Private individual retail	30	8,390,740	-245,774	-248,344
	Floored Swaps		***366***	***696,517,763***	***-14,164,597***	***-14,167,167***
	Purchase of collars	2: Non-private individual retail	1	1,860,581	-4,124	-4,124
	Purchase of collars Total		***1***	***1,860,581***	***-4,124***	***-4,124***
Total Class 1: hedging derivatives			**6,180**	**7,932,183,706**	**-267,606,807**	**-270,135,204**
Class 1: % of Group total			**99.9%**	**99.7%**	**96.6%**	**96.7%**
2						
	Purchase of caps with KI/KO	3: Professional	1	201,537	-537	-537
	Purchase of caps with KI/KO Total		***1***	***201,537***	***-537***	***-537***
	Purchase of collars with KI/KO	2: Non-private individual retail	1	22,693,640	-9,250,504	-9,250,504
	Purchase of collars with KI/KO Total		***1***	***22,693,640***	***-9,250,504***	***-9,250,504***
	IRS Convertible	3: Professional	1	583,333	-3,825	-3,825
		2: Non-private individual retail	2	932,369	-76,628	-76,628
	IRS Convertible Total		***3***	***1,515,702***	***-80,453***	***-80,453***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**5**	**24,410,879**	**-9,331,494**	**-9,331,494**
Class 2: % of Group total			**0.1%**	**0.3%**	**3.4%**	**3.3%**
Total UBI Banca Group			**6,185**	**7,956,594,585**	**-276,938,301**	**-279,466,698**

OTC currency derivatives: details of instrument types and classes of customer (amounts in euro)

Data as at 31st December 2019

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
1						
	Forward synthetic					
		3: Professional	75	183,509,939	1,184,018	-857,272
		2: Non-private individual retail	38	25,045,327	-48,532	-243,314
	Forward synthetic Total		***113***	***208,555,266***	***1,135,486***	***-1,100,586***
	Plafond	3: Professional	86	112,707,441	-155,793	-1,208,740
		2: Non-private individual retail	212	91,563,822	-1,388,684	-1,673,239
	Plafond Total		***298***	***204,271,263***	***-1,544,477***	***-2,881,979***
	Currency collars	3: Professional	3	3,004,273	-7,088	-12,099
	Currency collars Total		***3***	***3,004,273***	***-7,088***	***-12,099***
	Vanilla currency options purchased	3: Professional	8	17,803,098	164,223	-
	Vanilla currency options purchased		***8***	***17,803,098***	***164,223***	***-***
Total Class 1: hedging derivatives			**422**	**433,633,900**	**-251,856**	**-3,994,664**
Class 1: % of Group total			**92.2%**	**88.1%**	**-**	**87.7%**
2						
	Knock in collars	3: Professional	4	8,446,446	-15,465	-22,427
	Knock in collars Total		***4***	***8,446,446***	***-15,465***	***-22,427***
	Knock in forwards	3: Professional	10	12,786,180	-5,658	-51,516
		2: Non-private individual retail	3	2,233,220	-6,193	-9,401
	Knock in forwards Total		***13***	***15,019,400***	***-11,851***	***-60,917***
	New collars	3: Professional	1	1,794,852	-6,356	-12,616
	Plafond with accelerated condition Total		***1***	***1,794,852***	***-6,356***	***-12,616***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**18**	**25,260,698**	**-33,672**	**-95,960**
Class 2: % of Group total			**3.9%**	**5.1%**	**-**	**2.1%**
3b						
	Knock out knock in forwards	3: Professional	3	3,724,529	-17,984	-32,170
	Knock out knock in forwards Total		***3***	***3,724,529***	***-17,984***	***-32,170***
	Vanilla currency options sold by the customer	3: Professional	12	22,698,950	-431,783	-431,783
	Vanilla currency options sold by the customer Total		***12***	***22,698,950***	***-431,783***	***-431,783***
	Knock out forwards	3: Professional	3	7,009,389	40,195	-2,772
	Knock out forwards Total		***3***	***7,009,389***	***40,195***	***-2,772***
Total Class 3: derivatives not for hedging			**18**	**33,432,868**	**-409,572**	**-466,725**
Class 3: % of Group total			**3.9%**	**6.8%**	**-**	**10.2%**
Total UBI Banca Group			**458**	**492,327,466**	**-695,100**	**-4,557,349**

OTC commodities derivatives: details of instrument types and classes of customer (amounts in euro)

Data as at 31st December 2019

Product class	Type of instrument	Customer classification	Number of transactions	Notional	MtM	of which negative MtM
2						
	Commodity swaps	3: Professional	202	53,661,351	-465,905	-1,766,676
		2: Non-private individual retail	37	11,339,824	-135,874	-282,893
	Commodity swaps Total		***239***	***65,001,175***	***-601,779***	***-2,049,569***
Total Class 2: hedging derivatives with possible exposure to contained financial risks			**239**	**65,001,175**	**-601,779**	**-2,049,569**
Class 2: % of Group total			**100.0%**	**100.0%**	**-**	**100.0%**
Total UBI Banca Group			**239**	**65,001,175**	**-601,779**	**-2,049,569**

TOTAL UBI BANCA GROUP	**6,882**	**8,513,923,226**	**-278,235,180**	**-286,073,616**

Equity and capital adequacy

Changes in consolidated shareholders' equity

Reconciliation between equity and profit for the year of the Parent with equity and profit for the year attributable to the shareholders of the Parent for the year ended 31st December 2019

Figures in thousands of euro	Equity	of which: Profit for the year
Equity and profit for the year in the accounts of the Parent	9,138,182	209,883
Effect of the consolidation of subsidiaries including joint ventures	347,136	37,036
Effect of measuring other significant equity investments using the equity method	62,522	40,343
Dividends received during the year	-	-74,328
Other consolidation adjustments (including the effects of the PPA)	-59,159	38,264
Equity and profit for the year attributable to the shareholders of the Parent in the consolidated accounts	**9,488,681**	**251,198**

Changes in consolidated equity attributable to the shareholders of the Parent in 2019

Figures in thousands of euro	Balances as at 31.12.2018	*Restatement of opening balances*	Balances as at 1.1.2019	Allocation of prior year profit		Changes in 2019				31.12.2019
				Reserves	Dividends and other uses	Changes in reserves	Equity transactions		Consolidated comprehensive income	Equity attributable to the shareholders of the Parent
							New share issues	Stock options		
Share capital:	2,843,177	-	2,843,177	-	-	-	-	-	-	2,843,177
a) ordinary shares	*2,843,177*	-	*2,843,177*	-	-	-	-	-	-	*2,843,177*
b) other shares	-	-	-	-	-	-	-	-	-	-
Share premiums	3,294,604	-	3,294,604	-	-	-	-	-	-	3,294,604
Reserves	2,923,589	-	2,923,589	425,608	-142,088	642	-	-	-	3,207,751
Valuation reserves	-298,616	-	-298,616	-	-	-340	-	-	219,018	-79,938
Treasury shares	-25,074	-	-25,074	-	-	-3,530	493	-	-	-28,111
Profit for the year	425,608	-	425,608	-425,608	-	-	-	-	251,198	251,198
Equity attributable to the shareholders of the Parent	**9,163,288**	**-**	**9,163,288**	**-**	**-142,088**	**-3,228**	**493**	**-**	**470,216**	**9,488,681**

The equity attributable to the shareholders of the Parent, UBI Banca, as at 31st December 2019 inclusive of profit for the year was €9,488.68 million, an increase compared with €9,163.29 million at the beginning of the year.

As shown in the table "Changes in the consolidated equity attributable to the shareholders of the Parent in 2019", the increase of approximately €325.39 million is the result of the following:

- an increase of €218.68 million in the balance on valuation reserves, generated mainly by the impact of other comprehensive income as follows: +€236.28 million for financial assets (other than equity securities) measured at fair value through other comprehensive income; +€0.02 million for cash flow hedges; -€0.89 million for equity securities designated at fair value through other comprehensive income; and -

Valuation reserves attributable to the shareholders of the Parent: composition

Figures in thousands of euro	31.12.2019	1.1.2019 (*)
Equity securities designated at fair value through other comprehensive income	-17,475	-16,583
Financial assets (other than equity securities) measured at fair value through other comprehensive income	5,361	-230,924
Cash flow hedges	-4	-22
Exchange rate differences	-243	-243
Actuarial gains (losses) for defined benefit pension plans	-127,302	-110,908
Special revaluation laws	59,725	60,064
Total	**-79,938**	**-298,616**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

€16.39 million for actuarial gains/losses for defined benefit pension plans.
Furthermore, reserves relating to special revaluation laws were impacted by a decrease of €0.34 million;

- an overall decrease of €3.04 million in treasury shares, which reflects an increase of €0.49 million for treasury shares granted following the end of retention periods set by incentive schemes, in compliance with the payout criteria laid down for "Identified Staff" by the applicable supervisory regulations, and a decrease of €3.53 million for the purchase of UBI Banca ordinary shares to service incentive schemes (the purchases were made in the first half of the year and reference is therefore made to the section entitled "Share performance and shareholder structure" in the UBI Banca Management Report);
- a decrease for the allocation of €142.09 million of 2018 consolidated profit to dividends and other uses;
- a positive increase on aggregate for other reserves of €0.64 million;
- recognition of profit for the year of €251.20 million.

Fair value reserves of financial assets measured at fair value through other comprehensive income attributable to the shareholders of the Parent: composition

Figures in thousands of euro	31.12.2019 Positive reserve	31.12.2019 Negative reserve	31.12.2019 Total	1.1.2019 (*) Positive reserve	1.1.2019 (*) Negative reserve	1.1.2019 (*) Total
1. Debt securities	56,001	-50,640	5,361	6,821	-237,745	-230,924
2. Equity securities	2,542	-20,017	-17,475	1,680	-18,263	-16,583
3. Financing	-	-	-	-	-	-
Total	**58,543**	**-70,657**	**-12,114**	**8,501**	**-256,008**	**-247,507**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

Fair value reserves of financial assets measured at fair value through other comprehensive income attributable to the shareholders of the Parent: changes in the year

Figures in thousands of euro	Debt securities	Equity securities	Financing	Total
1. Opening balances as at 1st January 2019	**-230,924**	**-16,583**	**-**	**-247,507**
2. Positive changes	**387,098**	**5,247**	**-**	**392,345**
2.1 Increases in fair value	355,425	2,946	-	358,371
2.2 Impairment losses for credit risk	2,372	X	-	2,372
2.3 Transfer to the income statement of negative reserves from disposal	29,268	X	-	29,268
2.4 Transfers to other equity items (equity securities)	-	1,206	-	1,206
2.5 Other changes	33	1,095	-	1,128
3. Negative changes	**-150,813**	**-6,139**	**-**	**-156,952**
3.1 Reductions in fair value	-135,070	-3,436	-	-138,506
3.2 Reversals for credit risk	-488	-	-	-488
3.3 Transfer to income statement of positive reserves from disposal	-15,255	X	-	-15,255
3.5 Other changes	-	-2,703	-	-2,703
4. Closing balances as at 31st December 2019	**5,361**	**-17,475**	**-**	**-12,114**

As shown in the table, the total increase of €235.4 million in "Fair value reserves of financial assets measured at fair value through other comprehensive income" is attributable almost completely to debt securities held in portfolio, for which the balance improved by €236.3 million to +€5.4 million net of tax and minority interests): around two thirds of this change was due to the Italian government securities portfolio, the reserve for which increased by €151.1 million since the beginning of the year to -€34.1 million, and the remainder related to the portfolio of non-Italian government securities held by the Parent.

The reserve relating to debt securities recorded increases in fair value of €355.4 million in 2019, of which €225.1 million pertaining to the Parent (including €131.6 million relating to Italian government securities, €56.4 million to foreign government securities and €37.1 million to bonds) and €128.4 million to Lombarda Vita. The table also shows "Impairment losses for credit risk" amounting to €2.4 million, relating almost entirely to UBI Banca, and "Transfers to

the income statement of negative reserves from disposal" amounting to €29.3 million, of which €23.9 million relating to the Parent (of which €20 million attributable to disposals of Italian government securities) and €4.4 million to Lombarda Vita.
Decreases include the following:

- reductions in fair value of €135.1 million attributable to Lombarda Vita (€127.8 million) and only marginally to UBI Banca (€7.3 million);
- a "Transfer to the income statement from positive reserves from disposals" amounting to €15.3 million relating primarily to UBI Banca (€11.6 million for disposals of Italian government securities, foreign government securities and other bonds) and to Lombarda Vita (€3.6 million).

With regard to equity securities, increases of €2.9 million were recorded in fair value (€2.4 million for Lombarda Vita and €0.5 million for UBI Banca) and decreases in fair value of €3.4 million (€2.5 million for UBI Banca and €0.9 million for Lombarda Vita).

Capital adequacy

The new prudential rules for banks and investment companies contained in EU Regulation 575/2013 (the Capital Requirements Regulation – the "CRR"[1]) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, known as CRD IV[2]), came into force on 1st January 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations.
In December 2013, the Bank of Italy published Circular No. 285 "Regulations for the prudential supervision of banks", which implemented, within the scope of its remit, the new EU regulations, together with Circular No. 286 "Instructions for compiling supervisory reports for banks and stock brokerage firms" and an update to Circular No. 154 "Supervisory reporting for credit and financial institutions. Tables for data and instructions for filing reports").
The introduction of Basel 3 rules was subject to a transitional (phased-in) regime, which concluded in 2018 except for rules relating to capital instruments no longer qualifying, for which gradual exclusion from the capital aggregate used for supervisory purposes is scheduled to occur by 2021.
Furthermore, the financial reporting standard IFRS 9 "Financial Instruments" supersedes the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" as from 1st January 2018. As concerns the impacts on regulatory own funds, the Group has opted for adherence to the transitional regime provided for by Regulation EU 2017/2395, which amends Regulation 575/2013 ("CRR"). These measures allow the negative impacts of the adoption of the standard in question to be applied gradually, with the benefit allowed on the basis of decreasing quotas over a five-year period (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, 25% in 2022).

The consolidated capital requirements asked of the UBI Banca Group for 2019, disclosed on 11th February 2019 at the end of the Supervisory Review and Evaluation Process (SREP) conducted in 2018 were as follows:

- *a minimum fully loaded CET1 ratio requirement of 9.25% (compared with 8,625% previously), an increase due solely to the full phase in of the Capital Conservation Buffer [the minimum CET1 ratio requirement is the result of the sum of the minimum Pillar 1 regulatory capital ratio (4.5%), the Pillar 2 requirement (2.25%) and the Capital Conservation Buffer (2.50%)];*
- *a minimum SREP total capital ratio requirement of 10.25%, unchanged compared with 2018 [the result of the sum of the minimum Pillar 1 regulatory capital ratio requirement (8%) and the Pillar 2 capital ratio requirement (2.25%)]. That requirement, added to the Capital Conservation Buffer of 2.50%, gives a minimum requirement in terms of the total capital ratio of 12.75%.*

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

On 18th March 2019, the UBI Banca Group received authorisation to roll out internal models for the determination of capital absorption relating to corporate and retail portfolios originated by the New Banks

1 Subsequently updated by Regulation No. 876/2019 ("CRR2") published in the Official Journal of the European Union on 7 June 2019.
2 Subsequently updated by Directive 2019/878 ("CRD5") published in the Official Journal of the European Union on 7 June 2019.

and also for the progressive rollout of the IRB perimeter to the Other Private Individual and Qualifying Revolving Retail Segment.

As also already reported, as of 1st July 2019 the UBI Banca Group has applied new European rules for the classification of a counterparty as in default (the new "Definition of Default – DoD) which are set out in the new Regulation EU No. 171/2018. This legislation adds to the definition already provided by Art. 178 of the CRR and it establishes more restrictive criteria and procedures governing classification as in default with respect to that adopted by intermediaries until then.

At the end of December, the Common Equity Tier 1 (CET1) capital of the UBI Banca Group, which includes the part allocated to charity and the proposed dividend, amounted to €7,165 million, up by €26 million on €7,139 million in December 2018.

The changes in the CET1 capital over the twelve months were attributable to the following factors:

- +€314 million resulting from changes recorded in valuation reserves, the economic result that qualifies for regulatory purposes and other items of accumulated other comprehensive income (the "OCI reserve"), due to the joint effect of trends for market interest rates and asset allocation relating to both government and corporate debt securities;
- -€245 million resulting from reduction of the quota relating to the application of the transition arrangements for the accounting standard IFRS 9 (-€215 million) and to changes in the provision shortfall (-€30 million), which reflect changes in the perimeter relating to the previously mentioned rollout of the already validated AIRB models for corporate and retail exposures to the "New Banks" acquired in 2017 and of the IRB perimeter to the Other Private Individual and Qualifying Revolving Retail Segment[3];
- -€43 million approximately resulting from the combined changes reported for intangible assets, prudential filters, the recalculation of the quotas of significant investments and regulatory deduction of DTAs from CET1 capital, treasury shares and other residual variations.

With regard to the Tier 2 capital, this increased by approximately €775 million to €2,056 million. The change with respect to December 2018 mainly reflected an increase in Tier 2 instruments as a result of two subordinated bonds issued for a total of €800 million nominal, partially offset by the reduction in the eligibility of the instruments due to amortisation for the period, as well as redemptions at maturity.

Risk weighted assets (RWAs) amounted to €58.1 billion at the end of the year, down by €2.9 billion compared with €61 billion at the end of 2018, of which -€2.8 billion attributable to credit risk due to the effects of the already mentioned rollout of AIRB models, the lower absorption of capital resulting from lower volumes for the product companies, the disposal of bad loans subject to GACS-backed securitisation, and synthetic securitisations.

With account taken of those changes, compliance with minimum capital requirements as at 31st December 2019, equal to total capital requirements for credit, counterparty, credit valuation adjustment, market and operational risk, required capital of €4,647 million (€4,883 million in December 2018) against which the UBI Banca Group recorded Total Own Funds of €9,221 million (€8,420 million in December 2018).

At the end of the year, the UBI Banca Group's capital ratios consisted of a Common Equity Tier 1 capital ratio and a Tier 1 capital ratio of 12.34% (11.70% in December 2018) well above the target thresholds set for 2019 at the end of the SREP (9.25%) and a total capital ratio of 15.88% (13.80% in December 2018), also well above the required level.

3 As already fully described in the press release for the Group's results for the period ended 31st March 2018, impairment losses recognised on first-time adoption of IFRS 9 on credit positions subject to the standardised approach (€255 million approx. for the period ended the 31st March 2018) were subject to the transition regime provided for by EU Regulation No. 2017/2395 and are therefore recognised progressively in the CET1 ratio (only 5% of the impact was therefore included in the phased-in CET1 ratio as at 31st December 2018, while the total impact will be included in the fully loaded CET1 ratio). The partial transition to the advanced approach for credit positions previously recognised using the standardised approach meant that the transition regime for the inclusion of the impairment losses in the CET1 capital no longer applied and, accordingly, the negative impact from the remaining amount of the impairment losses recognised for these positions has been included.

The fully loaded CET1 ratio calculated on the basis of the rules that will be in force at the end of the transitional period, currently relating exclusively to IFRS 9, was estimated at 12.29% (11.34% at the end of 2018) without including either future DTAs or optimisation actions, while the total capital ratio stood at 15.83% (13.44% in December 2018).
As already reported, as a result primarily of the changeover to advanced models for credit positions previously subject to the standardised model, the phased-in ratio is now substantially in line with the fully loaded ratio[4].

Capital ratios (Basel 3)

Figures in thousands of euro	31.12.2019	31.12.2018
Common Equity Tier 1 capital net of prudential filters	**7,254,585**	**7,218,380**
Deductions from Common Equity Tier 1 capital	-89,392	-79,455
of which: Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses	*-84,454*	*-54,065*
Common Equity Tier 1 capital	**7,165,193**	**7,138,925**
Additional Tier 1 capital before deductions	**-**	**-**
Deductions from Additional Tier 1 capital	-	-
of which: Negative items for shortfall of provisions to expected losses	-	-
Additional Tier 1 capital	-	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**7,165,193**	**7,138,925**
Tier 2 capital before transitional arrangements	**2,114,612**	**1,330,472**
Effects of grandfathering provisions on Tier 2 instruments	-	-
Tier 2 capital after transitional arrangements	**2,114,612**	**1,330,472**
Deductions from Tier 2 capital	-58,449	-49,022
of which: Negative items for shortfall of provisions to expected losses	-	-
Tier 2 capital after specific deductions	**2,056,163**	**1,281,450**
Total own funds	**9,221,356**	**8,420,375**
Credit risk	4,240,176	4,461,475
Credit valuation adjustment risk	3,806	3,805
Market risk	80,977	67,585
Operational risk	321,949	349,957
Total prudential requirements	**4,646,908**	**4,882,822**
Risk weighted assets	**58,086,349**	**61,035,275**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions / Risk weighted assets)	**12.34%**	**11.70%**
Fully loaded Common Equity Tier 1 ratio	12.29%	11.34%
Tier 1 ratio (Tier 1 capital after filters and deductions / Risk weighted assets)	**12.34%**	**11.70%**
Fully loaded Tier 1 ratio	12.29%	11.34%
Total capital ratio (Total own funds / Risk weighted assets)	**15.88%**	**13.80%**
Fully loaded total capital ratio	15.83%	13.44%

As already reported, from 1st January 2016 banks are obliged to hold an anti-cyclical capital buffer. If it is considered that, as reported in the press release dated 20th September 2019, the Bank of Italy again set the countercyclical capital buffer for the fourth quarter of 2019 at 0% for exposures to counterparties resident in Italy and also that the Group mainly has exposures to domestic counterparties, then the Group's countercyclical capital buffer is negligible.

4 The main difference remaining between the phased-in CET1 capital and the fully loaded CET1 capital relates to the progressive recognition in the phased-in CET1 of adjustments made on first-time adoption of IFRS 9 to lease positions still subject to the standardised model.

With a communication dated 20th December 2019 the Bank of Italy also confirmed a coefficient of 0% for the anti-cyclical buffer for the first quarter of 2020.

At year end, the leverage ratio[5] according to Basel 3 stood at 5.44% (5.45% at the end of 2018), while the fully loaded ratio was 5.42% (5.27% in December 2018).

With regard to the insurance business, we report that management accounting measurements of the solvency ratio comply with Solvency II regulations.

* * *

Lastly, on 13th January 2020, the first Additional Tier 1 capital issuance for €400 million was successfully completed, details of which are provided in the "Events occurring after the balance sheet date" in Part A.1 - Section 4 of the Notes to the Consolidated Financial Statements.

The new issue, which is designed to optimise the capital structure, will first of all strengthen the Tier 1 capital.
At the same time, when added to the Common Equity Tier 1 capital, the eligible amount of the Tier 2 capital issues and the senior non-preferred debt (SNP) outstanding at the end of 2019, it will also strengthen protection for the senior bondholders.

5 According to Basel 3 the leverage ratio is calculated as the ratio between the Tier 1 capital and the measure of the institution's total exposure. The ratio was calculated according to the provisions of the CRR, as amended by the Commission Delegated Act (EU) No. 62/2015.

R&D and Innovation

Research, Development and Innovation mainly centres around studying the potential application of new technologies in customer relations, to improve and/or expand the offering of products and services, and in internal business processes, with a view to simplification and efficiency improvement.

These activities are managed and co-ordinated by a special organisational unit of UBI Sistemi e Servizi, which adopts the principles and methods of open banking and open innovation to monitor the main technological trends and identify solutions to be brought to the Group's attention and then tested to verify the potential benefits.

The analysis of emerging technologies is enabled by the broad ecosystem of relationships and partnerships that the Group has built up through its engagement with a variety of different players: fintech firms offering distinctive services, acceleration programmes for the growth and development of promising startups, technology providers, investors and research centres.
In addition to the partnerships already established, in 2019 the Group entered into partnerships with Fintech District (the main Italian fintech and insurtech ecosystem), Plug and Play Europe (a European hub focused on the development of high potential startups) and Medici and Ernst&Young (promoters of the "Magnifico" acceleration program focused on regtech[1]).

The focus of the Group's innovation efforts are: artificial intelligence, blockchains[2], regtech and development of the customer experience, both in-branch and when using the Bank's digital channels.

In the area of artificial intelligence, the Group has gained significant experience in developing prototypes of virtual assistants that can handle text and voice conversations. This has enabled the Group to identify technologies and partners for the development of a chatbot, which allows branches to obtain base level automated assistance for procedures and applications. More applications will be developed in the near future, focusing on customer support and internal assistance.

In relation to blockchains, the Group is continuing to work as part of a consortium of the main Italian banks on simplifying relations and transactions with counterparties. This includes an initiative in the insurance sector that has led to the development, sale and management of policies with automated reimbursement procedures, and the launch of the Banking Checks and Reconciliations system co-ordinated by ABI Lab[3].

In the area of regtech, the Group has signed up to an acceleration programme focused on compliance, ALM and suspicious transactions. This consists of a structured process that starts by identifying the specific business needs and goes on to select the best fintech solutions available or offered by technological suppliers, to be tested on defined and controlled areas.

Lastly, with regard to the development of the customer experience, work continued on analysing and testing solutions for automating the acquisition and identification of customers across all channels. Prototypes were launched of systems for remote relationship management between the Bank's staff and their customers, using audio/video communication software that can be integrated into the Bank's digital channels

1 This consists of the use of technologies for the management and processing of data used by regulators and the entities supervised by them, in order to automate compliance activities and monitor processes.
2 An emerging technology that makes it possible to exchange information, payments, goods and services in a protected, distributed manner. A blockchain is a secure database of transactions that is shared among all participants within a defined network of users. It records and stores all transactions that take place within the network and eliminates the need for a centralised, "trusted" third party.
3 This is a project that the Group is involved in with 17 other banks to create an innovative interbank reconciliations platform. The aim of the project is to provide information transparency and visibility, increased speed of execution of transactions, and the possibility of conducting checks and exchanges directly on the platform.

The internal control system

The document "Report on the Corporate Governance and Ownership Structure of UBI Banca SpA" (found in the Corporate Governance section of the Bank's website at www.ubibanca.it) may be consulted for a description of the architecture, rules and organisational units of the system of internal controls. It also gives specific information required under Art. 123-*bis*, paragraph 2(b), of the Consolidated Finance Act (Italian Legislative Decree No. 58/1998) concerning the main characteristics of the risk management and internal control systems that govern the financial reporting process.

Transactions with related parties and with connected persons

Related parties

With Resolution No. 17221 of 12th March 2010 – amended by the subsequent Resolution No. 17389 of 23rd June 2010 – the Consob (Italian securities market authority) approved a Regulation concerning related-party transactions. The regulations concern the procedures to be followed for the approval of transactions performed by listed companies and the issuers of shares with a broad shareholder base with parties with a potential conflict of interest, including major or controlling shareholders, members of the management and supervisory bodies and senior managers including their close family members.

The regulations currently apply within the UBI Banca Group to the Parent, UBI Banca Spa, only, as a listed company. In November 2010 the Supervisory Board had already appointed a specific committee from among its members to which transactions falling within the scope of the regulations must be submitted in advance.
In order to implement Art. 2391-*bis* of the Italian Civil Code and the Consob (Italian securities market authority) regulation on related parties, UBI Banca has adopted a special "Regulation to govern the Related-Party Transactions of UBI Banca", containing rules relating to the identification, approval and execution of related-party transactions entered into by UBI Banca, either directly or through its subsidiaries, in order to ensure their transparency and substantive and procedural fairness (the "RPT Regulation").

In compliance with Consob recommendations, transactions with related parties of UBI Banca performed by subsidiaries are also subject to the regulations in question if, under the provisions of the Articles of Association or internal regulations adopted by the Bank, the Board of Directors, or even a senior officer of the Bank on the basis of powers conferred on that officer, must preliminarily examine or approve a transaction to be performed by subsidiaries.

It is underlined that, effective from 2nd November 2018, the RPT Regulation (as amended and added to from time-to-time) has been replaced by the "Group Regulation on Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulations Circular No. 263, 'Identified Staff' of the UBI Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties" (the "Single Regulation")[1]. This provides unified regulation of procedural and decision-making rules which Group companies are required to implement with reference to the management of transactions with, amongst others, the related parties of UBI Banca and the connected persons of the UBI Banca Group.

Transactions of greater importance

In accordance with Art. 5, paragraph 8 of Consob Resolution No. 17221/12 March 2010, "Public disclosures on related-party transactions", the following related-party transactions of greater importance concluded in 2019 were excluded from the scope of application of the "Single Regulation", because they were concluded with subsidiaries:

- the approval of one repurchase of assets from the special purpose entity UBI SPV Group 2016 Srl, on 31st January, for a total of €640.5 million and the approval of one transfer of

1 The Single Regulation is available on the corporate website of the Bank at www.ubibanca.it, Corporate Governance Section/Corporate Documents, together with the "Single Policy on related-party transactions in accordance with Consob Regulation No. 17221/2010, Connected Persons in accordance with Bank of Italy Supervisory Regulation No. 263, 'Identified Staff' of the UBI Banca Group, Significant Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Significant Parties" (the "Single Policy").

assets to the special purpose entity UBI SPV Group 2016 Srl, on 27th March, for a total of €760.3 million;
- the approval of credit lines for UBI Leasing on 19th April: six of the ordinary current account overdraft type, for a total of €710.3 million; four of the "very short-term lending" type for a total of €728.4 million; and one of the "commercial portfolio maximum" type for €508.5 million;
- the approval of one transfer of assets by UBI Banca on 1st May to the special purpose entity UBI Finance Srl, to back the first covered bond programme for a total of €2,433.2 million;
- approval of three credit lines of the "corporate bond" type on 9th May granted to 24/7 Finance Srl for a total of €1.6 billion;
- approval of credit lines of the type "subordinated unsecured for securitisation": three on 22nd May granted to UBI Finance Srl for a total of €2.7 billion and two on 19th June granted to UBI Finance CB 2 Srl totalling €1.2 billion;
- the approval of one transfer of assets by UBI Banca to the special purpose entity UBI Finance CB 2 Srl, to back the second covered bond programme on 1st June for a total of €668.9 million;
- approval of credit lines for UBI Factor Spa of the "very short-term 48-hour notice lending" type numbering three on 23rd July for a total of €560.9 million, 21 of the "very short-term lending" type on 23rd July for a total of €1,945 million and two on 26th July for a total of €730 million;
- approval of credit lines of the type "other industrial short-term 'fers' unsecured" for UBI Leasing Spa numbering two on 5th August for a total of €700 million, three on 25th November for a total of €1,750 million and three on 6th December for a total of €850 million;
- the approval of 11 repurchase agreements by UBI Banca, with UBI Leasing as the counterparty, relating to the senior tranche of the securitisation UBI SPV Lease 2016 Srl, for €2.1 billion nominal each respectively on: 1st February, 27th February, 28th March, 30th April, 30th May, 1st July, 2nd August, 30th August, 30th September, 4th November and 2nd December 2019.

We report that no other transactions with related parties were performed in the reporting period, as defined within the meaning of Art. 2427, paragraph 22 *bis*) of the Italian Civil Code, which influenced the capital position or the results of the companies.

In compliance with IAS 24, Part H of the Notes to the Consolidated Financial Statements and Part H of the Notes to the Separate Financial Statements provide information on balance sheet and income state transactions between related parties of UBI Banca and Group member companies and also on balance sheet and income statement transactions between UBI Banca and its own related parties, as well as those items as a percentage of the total for each item in the consolidated financial statements and in the separate financial statements.

Connected Persons

In implementation of Art. 53, paragraphs 4 *et seq* of the Consolidated Banking Law and Inter-Ministerial Credit Committee Resolution No. 277 of 29th July 2008, on 12th December 2011 the Bank of Italy issued the ninth update of the "New regulations for the prudential supervision of banks" (published in the Official Journal of 16th January 2012) regarding risk assets and conflicts of interest concerning persons connected to banks or banking Groups, where connected persons are defined as a related party and all the persons connected to it.
The regulations are designed to guard against the risk that the closeness of persons to decision-making centres might compromise the objectivity and impartiality of decisions concerning loans to and/or other transactions with those persons.
The first measure therefore regards the introduction of supervisory limits for risk assets (of a bank and/or of a group) lent to connected persons. These limits differ according to the type of related party, with stricter levels for relations between banks and industry.

The supervisory limits have been supplemented in the regulations with special approval procedures, together with specific recommendations concerning organisational structure and internal controls.

In compliance with the provisions of Title V, Chapter 5 of Circular No. 263 of 27th December 2006 (as subsequently added to and/or amended), UBI Banca has adopted a specific “Regulation concerning measures regarding risk assets and conflicts of interest with regard to connected parties” (the Connected Persons Regulation), which contains decision-making processes designed to conserve the integrity of decision-making-processes regarding transactions with connected persons carried out by UBI Banca and by the banking and non-banking members of the Group that it controls including foreign subsidiaries, compatibly with the laws and regulations of the country in which these are registered.

With effect from 2nd November 2018, the Connected Parties Regulation – together, as already anticipated, with the RPT Regulation – has been replaced by the “Single Regulation”.

In line with the provisions of the previous Connected Parties Regulation, the “Single Regulation” requires the bodies of Group companies with strategic supervisory responsibility to oversee (with support from the competent functions) the proper application of the provisions of the regulations governing transactions carried out by the respective companies.

In order to achieve this, a report must be issued on at least a quarterly basis to bodies with the strategic supervision function of the companies in the UBI Banca Group on all transactions concluded in the previous quarter, inclusive of those not subject to a prior opinion from the committee in accordance with the “Single Regulation”. It shall specify the connected person, the type of transaction and its value and, if the transaction has not been subject to prior examination by the committee, the reasons given for the exemption, the maximum limit set for the “General Approvals” and a detailed report on its periodic use.

Also in order to allow the Parent to constantly comply with the consolidated limit on risk assets, the Board of Directors oversees compliance of the Single Regulation with the principles recommended in the Supervisory Provisions and also observance, at consolidated level, of the procedural and substantive rules contained in them and it reports to shareholders in accordance with Art. 153 of the Consolidated Finance Law. To achieve this, bodies of other Group companies with responsibility for strategic supervision submit lists quarterly to the Board of Directors of all transactions with connected persons concluded in the previous quarter.

The UBI Banca Group has always been within the time limits laid down by supervisory regulations in all the consolidated quarterly reports to the Supervisory Authority in 2019 (in March, June, September and December) (Bank of Italy Circular No. 263 of 27th December 2006 “New Regulations for the Prudential Supervision of banks” and subsequent amendments).

* * *

Further information is given on the Related Parties and Connected Persons Committee in the “Report on corporate governance and the ownership structure of UBI Banca Spa” which may be consulted on the corporate website www.ubibanca.it (Corporate Governance Section, Corporate Documents), in which information is also given on internal policies on controls for risk assets and conflicts of interest relating to connected persons.

Consolidated companies: the principal figures

Net profit for the year

Figures in thousands of euro	2019	2018	Change	% change
Unione di Banche Italiane Spa	209,883	467,506	(257,623)	(55.1%)
Centrobanca Sviluppo Impresa Spa (*)	(196)	(637)	(441)	(69.2%)
IW Bank Spa	10,886	4,458	6,428	144.2%
Pramerica SGR Spa	97,759	72,291	25,468	35.2%
Zhong Ou Asset Management Co. Ltd (25%)	9,154	6,978	2,176	31.2%
UBI Leasing Spa	(53,863)	(39,048)	14,815	37.9%
UBI Factor Spa	1,211	(9,159)	10,370	n.s.
Prestitalia Spa	11,854	18,439	(6,585)	(35.7%)
BPB Immobiliare Srl	(797)	(339)	458	135.1%
UBI Sistemi e Servizi SCpA (**)	-	-	-	-
BancAssurance Popolari Spa	5,482	7,239	(1,757)	(24.3%)
BancAssurance Popolari Danni Spa (***)	(81)	2	(83)	n.s.
Aviva Vita Spa (20%)	12,100	5,220	6,880	131.8%
Lombarda Vita Spa (40%)	18,973	12,108	6,865	56.7%
Pramerica Management Co. Sa (****)	706	893	(187)	(20.9%)
UBI Trustee Sa (****)	(299)	(4)	295	n.s.
CONSOLIDATED	**251,198**	**425,608**	**(174,410)**	**(41.0%)**

(*) On conclusion of the liquidation procedures, this company was removed from the Company Register of Milan on 24th December 2019.
(**) Since this is a consortium company with mutual, not-for-profit objects, UBI Sistemi e Servizi ends the year with a break-even result.
(***) The profit relates to the part earned up until the disposal of the company which took place in May.
(****) The result shown is from the financial statements prepared for the consolidation according to the accounting policies followed by the Parent.

Net loans and advances to customers

Figures in thousands of euro	31.12.2019	1.1.2019 (*)	Change	% change
Unione di Banche Italiane Spa (1)	84,532,699	88,542,570	-4,009,871	-4.5%
Prestitalia Spa	1,715,557	1,488,837	226,720	15.2%
IW Bank Spa	479,224	528,744	-49,520	-9.4%
UBI Factor Spa (1)	2,524,749	2,624,510	-99,761	-3.8%
UBI Leasing Spa (1)	5,415,878	6,289,170	-873,292	-13.9%
CONSOLIDATED	**84,824,700**	**89,261,873**	**-4,437,173**	**-5.0%**

Loans and advances to customers include items 20. 2), 30. 2) and 40. 2) in the asset section of the Reclassified Balance Sheet.

(*) The date 1st January 2019 must be interpreted as 31st December 2018, except for UBI Banca, which includes the totally marginal effects of IFRS 16.

Risk indicators

	Net bad loans/net loans to customers at amortised cost		Total net non-performing exposures/Net loans to customers at amortised cost	
Percentages	31.12.2019	1.1.2019 (*)	31.12.2019	1.1.2019 (*)
Unione di Banche Italiane Spa (1)	1.83%	2.34%	4.33%	5.47%
Prestitalia Spa (1)	0.01%	0.09%	2.07%	2.52%
IW Bank Spa	1.39%	1.31%	3.03%	2.99%
UBI Factor Spa (1)	0.56%	7.25%	1.47%	8.41%
UBI Leasing Spa (1)	2.62%	8.06%	7.98%	13.93%
CONSOLIDATED	**2.02%**	**3.11%**	**4.93%**	**6.72%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

(1) The figures shown as at 31st December 2019 incorporate the effects of transactions to reduce non-performing exposures concluded in 2019 (in this respect see the section entitled "Significant events in 2019").

Direct banking funding from customers

Figures in thousands of euro	31.12.2019	1.1.2019	Change	% change
Unione di Banche Italiane Spa	93,097,806	90,364,676	2,733,130	3.0%
IW Bank Spa	3,365,781	2,814,507	551,274	19.6%
CONSOLIDATED	**95,513,706**	**92,605,312**	**2,908,394**	**3.1%**

Direct funding from customers includes amounts due to customers and debt securities issued, with the exclusion of bonds and other securities subscribed directly by companies in the Group.

Indirect banking funding from ordinary customers (at market prices)

Figures in thousands of euro	31.12.2019	1.1.2019 (*)	Change	% change
Unione di Banche Italiane Spa	90,068,634	84,555,406	5,513,228	6.5%
Pramerica SGR Spa	36,728,256	33,253,840	3,474,416	10.4%
IW Bank Spa	9,203,031	8,257,949	945,082	11.4%
BancAssurance Popolari + BancAssurance Popolari Danni Spa (1)	2,410,916	1,986,931	423,985	21.3%
Lombarda Vita Spa (2)	8,151,477	7,951,546	199,931	2.5%
Aviva Vita Spa (2)	16,122,501	14,152,369	1,970,132	13.9%
CONSOLIDATED	**101,452,337**	**94,742,917**	**6,709,420**	**7.1%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

Assets under management (at market prices)

Figures in thousands of euro	31.12.2019	1.1.2019 (*)	Change	% change
Unione di Banche Italiane Spa	64,073,658	58,400,536	5,673,122	9.7%
Pramerica SGR Spa	36,728,256	33,253,840	3,474,416	10.4%
IW Bank Spa	6,788,525	5,949,722	838,803	14.1%
BancAssurance Popolari + BancAssurance Popolari Danni Spa (1)	2,410,916	1,986,931	423,985	21.3%
Lombarda Vita Spa (2)	8,151,477	7,951,546	199,931	2.5%
Aviva Vita Spa (2)	16,122,501	14,152,369	1,970,132	13.9%
CONSOLIDATED	**73,091,588**	**66,291,471**	**6,800,117**	**10.3%**

(*) The date 1st January 2019 must be interpreted as 31st December 2018.

(1) The comparative figure for 1st January 2019 is for the total managed by the two companies. As they are fully consolidated, the total is included in consolidated funding in full: the portion subscribed by customers of UBI Banca is included in the aggregate relating to the Parent.
(2) The figure stated is for the total managed by the companies. Since these companies are consolidated with the equity method, it is underlined that only the part subscribed by Group customers is considered in the calculation for consolidated funding.

Information on the main product companies

Summary financial statements containing the main income statement and balance sheet figures for IW Bank and the other Product Companies are given in order to provide a disaggregated view of the performance of general banking business analysed at consolidated level.

IW BANK SPA

Figures in thousands of euro	31.12.2019 IFRS 16	1.1.2019 (*)	Change	% change
Balance sheet				
Debt securities measured at fair through profit or loss	3,715	2,209	1,506	68.2%
Debt securities measured at fair value through other comprehensive income	38	62	-24	-38.7%
Debt securities measured at amortised cost	2,608,126	2,406,764	201,362	8.4%
Loans and advances to customers measured at amortised cost	479,224	528,744	-49,520	-9.4%
Net interbank debt measured at amortised cost	323,577	-95,506	419,083	n.s.
Equity (excluding profit/including loss for the year)	141,659	137,317	4,342	3.2%
Total assets	3,849,776	3,293,340	556,436	16.9%
Indirect funding from customers (inclusive of insurance investment and UBI Banca bonds) (**)	9,203,031	8,257,949	945,082	11.4%
of which: assets under management	*6,788,525*	*5,949,722*	*838,803*	*14.1%*
Income statement				
Net interest income	32,758	20,396	12,362	60.6%
Dividends and similar income	-	15	(15)	(100.0%)
Net fee and commission income	60,812	57,626	3,186	5.5%
Net income (loss) from trading, hedging and disposal/repurchase activities	965	(697)	1,662	n.s.
Other net operating income/(expense)	(2,773)	993	(3,766)	n.s.
Operating income	**91,762**	**78,333**	**13,429**	**17.1%**
Staff costs	(21,238)	(21,577)	(339)	(1.6%)
Other administrative expenses	(43,621)	(47,778)	(4,157)	(8.7%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(4,836)	(489)	4,347	n.s.
Operating expenses	**(69,695)**	**(69,844)**	**(149)**	**(0.2%)**
Net operating income	**22,067**	**8,489**	**13,578**	**159.9%**
Net impairment losses on loans	(1,397)	(1,220)	177	14.5%
Net provisions for risks and charges	(3,721)	(2,817)	904	32.1%
Pre-tax profit from continuing operations	**16,949**	**4,452**	**12,497**	**n.s.**
Taxes on income for the year from continuing operations	(6,063)	6	6,069	n.s.
Profit (loss) for the year	**10,886**	**4,458**	**6,428**	**144.2%**
Other information				
Number of branches	20	20	-	
Total work force (actual employees+staff on leasing contracts)	270	305	-35	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	75.95%	89.16%		
Net bad loans/Net loans to customers at amortised cost	1.39%	1.31%		
Total non-performing exposures/Net loans to customers at amortised cost	3.03%	2.99%		
Capital ratios				
Common Equity Tier 1 ratio	13.37%	16.87%		
Tier 1 ratio	13.37%	16.87%		
Total capital ratio	13.37%	18.67%		

(*) For the capital items not impacted by the new international reporting standard IFRS 16, the date 1st January 2019 must be interpreted as 31st December 2018.

(**) The item is stated net of institutional counterparties.

The share capital of IW Bank as at 31st December 2019 was wholly owned by UBI Banca.

PRAMERICA SGR SPA

Figures in thousands of euro	31.12.2019 IFRS 16	1.1.2019 (*)	Change	% change
OWN "RETAIL CUSTOMERS"	5,869,382	5,823,484	45,898	0.8%
Of which: customer portfolio management	*4,409,701*	*4,161,704*	*247,997*	*6.0%*
fund based instruments	*1,459,681*	*1,661,780*	*-202,099*	*-12.2%*
FUNDS	13,673,499	14,097,168	-423,669	-3.0%
of which: Pramerica funds included in fund based instruments	*427,905*	*401,131*	*26,774*	*6.7%*
other duplications	*51,975*	*77,379*	*-25,404*	*-32.8%*
SICAVs and other (net of duplications)	17,665,255	13,811,698	3,853,557	27.9%
TOTAL ASSETS UNDER MANAGEMENT	**36,728,256**	**33,253,840**	**3,474,416**	**10.4%**
Income statement				
Net interest income	(6)	8	(14)	(175.0%)
Dividends and similar income	919	86	833	n.s.
Net fee and commission income	136,218	127,970	8,248	6.4%
Performance fees	40,177	13,523	26,654	197.1%
Net income (loss) from trading, hedging and disposal/repurchase activities	117	140	(23)	(16.4%)
Other net operating income/(expense)	807	894	(87)	(9.7%)
Operating income	**178,232**	**142,621**	**35,611**	**25.0%**
Staff costs	(19,205)	(17,751)	1,454	8.2%
Other administrative expenses	(18,970)	(21,973)	(3,003)	(13.7%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(1,065)	(34)	1,031	n.s.
Operating expenses	**(39,240)**	**(39,758)**	**(518)**	**(1.3%)**
Net operating income	**138,992**	**102,863**	**36,129**	**35.1%**
Pre-tax profit from continuing operations	**138,992**	**102,863**	**36,129**	**35.1%**
Taxes on income for the year from continuing operations	(41,233)	(30,572)	10,661	34.9%
Profit (loss) for the year	**97,759**	**72,291**	**25,468**	**35.2%**
Other information				
Total work force (actual employees+staff on leasing contracts)	164	159	5	

(*) For items relating to the composition of assets under management the date 1st January 2019 must be interpreted as 31st December 2018

As at 31st December 2019 UBI Banca held 65% of the share capital of Pramerica SGR and the remaining 35% was held by Prudential International Investments Corporation.

UBI LEASING SPA

Figures in thousands of euro	31.12.2019 IFRS 16	1.1.2019 (*)	Change	% change
Balance sheet				
Debt securities measured at fair through profit or loss	28,916	29,554	-638	-2.2%
Loans and advances to customers measured at amortised cost	5,415,878	6,289,170	-873,292	-13.9%
Net interbank debt measured at amortised cost	-5,349,705	-6,185,358	-835,653	-13.5%
Equity (excluding profit/including loss for the year)	307,843	361,852	-54,009	-14.9%
Total assets	6,200,255	6,811,736	-611,481	-9.0%
Income statement				
Net interest income	116,309	154,261	(37,952)	(24.6%)
Net fee and commission income	401	942	(541)	(57.4%)
Net income (loss) from trading, hedging and disposal/repurchase activities (1)	(28,009)	(1,721)	(26,288)	n.s.
Other net operating income/(expense) (2)	2,297	8,996	(6,699)	(74.5%)
Operating income	**90,998**	**162,478**	**(71,480)**	**(44.0%)**
Staff costs	(15,710)	(16,440)	(730)	(4.4%)
Other administrative expenses	(17,129)	(19,645)	(2,516)	(12.8%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(2,373)	(3,557)	(1,184)	(33.3%)
Operating expenses	**(35,212)**	**(39,642)**	**(4,430)**	**(11.2%)**
Net operating income	**55,786**	**122,836**	**(67,050)**	**(54.6%)**
Net impairment losses on loans (3)	(125,230)	(185,934)	(60,704)	(32.6%)
Net provisions for risks and charges (4)	(5,713)	(8,524)	(2,811)	(33.0%)
Profit (loss) on the disposal of equity investments	549	(97)	646	n.s.
Loss on continuing operations before tax	**(74,608)**	**(71,719)**	**2,889**	**4.0%**
Taxes on income for the year from continuing operations	20,745	32,671	(11,926)	(36.5%)
Profit (loss) for the year	**(53,863)**	**(39,048)**	**14,815**	**37.9%**
Other information				
Total work force (actual employees+personnel on leasing contracts)	196	218	-22	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	38.70%	24.40%		
Net bad loans/Net loans to customers at amortised cost	2.62%	8.06%		
Net non-performing exposures /Net loans to customers at amortised cost	7.98%	13.93%		
Capital ratios				
Common Equity Tier 1 ratio	6.25%	6.41%		
Tier 1 ratio	6.25%	6.41%		
Total capital ratio	7.81%	6.65%		

(*) For the capital items not impacted by the new international reporting standard IFRS 16, the date 1st January 2019 must be interpreted as 31st December 2018.

(1) The item for the year ended 31st December 2019 includes €27.7 million (of which €2.2 million represents consolidation entries) from the disposal of bad loan positions.
(2) The amount includes €8.4 million of expenses that arose in the fourth quarter when the disposal of the second tranche of non-performing exposures was finalised.
(3) The item for the year ended 31st December 2019 includes impairment losses recognised in relation to the disposal of bad loan positions.
(4) The item for the year ended 31st December 2019 includes €3.5 million of provisions set aside for expenses for construction work and notary fees relating to the disposal of non-performing real-estate exposures.

The share capital of UBI Leasing as at 31st December 2019 was wholly owned by UBI Banca.

PERFORMANCE BY BUSINESS SECTOR

Figures in thousands of euro	2019		2018		% change	
	Number	Amount	Number	Amount	Number	Amount
Auto	1,656	86,874	2,081	103,529	-20.4%	-16.1%
of which: - motor vehicles	*702*	*28,437*	*902*	*34,772*	*-22.2%*	*-18.2%*
- commercial vehicles	*554*	*16,466*	*707*	*17,813*	*-21.6%*	*-7.6%*
- industrial vehicles	*400*	*41,971*	*472*	*50,943*	*-15.3%*	*-17.6%*
Machinery and equipment	1,651	203,219	2,107	295,420	-21.6%	-31.2%
Aeronautical	8	22,050	17	8,171	-52.9%	169.9%
Property	177	125,680	307	237,130	-42.3%	-47.0%
Energy	-	-	4	2,733	-100.0%	-100.0%
Total	**3,492**	**437,823**	**4,516**	**646,983**	**-22.7%**	**-32.3%**

UBI FACTOR SPA

Figures in thousands of euro	31.12.2019 IFRS 16	1.1.2019 (*)	Change	% change
Balance sheet				
Loans and advances to customers measured at amortised cost	2,524,749	2,624,510	-99,761	-3.8%
Net interbank debt measured at amortised cost	-2,372,172	-2,472,973	-100,801	-4.1%
Equity (excluding profit/including loss for the year)	119,667	119,756	-89	-0.1%
Total assets	2,740,873	2,839,430	-98,557	-3.5%
Income statement				
Net interest income (1)	31,809	30,083	1,726	5.7%
Net fee and commission income	(1,030)	(818)	212	25.9%
Net income (loss) from trading, hedging and disposal/repurchase activities	(1,483)	-	(1,483)	-
Other net operating income/(expense)	872	996	(124)	(12.4%)
Operating income	**30,168**	**30,261**	**(93)**	**(0.3%)**
Staff costs	(11,448)	(12,346)	(898)	(7.3%)
Other administrative expenses	(7,413)	(11,373)	(3,960)	(34.8%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(423)	(21)	402	n.s.
Operating expenses	**(19,284)**	**(23,740)**	**(4,456)**	**(18.8%)**
Net operating income	**10,884**	**6,521**	**4,363**	**66.9%**
Net impairment losses on loans	(8,934)	(12,400)	(3,466)	(28.0%)
Net provisions for risks and charges	(142)	(7,727)	(7,585)	(98.2%)
Profit (loss) on continuing operations before tax	**1,808**	**(13,606)**	**15,414**	**n.s.**
Taxes on income for the year from continuing operations	(597)	4,447	5,044	n.s.
Profit (loss) for the year	**1,211**	**(9,159)**	**10,370**	**n.s.**
Other information				
Total work force (actual employees+staff on leasing contracts)	128	138	-10	
Financial ratios				
Cost:income ratio (operating expenses/operating income)	63.92%	78.45%		
Net bad loans/Net loans to customers at amortised cost	0.56%	7.25%		
Net non-performing exposures /Net loans to customers at amortised cost	1.47%	8.41%		
Capital ratios				
Common Equity Tier 1 ratio	7.93%	7.40%		
Tier 1 ratio	7.93%	7.40%		
Total capital ratio	7.93%	7.40%		

(*) For the capital items not impacted by the new international reporting standard IFRS 16, the date 1st January 2019 must be interpreted as 31st December 2018.

(1) Net interest income includes €9 million of arrears of interest (€5.8 million in 2018).

The share capital of UBI Factor as at 31st December 2019 was wholly owned by UBI Banca.

PRESTITALIA SPA

Figures in thousands of euro	31.12.2019 IFRS 16	1.1.2019 (*)	Change	% change
Balance sheet				
Loans and advances to customers measured at amortised cost	1,715,557	1,488,837	226,720	15.2%
Net interbank debt measured at amortised cost	-1,468,779	-1,240,258	228,521	18.4%
Equity (excluding profit/including loss for the year)	215,401	214,495	906	0.4%
Total assets	1,905,512	1,659,722	245,790	14.8%
Income statement				
Net interest income	57,787	54,921	2,866	5.2%
Net fee and commission income	(822)	(1,474)	(652)	(44.2%)
Net income (loss) from trading, hedging and disposal/repurchase activities (1)	601	1,741	(1,140)	(65.5%)
Other net operating income/(expense)	537	915	(378)	(41.3%)
Operating income	**58,103**	**56,103**	**2,000**	**3.6%**
Staff costs	(10,873)	(10,379)	494	4.8%
Other administrative expenses	(18,006)	(19,363)	(1,357)	(7.0%)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(448)	(33)	415	n.s.
Operating expenses	**(29,327)**	**(29,775)**	**(448)**	**(1.5%)**
Net operating income	**28,776**	**26,328**	**2,448**	**9.3%**
Net impairment losses on loans (2)	2,522	4,093	(1,571)	(38.4%)
Net provisions for risks and charges	(13,271)	(3,486)	9,785	280.7%
Pre-tax profit from continuing operations	**18,027**	**26,935**	**(8,908)**	**(33.1%)**
Taxes on income for the year from continuing operations	(6,173)	(8,496)	(2,323)	(27.3%)
Profit (loss) for the year	**11,854**	**18,439**	**(6,585)**	**(35.7%)**
Other information				
Total work force (actual employees+staff on leasing contracts)	172	173	-1	
Financial ratios				
ROE [profit for the year/equity (excluding profit for the year)]	5.50%	8.60%		
Cost:income ratio (operating expenses/operating income)	50.47%	53.07%		
Net bad loans/Net loans to customers at amortised cost	0.01%	0.09%		
Net non-performing exposures /Net loans to customers at amortised cost	2.07%	2.52%		
Capital ratio				
Common Equity Tier 1 ratio	13.30%	15.01%		
Tier 1 ratio	13.30%	15.01%		
Total capital ratio	13.30%	15.01%		

(*) For the capital items not impacted by the new international reporting standard IFRS 16, the date 1st January 2019 must be interpreted as 31st December 2018.

(1) Profits on the disposal of bad loan positions are recognised within net income from trading, hedging and disposal/repurchase activities.
(2) The item includes €0.4 million of reversals of collective impairment losses and €2.1 million of specific impairment losses. In 2018 reversals arose from payments received on unlikely-to-pay positions.

The share capital of Prestitalia as at 31st December 2019 was wholly owned by UBI Banca.

Other information

Treasury shares

The companies included in the consolidation did not hold any of their own shares in portfolio, nor those of the Parent during the course of 2019
As at 31st December 2019 UBI Banca held 9,251,800 treasury shares with no nominal value, accounting for 0.81% of the share capital (further details are given in the UBI Banca Management Report, which may be consulted).

Litigation

Full information is reported on tax and other Group litigation as well as on anti-money laundering affairs in the Notes to the Consolidated Financial Statements, Part B – Section 10 of Liabilities.

Inspections and legal proceedings

European Central Bank and Bank of Italy Inspections

On 26th February 2016 the European Central Bank (ECB) commenced inspections into the Parent, UBI Banca, on the subject of the BUSINESS MODEL AND PROFITABILITY. The inspections concluded on 20th May 2016. On 10th March 2017 the Bank sent the authority its response to the evidence in the final report received on the previous 10th January and also the action plan, followed by periodic on the actions taken until the completion of the activities indicated with reference to 30th June 2019.

In a letter dated 22nd June 2016, the ECB ordered new inspections in the areas of GOVERNANCE, REMUNERATION AND INTERNAL CONTROLS, with a particular focus on how the Bank and the Group deal with conflicts of interest and verify policies and procedures to identify and manage Group related parties and therefore potential conflicts of interest and the adequacy of internal control systems to detect such conflicts. These inspections were completed on 5th August 2016.
On 27th January 2017 the ECB sent the outcome of the inspection performed and on 7th March the Parent replied to the authority by sending the action plan it had drawn up. Periodic updates on the progress of the remedial actions have since been provided, the last of them was sent to the ECB on 15th July 2019 and informed them that the required actions had been completed.
On 23rd July 2018, the Bank of Italy announced it was beginning sanctioning proceedings for alleged violations by UBI Banca subject to administrative fines. These proceedings originated from inspections into governance, remuneration and internal controls, conducted by the European Central Bank in the period from 27th June 2016 to 5th August 2016, intended to assess the Group's ability to prevent and manage CONFLICTS OF INTEREST. More specifically, the formal notification of dispute declared by the Bank of Italy had regarded shortcomings found by the European Central Bank in processes and procedures designed to manage conflicts of interest (mapping, criteria for the identification of ordinary and extraordinary financial conditions, monitoring carried out by the internal control functions). UBI Banca had submitted its defence documents on 21st September 2018. On conclusion of the proceedings, on 12th April 2019 the Bank of Italy informed the Bank that the Directors had decided not to continue with the sanctioning proceedings.

With a letter dated 11th January 2017, the European Central Bank ordered an inspection on the subject of the INTERNAL MODEL OF ORGANISATION following an application to extend the IRB perimeter consistent with the Group's roll-out plan. The inspections were commenced on 6th February and concluded on 7th April. The ECB's assessment report was received on 23rd October 2017. On 20th March 2018 UBI Banca received authorisation from the ECB for the implementation of a "model change" which brought the Bank's internal models for credit risk into line with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions. Supervisory reports were prepared based on the new models starting with figures for the period ended 31st March 2018. On 20th April 2018 the Bank submitted an action plan to implement full compliance of the new models with recommendations made by the supervisory authority at the time when the model change was authorised. Subsequently quarterly updates on the state of progress of the actions undertaken were submitted to the ECB, the last of which was submitted on 30th September 2019, which reported the completion of the remedial actions.

The ECB inspection of the CREDIT AND COUNTERPARTY RISK MANAGEMENT AND RISK CONTROL SYSTEM - relating to the Group's portfolio of performing and non-performing exposures to corporates (specialised lending, large corporate, corporate and small business, with the exclusion of retail businesses) (UBI Banca, UBI Leasing and UBI Factor), commenced on 18th September 2017 and was concluded on 23rd February 2018. On 25th June of that year, the report containing the final outcome was received from the authority, and on 30th November UBI Banca received a final follow-up letter, to which the Bank submitted its initial responses on 10th December, followed by an action plan on 21st December. The requests formulated by the ECB were already substantially accepted in the 2018 consolidated financial statements. On 29th March 2019, a status report was sent regarding the actions that the Group had committed to execute by 31st March 2019; then on 31st May 2019, the Bank announced that it had fulfilled its final obligation connected with the remedial plan submitted to the supervisory authority.

On 6th November 2017 the Bank of Italy and commenced inspections designed to assess: (i) the state of implementation of corrective action requested following the previous inspections on ANTI-MONEY LAUNDERING, reported in detail in the 2016 annual report; (ii) the suitability of the organisational structure for producing accurate reports of overall average effective interest rates and preventing violations of USURY regulations. The inspection was concluded on 14th February 2018. On 17th April the Bank of Italy communicated the results of the inspections in question, giving a partially negative assessment, which included some allegations regarding anti-money laundering (with the commencement at the same time of administrative sanctioning procedures against the Bank, in accordance with Law No. 241 of 7th August 1990). UBI Banca sent its objections to the sanctioning on 15th June 2018 and on the following 13th July it sent its full reply and plans for corrective actions to be undertaken of an organisational, procedural and operational nature with an indication of the time needed to complete them (the "Plan").

On conclusion of the proceedings, on 22nd March 2019 the Bank of Italy notified the Bank of a provision concerning the imposition against it of an administrative fine of €1.2 million (compared with a statutory minimum "equal to 10% of total annual revenues[1]"). An appeal was lodged against the sanctioning provision with the Court of Appeal of Rome in accordance with the procedures and time limits pursuant to Art. 145, paragraph 4 of the Consolidated Banking Law. The hearing to debate the case, originally scheduled for 24th October 2019, was postponed by the Court to 6th December 2019 and then again to 3rd April 2020.

On 25th January 2019 the Bank of Italy wrote to the Bank asking it to act more swiftly and to complete action not later than 2019 concerning the identification, assessment and reporting of

1 In accordance with a Bank of Italy provision dated 18th December 2012 containing measures on penalties and administrative penalty procedures, as last amended by a provision dated 3rd May 2016, revenue is defined as "the aggregate defined in Art. 316, Table 1 of Regulation (EU) No. 575/2013 (the 'CRR')".
Table 1 of the provision cited contains the following items:
1 - Interest receivable and similar;
2 - Interest payable and similar charges;
3 - Income from shares and other variable/fixed-yield securities;
4 - Commissions/fees receivable;
5 - Commissions/fees payable;
6 - Net profit or net loss on financial operations;
7 - Other operating income.
On the basis of the approach followed for the calculation of the relevant indicator with regard to operational risk, in accordance with the provisions of Art. 316 of the CRR, the revenue of the UBI Banca Group (Regulatory Perimeter) for the year ended 31st December 2017 (IAS 39) amounted to €3,491,640 thousand.

potentially suspect transactions in relation to which the Bank had planned to upgrade its dedicated IT platform ("Anti-Money laundering Portal").
The competent units promptly took action to implement the requests made by the supervisory authority and prepared a new work plan, communicated to the Bank of Italy on 8th February 2019.
On the following 5th July, as requested by the supervisory authority in the aforementioned Communication of 25th January 2019, the Bank provided an update on the reorganisational measures, together with the assessments made by the management and supervisory bodies, which the supervisory authority will later verify as necessary in accordance with the procedures it considers most appropriate. As at 31st December 2019, the related actions had been completed.

On 19th February 2018 the European Central Bank started an internal model investigation in the context of a TARGETED REVIEW OF INTERNAL MODELS for the retail mortgages model perimeter, which concluded on 4th May 2018. On 31st October 2018, the ECB sent its final assessment report to the Bank, and on 5th July 2019 its final decision arrived. The Bank submitted a remedial action plan, with details for each obligation identified, on 2nd August, for scheduled completion by the end of 2020. As part of this plan, a quarterly status report must be drafted and sent to the ECB; the most recent such report was sent on 23rd December with reference to the period ending 31st December 2019. The results are in line with the information given at the time of the inspection and do not imply any possible impacts on capital with respect to the models currently in use.

As already anticipated by the European Central Bank in a communication dated 28th March, on 7th May 2018, it commenced an inspection into INTERNAL GOVERNANCE AND RISK MANAGEMENT with a focus on IT strategy and governance, management of the IT projects portfolio and on recent initiatives taken regarding the digital distribution channel and payment services in the light of regulatory developments. The on-site inspection was concluded on 27th July 2018. The ECB sent its final report on 21st December 2018 and then on 7th May 2019 its final follow-up letter, containing results broadly in line with the evidence that had already come to light in the final report, focusing on ensuring that allocation of financial resources remain optimal and on the monitoring of IT services. On 14th June, the Bank submitted an action plan aiming to resolve the issues raised during the inspection by the end of the first quarter of 2020. On 11th December 2019, the Bank sent the authority a status report on the situation as at 30th September.

On 14th May 2018, as announced by the European Central Bank with a letter dated 6th April, an investigation into the INTERNAL MODEL commenced to approve the extension of the perimeter for credit risk internal models, consistent with the Group's roll-out plan. The inspections were concluded on 3rd August 2018. On 26th October 2018 the Bank received the final assessment report, and on 18th March 2019 the ECB's final decision arrived, containing authorisation – based on the authority's indications dated 31st March 2019 – to apply the new models (that is, to extend the scope of internal models to calculate capital absorption related to Corporate and Retail portfolios inherited from the New Banks, as well as to gradually extend the IRB scope to the Other Private Individual and Qualifying Revolving Retail segments). On 12th April, the Bank submitted an action plan to the ECB to resolve, by the end of 2020, the findings conveyed by the authority. In this regard, a quarterly status report must be drafted and sent to the ECB; the most recent update was submitted on 23rd December 2019 with reference to the situation as at 31st December.

In a letter dated 26th June 2018, the European Central Bank announced the start of an inspection regarding a CREDIT QUALITY REVIEW for the Residential Real Estate (RRE) portfolio. Started on 1st October 2018, the inspection was concluded on 15th February 2019. On 2nd August, the ECB sent its final report, and a final follow-up letter was received on 19th December. In response, the Bank submitted its action plan on 14th January 2020, which is expected to be completed by the end of 2020.

On 10th September 2018 the European Central Bank commenced an internal model investigation in the context of the TARGETED REVIEW OF INTERNAL MODELS on the perimeter of the Corporate-Other and Corporate-SME models. The inspections concluded on 23rd November. On 30th January 2019, the related "Draft Report" was received, which was discussed in an "exit meeting" on 4th February, in relation to which the Bank sent its comments on the 15th February. On 20th February 2019 UBI Banca reccceived the final assessment report. On 5th February 2020, the ECB's draft decision was received, in response to which the Bank submitted its considerations on 11th February. As at the date of this Report, UBI Banca was still awaiting the ECB's final decision.

On 16th November 2018, the branch inspection into TRANSPARENCY at 20 branches of UBI Banca was concluded. It had been commenced by the Bank of Italy on 17th September. The findings of this inspection were received on 27th May 2019. The anomalies detected related to the remuneration of credit lines and overdrawn accounts, pre-contractual information concerning contracts for real estate loans to consumers and the early closure phase for some types of banking relationship.
The Bank's considerations on the inspection outcome along with its action plan were submitted to the authority on 2nd August 2019. Subsequent quarterly updates on these actions were also scheduled; the latest update was sent on 10th February 2020 with reference to the situation as at 31st December 2019.
The remedial action involves a schedule of progressive releases based on the different types of recommendations and will be completed by June 2020. In certain cases, the aforementioned anomalies also involved requiring customers to make payments that were not due. For most of these the Bank has already made repayments to the customers concerned and implemented corrective actions to the related procedures.

On 4th March 2019 a Bank of Italy inspection of Prestitalia commenced regarding COMPLIANCE WITH LEGISLATION AND REGULATIONS AND SUPERVISORY GUIDELINES ON THE TRANSPARENCY OF TRANSACTIONS AND INTEGRITY WITH CUSTOMER RELATIONSHIPS CONCERNING THE SALARY AND PENSION-BACKED SECTOR. It was concluded on 5th April. On 18th December the inspection report describing the results of the activities conducted was delivered to the Prestitalia Board of Directors. On 11th February 2020, the considerations made by the company and by the Parent regarding the inspection results were submitted to the Bank of Italy, accompanied by a remedial action plan in light of the findings that the company announced it had drawn up and put in place (largely already in place by the quarter after the inspections ended).

With a letter dated 18th March 2019, the European Central Bank informed the Bank of an inspection relating to GOVERNANCE PROCESS, with a focus on governance culture, which will take place from 9th May to 9th July 2019. The contents of the ECB's draft report, received on 8th October, were discussed in an exit meeting on 22nd October, a precursor to the Bank's considerations, which were sent on 15th November. On 8th January 2020 the final report was received. The evaluation carried out based on practices of the conduct observed with regard to the previous governance system revealed a broadly positive situation in which the Bank's risk culture is moving in the right direction, facilitated in part by the governance system changes. The Bank is awaiting the authority's follow-up letter.

With a letter dated 3rd October 2019, the Bank of Italy announced the commencement of an inspection into CUSTOMER PROTECTION ASPECTS OF CREDIT RATING ASSIGNMENTS. The assessments were commenced on 7th October 2019 and were concluded on the following 8th November. As at the date of this Report, the Bank was still awaiting the outcome of this inspection activity.

On 14th October 2019 the Bank of Italy announced it would start an inspection on the AUTHORISED IRB SYSTEM IN THE CONTEXT OF ECAF; it was conducted from 27th to 29th November. The aim of this inspection was to verify whether the Bank possesses adequate information systems and administrative and organisational processes in order to correctly detect the requested information concerning the set of debtors that may be eligible for the purpose of monetary policy operations (i.e. concerning the 'static pool') assessed using an internal ratings-based (IRB) system. On 17th February 2020, the results were received from the authority, stating that the processes related to static pool credit assessment were deemed satisfactory.

With a letter dated 23rd October 2019, the Bank of Italy announced a general, ordinary and periodic, inspection into the company PRAMERICA SGR SPA. This inspection began on 28th October 2019 and ended on 7th February 2020. As at the date of this Report, the Bank was awaiting the outcome.

On 29th October 2019 the Bank of Italy's Milan Office commenced an anti-money laundering BRANCH INSPECTION at a Bergamo branch of UBI Banca located in via Jacopo Palma il Vecchio to investigate ANTI-MONEY LAUNDERING prevention provisions. Access for this inspection was arranged as part of a pilot phase for this inspection format, by activating checks on a sample of 20 UBI Banca branches. During the week of 10th February, the inspection began at the Bergamo main branch (in Piazza Vittorio Veneto), which was the 20th and final branch in the sample, leading to the conclusion of branch inspections on anti-money laundering on 14th February 2020.

* * *

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

Thematic Review on *IFRS 9* (to ascertain the state of affairs on the process of adopting the new accounting standard) ended on 31st March 2017. The preliminary results of the analysis were discussed with the ECB on 13th July and on 22nd August the supervisory authority delivered its relative draft letter, on which UBI Banca submitted its comments on 18th September 2017.

On 12th October 2017 the ECB sent its final letter containing the results of its review. The authority's findings were that management involvement in the project to implement the new standards was adequate, but that the formalisation of the methodological and implementation choices could be improved. On the following 15th November the Bank provided the ECB with the required reply concerning the actions identified for the management of the recommendations made by the same authority, followed on 21st December 2017 and 12th January 2018 by two updates on setting out the corrective actions undertaken. At the date of this report the corrective actions have been completed.

Consob inspections

With a letter dated 14th November 2018, the Consob informed the Bank that it would begin an inspection at the Parent concerning the following topics: (i) procedures adopted for the purpose of customer profiling; (ii) the functioning of controls on concentration risk in customer portfolios, specifically regarding UBI Banca issuer risk.

The inspection was concluded on 14th March 2019. Initiatives related to the evidence collected during the inspection conducted on the Bank's implementation of MiFID II regulations (received on 27th September 2019) were discussed with the authority during a meeting that took place on 13th November 2019. Consob declared the inspection closed upon the Bank's submission, on 23rd December 2019, of its considerations along with an action plan to be carried out over the course of 2020.

Legal proceedings

Information is reported below on specific issues.

- With regard to the ongoing proceedings at the **Court of Bergamo** (see the previous information given in the 2018 Annual Report for details) the Bank is certain and has no doubt that by examining the facts, the proceedings of the trial will demonstrate that there are no grounds to these accusations directed at the Bank and its senior officers, because it considers that there has been no hindrance to the supervisory authorities, no secret pact, no failure to disclose information and no undue influence in determining majorities in Shareholders' Meetings.

The court proceedings are currently under way and to-date hearings have been scheduled until first half of October 2020.
If UBI Banca is convicted of the offences with which it is charged in accordance with Legislative Decree No. 231/2001, a fine will be imposed on it. That fine for the predicate offence pursuant to Art. 2636 of the Italian Civil Code would be comprised between a minimum of €37,500 and a maximum of €511,170, while the crime pursuant to Art. 2638 of the Italian Civil Code would be comprised between a minimum of €51,600 and a maximum of €619,600.
To complete the information we report that following the renewal of the governing bodies of UBI Banca in the Shareholders' Meeting held on 12th April 2019, only one of the 28 senior officers of the UBI Banca Group involved at the time in the proceedings currently holds office as a member of the Board of Directors.
The Bank reaffirms that its conduct has been proper and is confident that its compliance with the law and with organisational regulations, as has already been clearly demonstrated by Ruling No. 879/2017 of 17th May 2017 issued by the Court of Appeal of Brescia, which recognised the proper conduct of UBI Banca and of its senior officers in relations with the supervisory authorities and with the market, and nullified Consob's decision to sanction some members of the UBI Banca Supervisory Board at the time.

On 14th November 2017 UBI Banca received notification of an appeal by the **Consob** against Ruling No. 879/2017 before the Supreme Court of Cassation and it immediately filed its defence. The Consob immediately filed a counter appeal against the Bank's incidental appeal. At the public hearing on 11th July 2019 the Public Prosecutor set out his reasoned conclusions, associating himself with the defendants and therefore requesting that the appeal filed by Consob should be rejected. The Court of Cassation has not yet reached a verdict. Nevertheless, on 25th February 2020, Ruling No. 4962-20 was published regarding a similar appeal by Consob against other senior officers of the Bank, who had also been issued sanctions by the supervisory authority. This ruling rejected all five of Consob's arguments: the Supreme Court of Cassation judged that in this case, the omissive conduct penalised by Consob is not proscribed by law and is therefore not punishable.

In consideration of the nature of the matter, it is felt that it can have no repercussions on Group assets.

- On 30th May 2017 a search was carried out, ordered by the **Public Prosecutor's Office of Brescia**, in various offices of the Bank as part of the investigations concerning allegations of acting as an accomplice in the crime of hindrance of the public supervisory authorities in the exercise of their duties (Art. 2638 of the Italian Civil Code), in relation to reports on suspect transactions concerning anti-money laundering and the obligation to make adequate checks on customers. The Bank, which was not charged in the proceedings, learned that the Preliminary Investigations Judge officially closed the case in a decision issued on 24th June 2019. Further investigations are however still ongoing regarding two of the Bank's employees, for suspected conspiracy to launder money (under Art. 648-bis of the Italian Penal Code) and for other suspected violations of the law.

- As regards IW Bank:
    - as already reported in previous financial reports, on 3rd December 2015, some current and former IW Bank directors and managers and received notification of a search and seizure warrant, also informing them they are suspects in investigations under the **Milan Public Prosecutor**, pursuant to articles 369 and 369 *bis* of the Italian Penal Code. The alleged offences contested were: criminal conspiracy (Criminal Code Art. 416), money-laundering and conspiracy to launder money (Criminal Code, Art. 110 and Art. 648-*bis*), self-money laundering and conspiracy to commit self-money laundering (Criminal Code, Art. 110 and Art. 648.1-*ter*), as well as the criminal tax offence (and relative conspiracy offence as per Criminal Code Art. 110) of "fraudulent concealment of assets in relation to the payment of taxes" (pursuant to Art. 11 of Legislative Decree No. 74/2000). Finally, criminal violation of customer due diligence obligations was alleged (pursuant to Art. 55 of Legislative Decree No. 231/2007). In relation to the proceedings in question, on 20th July 2017 the Guardia di Finanza (finance police) notified the Bank that it was a suspect in investigations, with the closure at the same time of the preliminary investigations in which the Public Prosecutor alleged liability of the members of IW Bank's Board of Directors and its Board of Statutory Auditors in the period running from May 2008 to May 2014 for the offence

of hindrance of the public supervisory authorities in the exercise of their duties (pursuant to Art. 2638) and in particular to have failed to make full reports to the Bank of Italy on alleged shortcomings regarding anti-money laundering controls and procedures.

With regard to that same predicate offence of hindrance of the public supervisory authorities in the exercise of their duties, the public prosecutor's office had charged IW Bank with corporate liability in accordance with Legislative Decree No. 231 of 2001 (pursuant to Art. 25 *ter* of the aforementioned decree).

With sole reference to the alleged offence of hindrance of the public supervisory authorities in the exercise of their duties (pursuant to Art. 2638 of the Italian Civil Code), on 26th October 2017 the Office of the Judge for the preliminary hearing at the Court of Milan had notified IW Bank, in its capacity as the entity responsible pursuant to legislative Decree No. 231/2001, of an order setting the date for the preliminary hearing for 12th April 2018, following a request for committal to trial filed by the Public Prosecutor on 17th October 2017.

It is underlined that the more serious offences cited in the search warrant executed in December 2015 did not appear in both the notice of the closure of the preliminary investigations and in the subsequent application for committal to trial.

Within the context of the preliminary hearing, all the defendants as well as IW Bank, in its capacity as responsible entity pursuant to Legislative Decree 231/2001, had called for the settlement of the matter by means of abbreviated proceedings. The judge had allowed the request and scheduled debate of the abbreviated ruling to the hearing of 26th November 2018. Following further adjournment, the hearing for the debate was held on 25th March 2019, with continuation on 26th and 28th March.

On 10th April 2019, in relation to the crime of hindrance of supervisory authorities in the exercise of their duties and the alleged corporate liability within the meaning of Legislative Decree No. 231/2001, the Judge for preliminary investigations at the Court of Milan acquitted IW Bank and its directors and former directors and its senior officers and former senior officers in full "because there was no case to answer". On 27th September 2019 this ruling was deemed final and without appeal.

With regard to the suspected criminal offences formulated by the Public Prosecutor on the occasion of the searches conducted on 3rd December 2015 – criminal conspiracy, money laundering and conspiracy to launder money, self-money laundering and conspiracy to commit self-money laundering, fraudulent concealment of assets in relation to the payment of taxes and criminal violation of customer due diligence obligations – the Preliminary Investigations Judge, upon the Public Prosecutor's request, officially closed the proceedings due to insufficient evidence of the suspected crimes;

- on 11th July 2019, following a request made by the Public Prosecutor and a favourable ruling from the GIP (Preliminary Investigating Magistrate) of the **Court of Milan**, an advance seizure of assets from the Bank amounting to almost €4 million was made by the legal authorities, with regard, according the arguments of the prosecution, to the profits of the crimes of fraud and aggravated unauthorised financial activities of which a former financial advisor at the Bank is accused. IW Bank considers that it operated fairly and made a significant contribution to the detection of the conduct under investigation. Initially, independently and in advance, it met the customers concerned, discovering from them their awareness of the transaction performed through the financial advisor (and in any event ending the relationship with these customers). It then proceeded to precautionary suspension, followed by dismissing the financial advisor for just cause, and submitting a statement to the Public Prosecutor's Office of Milan and notifying Consob and IVASS. The Bank applied for and obtained the lifting of the advance seizure described above and established the customers' position.

* * *

In order to implement board resolutions passed on 23rd July and 31st July 2019, on 7th August 2019 UBI Banca Spa and UBI Leasing Spa initiated ordinary civil legal proceedings before the Court of Bergamo in order to obtain compensation for patrimonial and non-patrimonial damages resulting from the broadcast of a programme that aired on the RAI 3 television channel on 1st April 2019 during the transmission of the "Report".

Developments in the regulatory context

Again in 2019, the general national and European regulatory framework in which Italian banks operate was in a state of change, placing the burden of a wide variety of monitoring and compliance activities on those banks. The main interventions regarded the areas listed below[2].

OUTSOURCING

Following a consultation exercise concluded in September 2018, on 25th February 2019 the European Banking Authority (EBA) issued "Guidelines on outsourcing arrangements" aimed at banks, investment firms, payment institutions and electronic money institutions. The guidelines are designed to ensure the application of a single regulatory framework which covers all banking, investment and payment services in order to ensure, amongst other things, equal conditions for the different types of financial institutions. The most important changes introduced include the following: (i) the creation of a register of all existing outsourcers to be made available to the supervisory authorities at the time of "Supervisory Review and Evaluation Processes" (SREPs), which is every three years and, in any event on request from the supervisory authority itself; (ii) the creation of a company function or the appointment of a senior manager as an outsourcing officer which reports directly to the management bodies; (iii) the strengthening of controls on risks resulting from outsourcing arrangements; (iv) the identification, management, monitoring and reporting of all risks (present and potential) resulting from agreements with third parties, regardless of whether or not these agreements constitute an outsourcing arrangement. These Guidelines took effect on 30th September 2019.

With regard to pre-existing outsourcing agreements, compliance with the new regulations is expected to be fulfilled upon the first contract renewal date and, in any case, no later than 31st December 2021.

Over the course of 2019, the UBI Banca Group revised and updated its internal regulations in this area, along with its entire outsourcing process. Existing contracts will be updated in accordance with the supervisory authority's indications.

BANKING PRODUCTS AND SERVICES

Transparency in banking and financial transactions and services

In a provision issued on 18th June 2019, the Bank of Italy, based on consultations completed in February 2019, amended its "Provisions on transparency in banking and financial transactions and services: proper conduct in relationships between the intermediaries and customers" in order to adopt Directive 2014/92/EU (the Payment Accounts Directive, or PAD).

Those amendments, applicable from 1st January 2020, regarded the following: i) pre-contractual information documentation; ii) periodic information documentation; iii) the terminology used in the prototype for the information sheet for current accounts offered to consumers.

As from 1st January 2020, amendments to Section VI of the Provisions on transparency in payment services – issued in order to implement Directive 2015/2366/EU, the Payment Services Directive 2 (PSD2)[3] – are also in force, as per a Bank of Italy provision on 19th March 2019. PSD2, applicable as from September 2019, introduced a series of significant new rules in the realm of digital payment services. The Directive seeks in particular to harmonise practices within the European Union and increase the security of transactions through two-factor authentication for those who make online purchases.

The UBI Banca Group continued planning activities it had begun in the last quarter of 2018 with the aim of ensuring implementation of the Payment Accounts Directive in relation to the introduction of the new 'basic account' and to the use of standard EU terminology for the more typical services connected with payment accounts at national level. Further actions have also been identified in order to:

- *roll out two new transparency documents in standard EU format: the Fee Information Document (FID), a pre-contractual informative document) and the Statement of Fees (SOF), a periodic document for current customers;*
- *adapt existing transparency documents for consumer current accounts to the new standard established by the Bank of Italy.*

In the context of progressive implementation of the Payment Services Directive 2 (PSD2), where the Group already modified contractual documentation and payment services transparency documents in 2018, adopting Legislative Decree 218/2017 of 15th December 2017 (which amended the Consolidated Banking Act and the payment services regulations issued in Legislative Decree 11/2010), it has been determined that these texts should be further refined in light of the entry into force of the update to the Bank of Italy's transparency provisions.

On 5th July the European Banking Authority (EBA) published its "Report on the application of the Guidelines on Product Oversight and Governance (POG) arrangements" regarding the methods of implementation by banks of the European Union's consumer protection requirements (issued by the EBA in 2015). The report identifies the "best practices" that banks ought to adopt with regard to: a) governance of the processes of product design, development and management; b) identification of target markets; c) advance product tests to

2 For regulatory developments concerning banks' financial statements, see General Part A.1 of the Notes to the Consolidated Financial Statements.

3 Published in the Official Journal of the European Union on 23rd December 2015.

verify their suitability for the target market; d) ongoing monitoring of product suitability to clients' needs; and e) distribution.

Despite the absence of mandatory requirements, the UBI Banca Group assessed the contents of the document in order to verify whether it is operating in accordance with EBA best practices and has identified the areas in which it needs to improve corporate regulations and procedures.

On 4th December 2019 the Bank of Italy issued a Communication on "Consumer credit: early loan repayments". This statement from the Bank of Italy was made in light of a European Court of Justice ruling on 11th September 2019[4] concerning consumer credit agreements, which established that "the consumer's right to a reduction in the total cost of credit in the event of early repayment must be understood as comprehensive of all costs incurred by the consumer". The Bank of Italy's recommendations on this matter will affect all consumer loans.

The UBI Banca Group, in order to adopt the Authority's recommendations, has set up a dedicated working group tasked with identifying changes that need to be made to both digital procedures and corporate regulations concerning early loan repayments.

Payment services

On 29th March 2019, Regulation (EU) 2019/518 of 19th March 2019 on "Amendments regarding charges on cross-border payments in the Union and currency conversion charges" was published in the Official Journal of the European Union. The purpose of the regulation is to align cross-border payments between countries in the euro area with non-EU country charges and to increase transparency on charges for currency conversions services throughout the European Union. The reform regards charges applicable to cross-border payments in for services such as credit transfers, card payments and cash withdrawals. These new provisions, applicable from 15th December 2019, inform consumers of the charges that apply before a transaction is made, due to the disclosure obligation. This is in the form of a percentage increase, and applies to all currency conversion charges on the basis of the available ECB exchange rate.

The UBI Banca Group has assessed the new measures and has determined that its current procedures for handling charges on cross-border payment services are adequate.

Credit

Legislative Decree No 14 of 12th January 2019 entitled "Company failure and insolvency code" was published in the Italian Official Journal on 12th February 2019. This introduced a general reform of regulations for creditor actions designed to allow the early detection of companies encountering difficulties and to safeguard the ongoing concern capacity of those who are running into difficulties or liquidation.

The changes introduced include the following: i) broadening of the scope of those that may resort to creditor actions[5]; ii) provision of a system of alerts to allow companies to exit a crisis with a view to turning them around and greater satisfaction of creditor claims; iii) priority is given, among the tools used to manage crises and insolvencies, to procedures available as an alternative to enforcement in the courts; iv) simplification of the various regulations governing creditor actions with reduced times and costs.

Some articles of the code, designed to ensure greater efficiency and speed in processes to manage crises and insolvency, came into force on 16th March 2019, while those changes with the greatest impact for the Group in terms of compliance with regulatory provisions will come into force on 15th August 2020.

The UBI Banca Group will modify and revise processes to manage and monitor creditor actions, in compliance with the terms and conditions set by the new regulations.

Again on 12th February 2019, with regard to subsidised loans to SMEs the Ministry of Economic Development approved two decrees which establish new "Conditions for admissibility and provisions of a general nature for the guarantee fund for small to medium-size enterprises and details of guarantee measures"[6], also with specific reference to financial transactions subject to "three-party" risk[7].

On the basis of the new provisions, guarantees by the fund may be granted: a) on application by the lenders, also in their capacity as leaders of a pool of lenders (direct guarantee); b) on application by the guarantors, also in their capacity as leaders of a pool of guarantors (reinsurance and counter guarantees).

The UBI Banca Group has conducted an analysis of the impacts of the new regulations and, on the basis of the results, compliance action has been taken to change operational procedures and detailed company regulations on the grant of loans and the issue of guarantees.

4 Case C-383/18 brought regarding the interpretation of Article 16(1) of Directive 2008/48/CE on consumer credit agreements.

5 The scope of the measures has been extended to cover all types of debtor, whether natural persons or legal entities, collective institutions, consumers, professionals or persons carrying on commercial, agricultural or artisanal businesses, with the sole exception of public institutions.

6 The main changes introduced regard the following: a) structural changes to operational provisions; b) procedures for intervention by the fund and eligibility requirements for applications; c) the grant, management and guarantee enforcement processes; d) the process for the management of the financial transactions that are guaranteed.

7 Transactions for which the risk is equally divided between the fund, the lender and the applicant.

SUPERVISORY REGULATIONS

On 25th April 2019 Regulation (EU) 2019/630 of the European Parliament and Council dated 17th April 2019 was published in the Official Journal of the European Union which amended Regulation (EU) 575/2013 (the "CRR") with regard to the minimum coverage for losses on non-performing exposures.
The new regulation, applicable to new loans granted after 26th April 2019 and subsequently classified as non-performing (therefore excluding all loan agreements already existing as at the aforementioned date, unless changes occur which lead to greater exposure by the institution to the debtor), introduces minimum percentages of coverage for non-performing exposures to be applied, within determined time limits, starting from the first classification of a loan as a non-performing exposure (an NPE). The coverage percentages are different for secured and non-secured loans. If the loans are not backed by any guarantee, the provisions must be 100% after three years since their classification as non-performing. However, where guarantees are in place, provisioning is gradual starting after three years to reach 100% after seven years in the presence of a financial guarantee and after nine years in cases of real estate collateral. If coverage is insufficient with respect to the regulatory limits, then remedial measures with an impact on capital must be considered.

Taking into account the adoption of the aforementioned Regulation (EU) 2019/630, the European Central Bank issued a "Communication on supervisory coverage expectations for NPEs" on 22nd August 2019, revising its supervisory expectations for of prudential provisioning for new non-performing exposures, as defined in the Addendum to the Guidance to banks on non-performing loans.
In particular, in order to simplify reporting by banks, the ECB aligned the ageing brackets identified in the Addendum for exposures that arose prior to 26th April 2019 and were classified as non-performing on or after 1st April 2018 with those established within the framework of application of the first pillar, as shown in the tables below.

Overview of supervisory and regulatory approaches to NPE coverage

<table>
<tr><td rowspan="2">NPEs classified on or after 1st April 2018</td><td>Exposure origination date on or after 26th April 2019</td><td>Pillar 1 – Backstop
3/7/9 calendar

Progressive path to 100% CRR</td></tr>
<tr><td>Exposure origination date before 26th April 2019</td><td>Pillar 2 – Addendum*
3/7/9 calendar

Progressive path to 100%
Addendum Exceptions</td></tr>
<tr><td colspan="2">NPEs classified before 1st April 2018</td><td>Pillar 2 – Stock of NPEs
(ECB press release dated 11th July 2018)
2/7 Calendar

No progressive path
Addendum exceptions</td></tr>
</table>

* Specific treatment of export credit subject to the Addendum (Pillar 2) in accordance with Pillar 1.

Adjusted calibration of the coverage expectations calendar for new NPEs subject to the addendum

<table>
<tr><td rowspan="3">Number of years as NPE</td><td>Unsecured part</td><td colspan="2">Secured part</td></tr>
<tr><td rowspan="2">Pillar 2 – Addendum (adjusted calibration)</td><td colspan="2">Pillar 2 – Addendum (adjusted calibration)</td></tr>
<tr><td>Secured by collateral other than immovable property</td><td>Secured by immovable property</td></tr>
<tr><td>More than 1</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>More than 2</td><td>35%</td><td>-</td><td>-</td></tr>
<tr><td>More than 3</td><td>100%</td><td>25%</td><td>25%</td></tr>
<tr><td>More than 4</td><td>100%</td><td>35%</td><td>35%</td></tr>
<tr><td>More than 5</td><td>100%</td><td>55%</td><td>55%</td></tr>
<tr><td>More than 6</td><td>100%</td><td>80%</td><td>70%</td></tr>
<tr><td>More than 7</td><td>100%</td><td>100%</td><td>80%</td></tr>
<tr><td>More than 8</td><td>100%</td><td>100%</td><td>85%</td></tr>
<tr><td>More than 9</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table>

As part of a wider "Calendar Provisioning" project that began in 2018, the UBI Banca Group established a specific working group assigned the task of applying the necessary changes to the methods used to estimate risk parameters, with the aim of implementing the recent various supervisory authority provisions put forth to increase banks' provisioning levels for new non-performing exposures as well as to facilitate the deconsolidation of existing NPEs in order to reduce risks in the banking sector as a whole. Compliance with the new regulation has entailed revising the corporate regulation framework on non-performing exposures (RAF Credit Risk Policy – Rules for the classification and analytical valuation of non-performing exposure – secondary operational regulations) as well as in terms of capital requirements and own funds.

On 24th July 2019, transposing a series of measures issued by the EBA[8], the Bank of Italy published its 28th update to Circular No. 285 of 17th December 2013, "Supervisory Regulations for Banks", modifying the chapters on "The IT system" and "Business continuity"[9].

The UBI Banca Group analysed the new elements introduced by the supervisory authority and has outlined the activities that must be performed to implement the new regulation, including drafting a new annual report that will be sent to both the ECB and the Bank of Italy by 30th April 2020 covering the topic of payment service risks, which will change significantly with the entry into force of the second Payment Services Directive (PSD2).

Following the European regulatory developments in 2018, two further regulations and two directives of the Parliament and of the Council issued on 20th May 2019 were published in the Official Journal of the European Union on 7th June 2019. These are implementation measures for the "banking package", which seeks to improve the EU's banking and financial system's resilience, by adjusting the provisioning rules to the new regulations agreed internationally by the Basel Committee (BCBS) and by the Financial Stability Board (FSB). These measures came into force on 27th June 2019.
More specifically these are: i) Regulation 2019/876; ii) Directive 2019/878; iii) Regulation 2019/877; iv) Directive 2019/879.
In detail:

- Regulation 2019/876 ("CRR2") implements into EU law the following Basel Committee standards: a) on the Total-Loss Absorbing Capacity (TLAC) of institutions of global systemic importance; b) on the new methods for calculating capital requirements for market risk; c) on the new methods for calculating capital requirements for counterparty risk; d) on the prudential treatment of exposures to central counterparties; e) on the net stable funding ratio; f) on the leverage ratio; g) on large exposures.

  Changes worthy of note include those regarding lighter prudential treatment, designed to support the grant of credit to the real economy. Reference is made to the following in particular:
  - confirmation and extension of the "supporting factor" for SMEs. The previous legislation allowed a reduction in the capital requirement for loans to SMEs of less than €1.5 million in amount, regardless of the risk weighting method employed. The amendment to the CRR increases the amount of the exposure to which the lower capital requirement is applied from €1.5 million to €2.5 million and a 15% reduction in the risk weighting is applied for that part of the loan that exceeds €2.5 million;
  - a 25% reduction in the capital requirements for loans to invest in infrastructure (which the Bank classifies in its "corporate" or "specialised lending" regulatory portfolios);
  - measures relating to salary or pension-backed loans for which a reduction in the capital requirement from 75% to 35% of the risk weighted assets is provided;
  - sterilisation of the impact of massive NPL exposures on the update of risk parameters. There will be no negative impacts for all massive NPL disclosures accounting for 20% of total non-performing exposures, taking place from November 2016 until 2023. The objective is to prevent the calculation of capital requirements for defaulted exposures held in portfolio from being conditioned by sales of NPLs made in the past or already programmed for the future.

  Finally, further amendments regarded Pillar 3 disclosures for which the relative regulations were changed for compliance with the amendments made to the CRR listed; reporting obligations by banks

8 In particular: a) Guidelines on security measures for operational and security risks of payments services (EBA/GL/2017/17), which define the safeguards that intermediaries that provide payment services are required to adopt to mitigate and manage operational and security risks arising from the provision of such services; b) Guidelines on major incident reporting (EBA/GL/2017/10), which define the criteria and method for classifying major security incidents relating to payments. The new criteria are integrated into the general framework of the rules for recording and notifying the Bank of Italy of IT security incidents in overall operations. Banks must report incidents directly; delegating such communication to a third party, even for aggregate reports, is prohibited; c) Guidelines on the conditions for exemption from the emergency mechanism as per article 33(6) of EU Regulation 2018/389 (EBA/GL/2018/07), which lay down the criteria for exemption for providers of payment services that have accounts accessible online from the obligation to prepare an emergency interface for the technical standards for strong customer authentication and open communications standards; d) Recommendations on outsourcing to cloud service providers (EBA/REC/2017/03), which expand upon the general outsourcing framework and introduce specific safeguards for the outsourcing of cloud computing services. The update also governs the administrative procedures introduced following the adoption of Regulation (EU) 2018/389 supplementing PSD2 and those relating to the exemption from the obligation to prepare a fall-back interface and revocation of the exemption.

9 Respectively: Part I, Title IV, Ch. 4, and Part I, Title IV, Ch. 5 of Circular 285.

to the competent authorities; the subject of sustainable finance, which is addressed for the first time in the CRR with regard to measures concerning the calculation of capital requirements for exposures to investments;

- one aspect of major importance in Directive 2019/878 ("CRD5") regards the introduction of a single method for calculating a systemic risk buffer which institutions subject to these regulations are called upon to adopt. Another change introduced is the principle of separating the systemic risk buffer from the countercyclical and other capital buffers specific to other risks;
- the amendments introduced to Regulation 2019/877 ("SRMR2") and Directive 2019/879 ("BRRD2") are essentially designed to ensure that global systemically important institutions have sufficient capacity to absorb losses and to recapitalise, such that they are able to continue to carry out essential functions, safeguarding taxpayers' funds.

The UBI Banca Group constantly monitors and manages the changes introduced by the banking package as part of its ordinary activities to monitor capital adequacy.

Following a public consultation period that ended on 7th November 2018, on 8th July 2019 the ECB published the final chapters of its "Guide to internal models" (the "risk-type-specific" chapters), which aim to ensure a common, consistent approach to applying regulations on internal models for banks subject to direct supervision. In particular, the chapters on specific risks – namely credit risk, market risk and counterparty risk – were published. These chapters show how the ECB intends to evaluate compliance with the requirements imposed by prudential rules for authorisation of the use of internal models[10].

In this same framework, on 16th July 2019 the EBA published its Final Report[11] containing the draft implementing technical standards (ITSs) for the models, definitions and IT solutions that entities are required to apply in presenting information to the EBA and the competent authorities, in accordance with CRD IV[12], in view of the performance of the internal model assessment for credit risk and market risk in 2020.

On 26th November 2018 the European Central Bank published Regulation (EU) No. 2018/1845, with which it set a new threshold for assessing the materiality of credit obligations past-due. Credit institutions must comply with this by 31st December 2020 at the latest[13]. This threshold sets two limits which must both be exceeded for 90 consecutive days:

1. the sum of all amounts past-due owed by the obligor must be greater than: €100 for retail exposures; €500 for exposures other than retail exposures;
2. the ratio between the past-due credit obligation and the total amount of all on-balance sheet exposures to that obligor must be greater than 1%.

On 26th June 2019, UBI Banca received authorisation from the ECB to use the new Definition of Default (DoD) from 1st July 2019. The regulatory change was accompanied by an overall revision of the processes and of the instruments as well as by organisational and training support activities. The main new features are as follows:

- *a revision of the criteria for the identification and management of past-due exposures;*
- *complete alignment of the administrative statuses of counterparties at Group level;*
- *enlargement of the default detection trigger catalogue to identify cases of unlikely-to-pay customers;*
- *introduction of the new concept of a "diminished financial obligation"[14].*

On 19th June 2019, the EBA opened its "Guidelines on loan origination and monitoring" for consultation. These guidelines aim to ensure:

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10 The Guide has been designed as a tool for internal use by supervisory compliance personnel to ensure a common approach to matters relating to internal models and has been drafted in close cooperation with the competent national authorities, on the basis of the experience gained in the internal model analysis project (Targeting Review of Internal Models).

11 "Final Report - Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2016/2070 with regard to the benchmarking of internal models". The Final Report will be submitted to the European Commission before being published in the Official Journal of the European Union and the rules will become applicable 20 days after publication in the Journal. The supporting technical package, comprising the Data Point Model (DPM), validation rules and classification scheme, is being prepared and will be published at a later date.

12 Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, which amended Directive 2002/87/EC and repealed Directives 2006/48/EC and 2006/49/EC.

13 These new measures implement the new definitions of default (DoD) introduced by the EBA [Guidelines on the application of the definition of default in accordance with Art. 178 of Regulation (EU) No. 575/2013 – EBA/GL/2016/07 of 18th January 2017] within the Single Supervisory Mechanism (SSM), with particular reference to banks that use the IRB approach.

14 In agreement with the provisions of the EBA, a diminished financial obligation exists when the present value of the cash flows of an exposure are reduced by more than 1% compared with the previous loan plan following forbearance measures, which normally necessarily triggers classification of the counterparty as unlikely-to-pay when the operation is concluded. The diminished financial obligation is therefore calculated from 1st July 2019 solely for performing exposures for which the debtor is encountering or is about to encounter difficulties in honouring its financial commitments and for which the grant of forbearance measures is currently being considered by the Bank.

- the adoption of rigorous, prudent standards for credit risk tolerance, capacity, management and monitoring;
- high credit quality for new loan disbursals;
- consumer protection and compliance with anti-money laundering (AML) requirements.

Once these guidelines are finalised (30th June 2020 unless postponed), they will replace the current EBA guidelines on creditworthiness assessments, which were issued in 2015 and will consequently be repealed.
The EBA has not stopped at merely providing guidelines on the credit origination process, but has furthermore sought to raise awareness among banking institutions about the need to establish organisational procedures and systems to manage positions not only if and when anomalies arise, but continuously. The reason behind this is to ensure full oversight throughout the life of a loan, assessing operational dynamics and consequent financial impacts. In keeping with what is expressed in this document, it must not be interpreted as a standalone measure, but rather as an additional link in a long regulatory chain that began with the introduction of IFRS 9, followed by the Guidelines on NPLs, the new Definition of Default (DoD) and, finally, the aforementioned Calendar Provisioning.
The consultation period ended on 30th September 2019 and the final version of these Guidelines are still being awaited.
The UBI Banca Group will assess the new provisions and identify activities to be carried out once the final documentation has been issued.

On 7th November 2019 the EBA published final notes on methodology as well as the templates to be used by banks when conducting EU-wide stress tests in January 2020; the results of the stress tests will be published in July 2020[15].
The stress tests are a component of the strategic activities in the EBA's Work Programme 2020, with a view to improving analytical methods[16] used by the EBA itself and in order to have more efficient tools to ensure supervisory convergence. They are designed to provide supervisory authorities, banks and other market stakeholders a common analytical framework within which the capacity to recover from potential economic shocks can be consistently, reliably compared and assessed[17].
The UBI Banca Group constantly monitors and manages activities required to ensure compliance with supervisory authority indications regarding ordinary monitoring of capital adequacy.

THE EUROPEAN STABILITY MECHANISM

As part of the European Union's strategy to guarantee financial stability in the eurozone, discussions continued last December regarding the European Stability Mechanism (ESM), whose aim is to assist EU member states experiencing or at risk of experiencing financial distress[18].
The ESM is in fact authorised to: i) disburse loans in the context of a macroeconomic adjustment programme; ii) purchase debt securities on primary and secondary financial markets; iii) provide financial assistance in the form of credit lines; iv) fund the recapitalisation of financial institutions by means of lending to the governments of EU member states.
Although it should be underlined that no definitive agreement has been reached yet, it can be foreseen that the reform currently under discussion will seek to introduce stricter criteria for approving requests for assistance submitted to the MES by member states. In future, countries in financial distress may be able to obtain aid if their debts appear to be sustainable. MES assistance may also be denied if the member state making the request is undergoing an infringement procedure with the European Commission.

CUSTOMER SERVICE MODEL

The Decree of the Ministry of Economy and Finance of 8th August 2019 on the timescales and methods of submission of applications for indemnities from the Investors Indemnity Fund by investors who have suffered unjust damages caused by banks and subsidiaries with registered offices in Italy, placed in compulsory administrative liquidation after 16th November 2015 and before 1st January 2018, was published in the Official Journal on 21st August 2019. In particular, the Decree provides that in order for the Fund's benefits to be disbursed, indemnity claims, accompanied by appropriate documentation, may only be sent by electronic channels and prepared using the electronic forms available for compilation through the specific Internet platform managed by Consap S.p.A.

15 Stress test results, along with other items, comprise the information used to quantify Pillar 2 capital requirements in the Supervisory Review and Evaluation Process (SREP).
16 The methodology was revised by incorporating the main proposals received from banks in connection with previous tests.
17 The test will: a) concentrate on evaluating the impact of risk factors on banks' solvency, and especially on identifying a common set of risks (credit risk including securitisation risk, market risk, counterparty risk and operational risk including conduct risk). In addition, lenders will be asked to project the impact of certain scenarios on their interest income, as well as to specify the profits, investments and capital items not covered by other types of risk; b) simulate banks' capital and liquidity under 'stressed' situations; c) be published in such a way as to enable comparisons between the major European banks.
18 The ESM was instituted by international treaty on 2nd February 2012 and inaugurated at the end of the same year. It is an intergovernmental organisation regulated by international public law headquartered in Luxembourg. The ESM issues debt instruments to fund loans and other forms of financial assistance to EU member states, which are its stakeholders.

The UBI Banca Group has analysed the impact of the new law and, as a result, has planned and carried out actions to bring its operational procedures and corporate regulations into line, in order to enable suitable and prompt processing of customer requests for certifications and/or other documentation.

INSURANCE SERVICES

On 23rd September 2019, the Italian insurance sector supervisory authority (IVASS) initiated two consultation periods in preparation for implementing the European Insurance Distribution Directive (IDD)[19]:

- in consultation document No. 1/2019 the supervisory authority sets out the draft regulation introducing the product governance provisions required to increase the efficacy of the existing Italian and European legislation and align the regulations with the new regulatory framework. The document focuses on insurance investment products in particular. The text of the regulation placed in consultation: a) governs the approval process for insurance products, identifying precise obligations for the producer, tasked in particular with identifying in sufficient detail the reference market of an insurance product and the categories of parties to which the product may not be distributed, adopting the appropriate measures to ensure that the product is distributed to the reference market identified; b) governs the distribution process for insurance products, graduating the obligations, according to the proportionality principle, borne by intermediaries registered in the various sections of the Single Electronic Register involved in the distribution process; and c) lays down specific provisions on the approval and distribution processes involving insurance investment products;
- in consultation document No. 2/2019, IVASS illustrates amendments to sector regulations 38/2018, 40/2018 and 41/2018 with new rules concerning the distribution of insurance investment products, as well as further amendments that consequently become necessary in order to coordinate and align the regulations between all distribution channels and all types of insurance products.

Consultation for both documents ended on 31st October 2019 and publication of the final documents is forthcoming.

The UBI Banca Group is monitoring the development of the rules through a working group formed in the second quarter of 2017 to manage the impacts of the European IDD Directive. Even if documents revealing the outcome of the public consultations and the final version of the new regulation have not yet been published, the UBI Banca Group began and has completed an analysis of the new aspects brought in by IVASS with the consultation documents. The Group has thus laid the foundation for an action plan that will probably be necessary in order to adapt to the new regulation, involving revisions to multiple phases of the insurance product distribution process (from the conception and approval of a new product to sales and post-sales monitoring activities).

INVESTMENT PRODUCTS AND SERVICES AND THE STABILITY OF FINANCIAL MARKETS

Partly on the basis of requests received from various financial institutions, on 26th February 2019 the EU agreed a postponement to the entry into force of the Benchmark Regulation[20] (BMR), which reforms benchmarks and also involves Euribor benchmarks which affect floating interest rate mortgages.

Banks have been granted an additional two years to adapt their products to the new "hybrid" interest rates, on which work is still in progress by the European Money Markets Institute (EMMI). The EU has formally allowed suppliers of "critical benchmarks" until 31st December 2021 in order to comply with the new requirements of the regulation and it has also introduced two supplementary years for recognition or approval of parameters produced in non-euro currencies.

During the year covered in this report, planning activities on the Eonia and Euribor reform (which had begun in 2018) continued, in order to manage the transition to the new benchmark interest rates. These activities were carried out in keeping with the timetables set by the new regulation.

On 22nd March 2019, the Official Journal of the European Union published two new EU Commission regulations passed on 13th December 2018[21]. These regulations specify the information on securities financing transactions that must be reported to trading repositories, along with the format and frequency of such reports, as per Regulation (EU) 2015/2365 on the transparency of securities financing transactions (the SFTR).

In the same context, the European Securities Market Authority (ESMA) published on 6th January 2020 its "Guidelines on reporting under the securities financing transaction regulation (SFTR)." These guidelines clarify certain aspects of the SFTR and seek to assure consistent implementation of the new rules[22].

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19 Directive (EU) 2016/97 of the European Parliament and of the Council of 20th January 2016.

20 Regulation (EU) 2016/1011 of the European Parliament and Council of 8th June 2016 on indicators used as benchmarks for financial instruments and in financial contracts or to measure the performance of investment funds, which amends Directive 2008/48/EC and Directive 2014/17/EU and Regulation (EU) No. 596/2014 and related regulations.

21 Commission Implementing Regulation (EU) No. 2019/363 and Commission Delegated Regulation (EU) No. 2019/356.

22 Along with the guidelines, ESMA also published: i) a final report containing a detailed assessment of feedback received during the May 2019 consultation period; ii) an update to SFTR validation rules, with the technical details needed for correct reporting of securities financing transactions; iii) a statement clarifying its expectations and supervisory activities to be carried out regarding implementation of the Legal Entity Identifier (LEI), which is a unique, universal identification code for legal persons required to report SFTs. Correct LEI indications are necessary to ensure that the information contained in SFT reports can be used efficiently, thus enabling the SFTR transparency objectives to be achieved and allowing authorities to monitor the SFTs stipulated by entities under their supervision and the consequent risk exposure.

The UBI Banca Group had already begun a project to adapt to the new SFTR regulation in 2018. For information reporting pursuant to Art. 4 of the Regulation 2015/2365 (the first report will take place on 11th April 2020), a working group is currently in progress to identify and plan any actions required, which will essentially be related to information technology.

As already anticipated in January[23], the Italian government issued Decree Law No. 22 of 25th March 2019, converted with amendments by Law No. 41 of 20th May 2019, which amongst other things, finalises urgent measures to ensure the security, financial stability and integrity of markets should the United Kingdom leave the European Union.

The main effects of this law on the UBI Banca Group relate to the risks associated with handling financial instruments (specifically OTC derivatives), but it may also have an impact on risk weighted assets (RWA) and on CET1. In this respect, a specific working group has been established to study the potential impacts under various scenarios that may arise, based on what political agreements are reached between the EU and the United Kingdom.

Regarding the fiscal aspects of this law, see the "Tax Aspects" subsection of this section.

Also, on 28th May 2018, ESMA published the final version of its guidelines on certain aspects of adequacy requirements under MiFID II.

The guidance, which does not constitute compulsory obligations for companies[24], came into force on 8th March 2019 and its purpose is to clarify the application of determined aspects relating to adequacy requirements set by the MiFID II Directive in order to ensure common, uniform and consistent application of the provisions contained in it, greater convergence in supervisory approaches and a corresponding improvement in investor protection. This document, which is particularly important, comprises best practices for investment firms designed to include adequacy in the assessment, in line with the objectives of sustainable finance, and environmental and/or social variables.

All these subjects are being studied by the UBI Banca Group by means of specific projects that address MiFID II. In view of the complexity of these regulations, the Bank participated (Compliance, Commercial and Legal Functions) in a roundtable set up by the Italian Banking Association (ABI) to assess the relative impacts. The UBI Banca Group is therefore finalising actions needed to ensure compliance and is awaiting the final version of ABI's guidelines on this matter.

Similarly to what was done by IVASS[25] and also in endorsement of Directive (EU) No 2016/97 on insurance distribution, on 23rd September 2019 CONSOB placed the modifications to the Intermediaries Regulation regarding disclosure obligations and rules of conduct for the distribution of insurance investment products in consultation. The objective of the modifications is to introduce rules for insurance products with financial content that are as consistent as possible with those that apply to the provision of investment services and activities deriving from MiFID II, so as to ensure that investors enjoy a level of protection on a par with that already granted to them within the framework of the provision of investment services and activities. The consultation period ended on 31st October 2019.

The UBI Banca Group is assessing the Intermediaries Regulation amendments proposed by the supervisory authority and plans to start a working group to identify and then implement all compliance actions needed.

On 1st October 2019, ESMA published the translation into all official EU languages of its "Guidelines on risk factors" under Regulation (EU) 2017/1129[26] on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market – known as the 'Prospectus Regulation'. These guidelines aim to encourage the publication of sufficient, precise, optimal information about risk factors, such that investors will be able to assess the relevant risks associated with their investment and will be able to make informed investment decisions being fully aware of the facts[27]. Although formally addressed to competent market authorities, ESMA recommends compliance by all entities required to submit such prospectuses to their respective authorities[28].

The UBI Banca Group has identified areas for actions in order to comply with the provisions laid out by the supervisory authority. These actions will commence and be completed within the timescales established by the same authority (by June 2020, the next deadline for annual review of prospectuses submitted to the Consob).

Debt instruments subject to bail-in

23 Please see the Ministry of Economics and Finance press release No. 15 of 24th January 2019.

24 Market participants are nevertheless called upon to make every effort to comply with these. See Section II "Definitions", point 8 and Section IV "Compliance and disclosure obligations", point 12.

25 See the "Insurance Services" subsection above for a description.

26 Regulation (EU) 2017/1129 of the Parliament and of the Council, of 14th June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

27 The key guidelines specified for identifying and describing risk factors in prospectuses are as follows: a) *specificity*: the entity responsible for drafting the prospectus must verify specific risk factors, and include only those that have a clear and direct link with the issuer, the underwriter or the related securities themselves; in other words, describing general risk factors that do not provide sufficient useful information to an investor should be avoided; b) *materiality*: risk factors must be classified on a qualitative scale with three degrees of significance (high, medium and low), and in determining how significant each factor is, it is important to provide evidence of the potential negative impact on the issuer/underwriter/securities by including quantitative information; c) *categorisation*: the risk factors should be grouped into a limited number of categories, with the most significant risk factors in each category reported first.

28 In this regard, the Consob Notification on 29th October 2019 notified the European Authority of its compliance with these guidelines, having incorporated them into its own supervisory procedures and practices.

"Full depositor preference", a measure introduced with the implementation of the Bank Recovery and Resolution Directive (BRRD, Directive No. 2014/59/EU), came into force from 1st January 2019. However, its application in Italy had been postponed in order to avoid the risk of bondholders finding themselves with instruments with a greater risk than initially envisaged. Art. 91, paragraph 1-*bis* of the Consolidated Banking Law does in fact state that repayment claims on unsecured bank bonds will be met before claims on deposits of all companies and unsecured interbank deposits and before other unsecured creditors and unsecured deposits of natural persons and SMEs.

ANTI-MONEY LAUNDERING

In the first half of 2019 the Bank of Italy brought its domestic supervisory regulations into line with European regulations on the fight against money-laundering and the finance of terrorism. In this context:

- on 15th January 2019 it amended its "Supervisory regulations on penalties and administrative penalty procedures"[29] while;
- following a consultation procedure which ended in the preceding February, on 26th March it updated its "Regulations on organisation, procedures and internal controls designed to prevent the use of intermediaries for the purposes of money-laundering and the finance of terrorism"[30].

The UBI Banca Group has assessed the impact of the new regulations. A detailed study of the relative context in which the primary and secondary legislation was examined and updated regulatory provisions were considered was submitted to the Board of Directors in April 2019 .

Following the activities mentioned above, on 30th July 2019 the Bank of Italy published "Provisions on customer due diligence to combat money laundering and terrorist financing"[31]. The provisions entered into force on 1st January 2020. The Bank of Italy expects that any missing identifying details and documents for customers acquired prior to that date to be obtained at the earliest contact opportunity, and no later than 30th June 2020.

On 26th October 2019, implementation legislation (Legislative Decree No. 125 of 4th October 2019) was published for Anti-Money Laundering Directive V on the prevention of the use of the financial system for the purpose of money-laundering or terrorist financing. The main items in the new directive that will affect the Group are: a) rules for a new category of customer due diligence obligations on pre-existing customers, related to administrative co-operation on taxation issues covered by EU Directive 2011/16; b) confirmation that the 'residual' criterion for identifying the beneficial owner may be used only in cases where the documented results of verifications undertaken by other routes envisaged under the law are negative; c) confirmation of the obligation to report any anomalies or inconsistencies encountered to the Register of Beneficial Owners; d) confirmation that remote operations, unless accompanied by electronic identification procedures that are secure and regulated and/or authorised by the Agency for Digital Italy, must be examined carefully as high-risk factors; e) confirmation that transactions involving petroleum-based products, arms, precious metals, tobacco products, cultural heritage assets and other movable assets of archaeological, historical, cultural or religious importance, or those of rare scientific value, as well as ivory goods and protected species, are to be treated as high-risk factors; f) the modification of a definition of a category of cases for which fortified measures must be applied by law: from "customers who are residents of third (non-EU) countries listed as high-risk by the European Commission" to "continuing relationships, professional services and transactions involving high-risk third (non-EU) countries"; g) a new set of circumstances in which new exchanges of information may be activated in connection with periodic reporting obligations to the supervisory authorities for transactions involving high-risk non-EU countries.

With reference to both the 30th July Provisions and the 4th October Legislative Decree, the UBI Banca Group, through its Anti-Money Laundering Unit, conducted a functional analysis to identify the effects of these regulations on the organisational structure and on internal procedures. The results of this activity were submitted to the attention of the UBI Banca Board of Directors. Based on the evidence that emerged, a compliance action plan has been drafted.

PERSONAL DATA PROTECTION

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29 The opportunity was taken here to align the provisions on penalties contained in the Consolidated Finance Law in order to implement the UCITS V (Directive UE 91/2014) and MiFID II (Directive UE 65/2014) directives. The new provisions take account of comments received during the public consultation stage; a forum for analysing and assessing these is available on the Bank of Italy's website. The new provisions apply to penalty proceedings commenced after 22nd February 2019.

30 That document performs the following: a) it implements the provisions on organisation, procedures and internal controls contained in Legislative Decree No. 231 of 21st November 2007, as amended by Legislative Decree No. 90 of 25th May 2017, which implements the "Fourth directive on anti-money laundering"; b) it furnishes indications on requirements, procedures, control systems and functions on the central contact point, in compliance with Commission Delegated Regulation of the European Commission No. 1108/2018 of 7th May 2018; c) it implements the joint guidelines of European Supervisory Authorities adopted on 22nd September 2017 which, amongst other things, defines measures that the providers of payment services shall adopt to identify missing or incomplete data on the originator or the beneficiary.

31 In accordance with the European legislation, the regulations implement: the provisions on customer due diligence (see in particular Articles 17-30) of Legislative Decree No. 231 of 21st November 2007, as amended to endorse the 4th Money-laundering Directive; the joint Guidelines of European supervisory authorities issued on 26th June 2017 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions.

On 19th September 2019 the Italian Personal Data Protection Authority published a new "Code of Conduct for information systems managed by private sector entities pertaining to consumer credit, creditworthiness and payment patterns", i.e. for credit information systems used by lenders to assess the creditworthiness of potential new customers. This document introduces, among other things, greater protection for consumers whose information is contained in such credit databases, along with new transparency rules for the use of algorithms that automatically analyse lending risks. The new rules for analysis of credit risk refer to data on loans and mortgages and the various forms of leases, long-term rentals and the innovative forms of lending between individuals managed through fintech platforms. The new rules will take full effect only once the accreditation phase by the Monitoring Organisation has been completed (in March 2020).

The UBI Banca Group has set up a working group, whose work is still in progress, to determine what actions need to be taken in order to implement this new Code of Conduct, within the time frame stipulated in the regulation.

Tax aspects

Various fiscal developments arose in 2019. Those considered important are reported below.

The 2020 Budget Law (No. 160/2019 of 27th December 2019)

This year's Budget Law contains numerous measures intended to stimulate economic growth; the key items include:

- *VAT rates*: planned increases in the ordinary (22%) and reduced (10%) VAT rates were refashioned and placed on hold for the year 2020 only. According to the 2020 Budget Law, ordinary VAT will rise to 25% in 2021 and to 26.5% in 2022. The reduced rate will rise to 12% as from 2021;
- *tax credit for investments in new capital goods /plant and equipment*: the 'super-depreciation' incentive for investments in capital goods was not extended beyond its expiry at the end of 2019. It has been replaced by a tax credit that is not transferable, not even within a tax consolidated group. The rates and limits of this credit vary according to the type of capital goods in question;
- *Allowance for Corporate Equity (ACE) package*: this economic stimulus mechanism has been brought back, after having been cancelled for 2019. It will be applied in keeping with previous years; the notional yield to be applied for calculating the tax break has been set at 1.3%. At the same time, the 'mini-IRES' package, which was never actually applied, has been eliminated;
- *digital services tax*: the existing Italian tax on digital services has been amended. As from 1st January 2020, a 3% tax is applied to gross revenue obtained from digital services provided in Italy under specified conditions. Certain categories of services are explicitly exempt, including payment services and other banking/financial services;
- *deductibility of initial recognition based on IFRS 9*: the allowed deduction of impairment losses on loans to customers recognised on the balance sheet due to First-Time Adoption of the IFRS 9 accounting standard, originally to start in 2019, has now been pushed back to 2028;
- *deductibility of write-downs and losses on loans to customers*: the deduction to be granted on the portion of write-downs and losses on loans to customers recognised prior to 2015, originally foreseen for 2019, must now be spread out in equal portions over the four years from 2022 to 2025;
- *amortisation of goodwill and other intangible assets*: the deductibility of the portions of goodwill and other intangible assets that had not yet been deducted as at 31st December 2017 and that have given rise to the recognition of qualified deferred tax assets has been postponed to the five-year period from 2025 to 2029, to be spread out in equal portions;
- *VAT on recreational boat rentals*: the rules have been changed for determining the place of supply, for VAT purposes, of boat rentals, leases and similar transactions – the new rules, based on the effective location in which the service is used and enjoyed, will be applicable as from 1st April 2020;
- *FATCA reporting for persons without a US tax identification number*: under certain circumstances, Italian administrative fines will not be applied in the event of FATCA reports containing data on US persons who do not possess a US tax identification number;
- *local property tax deductibility*: the deductibility, for the purpose of calculating income tax, of municipal property tax (IMU) due on properties held for operational use only, has been raised to 60% for fiscal years 2020 and 2021, and to 100% from 2022 onwards;
- *reform of local taxation system*: as from 1st January 2021, a restructuring of the local taxation system in Italy will take effect. The most notable changes are: (i) the regulations on municipal property tax (IMU) and the local services tax (TASI) will be merged into a single text, and (ii) a "universal fee" will be introduced to replace several different local taxes and fees.

The 2020 Fiscal Act (Law No. 157/2019 of 24th December 2019, converting into law, with amendments, Decree Law No. 124/2019 of 26th October 2019 providing urgent fiscal measures for non-deferrable requirements)

Law No. 157/2019 contains numerous tax-related measures, primarily with the aim of fighting tax evasion. The following are of particular note:

- *amendments to criminal fiscal offences and to Legislative Decree No. 231/2001:* the new law stipulates tougher sentences for fiscal offences, lowers the thresholds for punishable crimes, and institutes the practice of 'confiscation of disproportionate assets' in connection with serious fiscal crimes. Some criminal fiscal offences have also become more substantial in terms of the administrative liability of legal entities pursuant to Legislative Decree No. 231/2001 of 8th June 2001;
- *undue tax credits*: new limitations and procedures have been introduced regarding the 'horizontal' use of tax credits (i.e. to offset other taxes due for the same period);
- *withholding taxes on public contracts and subcontracts and call to perform extra checks*: a specific verification requirement has been introduced for clients in tender contracts, subcontracts and public works and service projects. Under certain circumstances stipulated by the law, the client has an obligation to verify that its contractor or subcontractor deposits the correct amount of income tax withholdings taken from its workers;
- *extension of the reverse charge mechanism*: the reverse VAT charge mechanism is extended to services provided under tender contracts, subcontracts or public works projects consisting mainly of labour-intensive activities;
- *incentives to pay electronically*: in the context of initiatives to encourage the use of electronic payment methods, a "Receipt Lottery" has been set up for individuals, while a tax credit has been granted for sellers on the fees they incur on electronic payment transactions;
- *amendments to the taxation of income from foreign trusts in Italy*: tax regulations have been revised for income received from foreign trusts by persons residing in Italy for tax purposes. Specifically, where it is impossible to distinguish between income and equity, the entire amount received from the trust is to be considered income from capital and thus taxable;
- *changes to the taxation of profits earned by partnerships*: for the taxation of profits earned by partnerships, they are now to be considered 'transparent' for fiscal purposes.

Law No. 58 of 28th June 2019, "Conversion into law, with amendments, of Decree Law No. 34 of 30th April 2019, containing urgent measures for economic growth and the resolution of specific crisis situations" (the "Growth Decree")

Law No. 58 of 28th June 2019 contains economic growth measures. Some of the measures introduced were subsequently revised under legislation that entered into force at the end of 2019, and are therefore not covered here. Of the measures that were not subsequently amended, the following are worthy of note:

- *meetings with the tax authorities:* with the exception of a few specific cases, it introduces a general obligation for the tax authorities to initiate a joint consultation with the taxpayer before issuing a notice of assessment (relates solely to notices of assessment issued from 1st July 2020);
- *bonus for business combinations:* under determined conditions, the value of goodwill and that attributed to property, plant and equipment and intangible assets resulting from the recognition of a share swap merger deficit - in an amount not greater than €5 million - is recognised for tax purposes in cases of mergers and spin-offs completed by 31st December 2022 by parties not belonging to the same Group of companies or associated by an equity investment of not greater than 20%. The same provisions also apply to capital contributions;
- *incentives for building development:* transfers of buildings to construction or refurbishment firms before and not later than 31st December 2021 are subject to a flat-rate registration, mortgage and cadastral tax if the firms (i) demolish and rebuild the buildings (or refurbish them), rendering them compliant with anti-seismic regulations and the NZEB energy standard, A or B and (ii) dispose of the said assets within ten years of the date of purchase;
- *transferability of quarterly VAT credits:* it regulates the possibility of transferring quarterly VAT credit refunds applied for from 1st January 2020;
- *securitisations:* concessions are introduced for the securitisation of receivables arising from finance lease contracts;
- *long-term European investment funds:* a tax regime exempting profits from long-term European investment funds from taxation is introduced. This regime, subject to the satisfaction of set conditions, will be applied on an experimental basis to investments made in 2020.

Law No. 41 of 20th May 2019, "Conversion into law, with amendments, of Decree Law No. 22 of 25th March 2019, containing urgent measures to ensure the security, financial stability and integrity of markets and the protection of the health and freedom to abide of Italian and United Kingdom citizens should the United Kingdom leave the European Union"

Law No. 41 of 20th May 2019 lays down the legislative framework to be applied if the United Kingdom leaves the European Union in the absence of an agreement (a "no deal" scenario). As far as tax is concerned, the law states that in the 18 months following the leaving date the provisions of all the current direct tax legislation inclusive of that applied under European law will continue to apply. That same provision also applies to value added tax and to excise duties if the regulations are compatible. The procedures to implement the law are delegated to a special decree to be issued by the Ministry of the Economy and Finance.

Ministry of the Economy and Finance Decree of 5th August 2019

The Ministry of the Economy and Finance Decree of 5th August 2019 contains measures to harmonise international accounting standard IFRS 16, adopted in keeping with EU regulations, with the rules for determining taxable income for the purposes of corporate income tax (IRES) and regional production tax (IRAP) pursuant to Article 4 paragraph 7-*quater* of Legislative Decree No. 38/2005.

Ministry of the Economy and Finance Decree of 20th June 2019

This decree permanently changes the deadline for submitting annual declarations concerning CRS and FATCA regulations from 30th April to 30th June of the year subsequent to the year of reference. The Decree also (i) recognised the interpretative value of the CRS Commentary and Implementation Handbook issued by the OECD for the purposes of the CRS and (ii) modified the Ministry of the Economy and Finance Decree of 28th December 2015, providing that foreign jurisdictions to which annual declarations are submitted must be identified on the basis of Annex C to the said Decree, as updated on 15th May of each year.

Ministry of the Economy and Finance Decree of 10th May 2019

Article 2, paragraph 5 of Legislative Decree No. 127 of 5th August 2015 provides for the substitution of the electronic storage and transmission of fees, replacing the procedures for fulfilling the requirement to issue tax certification for fees for transactions pursuant to paragraph 22 of Presidential Decree No. 633 of 26th October 1972. On the basis of the Decree of 10th May 2019, the procedure for the electronic storage and transmission of fees does not apply to transactions carried out by banks and financial intermediaries.

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Mention is made of the following administrative practices documents issued in 2019:

- *Resolution No. 108/2019* and *Resolution No. 109/2019*: the Italian Revenue Agency (*Agenzia delle Entrate*) provided operational indications on the new verification obligation for clients in tender contracts pursuant to Decree Law No. 124 of 26th October 2019;
- *Response No. 222/2019* and *Response No. 487/2019*: the Revenue Agency provided clarifications on the functioning of the Group VAT regime;
- *Resolution No. 72/2019*: the Revenue Agency illustrated what steps to take in the event of incorrect information contained in invoices payable received from entities belonging to a VAT Group;
- *Circular No. 6/E/2019:* the Revenue Agency commented on provisions relating to the settlement of pending tax disputes with concessions introduced by Art. 6 of Decree Law No 119 of the 23rd October 2018;
- *Circular No. 7/E/2019:* the Revenue Agency illustrated the main features of the settlement of tax assessments with concessions introduced by Art. 1 of Decree Law No 119 of 23rd October 2018;
- *Circular No. 8/E/2018:* this document provided the first clarifications on the measures introduced by Law No 145 of 30th December 2018 (the "2019 Budget Law");
- *Circular No. 14/E/2019:* the Revenue Agency commented on measures relating to electronic invoicing in force since 1st January 2019;
- *Ministry of the Economy and Finance Circular No. 1/DF/2019:* summarises regulations and operating procedures for digital tax collection, which became mandatory on 1st July 2019.

The “Italian Responsible Payments Code”

The UBI Banca Group has adhered to the “Italian Responsible Payments Code” organised by Assolombarda (Lombard employers’ association) since 15th October 2014. As a consequence, the Group is committed to rigorously complying with the terms and conditions of payment agreed in each purchase contract.
At present, the UBI Banca Group's suppliers have contracts according to which payment is to be made between immediately upon receipt of invoice and, at most, 90 days after the invoice date (only a marginal 0.07% of all contracts have this maximum 90-day deadline) or 90 days from the end of the month of invoicing (again, only a marginal 0.52% of all contracts have such terms).
The average supplier settlement time in 2019 was approximately 33.7 days.

Social and environmental responsibility.

For information about social and environmental responsibility, please refer to the "Consolidated non-financial statement prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (Sustainability Report)", published at the same time as the present Report.

The principal risks and uncertainties to which the UBI Banca Group is exposed

Risks

The UBI Banca Group attributes primary importance to the measurement, management and monitoring of risk, as activities necessary to ensure the sustainable creation of value over time and to the consolidation of its reputation on its markets. Consequently, it has a system of risk governance and management in place which takes account of organisation, regulations and methods in order to ensure consistency in its operations and its relative risk appetite (RAF - Risk Appetite Framework). More specifically, the Group has adopted a risk management framework consistent with Group regulations and strategies which have been developed over the years, consistent in turn with developments in the regulatory framework. The main parts of the current framework regard the following:

- definition of the risk appetite (Risk Appetite Statement - RAS);
- definition of the framework to verify future risk as an integral part of the strategic planning process;
- definition of the stress test framework;
- definition of risk management policies;
- definition of RAF-related methodologies;
- definition of the non-viability risk management framework associated with the Group Recovery Plan;
- interpretation and governance of RAF in Group companies;
- definition of the framework and criteria for the identification of transactions of greater significance (TGS);
- definition of the risk monitoring and self-assessment framework from an SREP viewpoint.

Articles 97 and following of Section III of Directive 2013/36/EU ("CRD IV") regulate the Supervisory Review and Evaluation Process (SREP), and that is the regulatory control, review and assessment process for which the supervisory authority is responsible by which it formulates an overall opinion on the bank and institutes corrective measures if necessary. To achieve this, in accordance with Art. 107 (3) of CRD IV, the European Banking Authority (EBA) has published "Guidelines"[1] with the objective of generating procedures and methodologies common to the competent authorities in order to support the Supervisory Review and Evaluation Process (SREP).

Internal processes make a considerable contribution to the calculation and assessment of capital adequacy (Internal Capital Adequacy Assessment Process – ICAAP) and liquidity adequacy (Internal Liquidity Adequacy Assessment Process – ILAAP) and on the basis of these the Group carries out a self-assessment each year focused on identifying risks and the conditions of its current and future capital and liquidity adequacy including under stress conditions[2].

In compliance with the regulations in force, by the end of April the UBI Banca Group had submitted its 2018 ICAAP and ILAAP reports to the supervisory authority. The results of the capital and liquidity adequacy assessments contained in those reports confirmed the availability of significant margins sufficient to maintain the capital and liquidity position, both current and future and under stress conditions above the requirements requested.

With regard to these processes, very careful identification of risks to be subjected to measurement is carried out on a continuous basis. Risk identification activity is designed to

1 Cf. "Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)" EBA/GL/2014/13 19 dicembre 2014. These guidelines were finalised on 19th July 2018 and became applicable as from 2019.
2 See Final Report "Guidelines on ICAAP and ILAAP information collected for SREP purposes", EBA/GL/2016/10 of 3rd November 2016.

verify the magnitude of risks already subject to measurement and to detect signals of other types of risk which may manifest. Identification involves precise conceptual definition of the risks to which the Group is exposed, an analysis of the factors which combine to generate them and a description of the relative manner in which they manifest. This activity is achieved by means of a centralised process of analysis supplemented by self-assessment conducted on all the entities of the Group.

Once the activity to identify significant risks is completed, the ICAAP process involves measuring the risks to which internal capital is attributed and calculating the "available financial resources" (AFR)[3] required to meet them (capital adequacy), both at present and in the future. In order to better assess not only its exposure to risks, but also its mechanisms for mitigating and monitoring risks and ensuring capital adequacy, the Group also employs several different stress tests:

- specific stress tests (sensitivity analysis), where the effects of individual risks are assessed;
- global stress tests (scenario analysis), where the effects of all risks are assessed simultaneously, based in part on the instructions and criteria provided by the ECB for the official stress tests conducted by the EBA;
- reverse stress tests, which begin by identifying a predetermined outcome and then ascertaining what scenarios and circumstances could cause that outcome.

In the UBI Banca Group, the phases of pinpointing and mapping risks are closely correlated and interdependent. They enable the Group to determine, in relation to its own operations and reference markets, the significant risks to which it is effectively exposed and the sources of those risks. More specifically, the risk identification phase is composed of First Pillar Risk Analysis (already covered under the requirements of supervisory regulations) and Other Risk Analysis.

First Pillar risks – already managed under the requirements of supervisory regulations – are as follows:

- *credit risk:* the risk of incurring losses resulting from the default by a counterparty with whom a position of credit exposure exists. This also comprises counterparty risk in the definition, which constitutes a particular type of credit risk. It is the risk that a counterparty to a transaction defaults before final settlement of the cash flows on the transaction[4];
- *market risk:* the risk of changes in the market value of positions in the trading portfolio for supervisory purposes due to unexpected changes in market conditions and in the credit rating of the issuer[5];
- *operational risk:* the risk of incurring losses resulting from the inadequacy or malfunction of procedures, human resources and internal events or from exogenous events. This includes losses resulting from fraud, human error, business disruption, system failure, non-performance of contracts and natural disasters. Also measured within this category are *IT risk*[6], *legal risk*, *conduct risk*[7],

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3 Available financial resources (AFR) or alternatively total capital, is defined as the sum of the capital items that the Group considers can be used to meet "internal capital" and "total internal capital" requirements. "Internal capital" is defined as risk capital, the capital requirement for a determined risk that is considered necessary to cover losses above a given expected level. "Total internal capital" is defined as internal capital required for all significant risks assumed by the Group, including possible internal capital requirements due to considerations of a strategic character.

4 In the context of credit risk, other factors in relation to which financial assets are monitored include exposure to *country risk* (risk of losses caused by events relating to a country outside of Italy), *transfer risk* (the risk that a bank, exposed to an entity that is financed in a currency other than the one in which its main sources of income are denominated, incurs losses due to the debtor being unable to convert its own currency into the currency in which the exposure is denominated) and *banking book risk* for financial assets.

5 This category includes *exchange rate risk*, *commodity risk, basis risk* (i.e. the risk of losses caused by changes that are out of line with positions of the opposite sign, that are similar but not identical) and *sovereign risk* (related to the ability, or willingness, of a sovereign debtor to honour its payment commitments).

6 The increasingly more determining role played by Information and Communication Technology (ICT) systems in achieving long-term business and strategic objectives has shown the clear need to have more stringent controls over and more effective management of the risks associated with them. These needs have led the regulator to define specific regulatory updates in order to strengthen oversight and governance tools for the ICT system. As concerns aspects relating to the measurement and management of IT risk, the new regulatory framework has defined specific criteria based on the measurement of potential risk and on the management of residual risk. In compliance with these regulatory requirements the UBI Banca Group has defined its *IT risk framework* as the risk of incurring economic loss and loss of reputation and market share in relation to the use of information and communication technology. IT risk also includes 'cyber risk', defined as the risk of financial, reputational or market share losses due to cybercrime phenomena. Cybercrime, in turn, is defined as any act and/or intentional omission, whether by an employee or third party, that exploits any vulnerability in ICT devices or systems with the aim of stealing, destroying, altering or damaging data, other information or computer programmes, and/or rendering unusable (in full or in part) information technology systems and/or seriously preventing their functioning. Cybercrime thus includes both direct first-hand actions/omissions and those extorted through violence, threats and/or abuse of others. Within an integrated view of corporate risks this type of risk is considered according to specific aspects of operational, reputational and strategic risks.

compliance risk and *money laundering and terrorist financing risk*: for these aspects, potential loss calculations are included as operational risks.

The other risks subject to analysis are as follows[8]:

- *concentration risk:* risk resulting from (i) exposures to counterparties, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, in the same geographical region or who carry on the same activity or deal in the same goods and (ii) the application of credit risk mitigation techniques including, in particular, risks resulting from indirect exposures such as for example with regard to single suppliers of guarantees;
- *interest rate risk arising from activities other than trading*: the current or future risk of a change in net interest income and in the economic value of the Group following unexpected changes in interest rates which have an impact on the banking book;
- *business risk associated with fee and commission margin volatility risk*: the risk of adverse and unexpected changes in net fee and commission income with respect to forecasts, connected with volatility in volumes of business due to competitive pressures and market conditions;
- *equity risk:* the risk of losses incurred in equity investments that are not fully consolidated on a line-by-line basis;
- *real estate risk:* the risk of changes in the value of the real estate assets of the Group;
- *insurance risk:* the risk associated with the uncertainty over the amount and timing of commitments of an insurance nature relating to the activities of the insurance companies;
- *risks resulting from securitisations:* the risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk;
- *liquidity risk:* the risk of the failure to meet payment obligations which can be caused either by an inability to raise funds or by raising them at higher than market costs (funding liquidity risk), or by the presence of restrictions on the ability to sell assets (market liquidity risk) with losses incurred on capital account[9];
- *excessive leverage risk:* the risk that too high a level of debt with respect to its own funds would make a bank vulnerable thereby making the adoption of corrective action to its business plan necessary, inclusive of the sale of assets with the realisation of losses, which could result in the recognition of impairment losses on the remaining assets;
- *asset encumbrance risk:* risk associated with encumbered assets, resulting from potential ownership claims to these assets by a third party non-owner, which could have an impact on the transferability and use of these assets;
- *compliance risk:* the risk of incurring legal or administrative penalties, substantial financial losses or damage to reputation resulting from violations of compulsory provisions (either laws or regulations) or internal regulations (articles of association, codes of conduct and voluntary codes);
- *reputational risk:* the present or future risk of incurring loss of profits or capital resulting from a negative perception of the image of a bank by customers, counterparties, shareholders of the bank, investors or supervisory authorities;
- *residual risk:* the risk that established methods of mitigating credit risk used by a bank are less effective than expected;
- *strategic risk:* the current or future risk of a fall in profits or in capital resulting from changes in the operating context and/or errors in corporate decision-making, inadequate implementation of decisions, failure to react to change in a competitive environment. Strategic risk in the narrow sense of positioning, relates to failures associated with structural changes, characterised that is by discontinuities. Strategic risk includes a more specific component attributable directly to business risk, and that is the risk of a potential fall in profits, resulting from inadequate implementation of business decisions and from changes in the operating environment with reference to the business model and the Group's business mix choices.

All of the risks listed above are then classified into three categories, based on how they are managed as well as on the techniques for measuring and assessing them, as follows:

- measurable risks, for which established quantitative methods have been identified, which lead to the determination of internal capital and which, combined with qualitative measurements, allow allocation and monitoring processes to be defined;
- risks subject to quantitative limits, for which operational limits can be defined consistent with the risk appetite (of a quantitative nature and on which there is a broad consensus including in the

7 *Legal risk* is defined as the risk of losses resulting from violations of laws or regulations, from contractual or non-contractual responsibilities or from other litigation, while conduct risk is defined as the risk of incurring the economic losses resulting from the violation of the laws and from intentional or negligent actions and/or omissions.

8 In addition to the risks described in this sub-section, we report that *covered bond issuance risk* and *connected party risk* are also governed by internal regulations.

9 Liquidity risk, as defined above, also comprises consideration of medium to long-term (structural) risk resulting from a mismatch between the sources of funding and lending.

literature, or subject to regulatory requirements) for their measurement and monitoring and mitigation;
- non-measurable risks (or risks subject to assessment), for which policies and measures for control, reduction or mitigation are considered more appropriate because no established approaches exist for the measurement of internal capital that are useful for allocation purposes.

Details are given below of risks which have potential significant impacts for the UBI Banca Group and the action taken to mitigate them. It is considered that risks other than those reported below, which are of marginal importance within the Group, will not change during the course of the year.

Credit risk

Continual refinements in the approach to credit management, monitoring and recovery have enabled the UBI Group to appropriately handle uncertainties in the economic environment and to promptly implement new regulations and guidelines issued by the supervisory authorities over the past several years.

The Group's main strengths in this matter include:
- adoption as early asof 1st July 2019 of the new Definition di Default (DoD) framework, applying European Banking Authority (EBA) guidelines for classifying borrowers as in default (EBA/GL/2016/7), with particular reference to the adoption and application of the new definition of *past-due* exposures. Despite the complexity and importance of information technology interventions and regulatory actions requested, the UBI Group completed them in a very limited amount of time, well ahead of schedule. Specifically, the most significant changes concern: more stringent criteria for classification in the administrative status of past-due; the alignment of administrative status at the banking-group level; the propagation of default status to connected customers; the introduction of a monitoring period prior to returning to default customers who have regularised their positions; the introduction of a "reduced financial obligation" (RFO) parameter calculation in the event of forbearance measures granted to performing customers and a mandatory trigger for classification as unlikely-to-pay if the RFO rises above 1%;
- lending strategies that are customised for each type of customer based on the level of risk and sector outlook and carried out by the implementation of special purpose tools used to monitor the correct assignment of appropriate credit policies;
- fostering lending growth by applying automated statistical models and processes to pre-assess customer creditworthiness and debt sustainability, bringing about high quality standards in digital loan disbursement processes for individual customers, whether in the form of personal loans or the "RicariConto" facility;
- continued refinement of the new organisational model for loan settlement, pursuing the goal of collecting arrears payments within a few days of the due date, so as to preserve relations with the customer and prevent the position from becoming non-performing. More generally, the management and settlement of irregular positions is made more effective by strengthening the operational and organisational model, thus providing useful assistance to the distribution network in loan settlement;
- effective local management of credit exposures by means of qualified/experienced specialised staff who work on positions that present irregularities, supporting distribution network units in the relative settlement;
- continued enhancement of the centralised unit for managing non-performing counterparties, which involves specialised treatment of these positions based on 'clusters', by dedicated specialist NPL account managers, with a view to 'regularising' positions and monitoring credit quality;
- enrichment of default detection triggers – in keeping with ECB guidance on non-performing loans, the new DoD and IFRS 9 international reporting standard rules – which constitute specific indicators of the deterioration of positions, which when triggered require the Bank to assess the classification of the counterparty as either *unlikely-to-pay* or *bad*, or alternatively to intervene directly in the presence of high degrees of risk;
- the finalisation, as a supporting tool for the new credit governance model (which is divided into "Performing Processes" and "Non-Performing Processes"), of new and unequivocal reporting (a "Credit Control Framework") that is highly automated and allows data to be presented in a standardised manner with an adequate level of detail and showing divergences from budget figures, Strategic NPL Plan figures and Business Plan figures;
- optimisation of the credit recovery model by refining the rules for classifying customers under *bad loan* status, in order to enable faster, more effective management of these positions by Credit Recovery units;
- the finalisation of transactions for the sale of non-performing exposures with a view to maximising the final net benefit for the Group in terms of de-risking and overall post-sale capital position;

- the commencement of planning activities to adopt the guidelines issued by the EBA on loan origination and loan monitoring: these directives were published in July 2019 in the form of a consultation paper prior to the subsequent drafting of a final version. The objective of these guidelines is to reinforce the financial stability and resilience of the European banking system, while also aiming to complete the project of harmonising national banking systems under rigorous and prudent common standards. The latter must be implemented by banks in 2020, according to the consultation paper, and will be related to the practices, governance, processes and mechanisms involved in originating, managing and monitoring loans. In particular, these standards will pertain to the management of various credit risk profiles, pricing policies, and collateral pledged to cover loans that have been disbursed.

Further substantial investments will be made with the aim of:
- finalising the implementation of residual operational IT tools to support the regulatory framework for classifying borrowers as in default, as described earlier in this section;
- optimising the process of collecting arrears payments to bring positions up to date, along with the process of managing and monitoring performing loans of borrowers with a high default risk;
- further enhancing the efficiency of the "credit machine", particularly for unlikely-to-pay and bad loans, by fine-tuning credit recovery activities by means of computerised actions to speed up and automate administrative components of the various phases of credit management processes;
- further increasing growth in loans with high credit quality standards, thanks to advanced clustering methods for the loan portfolio based on risk/reward profiles. Particular attention will also be dedicated to financing initiatives that are of clear social and environmental value;
- supporting lending growth by extending the use of statistical models and other digital methods of assessing creditworthiness and debt capacity to the small business customer segment, an approach that has already yielded positive results in the individual customer segment.

Business risk

Competition on prices with regard to the loans granted by banks following access to forms of funding regulated by the European Central Bank (i.e. Targeted Longer-Term Refinancing Operations, or TLTROs) remains high.
The macroeconomic environment, the extreme volatility on markets and the pressure of competition resulting from the substantial liquidity flooding credit markets has compressed margins and the profitability of operators. The UBI Banca Group is therefore continuing to take appropriate action on its distribution network designed to achieve goals identified in terms of volumes and pricing of loans consistent with targets for the quality of credit.

Sovereign risk

The proportion of Italian government bonds in the securities portfolio was further reduced over the course of 2019 to just over 50% (from around 62% at the end of 2018). Also, execution of plans to diversify and progressively reduce concentration in the banking book portfolio continued, in step with strategic guidelines set in the 2020 Business Plan.

Insurance risk

The Group's consolidation scope includes the insurance company BancAssurance Popolari Spa. Limited to the insurance perimeter only, we report that management accounting measurements of the solvency ratio comply with Solvency II regulations.

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Detailed information on financial risk management objectives and policies and also on the exposure of the Group to price risk, credit risk, liquidity risk and the risk of changes in cash flows – pursuant to Art. 2428 of the Italian Civil Code – is given in Part E of the notes to the Consolidated Financial Statements, which may be consulted.

Uncertainties

An uncertainty is defined as a possible event for which the potential impact, attributable to one of the risk categories just mentioned, cannot be determined and therefore quantified at present.

The Group is operating in a scenario of moderate economic growth, encumbered by certain specific risk factors that could negatively affect growth. These factors of uncertainty could manifest with impacts attributable primarily to credit, but without affecting the capital strength of the UBI Banca Group. Furthermore, if financial market tensions were to intensify, with the prospect of institutional markets shutting down, this could cause slowdowns in procurement of the liquidity needed to fund the Bank's core mid to long-term lending business as well as an increase in the cost of funding.

The main uncertainties identified for 2020 pertain to the following areas:

- developments in the macroeconomic situation:
  - on a global level, although with highs and lows stemming from conflicting news items in succession from Washington and Beijing, there are persistent fears over the outcome of ongoing international trade negotiations. In addition to the China-US dispute, the White House is also placing a series of import duties on countries such as Brazil and Argentina (most notably on steel and aluminium), which up until now had been exempt. The reason for this offensive appears to be in the local currency depreciation policies adopted by certain countries relative to the US dollar. The baseline scenario in which the United States is seeking to reach unilateral deals is becoming clearer;
  - another factor of major importance is the spread of the coronavirus and its economic repercussions. Initial estimates indicate a 1-2% potential reduction in Chinese GDP growth in the first quarter of the year. In Europe, economic repercussions stemming from the virus are expected to be felt first and foremost in Germany, due to its dependence on the Chinese automotive sector. Regarding Italy, the recent rapid spread of the coronavirus raises a major factor of uncertainty that could have a significant negative impact on the economy. In this respect, it is useful to distinguish between the direct and indirect effects that the health crisis in China will have on the Italian economy: direct in the form of lower tourism numbers and lower exports (e.g. of luxury goods); indirect in the form of supply chain disruptions as reliance on Chinese suppliers could slow down production of some manufactured goods in Italy. Indirect effects from slowdowns in other countries to which Italian businesses are exposed through exports, such as Germany, should also be taken into consideration.

    To exacerbate the situation, the virus spread rapidly across several regions of Italy in the second half of February. At present it is difficult to predict to what extent quarantines will be imposed, how many people will be affected and how long the emergency situation will last (the spread of the disease could peak in March or April). It is nevertheless reasonable to expect a slowdown in domestic consumer spending, and additional negative effects could arise from the limited circulation of people and goods, as well as from the tangible difficulties encountered by both the manufacturing and service sectors in some parts of the country.

    Furthermore, the coronavirus could also similarly hit other European trade partners that up until now have recorded only limited numbers of cases.

    In conclusion, the first half of 2020 is likely to suffer from this rapidly evolving pandemic scenario; however, a rebound and partial recovery in subsequent quarters cannot be ruled out, once a safer health situation returns;
  - on a European level, this epidemic has broken out at a time when risks to the global economy due to trade conflicts, geopolitical tensions and the United Kingdom's exit from the EU had not yet calmed down. With regard to Brexit, there is still worrying uncertainty over the methods and outcomes of negotiations to take place between Brussels and London over the course of 2020;

- the Italian economy continues to feel the effects of prolonged uncertainty in the global economy, with scant growth in macroeconomic indicators signalling stagnation. The idiosyncrasies of the Italian context are further exacerbating the domestic economy, which is heavily burdened by high public debt.

- political developments:

  conservatively, assuming that achieving an advanced phase of economic expansion necessitates constant analysis in order to identify signals of an inversion in the cycle before it occurs, there are specific risk factors that could dampen what remains a favourable baseline scenario: *(i)* unresolved geopolitical issues in South America, plus tensions in the Middle East that have swelled in early 2020, putting an already precarious stability in the region at greater risk, *(ii)* changes in the trade balance between major international partners, and *(iii)* high global debt;

- developments in the regulatory context:

  the regulatory context is subject to various processes of change following both (i) the issue of a number of regulatory provisions at European and national level, with the introduction of the relative regulations to implement them, relating to the provision of banking services and (ii) the related legal recommendations. This scenario requires particular effort both in terms of interpretation and implementation and has at times directly affected the profits of banks, and/or costs for customers.

  The most notable regulatory changes introduced by supervisory authorities include revisions to the calculation of regulatory capital requirements, which are designed to align the European system in certain areas by reducing national authorities' discretion and by rules on internal credit risk calculation models. These changes entail adjustments to internal rating and loss given default models as from 2020.

  Concerning *NPL management*, the regulatory[10] keyword remains 'derisking'. In fact, the guidelines advise banks to establish a clear strategy to reduce their NPLs, through alignment with risk management systems and with their business plans, so as to reduce the risk of accumulating NPLs in the future. In addition, for exposures arising after 26th April 2019, banks have been called upon to carry out further assessments to determine expected provisioning on their respective NPL portfolios for the purpose of capital adequacy calculations. In this context, in 2019 the Group continued to develop and improve its own framework of processes, tools and methodologies employed to handle these regulatory developments.

  On the topic of *loan management* the EBA's recently published "Draft Guidelines on loan origination and monitoring" introduce several different requirements that have a significant impact on the origination and monitoring phases of the lending process. This document also provides initial guidance on the environmental, social and governance (ESG) factors to take into consideration within the process of assessing whether to grant loans, which could have an impact on lending operations. On the same theme, the European Parliament has also proposed a regulation to "establish a framework to facilitate sustainable investments". As and when these guidelines and regulations are effectively finalised and applied, they could influence banking operations, particularly with potential organisational and process-related effects as well as significant changes to the methodologies and information systems employed in the course of progressively adopting the guidelines. Given ever-increasing awareness of public opinion, as well as from the legislature, to ESG factors, the UBI Group has already begun activities to account for the value of such ESG factors in a well-organised manner within its risk appetite framework.

  The introduction of the new "Company failure and insolvency code" (Legislative Decree No. 14 of 12th January 2019) requires banks to report any cancellations of credit to the supervision bodies of companies. This has potential consequences for banks' own liability in such cases. On this topic as well, the UBI Group has already begun activities to put the necessary oversight measures in place.

  Legislative Decree No 14 of 12th January 2019 entitled "Company failure and insolvency code" was published in the Italian Official Journal on 12th February 2019. This introduced a general reform of regulations for creditor actions designed to allow the early detection of companies encountering difficulties and to safeguard the ongoing concern capacity of those who are running into difficulties or liquidation Lastly a revision of the *Basel 3 regulatory framework* involves modifications to methods for calculating risk weighted assets, credit risk, operational risk and market risk. Definition of these rules, which fall within the Basel IV framework, is aimed at better aligning certain areas of application of the regulation itself at the European level by issuing specific implementing standards that could require the Bank to make adjustments relating to management of the models and of the processes relating to credit risk and capital adequacy. These regulatory changes are subject to constant monitoring and are factored into company projections and business planning.

10 The ECB's "Guidelines for banks on non-performing loans (NPLs)", published in March 2017 and the "Addendum to the guidelines for banks on non-performing loans (NPLs): minimum prudential provisioning levels for non-performing exposures", published in October 2017; also, Regulation (EU) 2019/630 regarding "minimum loss coverage for non-performing exposures", issued in April 2019; finally the ECB's "Communication on supervisory coverage expectations for NPEs" published in August 2019.

* * *

The risks and uncertainties described above were subject to a process of assessment designed, amongst other things, to examine the impacts of changes in market parameters and conditions on corporate performance. The Group does in fact possess instruments to measure the possible impacts of risks and uncertainties on its operations (sensitivity analysis and stress tests in particular), which allow it to rapidly and continuously adapt its strategies – in terms of its distribution, organisation and cost management systems – to changes in the operating context. Risks and uncertainties are also under constant observation through the implementation of the policies and regulations to manage risk adopted by the Group: policies are updated in relation to changes in strategy, context and market expectations. Periodic monitoring of policies is designed to verify their state of implementation and their adequacy. The findings of the analyses performed show that the Group is able to meet the risks and uncertainties to which it is exposed, which therefore confirms the assumption that it is a going concern.

Risks relating to health and safety at the workplace (Legislative Decree No. 81 of 9th April 2008)

Information on the above is reported in the "Consolidated declaration of a non-financial nature prepared in accordance with Legislative Decree No. 254 of 30th December 2016 ("Sustainability Report)", published at the same time as this report.

Climate change

Within the context of assessing non-financial risks, the top managements of UBI Banca and its main subsidiaries have taken risks related to climate change into account.
The analysis conducted shows that 'physical' risks[11] linked to climate change should not be considered significant for the Group and do not have significant financial implications in the short to medium-term, thus at least not within the timeframe of the 2020-2022 Business Plan. On the other hand, climate-related 'transition risks'[12], that is, risks connected with regulatory, market and political changes in the transition to a low-carbon economy, emerged as more relevant to the Group, although even in this case the financial implications are not significant within the timeframe analysed.
For more details, please refer to the section on climate change in the "Consolidated non-financial statement prepared in accordance with Legislative Decree No. 254 of 30th December 2016 (Sustainability Report)", published at the same time as this report.

It should also be noted that certain opportunities arising from climate change have also been identified, in the form of more efficient use of resources (especially energy) as well as new products and services that can be offered, and these have been factored into the sustainability targets in the 2020-2022 Business Plans.

Considering the importance of this issue, the Group has made plans to analyse in further depth the financial implications of climate change-related risks and opportunities over the course of 2020, especially in light of the constantly evolving regulatory environment.

11 The Task Force on Climate Related Disclosure (TCFD) of the Financial Stability Board (FSB) has defined 'physical' risks as risks resulting from the potential effects on economic actors of either extreme natural events (acute risks) or longer-term shifts in climate patterns (chronic risks) which would cause direct damage to assets and have indirect impacts from supply chain disruptions as well as from shifts in the availability and costs of production resources (e.g. energy and transport).

12 The Task Force on Climate Related Disclosure (TCFD) of the Financial Stability Board (FSB) has defined 'transition' risks as risks of a political, legal, technological, market and/or reputational nature linked to the transition to a low-carbon intensity economy and to other adaptations to changes in climate.

Outlook for consolidated operations

Reference is made to Part A-1, Section 4 of the Notes to the Consolidated Financial Statements for details of significant events occurring after the end of the year.

With regard to the outlook for consolidated operations, we report the forecasts given below on the basis of information currently available.

The change in the mix of core revenues will continue in 2020 in favour of growth in net fee and commission income compared with net interest income for which the strategy to safeguard commercial spreads will continue, consistent with the dynamics of market competition. Attentive control over operating expenses will be maintained.

Gross non-performing exposures are expected to decrease, driven from 2020 onwards by internal work-out action. An analysis also began at the end of 2019 of an operation to dispose of non-performing SME positions amounting to approximately €800 million gross, to be implemented by the end of the current year. As a result of the strong reduction in non-performing exposures achieved mainly in 2019, and of the limited inflows from performing to non-performing status, loan losses are expected to reduce significantly compared with 2019.

Net profit for 2020 is estimated higher than in 2019, with consequent growth in the dividend.

Bergamo, 28th February 2020

THE BOARD OF DIRECTORS

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND OF THE SENIOR OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS

Certification of the consolidated financial statements pursuant to Art. 81-ter of the Consob Regulation 14th May 1999, No. 11971 and subsequent modifications and integrations

1. The undersigned Victor Massiah, Chief Executive Officer, and Elisabetta Stegher, Senior Officer Responsible for preparing the company accounting documents of UBI Banca Spa, having taken account of the provisions of paragraphs 3 and 4 of article 154 *bis* of Legislative Decree No. 58 of 24th February 1998, hereby certify:

    - the adequacy in relation to the characteristics of the company and
    - the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2019.

2. The model employed

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as at and for the year ended 31st December 2019 was based on an internal model defined by UBI Banca Spa and developed in accordance with the framework drawn up by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and with the framework Control Objectives for IT and related technology (COBIT) which represent the generally accepted international standards for internal control systems.

3. Furthermore, it is certified that:

3.1 the consolidated financial statements:

- were prepared in compliance with the applicable international financial reporting standards recognised by the European Community in accordance with the Regulation No. 1606/2002 (EC) issued by the European Parliament and Council on 19th July 2002;
- correspond to the records contained in the accounting books;
- give a true and fair view of the capital, operating and financial position of the issuer and of the group of companies included in the consolidation.

3.2 the management report comprises a reliable analysis of the performance, operating results and position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bergamo, 28th February 2020

Victor Massiah
Chief Executive Officer

(signed on the original)

Elisabetta Stegher
Senior Officer Responsible for preparing the company accounting documents

(signed on the original)

INDEPENDENT AUDITORS' REPORT

Gruppo UBI Banca

Deloitte.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Unione di Banche Italiane S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Unione di Banche Italiane Group (the Group), which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Unione di Banche Italiane S.p.A. (the Bank) in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sede Legale: Via Tortona, 25 – 20144 Milano | Capitale Sociale Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – REA Milano n. 1720239 | Partita IVA IT 03049560166

Classification of "high-risk" performing loans and advances to customers for financing measured at amortized cost

Description of the key audit matter	The financial statements as at 31st December 2019 show net loans and advances to customers for financing measured at amortized cost, for Euro 84.6 billion (Euro 89.0 billion as at 31st December 2018), including Euro 80.4 billion of performing loans (Euro 83.0 billion as at 31st December 2018). In particular, as indicated in the Consolidated Management Report, as at 31st December 2019, 2.9% of performing loans and advances to customers for financing measured at amortized cost is represented by loans classified as "high-risk" (management data on the scope of internal ratings). As part of its policies for managing loans to customers, the Bank has adopted processes and methods to monitor the trend in relationships which, among others, include a complex classification in homogeneous risk categories. The Consolidated Management Report - in the paragraph entitled "Risk" - and the Notes to the consolidated financial statements – Part A – Accounting Policies; Part B – Notes to the consolidated balance sheet, Section 4 of Assets; Part E - Information on risks and the relative hedging policies - provide the information on the above-mentioned aspects. Given the complexity of the monitoring and classification process adopted by the Group, as well as the relevance of the discretionary component inherent in this process and the materiality of the amount of these loans, we considered that the classification of "high-risk" performing loans and advances to customers for financing measured at amortized cost was a key audit matter of the Group's consolidated financial statements.
Audit procedures performed	The main procedures carried out as part of our audit work have included the following: • analysis of the lending process with particular reference to the recognition and understanding of the organisational and procedural controls set up by the Group to ensure the monitoring of credit quality and the correct classification in accordance with the applicable accounting standards and banking regulations; • verification of correct data feed and management of the archives, also with the support of IT experts of the Deloitte network, and checks on the operational effectiveness of the controls implemented by the Group in this area; • sample tests to ensure that "high-risk" performing loans and advances to customers for financing measured at amortized cost were correctly classified in the financial statements according with the financial and regulatory policy framework; • comparative analytical procedures with focus on changes in performing loans and advances to customers for financing measured at amortized cost exposures and the related impairment losses; • analysis of subsequent events, i.e. events occured after the date of the financial statements;

- verification of the completeness and compliance of the disclosures provided by the Bank in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standards and legislation.

Classification and measurement of non-performing loans and advances to customers for financing measured at amortized cost classified as unlikely to pay and bad loans

Description of the key audit matter

The financial statements as at 31st December 2019 show net non-performing exposures for Euro 4.2 billion, versus gross non-performing exposures for Euro 6.8 billion, with a coverage ratio of 39.0%. In addition, the above-mentioned non-performing exposures, classified in accordance with the International Financial Reporting Standard IFRS 9 "Financial instruments" in the so-called "Stage 3", include net bad loans for Euro 1.7 billion and gross bad loans for Euro 3.6 billion, with a coverage ratio of 52.0%; net unlikely to pay loans for Euro 2.4 billion and gross unlikely to pay loans for Euro 3.2 billion, with a coverage ratio of 25.5%.

For the classification of credit exposures in homogeneous risk classes, the Group refers to banking regulations and internal rules on the classification and changes between the different credit quality categories.

In determining the recoverable amount of non-performing loans and advances to customers for financing measured at amortized cost, within the context of its classification and measurement policies, the Group has used valuation processes and methods that involve a degree of subjectivity and estimation of a number of variables, mainly referring to expected cash flows, expected recovery times and the estimated realisable value of any collateral, which, if modified, could change the final recoverable amount; this calculation was based on the information available at the valuation date.

Furthermore, the expectation of the recoverable amount reflects, the recovery throughout the ordinary management of loans, as well as, the properly weighted valuation of the possible presence of disposal scenarios, consistently with the Group's goals and strategies, and therefore with the deriving expected cash flows.

The Consolidated Management Report - in the paragraph entitled "Risk" - and the Notes to the consolidated financial statements – Part A – Accounting Polices; Part B – Notes to the consolidated balance sheet, Section 4 of Assets; Part C - Notes to the consolidated income statement, Section 8; Part E - Information on risks and the relative hedging policies - provide the information on the above-mentioned aspects.

Given the materiality of non-performing loans and advances to customers for financing measured at amortized cost recorded in the consolidated financial statements, composed by unlikely to pay and bad loans, the complexity of the monitoring and estimation process adopted by the Group, which provides a detailed classification of such loans in homogeneous credit quality categories, as well as the relevance of the discretionary component inherent in the estimated nature of recoverable amount, we considered that the classification and measurement of these non-performing loans and the related process of calculating adjustments to them were a key audit matter of the Group's consolidated financial statements.

Audit procedures performed	The main procedures carried out as part of our audit work have included the following: • analysis of the lending process with particular reference to the recognition and understanding of the organisational and procedural controls set up by the Group to ensure the monitoring of credit quality and the correct classification and measurement in accordance with the applicable accounting standards and banking regulations; • verification of correct data feed and management of the archives, also with the support of IT experts of the Deloitte network, and checks on the operational effectiveness of the controls implemented by the Group in this area; • obtaining an understanding of the methods and carrying out sample checks on the reasonableness of the valuation methods and assumptions adopted by the Group to determine the recoverable amount of non-performing loans, taking into consideration potential collaterals as well; • verification on a sample basis - also by obtaining and examining written confirmations by the lawyers appointed by the Group to support the recovery of credit exposures - of the classification and measurement of loans in the financial statements based on the categories of non-performing loans according with the financial and regulatory policy framework; • comparative analytical procedures with focus on changes in non performing exposures and the related impairment losses; • analysis of subsequent events, i.e. events occured after the date of the financial statements; • verification of the completeness and compliance of the disclosures provided by the Bank in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standard and legislation.

Impairment test on goodwill

Description of the key audit matter	The Group has recorded Euro 1,465.3 million of goodwill under intangible assets in the consolidated financial statements at December 31st, 2019, which has been allocated to the cash generating units (CGUs) identified with the banking sector, UBI Factor S.p.A., IW Bank S.p.A. and Pramerica SGR S.p.A.. According with IAS 36 *"Impairment of assets"*, goodwill is not amortised but subjected to an impairment test at least once a year, by comparing the carrying amounts with the recoverable amounts of the CGUs to ensure that the book values are justifiable. For impairment testing purposes, the Board of Directors of Unione di Banche Italiane S.p.A. has adopted the value in use as the recoverable amount of the CGUs to which goodwill has been allocated. As mentioned in the Notes to the consolidated financial statements, the valuation process adopted by the Bank is complex and is based on assumptions regarding, among others:

- the forecast of expected cash flows of the CGUs based on the 2020-2022 Business Plan and on projections for the the following two-year period 2023-2024, approved by the Board of Directors, which include the macroeconomic and regulatory dynamics and make use of the most accurate forecasts available to Directors;

- the determination of an opportunity cost of equity, to be applied for the purpose of discounting expected future cash flows, as well as a long-term growth rate.

The impairment test carried out by the Bank, supported by an external advisor, confirmed the recoverability of the goodwill shown in the consolidated financial statements.

The Notes to the consolidated financial statements - Part A – Accounting Policies - Part B – Notes to the consolidated balance sheet, Section 10 of the Assets - provide the disclosures on the above-mentioned aspects.

Considering the relevant amount of the goodwill recorded in the financial statements, the subjectivity of the estimates related to the determination of the cash flows of the CGU and the key variables of the impairment model, we considered that the impairment test of goodwill, with particular reference to the banking sector CGU, was a key audit matter of the Group's consolidated financial statements.

Audit procedures performed

The main procedures carried out as part of our audit work, also with the support of experts of the Deloitte network, have included the following:

- obtaining an understanding of the methods and assumptions adopted by the Bank to carry out the impairment test;

- identification and understanding of key controls over the impairment testing process;

- analysis of the reasonableness of the principal assumptions adopted to estimate cash flows, also by obtaining information from the Bank and in-depth analysis with the external advisor of the Bank, and the key variables used in the valuation model;

- comparative analysis of actual and budget figures to assess the nature of variances and the reliability of the process of preparing budgets and projections;

- verification of the mathematical accuracy of the model used to determine the value in use of the CGU;

- review of the sensitivity analysis prepared by the Bank;

- analysis of subsequent events, i.e. events occured after the date of the financial statements;

- verification of the completeness and compliance of the disclosures provided by the Bank in the consolidated financial statements with respect to the requirements of the IAS 36 "Impairment of assets".

Deloitte.

Accounting derecognition of the portfolios of bad loans and loans in litigation following disposal operations	
Description of the key audit matter	During the 2019 fiscal year, disposals of bad loans and loans in litigation were settled, with the aim of further accelerating the reduction of non-performing loans, as stated in the 2020 Business Plan approved in May 2017. The disposal carried out by the Group regarded mainly: • factoring receivables subject to litigation; • bad loans lease portfolio related to real estate; • bad loans portfolio, consisting mainly of residential mortgages and loans without collateral, which was disposed to an independent securitisation vehicle through a "GACS"-backed securitisation, i.e. guaranteed by the Italian Minister of Economy and Finance. With the completion of the aforementioned transactions, the conditions required by IFRS9 for the application of the accounting derecognition from the balance sheet of the Group were met. The Consolidated Management Report – in the paragraph entitled "Significant events in 2019" and the Notes - Part C - Notes to the income statement, Section 6; Part E - Information on risks and the relative hedging policies - provide the information on the aspects above-mentioned and the economic effects recorded in the financial year 2019 with reference to the above-mentioned operation. Considering the feature of the transactions and the significance level of the related accounting effects, we have identified the accounting treatment ("derecognition") of the aforementioned portfolios of loans disposal as a key audit matter of the Group's consolidated financial statements.
Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of experts of the Deloitte network, have included the following: • analysis of the approval of the credit transfer operation by the competent administrative bodies of the Group; • obtaining an understanding of the structure and the production methods of the disposal operations by obtaining and analysing the underwritten contracts and also through interviews with the management of the Bank and the Group; • obtaining and analysing the documentation prepared by the Group for the application for granting the GACS with reference to non-performing loans portfolio consisting mainly of residential mortgages and loans without collateral; • testing of the design and implementation of the relevant controls performed by the Bank and the Group with reference to the accounting derecognition of the disposal of bad loans portfolios and loans in litigation;

- verification that the conditions required by the IFRS 9 for the application of the accounting derecognition from the balance sheet of the Group, with reference to the significant transfer of the risk and benefits realted to the bad loans portfolios and loans in litigation disposal were met;

- analysis of subsequent events, i.e. events occured after the date of the financial statements;

- verification of the completeness and compliance of the disclosures provided by the Bank in the consolidated financial statements with respect to the requirements of the applicable International Financial Reporting Standards and legislation.

Responsibilities of the Directors and the Management Control Committee for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/2015, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or the termination of the business or have no realistic alternatives to such choices.

The Management Control Commitee is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Unione di Banche Italiane S.p.A. has appointed us on April 30, 2011 as auditors of the Bank for the years from December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Unione di Banche Italiane S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Unione di Banche Italiane Group as at December 31, 2019, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Unione di Banche Italiane Group as at December 31, 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Unione di Banche Italiane Group as at December 31, 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Unione di Banche Italiane S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Enrico Gazzaniga
Partner

Milan, Italy
March 6, 2020

This report has been translated into the English language solely for the convenience of international readers.

Consolidated Financial Statements

Consolidated Balance Sheet

ASSETS *(figures in thousands of euro)*	**31.12.2019**	**31.12.2018**
10. Cash and cash equivalents	694,750	735,249
20. Financial assets measured at fair value through profit or loss	1,758,730	1,463,529
a) financial assets held for trading	427,980	405,716
b) financial assets designated at fair value	10,278	11,028
c) other financial assets mandatorily measured at fair value	1,320,472	1,046,785
30. Financial assets measured at fair value through other comprehensive income	12,221,616	10,726,179
40. Financial assets measured at amortised cost	101,736,289	102,798,587
a) loans and advances to banks	11,921,289	10,065,881
b) loans and advances to customers	89,815,000	92,732,706
50. Hedging derivatives	35,117	44,084
60. Fair value change in hedged financial assets (+/-)	547,019	97,429
70. Equity investments	287,353	254,128
90. Property, plant and equipment	2,298,145	1,965,234
100. Intangible assets	1,739,903	1,729,727
of which:		
- goodwill	*1,465,260*	*1,465,260*
110. Tax assets:	3,740,039	4,210,362
a) current	1,084,413	1,376,567
b) deferred	2,655,626	2,833,795
- of which pursuant to Law No. 214/2011	1,794,331	1,804,988
120. Non-current assets and disposal groups held for sale	265,370	2,972
130. Other assets	1,200,966	1,278,717
Total assets	**126,525,297**	**125,306,197**

LIABILITIES AND EQUITY *(figures in thousands of euro)*	**31.12.2019**	**31.12.2018**
10. Financial liabilities measured at amortised cost	109,795,016	109,445,664
a) due to banks	14,367,985	17,234,579
b) due to customers	72,577,255	68,421,387
c) debt securities issued	22,849,776	23,789,698
20. Financial liabilities held for trading	555,296	410,977
30. Financial liabilities designated at fair value	197,610	105,836
40. Hedging derivatives	386,778	110,801
50. Fair value change in hedged financial liabilities (+/-)	145,191	74,297
60. Tax liabilities:	170,937	162,272
a) current	64,547	30,287
b) deferred	106,390	131,985
70. Liabilities associated with assets held for sale	2,331	-
80. Other liabilities	2,735,807	3,092,941
90. Provision for post-employment benefits	289,641	306,697
100. Provisions for risks and charges:	489,485	505,191
a) commitments and guarantees granted	54,005	64,410
b) pension and similar obligations	86,756	91,932
c) other provisions for risks and charges	348,724	348,849
110. Technical reserves	2,210,294	1,877,449
120. Valuation reserves	(79,938)	(298,616)
150. Reserves	3,207,751	2,923,589
160. Share premiums	3,294,604	3,294,604
170. Share capital	2,843,177	2,843,177
180. Treasury shares (-)	(28,111)	(25,074)
190. Minority interests (+/-)	58,230	50,784
200. Profit (loss) for the year (+/-)	251,198	425,608
Total liabilities and equity	**126,525,297**	**125,306,197**

Consolidated Income Statement

ITEMS *(figures in thousand euro)*	**2019**	**2018**
10. Interest and similar income	2,180,444	2,220,104
- of which interest income calculated with the effective interest method	1,971,018	2,028,730
20. Interest expense and similar	(377,933)	(346,819)
30. Net interest income	**1,802,511**	**1,873,285**
40. Fee and commission income	1,894,864	1,779,150
50. Fee and commission expense	(229,295)	(198,233)
60. Net fee and commission income	**1,665,569**	**1,580,917**
70. Dividends and similar income	8,514	24,779
80. Net trading income (loss)	28,692	54,866
90. Net hedging income (loss)	(15,429)	(10,325)
100. Income (loss) from disposal or repurchase of:	(21,171)	(12,752)
a) financial assets measured at amortised cost	(50,827)	(76,657)
b) financial assets measured at fair value through other comprehensive income	33,580	69,477
c) financial liabilities	(3,924)	(5,572)
110. Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss	114,812	(27,974)
a) financial assets and liabilities designated at fair value	569	893
b) other financial assets mandatorily measured at fair value	114,243	(28,867)
120. Gross income	**3,583,498**	**3,482,796**
130. Net impairment losses for credit risk relating to:	(744,098)	(638,277)
a) financial assets measured at amortised cost	(740,755)	(639,003)
b) financial assets measured at fair value through other comprehensive income	(3,343)	726
140. Profits (losses) from contractual modifications without derecognition	(25,283)	(37,383)
150. Net financial income (loss)	**2,814,117**	**2,807,136**
160. Net insurance premiums	314,314	373,776
170. Other income/expenses of insurance operations	(337,153)	(396,096)
180. Net income from banking and insurance operations	**2,791,278**	**2,784,816**
190. Administrative expenses:	(2,493,634)	(2,570,557)
a) staff costs	(1,561,333)	(1,545,909)
b) other administrative expenses	(932,301)	(1,024,648)
200. Net provisions for risks and charges	(24,835)	19,432
a) commitments and guarantees granted	(26)	23,923
b) other net provisions	(24,809)	(4,491)
210. Depreciation and net impairment losses on property, plant and equipment	(157,609)	(90,868)
220. Amortisation and net impairment losses on intangible assets	(77,585)	(75,579)
230. Other net operating income/expense	283,120	293,471
240. Operating expenses	**(2,470,543)**	**(2,424,101)**
250. Profits (losses) of equity investments	40,343	24,602
280. Profits (losses) from disposal of investments	6,101	5,344
290. Profit (loss) before tax on continuing operations	**367,179**	**390,661**
300. Taxes on income for the year for continuing operations	(82,133)	60,841
310. Profit (loss) after tax from continuing operations	**285,046**	**451,502**
330. Profit (loss) for the year	**285,046**	**451,502**
340. Profit (loss) attributable to minority interests	(33,848)	(25,894)
350. Profit (loss) for the year attributable to the shareholders of the Parent	**251,198**	**425,608**

Consolidated Statement of Comprehensive Income

Figures in thousands of euro		2019	2018
10.	**PROFIT (LOSS) FOR THE YEAR**	**285,046**	**451,502**
	Other comprehensive income net of taxes without transfer to the income statement		
20.	Equity securities designated at fair value through other comprehensive income	(1,415)	(1,716)
50.	Property, plant and equipment	-	(736)
70.	Defined benefit plans	(16,407)	1,549
90.	Share of valuation reserves of equity-accounted investees	523	(317)
	Other comprehensive income net of taxes with transfer to the income statement		
120.	Cash flow hedging	18	(35)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	234,775	(259,930)
160.	Share of valuation reserves of equity-accounted investees	1,510	(2,720)
170.	**Total other comprehensive income (loss) net of taxes**	**219,004**	**(263,905)**
180.	**COMPREHENSIVE INCOME (LOSS) (Item 10 + 170)**	**504,050**	**187,597**
190.	CONSOLIDATED COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS	33,834	25,858
200.	**CONSOLIDATED COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT**	**470,216**	**161,739**

Statement of Changes in Consolidated Equity

- **to 31st December 2019**

(figures in thousands of euro)	Balances as at 31/12/2018	Restatement of opening balances	Balances as at 01/01/2019	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other uses	Changes during the year: Changes in reserves	Equity transactions: New share issues	Equity transactions: Repurchase of treasury shares	Equity transactions: Extraordinary distribution of dividends	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Equity transactions: Change in shareholdings	Consolidated comprehensive income	Equity attributable to the shareholders of the Parent as at 31/12/2019	Equity attributable to minority interests as at 31/12/2019	Total equity as at 31/12/2019
Share capital:	2,852,571	-	2,852,571	-	-	-	-	-	-	-	-	-	(1,653)	-	2,843,177	7,741	2,850,918
- ordinary shares	2,852,571	-	2,852,571	-	-	-	-	-	-	-	-	-	(1,653)	-	2,843,177	7,741	2,850,918
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,294,704	-	3,294,704	-	-	-	-	-	-	-	-	-	(4)	-	3,294,604	96	3,294,700
Reserves	2,939,068	-	2,939,068	284,340	-	641	-	-	-	-	-	-	343	-	3,207,751	16,641	3,224,392
- of profits	1,035,354	-	1,035,354	284,340	-	(1,026)	-	-	-	-	-	-	337	-	1,302,370	16,635	1,319,005
- other	1,903,714	-	1,903,714	-	-	1,667	-	-	-	-	-	-	6	-	1,905,381	6	1,905,387
Valuation reserves	(298,699)	-	(298,699)	-	-	(339)	-	-	-	-	-	-	-	219,004	(79,938)	(96)	(80,034)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(25,074)	-	(25,074)	-	-	-	493	(3,530)	-	-	-	-	-	-	(28,111)	-	(28,111)
Profit (loss) for the year	451,502	-	451,502	(284,340)	(167,162)	-	-	-	-	-	-	-	-	285,046	251,198	33,848	285,046
Equity:	**9,214,072**	**-**	**9,214,072**	**-**	**(167,162)**	**302**	**493**	**(3,530)**	**-**	**-**	**-**	**-**	**(1,314)**	**504,050**	**9,488,681**	**58,230**	**9,546,911**
- attributable to the shareholders of the Parent	**9,163,288**	**-**	**9,163,288**	**-**	**(142,088)**	**302**	**493**	**(3,530)**	**-**	**-**	**-**	**-**	**-**	**470,216**	**X**	**X**	**9,488,681**
- attributable to minority interests	**50,784**	**-**	**50,784**	**-**	**(25,074)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,314)**	**33,834**	**X**	**X**	**58,230**

The figures presented in this statement of changes in equity correspond to those reported in Table B.1 (Consolidated equity by type of company) contained in Part F of the Notes to the Financial Statements.

Details of valuation reserves:	**31-Dec-18 Shareholders of the Parent**	**31-Dec-18 Minority interests**	**31-Dec-19 Shareholders of the Parent**	**31-Dec-19 Minority interests**
a) financial assets	(247,507)	-	(12,114)	-
b) cash flow hedges	(22)	-	(4)	-
c) foreign currency differences	(243)	-	(243)	-
d) actuarial gains/losses	(110,908)	(83)	(127,302)	(96)
e) special revaluation laws	60,064	-	59,725	-
	(298,616)	(83)	(79,938)	(96)

• to 31st December 2018

(figures in thousands of euro)				Allocation of prior year profit		Changes during the year											
							Equity transactions										
	Balances as at 31/12/2017	Restatement of opening balances	Balances as at 01/01/2018	Reserves	Dividends and other uses	Changes in reserves	New share issues	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in shareholdings	Consolidated comprehensive income	Equity attributable to the shareholders of the Parent as at 31/12/2018	Equity attributable to minority interests as at 31/12/2018	Total equity as at 31/12/2018
Share capital:	2,859,257	-	2,859,257	-	-	-	-	-	-	-	-	-	(6,686)	-	2,843,177	9,394	2,852,571
- ordinary shares	2,859,257	-	2,859,257	-	-	-	-	-	-	-	-	-	(6,686)	-	2,843,177	9,394	2,852,571
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	3,323,321	-	3,323,321	(12,023)	-	(10)	-	-	(16,584)	-	-	-	-	-	3,294,604	100	3,294,704
Reserves	3,229,985	(866,855)	2,363,130	729,015	(151,341)	3,830	-	-	(2,211)	-	-	-	(3,355)	-	2,923,589	15,479	2,939,068
- of profits	1,329,642	(866,855)	462,787	729,015	(151,341)	459	-	-	(2,211)	-	-	-	(3,355)	-	960,828	74,526	1,035,354
- other	1,900,343	-	1,900,343	-	-	3,371	-	-	-	-	-	-	-	-	1,962,761	(59,047)	1,903,714
Valuation reserves	(114,866)	80,076	(34,790)	-	-	(4)	-	-	-	-	-	-	-	(263,905)	(298,616)	(83)	(298,699)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(9,818)	-	(9,818)	-	-	-	508	(15,764)	-	-	-	-	-	-	(25,074)	-	(25,074)
Profit (loss) for the year	716,992	-	716,992	(716,992)	-	-	-	-	-	-	-	-	-	451,502	425,608	25,894	451,502
Equity:	**10,004,871**	**(786,779)**	**9,218,092**	**-**	**(151,341)**	**3,816**	**508**	**(15,764)**	**(18,795)**	**-**	**-**	**-**	**(10,041)**	**187,597**	**9,163,288**	**50,784**	**9,214,072**
- attributable to shareholders of the Parent	**9,925,183**	**(786,779)**	**9,138,404**	**-**	**(125,415)**	**3,816**	**508**	**(15,764)**	**-**	**-**	**-**	**-**	**-**	**161,739**	**X**	**X**	**9,163,288**
- attributable to minority interests	**79,688**	**-**	**79,688**	**-**	**(25,926)**	**-**	**-**	**-**	**(18,795)**	**-**	**-**	**-**	**(10,041)**	**25,858**	**X**	**X**	**50,784**

The figures presented in this statement of changes in equity correspond to those reported in Table B.1 (Consolidated equity by type of company) contained in Part F of the Notes to the Financial Statements.

Details of valuation reserves:	**31-Dec-17 Shareholders of the Parent**	**31-Dec-17 Minority interests**	**31-Dec-18 Shareholders of the Parent**	**31-Dec-18 Minority interests**
a) financial assets	(62,939)	39	(247,507)	-
b) cash flow hedges	13	-	(22)	-
c) foreign currency differences	(243)	-	(243)	-
d) actuarial gains/losses	(112,452)	(85)	(110,908)	(83)
e) special revaluation laws	60,801	-	60,064	-
	(114,820)	(46)	(298,616)	(83)

Consolidated Statement of Cash Flows (Indirect Method)

Figures in thousands of euro	2019	2018
A. OPERATING ACTIVITIES		
1. Ordinary activities	**1,405,699**	**1,124,896**
- profit (loss) for the year (+/-)	285,046	451,502
- gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+)	(135,935)	(17,132)
- gains/losses on hedging activities (-/+)	15,429	10,325
- net impairment losses for credit risk (+/-)	769,381	638,277
- depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets (+/-)	235,194	166,447
- net provisions for risks and charges and other expense/income (+/-)	24,835	(19,432)
- net premiums not received (-)	1,501	(1,046)
- other insurance income/expenses not received (-/+)	3,566	16,729
- outstanding taxes, duties and tax credits (+/-)	82,133	(104,474)
- net impairment losses on discontinued operations net of tax (-/+)	-	-
- other adjustments (+/-)	124,549	(16,300)
2. Net cash flows from/used by financial assets	**(1,381,404)**	**556,341**
- financial assets held for trading	6,428	535,053
- financial assets designated at fair value	1,319	1,041
- financial assets measured at fair value through other comprehensive income	(1,166,974)	1,478,007
- other financial assets mandatorily measured at fair value	(163,306)	(2,689)
- financial assets measured at amortised cost	296,260	(1,641,784)
- other assets	(355,131)	186,713
3. Net cash flows from/used by financial liabilities	**461,989**	**(1,263,479)**
- financial liabilities measured at amortised cost	(39,648)	(1,737,112)
- financial liabilities held for trading	144,319	(676)
- financial liabilities designated at fair value	91,774	62,815
- other liabilities	265,544	411,494
Net cash flows from/used in operating activities	**486,284**	**417,758**
B. INVESTING ACTIVITIES		
1. Cash flows from	**28,837**	**26,912**
- disposals of equity investments	6,551	-
- dividends received on equity investments	8,514	24,779
- disposals of property, plant and equipment	13,253	2,001
- disposals of intangible assets	519	132
- disposals of subsidiaries and lines of business	-	-
2. Cash flows used in	**(385,421)**	**(325,706)**
- purchases of equity investments	(35,950)	-
- purchases of property, plant and equipment	(261,447)	(247,807)
- purchases of intangible assets	(88,024)	(77,899)
- purchases of subsidiaries and lines of business	-	-
Net cash flows from/used in investing activities	**(356,584)**	**(298,794)**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	(3,037)	(15,256)
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(167,162)	(170,136)
- sale/purchase of minority interests (**)	-	(9,901)
Net cash flows from/used in financing activities	**(170,199)**	**(195,293)**
NET CASH FLOWS FROM/USED DURING THE YEAR	**(40,499)**	**(76,329)**

Key: (+) from (-) used in

(*) The item "sale/purchase of minority interests" relates to the payment made for the purchase of the remaining shares attributable to minority interests of Bancassurance Popolari Spa.

Reconciliation

Balance sheet items (figures in thousand euro)	2019	2018
Cash and cash equivalents at beginning of year	735,249	811,578
Total net cash flows from/used during the year	(40,499)	(76,329)
Cash and cash equivalents at end of year	**694,750**	**735,249**

Notes to the Consolidated Financial Statements

UBI Banca
UNIONE DI BANCHE ITALIANE

PART A – Accounting policies

A.1 – GENERAL PART

Section 1 Statement of compliance with international financial reporting standards

This consolidated annual report of the Unione di Banche Italiane Group has been prepared in compliance with the international accounting standards (IAS) and international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission and in force as at 31st December 2019.
Those standards and the relative interpretations, implemented in Italian law by Legislative Decree No. 38/2005, which took advantage of the option allowed under EC Regulation 1606/2002 on international accounting standards, are applied on the basis of events occurring that are disciplined by them from the date on which their application becomes compulsory, unless specified otherwise[1].
No exceptions have been made in the application of IFRS international accounting standards.

The consolidated financial statements, consisting of the balance sheet, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and the notes to the financial statements, accompanied by the consolidated management report, include the Parent UBI Banca Spa and its subsidiaries included in the scope of consolidation[2]. They have been prepared using the positions of the individual companies, corresponding to the relative separate company financial statements, examined and approved by their respective governing bodies and appropriately modified and reclassified, where necessary, for compliance with the accounting policies adopted by the Group.

The consolidated management report on operations and the notes to the financial statements furnish information required by international reporting standards, by law, by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (Consob – National Commission for Companies and the Stock Exchange), in addition to other information which is not compulsory, but is considered equally necessary for the purposes of a true and accurate presentation the Group's financial position, financial performance and operating results.

The proposed consolidated annual financial statements approved by the Board of Directors on 28th February 2020 and submitted to the shareholders for approval at the General Meeting scheduled for 8th April 2020:
- contain a statement by the Chief Executive Officer and the Senior Officer Responsible pursuant to Art. 154-*bis* of Legislative Decree No. 58/1998; and
- have been audited by the independent auditing firm Deloitte & Touche Spa.

Section 2 Basis of preparation

These financial statements have been prepared in accordance with measurement criteria, adopted on the basis of a going concern assumption and in compliance with accrual accounting principles, the relevance of the information and the predominance of substance over form.

1 See the following section “List of IAS/IFRS standards endorsed by the European Commission” for full details.
2 As detailed in Part A, section 3 (“Consolidation scope and methods”) of these Notes to the Financial Statements, where the changes made during the year are also reported.

The financial statements have been clearly stated and give a true and fair view of the capital and financial position, the result for the year, the changes in equity and the cash flows.

Unless otherwise indicated, the information contained in this annual report is expressed in as the accounting currency and the financial information, the balance sheet and income statement, the notes and comments and the explanatory tables are presented in thousands of euro. The relative rounding of the figures has been performed on the basis of Bank of Italy instructions.

The mandatory financial statements used in this annual report comply with those defined in Bank of Italy Circular No. 262/2005[3] and subsequent amendments and additions[4]. In addition to information on the accounts as at and for the period ended 31st December 2019, they also provide the same comparative information as at and for the year ended 31st December 2018 and do not include items for which there was no data for the current and the previous year.

As already reported in periodic financial reports published for this year, in accordance with the new IFRS 16 accounting standard, entities that have opted for the use of the "modified retrospective" approach on First-Time Adoption are not required to recalculate the comparative figures. Consequently, the balance sheet and income statement figures as at and for the year ended 31st December 2019 are not fully comparable with those of comparative previous periods, as the latter were calculated by applying IAS 17, which was in force during those reporting periods.

To complete the information, account was also taken of the following documents in the preparation of this annual report:

- *Bank of Italy/Consob (securities market authority)/Isvap (insurance authority) joint document no. 4 of 3rd March 2010,* with particular regard to the reporting of impairment of goodwill;
- *the ESMA document[5] of 5th October 2015 "Guidelines – Alternative Performance Measures"* designed to encourage the usefulness and transparency of alternative performance measures[6] included in prospectuses and regulated information;
- *the ESMA document of 22nd October 2019, "European common enforcement priorities for 2019 annual financial reports"*, designed to promote uniform application of IFRS to ensure transparency and the proper functioning of financial markets by identifying certain issues considered particularly significant for the 2019 annual reports of listed European companies. The main priorities identified for the 2019 financial year are as listed below:
  a. specific topics related to the application of IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers), IFRS 16 (Leases) and IAS 12 (Income Taxes);
  b. information regarding potential amendments to the Alternative Performance Measures (APMs) used following the introduction of IFRS 16;
  c. non-financial disclosure, with a particular focus on climate change issues;
- *Bank of Italy Communication on 23rd December regarding "Financial statements of banking and financial intermediaries for periods ending or in progress on 31st December 2019"* in which the supervisory authority calls attention to the need for such companies to provide the following in their annual reports:
  1) certain information on disposals of financial assets – more specifically, given the normalisation of the practice of *multi-originator* disposals of loan portfolios ascribable to one of the following two formats:
     a. disposal of loans to a securitisation vehicle pursuant to Law No. 130/99 where the latter issues asset-backed securities that are purchased by the originators;
     b. disposal of loans to a mutual investment fund in which shares are assigned to the originators.

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3 The balance sheet lists assets and liabilities in order of decreasing liquidity and the income statement recognises expenses according to their nature. On the balance sheet, liquidity generated/absorbed by liabilities deriving from cash flows from lending/funding activities as per IAS 7 paragraph 44A is classified, as requested in Bank of Italy Circular No. 262/2005, under cash flow from operating activities.

4 More specifically, the version referenced is the fifth update dated 22nd December 2017. In the interest of completeness of information, it bears remarking that the sixth update to the Circular was published on 30th November 2018. The provisions of this latest update are applicable to the financial statements at and for the year ending 31st December 2019.

5 European Securities Market Authority.

6 The document in question defines an alternative performance measure as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework".

Referring to the instructions in its Circular No. 262/2005 ("Banking financial statements: presentations and compilation rules") concerning qualitative and quantitative information to be provided about transactions that meet the definition of point (a) above, the Bank of Italy has stressed that, in the event of loan disposals where a mutual investment fund is involved, this particular information must be provided in order to ensure that the same information is given for all essentially equivalent loan disposal arrangements;

2) the information mentioned in the 22nd October ESMA public statement cited above.

Accounting policies

The accounting policies presented in Part A.2 concerning the classification, measurement and derecognition stages, were updated with effect from 31st December 2018[7] in view of the entry into force of IFRS 16 (Leases).
For an illustration of the new elements introduced under this new accounting standard, as well as for a description of the impact of first-time adoption of this standard on the UBI Banca Group, see the subsequent "Other aspects" section.

Where it is impossible to measure certain items in the financial statements with precision, the application of those standards involves the use by management of estimates and assumptions which may have even a significant effect on the amounts for revenues, expenses, assets and liabilities in the balance sheet and on information relating to contingent assets and liabilities.

The use of reasonable estimates forms an essential part of the preparation of financial statements and we have listed here those items in the financial statements in which the use of estimates and assumptions is most significant:
- determination of expected losses on loans and receivables, securities, guarantees issued and commitments;
- measurement of financial assets not listed on active markets;
- measurement of indefinite useful life intangible assets and equity investments;
- quantification of provisions for risks and charges;
- quantification of deferred taxes;
- definition of the depreciation and amortisation charges for property, plant and equipment and intangible assets with finite useful lives;
- measurement of technical reserves.

An estimate may be adjusted following changes in the circumstances on which it was based or if new information is acquired or yet again on the basis of greater experience.
If in the future those estimates and assumptions, which are based on management's best judgement at the date of this report, should differ from the actual circumstances, they will be modified appropriately in the period in which circumstances deviate.
A change in an estimate is applied prospectively and it therefore generates an impact on the income statement in the year in which it is made and, if it is the case, also in future years.

No changes were made in 2019 to the criteria previously employed for estimates in the financial statements as at and for the year ended 31st December 2018 except as described below:
- on the determination of the expected credit losses, securities, guarantees granted and commitments, see the more detailed information provided in the notes to the consolidated financial statements, Part A.2 "The main items in the financial statements" and Part E "Information on risks and the relative hedging policies". It should be noted that, following the entry into force of IFRS 9 from 1st January 2018, such losses are also determined on the basis of forward-looking information, including in particular the evolution of the macroeconomic scenarios used in calculating the impairment losses. The development of those scenarios, and also how they are weighted, is subject to quarterly assessment with consequent updating if necessary;

7 For further information, see the section A.2 "The main items in the financial statements" of these notes to the consolidated financial statements below.

- the Group periodically updates the following aspects of the parameters adopted to measure credit positions that may also be recovered through sale to third parties to reflect any developments relating to possible sales:
  - the set of positions that may potentially be sold;
  - the probability of occurrence of the scenarios in question; and
  - the sales price in the sale scenario.

The valuation impact resulting from that update is recognised within the relevant item in the income statement.

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Updates to IAS/IFRS international accounting standards

International accounting standards in force from 2019

With specific reference to the introduction, on 1st January 2019, of IFRS 16 "Leases", see the next sub-section "Other aspects" below for a description of the changes introduced by IFRS 16 as well as of the impacts for the UBI Banca Group as a result of First-Time Adoption (FTA) of said standard.

In addition, the European Commission has published the following Regulations:
- on 26th March 2018, *Regulation (EU) No. 2018/498* endorsing the *"Amendment to IFRS 9: Prepayment Features with Negative Compensation"* in which a few marginal amendments are made to IFRS 9 "Financial Instruments" with the aim of specifying that instruments allowing early repayment could still pass the SPPI test even in cases where reasonable additional compensation to be paid in the event of early repayment leads to "negative compensation" for the lender;
- on 24th October 2018, *Regulation (EU) No. 2018/1595* endorsing *IFRIC 23: Uncertainty over Income Tax Treatments* specifies which factors to consider in the event of uncertainty when recognising income taxes;
- on 11th February 2019, *Regulation (EU) No. 2019/237* endorsing the *"Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures"* was published with the aim of transposing the application of IFRS 9 to such long-term interests in associates and joint ventures;
- on 13th March 2019, *Regulation (EU) No. 2019/402* was published endorsing the *"Amendment to IAS 19: Plan Amendments, Curtailment or Settlement"* with the aim of specifying the methods for recording income statement components relating to the modification, reduction or extinction of defined benefit plans;
- on 14th March 2019, *Regulation (EU) No. 2019/412* was published endorsing the *"Annual Improvements to IFRS Standards 2015-2017 Cycle"*, which contains minor changes to IFRS 3, IFRS 11, IAS 12, and IAS 23.

The introduction of amendments pursuant to these regulations did not lead to any significant impacts for the UBI Banca Group.

International accounting standards to be applied after 2019

The European Commission has published the following regulations, the application of which will be compulsory from 1st January 2020:
- on 6th December 2019, *Regulation (EU) No. 2019/2075* endorsing the *"Amendment to References to the Conceptual Framework in IFRS Standards"* which amends certain accounting standards and interpretations in order to update existing references to the previous version of the IAS/IFRS framework by replacing them with references to the latest version of the same framework;
- on 10th December 2019, *Regulation (EU) No. 2019/2104* endorsing the *"Amendment to IAS 1 and IAS 8: Definition of Material"* in which the International Accounting Standards Board clarifies the definition of 'material' so as to help organisations formulate judgements of

materiality and to improve the relevance of information provided in notes to financial statements.

The amendments contained in the regulations listed above will not have any significant impact on the UBI Banca Group.

International accounting standards not yet endorsed as at 31st December 2019

Standard (IAS/IFRS) Interpretation (SIC/IFRIC)	Amendments	Date of publication
IFRS 14	Regulatory deferral accounts	30/01/2014
IFRS 10, IAS 28	Sale contribution of assets between an investor and its Associate or Joint Venture	11/09/2014
IFRS 17	Insurance Contracts	18/05/2017
IFRS 3	Amendment to IFRS 3 Business Combinations	22/10/2018
IFRS 9, IAS 39, IFRS 7	Amendments to IFRS 9, IAS 39, and IFRS 7: Interest Rate Benchmark Reform	26/09/2019

The standards listed above are not applicable for the purposes of the preparation of the 2019 consolidated annual report because their application is subject to endorsement by the European commission through the issue of specific EU Regulations[8].
In the interest of providing complete information, it should be noted that on 15th January 2020, the European Commission endorsed the “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform” through Regulation (EU) No. 2020/34. This regulation, the application of which will be compulsory from 1st January 2020, aims to provide rules on the effects of the reform to benchmark rates used to determine interest rates for existing hedges directly affected by the reform. The Group did not take up the option to apply this regulation in advance.

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SECTION 3 Consolidation scope and methods

The consolidated financial statements include the financial and operating results of UBI Banca Spa and of the companies either directly or indirectly controlled by it, including within the scope of consolidation companies which operate in sectors different from that to which the Parent belongs and the special purpose entities (SPEs/SPVs), when the conditions of effective control exist, even in the absence of shareholdings, but in relation to what is termed “business”.

The consolidation scope has undergone the following changes since 31st December 2018:

- UBI SPV BBS 2012 Srl - in liquidation, UBI SPV BPCI 2012 Srl - in liquidation and UBI SPV BPA 2012 Srl - in liquidation: these three special purpose entities were formed, in accordance with Law No. 130/1999, for the securitisation of the performing loans to SMEs of some former network banks (Banco di Brescia, Banca Popolare Commercio e Industria and Banca Popolare di Ancona) carried out in the last part of 2012. They were put into voluntary liquidation in accordance with company records filed with the Company Registrar on 15th May 2018 after respective Shareholders’ Meetings had resolved to voluntarily wind the companies up on 9th May. They formed part of the scope of consolidation because they were in reality controlled, since their assets and liabilities were originated by Group companies. UBI Banca held a 10% interest in each of them. In March 2019 (20th March for UBI SPV BBS and 21st March for the other two

8 With regard to IFRS 14, we report that the European Commission has decided to suspend the endorsement process for the standard while waiting for the definition of the new standard relating to “rate regulated activities”.

companies) the liquidation procedures were concluded with the removal of the three files from the register of companies.

- BancAssurance Popolari Danni Spa: as from 1st November 2018, the company transferred nearly all of its portfolio of non-life policies to Cargeas Assicurazioni Spa. The sale of 100% of the share capital of the company to AmTrust Italia Holdings Llc was decided at the time of that operation (a company belonging to the international group Am Trust Financial Services). The transaction was concluded on 15th May 2019 and gave rise to a profit of €208 thousand;

- Assieme Srl: on 10th September 2018, in the presence of (i) Bancassurance Popolari Spa, its direct parent company and guarantor, and (ii) UBI Banca Spa, its indirect parent and counter-guarantor, this company signed a deed for the sale of its line of business consisting of all assets organised for conducting its insurance brokerage business to Sinergie Italia Broker di Assicurazioni Srl. On the same day at an Extraordinary General Meeting, the shareholders resolved to dissolve and liquidate the company. This decision was filed with the Company Registrar of Arezzo on 18th September. The liquidation was completed on 27th May 2019 with the removal of the company from the Register of Companies;

- Marche Mutui 2 Società per la Cartolarizzazione a r.l.: on 28th May 2019 all the notes were redeemed and the MM2 securitisation was closed down (the relative loans were repurchased by UBI Banca in April 2019). As already reported, this securitisation, performed by the former Banca delle Marche in 2006 was of the RMBS type for the securitisation of a portfolio of performing regulated mortgages backed by first mortgage guarantees. As the Group held no equity interest in it and substantial control was longer held, the company was excluded from the consolidation scope on that same date;

- Palazzo della Fonte Scpa: while it does not constitute any change compared with the scope of consolidation as at 31st December 2018, we report that during the year, in compliance with resolutions passed by the Management Board and Supervisory Board of UBI Banca on 23rd October 2018 and 13th November 2018 respectively, on 5th June 2019 the purchase by UBI Banca of all the shares and “profit-sharing equity instruments” (SFP - Strumenti Finanziari di Partecipativi) of Palazzo della Fonte Scpa not yet held by the Group was completed. With legal effect from 1st October 2019, the company was merged into the Parent UBI Banca Spa;

- UBI Sicura Spa: on 12th November 2019 the company UBI Sicura Spa was founded as an insurance brokerage firm fully owned by BancAssurance Popolari Spa;

- Centrobanca Sviluppo Impresa Spa - in liquidation: on 24th May 2019, the shareholders resolved to voluntarily wind up and liquidate the company, with effect from the date of filing this resolution with the relevant Company Registrar, which took place on 4th June 2019; the company was then removed from the Register of Companies on 24th December;

- Focus Impresa: as of December, this investment entity was deconsolidated, considering that, following changes to the plan to divest this fund’s investments, UBI Banca no longer satisfied the conditions for effective control.

With regard to the consolidation methods used, companies subject to control are consolidated using the full line-by-line method, while those interests over which the Group exercises significant influence are measured using the equity method.

Changes in the consolidation scope

The following transactions also occurred in 2019 which changed the scope of consolidation of the Group:

- Mecenate Srl: on 29th November 2019 the company's shareholders resolved to place it in liquidation. This was filed with the Company Registrar on 2nd December 2019.

1. Equity investments in companies subject to exclusive control

Company name	Registered address	Operating headquarters	Type of ownership (1)	Details of investment		% of votes (2)
				Investing company	% held	
1. Unione di Banche Italiane Spa - UBI Banca	Bergamo			PARENT		
2. 24-7 Finance Srl	Brescia	Brescia	4	UBI Banca Spa	10.000%	10.000%
3. BPB Immobiliare Srl	Bergamo	Bergamo	1	UBI Banca Spa	100.000%	100.000%
4. IW Bank Spa	Milan	Milan	1	UBI Banca Spa	100.000%	100.000%
5. Prestitalia Spa	Bergamo	Rome	1	UBI Banca Spa	100.000%	100.000%
6. UBI Factor Spa	Milan	Milan	1	UBI Banca Spa	100.000%	100.000%
7. UBI Finance Srl	Milan	Milan	1	UBI Banca Spa	60.000%	60.000%
8. UBI Finance 2 Srl (in liquidazione)	Brescia	Brescia	4	UBI Banca Spa	10.000%	10.000%
9. UBI Leasing Spa	Brescia	Brescia	1	UBI Banca Spa	100.000%	100.000%
10. Pramerica Management Company Sa	Luxembourg	Luxembourg	1	Pramerica SGR Spa	100.000%	100.000%
11. Pramerica SGR Spa	Milan	Milan	1	UBI Banca Spa	65.000%	65.000%
12. UBI Sistemi e Servizi Scpa	Brescia	Brescia	1	UBI Banca Spa	91.936%	98.562%
				IW Bank Spa	4.315%	
				Pramerica SGR Spa	1.438%	
				UBI Factor Spa	0.719%	
				UBI Academy Scrl	0.010%	
				BancAssurance Popolari Spa	0.072%	
				Prestitalia Spa	0.072%	
13. UBI Trustee Sa	Luxembourg	Luxembourg	1	UBI Banca Spa	100.000%	100.000%
14. UBI Finance CB 2 Srl	Milan	Milan	1	UBI Banca Spa	60.000%	60.000%
15. UBI SPV GROUP 2016 Srl	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
16. UBI SPV LEASE 2016 Srl	Milan	Milan	4	UBI Banca Spa	10.000%	10.000%
17. Kedomus Srl	Brescia	Brescia	1	UBI Banca Spa	100.000%	100.000%
18. UBI Academy Scrl	Bergamo	Bergamo	1	UBI Banca Spa	88.000%	100.000%
				IW Bank Spa	3.000%	
				UBI Factor Spa	1.500%	
				Pramerica SGR Spa	1.500%	
				UBI Sistemi e Servizi Scpa	3.000%	
				UBI Leasing Spa	1.500%	
				Prestitalia Spa	1.500%	
19. Oro Italia Trading Srl (in liquidazione)	Arezzo	Arezzo	1	UBI Banca Spa	100.000%	100.000%
20. Mecenate Srl (in liquidazione)	Arezzo	Arezzo	1	UBI Banca Spa	95.000%	95.000%
21. BancAssurance Popolari Spa	Milan	Rome	1	UBI Banca Spa	100.000%	100.000%
22. Marche M6 Srl	Conegliano Veneto (TV)	Conegliano Veneto (TV)	4 (*)		0.000%	0.000%
23.UBI Sicura Spa	Milan	Milan	1	BancAssurance Popolari Spa	100.000%	100.000%

(*) Companies that fall within the scope of consolidation because they are in reality controlled, since their assets and liabilities were originated by a Group member company. The Group holds no equity interests in the companies.

Legend

(1) Type of ownership:
1 = majority of voting rights in ordinary general meetings
2 = dominating influence over ordinary general meetings
3 = agreements with other shareholders
4 = other forms of control
5 = joint control

(2) Votes available at ordinary shareholders' meetings, distinguishing between actual and potential

2. Assessments and significant assumptions to determine scope of consolidation

The full line-by-line consolidation method

Subsidiaries subject to control are consolidated using the full line-by-line method. In compliance with IFRS 10, the concept of control goes beyond a majority percentage interest in the share capital of an investee and it arises when an entity is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity.
The line-by-line consolidation method involves summing the items of the income statements and balance sheets of subsidiaries on a line-by-line basis The following adjustments are made for this purpose:
(a) the carrying amounts of the subsidiaries held by the Parent and the corresponding part of the equity are eliminated;
(b) the proportion of equity and of profit or loss for the year attributable to other shareholders is stated under a separate item.

If the results of the above adjustments are positive, then they are recognised (after first allocating them if possible to the assets or liabilities of the subsidiary) as goodwill within item 130 "Intangible assets" on the date of the first consolidation, if the necessary conditions apply. If the resulting differences are negative they are normally charged to the income statement.
Intragroup balances and transactions, including revenues, costs and dividends are completely eliminated.
The operating results of a subsidiary that is acquired during the year are included in the consolidated balance sheet starting from the date on which it is acquired. Similarly, the operating results of a subsidiary that is disposed of are included in the consolidated balance sheet until the date on which control over the company is released.
The accounts used in the preparation of consolidated financial statements are stated as of the same date.
The consolidated financial statements have been prepared using uniform accounting policies for like transactions and events.
If a subsidiary uses different accounting policies from those employed in the consolidated financial statements for like transactions and other events in similar circumstances, adjustments are made to its accounts for the purposes of the consolidation.

The equity method

Equity investments over which the Group exercises significant influence or has joint control, as defined in IAS 28 and in IFRS 11, are measured using the equity method.
Under this method an equity investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the investor's share of the profit or loss of the associate after the acquisition date. The proportion of the profit or loss for the year made by the investee attributable to the investor is stated in the income statement of the latter. Dividends received from an investee reduce the carrying amount of the investment; adjustments to the carrying amount may also be required arising from a change in the portion of the investee's equity attributable to the investor that have not been recognised in the income statement. These changes include changes arising from the revaluation of property, plant and equipment and from exchange rate differences on items in foreign currency. The portion of those changes attributable to the investor are recorded directly in its equity.
Where potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.
Where the investee incurs continued losses, if these exceed the carrying amount of the investee, then this is written off and further losses are only recognised if the investor has contracted legal or implicit obligations or has made payments on behalf of the investee. If the investee subsequently realises a profit, the investor resumes recognition of its share of the profits only after reaching the share of the profit which was previously not recognised.
For the purposes of consolidating investments in associates and/or companies subject to joint control, the figures from the financial statements prepared and approved by the boards of

directors of the individual companies are used. Where accounts prepared according to international standards are not available those prepared according to national accounting standards are used after first verifying that there are no significant differences.
The consolidating entity ceases use of the equity method from the date on which it ceases to exercise significant influence or joint control over the investee and it is recognised according to the approach described in section A.2 of these notes, starting from that date, on condition that the associate or company subject to joint control does not become a subsidiary.

3. Equity investments in companies subject to exclusive control with significant minority interests

For the purposes of preparing the tables that follow, an interest was considered significant when:

- the minority interest is greater than or equal to 10% of the share capital of the investee and
- the accounting data of the investee are significant for a reader of the consolidated financial statements.

3.1 Minority interests, availability of minority votes and dividends distributed to minority interests

Company name	Percentage of minority interests (%)	Availability of minority interest votes (%)	Dividends distributed to minority interests
1. Pramerica SGR Spa	35.0%	35.0%	25,074

3.2 Equity investments with significant minority interests: accounting figures

Company name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
Pramerica SGR Spa	287,840	-	254,446	2,024	104,272	122,923	(6)	177,424	(38,433)	138,992	97,759	-	97,759	(10)	97,749

4. Significant restrictions

As concerns regulatory requirements we report that the UBI Group is a banking Group subject to the regulations contained in Directive 2013/36/EU on “access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms” (CRD IV) and in Regulations (EU) No. 575/2013 relating to “Prudential requirements for credit institutions and investment firms” (CRR) and that it controls financial institutions subject to the same regulations.
The capacity to distribute capital and dividends of subsidiaries also subject to these regulations is therefore restricted, by both minimum amounts of own funds to be held and maximum amounts of profits that may be distributed.
Furthermore, the Parent has commitments contained in its Articles of Association which require it to allocate part of its profits to specific charitable initiatives.
As concerns liquidity within the Group no restrictions exist of a company ownership or legal nature to its transfer. Information on liquidity risk is given in Part E - Information on risks and hedging policies, Section 3 - Liquidity risk.

5. Other information

Companies in which no equity investment is held, but for which shares have been received as pledges are excluded from the scope of the consolidation, in consideration of the purpose of possession, which is to secure the loan granted and not to exercise control and determine financial and operating policies in order to obtain the economic benefits deriving from them.
The balance sheet, income statement and statement of cash flows of consolidated companies which operate with a reference currency other than the euro are translated at the exchange rate ruling at the end of the year. All the exchange rate differences resulting from the translation are recognised in a separate reserve in equity. If an investment is disposed of, this reserve is eliminated with a simultaneous profit or loss in the income statement at the time of disposal.
International financial reporting standards require the recognition in the financial statements of corporate events in a manner which reflects the underlying economic substance of them.
No equity investments held directly or indirectly by the Parent with an interest of less than 20%, or for which voting rights below that threshold were held, over which it is considered it exerted significant influence, existed as at the balance sheet date. Furthermore, with the exception of equity investments held for merchant banking activities classified within item “20. c) Other financial assets mandatorily measured at fair value”, no equity investments held directly or indirectly by the Parent with an interest of more than 20% are held over which it is considered it did not exert significant influence. No significant restrictions existed as at the balance sheet date on the capacity of associate companies to transfer funds to the investing company in payment of dividends or repayment of loans or advances.
The balance sheet dates of the companies measured according to the equity method were the same as that of the Parent.

SECTION 4 Subsequent events

With regard to the provisions of IAS 10, concerning events occurring after 31st December 2019, the reporting date for these consolidated financial statements, up to 28th February 2020, when these statements were approved by the Board of Directors, no events occurred sufficient to make adjustments to the figures presented in the report necessary.

Pursuant to IAS 10, we highlight the following events for informational purposes:

- 13th January 2020: UBI Banca successfully issued Additional Tier 1 bonds (full title: Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) amounting to €400 million to institutional investors, with the aim of optimising the capital structure. Thanks to robust market demand (orders were received for over €6 billion), the Company was able to lower the coupon, which was set at 5.875% for the first five and a half years.
  In terms of the execution of the operation, the prompt opening of the books allowed orders also to be received from Asian investors who are not normally seen in great numbers for the subscription of the Bank's instruments.
  On conclusion of the offer the securities were allotted as follows:
  - by type of investor: funds (66%), banks (16%), hedge funds (10%), pension and insurance funds (5 %), others (3%);
  - by country/region: United Kingdom and Ireland (29%), France (18%), Germany and Austria (10%), Switzerland (10%), Italy (8%), Asia (7%), Iberia (5%), Benelux (5%), Scandinavia (4%), others (4%).

  The securities are perpetual and can be called by the issuer, subject to compliance with the applicable regulatory requirements, starting on 20th January 2025 until 20th June 2025 and subsequently on each coupon payment date.
  If the early redemption option is not exercised by 20th June 2025, a new fixed-rate coupon will be set, which will then be valid for five years; thereafter, the coupon will be redetermined at five-year intervals.
  In compliance with regulatory requirements, payment of the coupons is fully discretionary.
  The 5.125% Common Equity Tier 1 Capital (CET1) trigger means that if UBI Banca's CET1 ratio falls below that level, then the nominal value of the securities is temporarily reduced by an amount needed to restore that level.
  We also report that under the EMTN programme, over the last few days of January UBI Banca completed two private placements of two-year puttable bonds, each with a nominal value of €50 million.

- 14th January 2020: an agreement was signed with all trade union representatives regarding the voluntary redundancy of around 300 staff, including the approval of 50 applications for admission to the Solidarity Fund as already presented on the occasion of the redundancy scheme implemented under the framework agreement signed with unions on 26th October 2017.
  These redundancies began in February 2020, as did the related expenses of around €70 million before taxes (or around €50 million net), which were recognised in the results for the fourth quarter of 2019.
  The cost synergies are estimated at over €20 million in 2020 and over €25 million annually, when fully phased-in, starting in 2021.

- 31st January 2020: the UBI Banca Board of Directors resolved to grant Coima SGR Spa an exclusive mandate to compose and execute a complex real estate transaction within the context of plans to reorganise the Group's physical presence in Milan.

- 17th February 2020: UBI Banca presented a new Business Plan, for 2020 to 2022. For further details, reference is made to the "Significant events in 2019" section of the Consolidated Management Report.

- 19th February 2020: following a voluntary public exchange offer by Intesa Sanpaolo on 17th February on all UBI Banca ordinary shares – pursuant to and for the purposes of articles 102 and 106(4) of Legislative Decree No. 58/1998 (the Consolidated Finance Law) – the Board of Directors of UBI Banca held a meeting. The Board examined the statement related to the offer and delegated the Chief Executive to appoint, in agreement with the Chairman and Vice Chairman, financial advisors and legal advisors to assist the Group in assessing the information made public in the offer prospectus once it is available, along with alternative options.

- 19th, 20th and 24th February 2020: S&P Global Ratings, Moody's and Fitch Ratings, respectively, placed UBI Banca under observation for possible upgrades in the credit ratings assigned.

SECTION 5 Other aspects

IFRS 16 'Leases' and the UBI Banca Group's project

Introduction

The information provided below, which has also been presented in the Interim Financial Report for the period ended 31st March 2019 as the first financial report prepared in application of the provisions of IFRS 16 "Leases", is intended to provide an adequate understanding of the transition from IAS 17 "Leases" [9] to IFRS 16.

It is composed of a summary overview of the most important aspects of the new standard, together with a description of the transition process in the UBI Banca Group and information on first time adoption of IFRS 16 in terms of qualitative and quantitative impacts.

Summary of the rule changes

From 1st January 2019, the accounting standard IFRS 16 "Leases" supersedes IAS 17 "Leases" and the relative interpretations (IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating leases – Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease").

IFRS 16 was published by the IASB on the 13th January 2016 and its endorsement by the EU took place with the publication in the Official Journal[10] of the European Union of Regulation (EU) No. 2017/1986 of 31st October 2017.

IFRS 16 applies to all lease contracts, with the exception of the following cases, which already fall within the scope of application of other standards:

a. leases for the exploration or extraction of minerals, petroleum, natural gas and similar non-renewable resources (IFRS 6 "Exploration for and Evaluation of Mineral Resources");
b. leases of biological assets (IAS 41 – Agriculture) held by the lessee;
c. service concession arrangements (IFRIC 12 - Service concession arrangements);
d. intellectual property licences granted by a lessor (IFRS 15 "Revenue");
e. rights held by a lessee under licensing agreements for items such as films, video recordings, theatrical works, literary works, patents and copyrights (IAS 38 "Intangible Assets")[11].

The new standard introduces new accounting rules for lease contracts with regard to the lessees (i.e. the users of the assets under contract in the lease). These rules are based on the definition of 'lease' as a contract in which the right of use of an identified asset is granted to the lessee for a specified period of time, in exchange for payment.
The new rules create a single accounting model for lease contracts, requiring, as a general rule, that a right-of-use-asset be recognised alongside a lease liability representing the obligation to make the rental payments over the life of the contract. Except in limited exceptions, it is no longer permissible to adopt the accounting treatment previously applicable for operating leases (consisting of the expensing of lease payments on an accruals basis).

9 The provisions of which applied until 31st December 2018.
10 Published on 9th November 2017.
11 A lessee has an option, but not an obligation, to apply IFRS 16 to lease contracts governing intangible assets.

To complete the information, we underline that in accordance with an express provision of Legislative Decree No. 38/2005, at national level, having maintained its powers to define accounting statements and schedules and the contents of the notes of financial statements, on 30th November 2018 the Bank of Italy issued the 6th update of Circular No. 262/2005 "Financial statements of banks, presentations and compilations"[12].

Project for the transition to IFRS 16

During the course of 2018, the UBI Banca Group carried out a specific project dedicated to analysing the standard in order to identify the impacts of its introduction.

As already reported, the project, which has already been described in previous financial reports, covered three main lines of activity, summarised below.

a. Definition of the scope of application and analysis of impacts on processes

The UBI Group carried out an internal assessment in order to identify the perimeter of the contracts subject to IFRS 16 and it chose not to take advantage of "grandfathering"[13] options but to make a precise identification of the contracts which constitute or contain a lease contract on the basis of IFRS 16.
The following types of contracts that fall within the scope of application of the new standard were identified:

a) property lease contracts;
b) motor vehicle lease contracts;
c) enterprise server lease contracts and other hardware lease contracts.

While if a lease contract contains non-lease components the lessee must account for the lease components[14] and the non-lease components separately and allocate the consideration for the contract to the different components on the basis of the relative stand-alone prices, for the contracts specified in letters b) and c) the UBI Banca Group decided to separate the non-lease component, the recognition of which is subject to the provisions of IFRS 15[15].

Following the identification of the scope of application of the standard, the Group took steps to fully remap the corporate processes affected by the transition from IAS 17 to IFRS 16 and the controls over those processes.

b. Definition of the rules and accounting processes

The Group defined accounting rules and processes designed to govern the new balance sheet and income statement treatment for lease transactions in which the Group is a party to the contract, inclusive of intragroup leases.
Subsequently choices were made regarding the transition to the new standard and the accounting processes needed to govern initial recognition and subsequent measurement of the Group's lease contracts and the relative company regulations were updated.

c. Selection and implementation of the IT solution

This stage was designed primarily to select the IT solution used to manage lease contracts in the Group's accounts with adjustments to the systems currently in use in order to ensure the necessary integration.
Subsequently steps were taken to define, implement and activate necessary customisations to the software adopted that are specific to the UBI Banca Group.
Finally the testing phase was completed and the IT solution selected went into production.

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12 The update is applicable starting from financial statements ending as at 31st December 2019 or still open on that date.
13 i.e. the option to apply the new standard solely to contracts that had been previously identified as lease contracts, applying IAS 17 "Leases" and IFRIC 4 "Determining whether an agreement contains a lease".
14 One example would be the provision of ordinary maintenance services.
15 Thereby waiving the option under the standard to use the practical expedient which allows entities not to separate lease components from non-lease components for certain classes of goods, by recognising the entire contract on the basis of the provisions of IFRS 16.

- ***Possible options for the transition to the new standard available under IFRS 16***

On initial application the lessee may implement the new standard for lease contracts:

a) retrospectively by applying IAS 8 "Accounting policies, changes in accounting estimates and errors" and restating the comparative figures; or
b) retrospectively, according to the "modified approach", by accounting for the cumulative effect of the application of the standard as an adjustment to the opening balance of retained earnings (or, where appropriate, another component of equity) without restating the comparative figures, as illustrated below.

Where the option set out in point b) above is exercised, for leases previously treated as operating leases, on the date of initial application the lessee:

- recognises a lease liability at the present value of the remaining lease payments on the lease contract using the lessee's incremental borrowing rate as at the date of initial application as the discounting rate;
- recognises an asset consisting of the right to use the asset underlying the lease contract either:
    i. at its carrying amount, determined as if the standard had been applied since the inception of the lease, but discounted according to the lessee's marginal interest rate at the date of initial application;
    ii. at an amount equal to the amount of the lease liability (adjusted by any accrued or prepaid lease payments recognised before the date of initial application);
- measures the right-of-use asset on the basis of IAS 36.

Where advantage is taken of the "modified approach" the lessee may also take advantage of the following practical expedients for the recognition of lease contracts:

- apply a single discount rate to a portfolio of leases;
- rely on previous assessments made on the basis of IAS 37 relating to "onerous contracts" in order to recognise accumulated impairment of a right-of-use asset at the date of initial application;
- account for lease contracts with a remaining term of not longer than twelve months directly through profit or loss (independently of the length of the original term of the lease);
- exclude the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- estimate the lease term on the basis of hindsight and information available at the date of initial application with regard to the exercise of extension or early termination options.

- ***The transition to IFRS 16 in the UBI Banca Group***

Application choices

The UBI Group made the following choices with regard to the IFRS 16 transition project:

- it chose not to take advantage of grandfathering, with the resulting redetermination of the scope of the leases to be subject to the new standard;
- - it chose to recognise the effects of initial application of the standard according to the "modified approach", as defined previously, without retrospectively recognising the effects of application of the standard in compliance with IAS 8;
- it chose to recognise the right-of-use asset underlying the lease as at the date of first-time application at a value equal to the amount of the liability for the lease. That decision meant that the adoption of IFRS 16 did not generate any impacts on Group equity as at the date of first-time application;
- it chose not to take advantage of the option to apply IFRS 16 to lease contracts having intangible assets as their underlying.

Since the Group opted to recognise right-of-use assets underlying lease contracts at a value equal to the lease liability, the following practical expedients in the transition to the new standard "on a lease-by-lease basis" were used on the basis of the options allowed under IFRS 16:

- accounting for lease contracts with a remaining term of not longer than twelve months directly through profit or loss (independently of the length of the original term of the lease);
- exclusion of the initial direct costs of measuring the right-of-use asset;
- estimate of the term of the lease on the basis of hindsight and information available at the date of initial application with regard to the exercise of the extension or early termination options.

The Group also chose to take advantage of the following practical expedients applicable when IFRS 16 is fully applied:
- not subject operating lease contracts that have a term of less than twelve months to the provisions of the standard (that term is measured with account also taken of explicit or tacit renewal options);
- not apply the new accounting requirements regarding the recognition and measurement of right-of-use assets and lease liabilities to contracts where the underlying asset is of low value.

Regarding the duration of leases, specifically real estate lease contracts, the Group has decided to consider as reasonably certain, as a rule at the initial recognition date, the option of a first renewal period, except in special circumstances linked to individual contracts subject to separate measurement.

Finally the Group has decided to adopt:
- €5,000 as the materiality threshold;
- in order to calculate the incremental borrowing rate used to calculate lease liabilities, discount rate curves were constructed internally with consideration given to the interbank risk-free rate plus a credit spread which reflects the groups real unsecured funding operations from institutional customers adjusted to take account of the asset underlying the lease contract.

Impacts of initial application as at 1st January 2019

- Shareholders' equity: following the UBI Banca Group's decision on transition to IFRS 16, to take advantage of the "modified approach" by recognising right-of-use assets at an amount equal to the lease liability, no impacts were identified on shareholders' equity (attributable to the Parent and minority interests) as at 1st January 2019.
  As a result of the recognition in the balance sheet of new "right-of-use" assets consisting of real estate properties, motor vehicles and plant and equipment, assets stated under item "90 "Property, plant and equipment" increased by a total of €394.2 million. Balance sheet liabilities increased by the same amount against the recognition within item "10 Financial liabilities measured at amortised cost" of the financial liability represented by the obligation to make future lease rental payments;
- CET1 ratio: following the effect on risk weighted assets (RWAs) arising from the recognition of new "Property, plant and equipment" assets, the introduction of IFRS 16 resulted in a slight decrease in the fully loaded CET1 ratio by a total of 7 basis points.

Reconciliation between balance sheet items as at 31st December 2018 (pursuant to IAS 17) and balance sheet items as at 1st January 2019 (pursuant to IFRS 16).

A reconciliation between balance sheet items as at 31st December 2018 (pursuant to IAS 17) and the balance sheet items as at 1st January 2019 (pursuant to IFRS 16) is reported below.

Figures in thousands of euro

Circular No 262/2005 6th Update ASSETS		31.12.2018 (IAS 17)	IFRS 16 FTA impact	1.1.2019 (IFRS 16)
10.	Cash and cash equivalents	735,249		735,249
20.	Financial assets measured at fair value through profit or loss	1,463,529		1,463,529
	a) financial assets held for trading	*405,716*		*405,716*
	b) financial assets designated at fair value	*11,028*		*11,028*
	c) other financial assets mandatorily measured at fair value	*1,046,785*		*1,046,785*
30.	Financial assets measured at fair value through other comprehensive income	10,726,179		10,726,179
40.	Financial assets measured at amortised cost	102,798,587		102,798,587
	a) loans and advances to banks	*10,065,881*		*10,065,881*
	b) loans and advances to customers	*92,732,706*		*92,732,706*
50.	Hedging derivatives	44,084		44,084
60.	Fair value change in hedged financial assets (+/-)	97,429		97,429
70.	Investments	254,128		254,128
80.	Technical reserves of reinsurers	-		-
90.	Property, plant and equipment	1,965,234	429,624	2,394,858
100.	Intangible assets	1,729,727		1,729,727
	of which:			
	- goodwill	*1,465,260*		*1,465,260*
110.	Tax assets	4,210,362		4,210,362
	a) current	*1,376,567*		*1,376,567*
	b) deferred	*2,833,795*		*2,833,795*
	- of which pursuant to Law No 214/2011	*1,804,988*		*1,804,988*
120.	Non-current assets and disposal groups held for sale	2,972		2,972
130.	Other assets	1,278,717	(35,397)	1,243,320
	Total assets	**125,306,197**	**394,227**	**125,700,424**

Figures in thousands of euro

Circular No 262/2005 6th Update LIABILITIES and EQUITY		31.12.2018 (IAS 17)	IFRS 16 FTA impact	1.1.2019 (IFRS 16)
10.	Financial liabilities measured at amortised cost	109,445,664	394,227	109,839,891
	a) due to banks	*17,234,579*		*17,234,579*
	b) due to customers	*68,421,387*	*394,227*	*68,815,614*
	c) debt securities issued	*23,789,698*		*23,789,698*
20.	Financial liabilities held for trading	410,977		410,977
30.	Financial liabilities designated at fair value	105,836		105,836
40.	Hedging derivatives	110,801		110,801
50.	Fair value change in hedged financial liabilities (+/-)	74,297		74,297
60.	Tax liabilities:	162,272		162,272
	a) current	*30,287*		*30,287*
	b) deferred	*131,985*		*131,985*
70.	Liabilities associated with disposal groups held for sale	-		-
80.	Other liabilities	3,092,941		3,092,941
90.	Provisions for post-employment benefits	306,697		306,697
100.	Provisions for risks and charges	505,191		505,191
	a) commitments and guarantees granted	*64,410*		*64,410*
	b) pension and similar obligations	*91,932*		*91,932*
	c) other provisions for risks and charges	*348,849*		*348,849*
110.	Technical reserves	1,877,449		1,877,449
120.	Valuation reserves	(298,616)		(298,616)
150.	Reserves	2,923,589		2,923,589
160.	Share premiums	3,294,604		3,294,604
170.	Share capital	2,843,177		2,843,177
180.	Treasury shares (-)	(25,074)		(25,074)
190.	Minority interests (+/-)	50,784		50,784
200.	Profit (loss) for the year (+/-)	425,608		425,608
	Total liabilities and equity	**125,306,197**	**394,227**	**125,700,424**

The increase in property, plant and equipment totalling €429.6 million is attributable to recognition of right-of-use assets as follows:
- €410.5 million for real estate properties;
- €15 million for hardware;
- €4.1 million for motor vehicles;

of which €35.4 million relating to extraordinary maintenance costs classified as "improvements to leased assets", concerning contracts subject to IFRS 16, reclassified out of item "Other assets" into the item "Property, plant and equipment ", in compliance with the provisions of the 6th update of Bank of Italy Circular No 262/2005.

On the basis of the above, right-of-use assets (pursuant to IFRS 16) totalling €457.5 million were recognised in the balance sheet as at 1st January 2019, of which:
- €394.2 million relating to new assets recognised;
- €63.3 million pertaining to assets already recognised on the balance sheet in accordance with IAS 17 (€27.9 million) or reclassified as an increase in the value of right-of-use assets (€35.4 million).

Information on the incremental borrowing rate used

The average weighted incremental borrowing rate used to measure lease assets at the date of initial application was 2.09%.

Reconciliation of future commitments for lease contracts with lease liabilities

Information is given below on the reconciliation of future commitments for lease contracts pursuant to IAS 17 with lease liabilities recognised in the balance sheet as at 1st January 2019.

Figures in thousands of euro

COMMITMENTS FOR LEASE CONTRACTS (PURSUANT TO IAS 17)	LEASE LIABILITIES (PURSUANT TO IFRS 16)	DIFFERENCE
443,215	394,227	48,988

The difference is attributable entirely to the effect of the incremental borrowing rate used to discount future cash flows arising from lease contracts.
The curve used to determine the incremental borrowing rate has been updated on a monthly basis.

Realignment of values for tax purposes with the book values of property, plant, equipment, and intangible assets

Articles 172, paragraph 10-*bis*, and 176, paragraph 2-*ter*, of Italian Presidential Decree No. 917 of 29th December 1986 (the Consolidated Income Tax Act) allow for fiscal values to be realigned with the higher values attributed to assets for financial reporting purposes, such as for property, plant and equipment, and intangible assets relating to acquired companies, for the previous two financial years.
This misalignment stems from the fact that corporate reorganisations (e.g. mergers) generally entail a degree of "fiscal neutrality". By virtue of this principle, in the event of any accounting remeasurements of property, plant and equipment or intangible assets in compliance with the related accounting standards, the corresponding fiscal values are to remain unchanged[16].

The realignment, when involving a valuable consideration, is carried out by way of payment of a substitute tax, the percentage amount of which is a function of various brackets in terms of higher values recognised[17].

Within this context, during the second quarter the UBI Banca Group proceeded with the realignment of the aforementioned values with reference to certain corporate reorganisations carried out in the 2017 and 2018 tax years.
In this case, the assets subject to remeasurement relate to the following corporate mergers into the Parent, UBI Banca:
- mergers of Banca Popolare di Bergamo SpA, Banco di Brescia SpA, Banca Popolare di Ancona SpA, Banca Carime SpA and Banca di Valle Camonica SpA (2017), the accounting recognition of which entailed the recognition, in the separate financial statements of UBI Banca, of property, plant and equipment, and intangible assets, due to the inclusion of those already present in the consolidated financial statements;
- mergers of Banca Adriatica SpA, Carilo SpA, Banca Tirrenica SpA, Banca Federico del Vecchio SpA (2017) and Banca Teatina SpA (2018), which gave rise to the recognition of intangible assets due to the purchase price allocation resulting from the acquisition of the New Banks.

16 This entails, when recognising the revalued amounts, the recognition of deferred tax liabilities.
17 More specifically, this is 12% up to €5 million, 14% for the portion exceeding €5 million and up to €10 million, and, lastly, 16% on the portion that exceeds €10 million.

The substitute tax due for these realignments amounted to approximately €16.9 million, to be paid obligatorily in three annual instalments.
Against payment of the first instalment of the substitute tax due amounting to €5.1 million[18], which took place on 27th June by offsetting with receivables arising from deferred tax assets (DTAs), from an accounting point of view greater taxes of €16.9 million were recognised, as was the simultaneous release, amounting to €32.9 million, of the provision previously recognised for deferred taxation on the greater book values recorded, given that the difference between the book values and the tax values on the assets subject to realignment was less, and this had a positive net effect on the income statement in the amount of €16 million.

Accounting for the extraordinary contribution to the National Resolution Fund

The 2016 Legge di Stabilità[19] ("stability law" – annual finance law) provides, in the event that the resources of the National Resolution Fund (NRF) are not sufficient to sustain the resolution actions carried out over time, that the banks are to pay additional contributions to the NRF, within the overall limit, inclusive of ordinary and extraordinary contributions paid to the Single Resolution Fund (SRF), provided for under Articles 70 and 71 of Regulation (EU) 2014/806[20].
Art. 25 of Decree Law No. 237 of 23rd December 2016 specifies that such additional contributions are to be paid to cover any and all of NRF's obligations, losses, costs and liabilities arising from or in any event related to the execution of provisions to start resolutions and with the requirement to ensure that they can be effectively executed, even if as a consequence of amendments made to them.
In this regard, taking into account the financial needs of the fund, on 7th June 2019 the Bank of Italy, in its capacity as the national resolution authority and with reference to the year 2017, proceeded to call up additional contributions from the UBI Banca Group for a total of €18.1 million[21].
The cost in question, relating to the second quarter, was recognised in accordance with IFRIC 21[22], within the item "190. b) Other administrative expenses".

Voluntary Scheme at the Interbank Deposit Protection Fund (IDPF)

Intervention in support of Banca Carige

On 30th November 2018 the General Meeting of the banks participating in the Voluntary Scheme of the Interbank Deposit Protection Fund (IDPF)[23], of which UBI Banca Group has been a member since December 2015, approved the intervention in support of Banca Carige.

The Banca Carige capital strengthening operation entailed, in its first phase, issuing €400 million in subordinated (Tier 2) bonds, with a gross nominal fixed-rate annual coupon of 13%; up to €320 million was offered directly to the Voluntary Scheme.

On the same date, following the aforementioned resolution by the Voluntary Scheme's participating banks, the Scheme directly subscribed to purchase €318.2 million[24] of these subordinated bonds. As a result, UBI Banca Group made a payment of €24.4 million, based on its stake in the Scheme.

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18 The second and third instalments are to be paid in the two fiscal periods subsequent to that in which the realignment option is exercised or by 30th June 2020 and 30th June 2021, respectively.
19 See Art. 1, paragraph 848, Law No. 208/2015 of 28th December 2015.
20 Amounting to at most three times the ordinary contribution. With reference to 2016, in the second quarter of 2018 the Bank of Italy had taken steps to call up additional contributions from the UBI Banca Group in the amount of €12.9 million. For 2016 only, two additional quotas on top of the regular contribution to the Single Resolution Fund (SRF) were also to be called up. These amounts, for a total of €74.7 million, were called up on 27th December 2016 by the Bank of Italy as the national resolution authority.
21 The contribution was paid on 28th June 2019.
22 This was along the same lines as that which was done with regard to the additional contributions recognised in 2016 in compliance, moreover, with the Bank of Italy notification entitled "Additional contributions to the national resolution fund: accounting treatment and treatment for supervisory reporting" dated 25th January 2017.
23 The Voluntary Scheme's purpose is to intervene in support of the recovery of member banks and the overall financial stability of the banking sector.
24 Of which €313.2 million paid by means of contributions from the participating banks and €5 million from own resources already available. As an integral part of its commitment to subscribe for the subordinated bonds, the Voluntary Scheme undertook to lend them, under a securities lending agreement, to the party responsible for offering the capital increase, so that the said party might possibly use them to subscribe and pay in the capital increase through offsetting.

From an accounting point of view, the payment was recognised as a financial asset associated with the debt securities in question, under the item "20. c) Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value"[25].

We also report that:

- on 22nd December 2018 the General Meeting of Banca Carige did not approve the authorisation for the Board of Directors relating to the capital increase[26];
- on 2nd January 2019, following the dissolution of the bank's Board of Directors, the European Central Bank placed Banca Carige in extraordinary administration;
- on 7th January 2019 the government approved a decree-law offering broad guarantees protecting the rights and interests of Banca Carige's customers, one aim of which was to permit the extraordinary administration to pursue the process of consolidating the bank's financial position and turning around its operations.

On 31st December 2018, in application of the UBI Banca Group's policy for measuring financial assets for which the counterparty is subject to extraordinary administration, the UBI Banca Group decided to adjust the carrying amount of the investment by €22 million, as classified to item "110. b) Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value".
The investment's post-adjustment carrying amount therefore came to €2.4 million as at 31st December 2018.

The Banca Carige capital strengthening plan culminated on 20th December 2019 with an equity offering of €700 million to increase the share capital, combined with the issuance of a subordinated Tier 2 bond with a nominal value of €200 million (the latter was taken up entirely by institutional investors), for a total of €900 million.
More specifically with regard to the equity offering, shares were subscribed by:

- the IDPF Voluntary Scheme, in the amount of €313.2 million, via the conversion of the bond subscribed in November 2018[27];
- the mandatory part of the IDPF, in the amount of €300.95 million (€62.2 million of which was attributable to the IDPF's role as underwriter of unclaimed rights);
- pre-existing shareholders in the amount of €22.85 million; and
- Cassa Centrale Banca in the amount of €63 million[28].

From an accounting point of view, upon converting the subordinated bond subscribed by the Voluntary Scheme into Banca Carige shares, the UBI Banca Group proceeded to:

- derecognise the financial asset connected with the debt securities (the subordinated bond), previously recognised under item 20 c) "Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value"[29];
- recognise, under item 20 c) "Financial assets measured at fair value through profit or loss: other financial assets mandatorily measured at fair value", a financial asset representing the Voluntary Scheme's investment in Banca Carige's share capital in the amount of €2.4 million.

As at 31st December 2019, the UBI Banca Group confirmed the value of €2.4 million recognised for this investment, as it considers this amount to be the best estimate of its fair value[30].

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25 Along with another asset of €0.4 million related to the €5 million portion of the bonds subscribed by the Voluntary Scheme using resources already available.

26 Per the terms of the Tier 2 subordinated bond, the interest on the bond therefore accrues at the rate of 16% with retroactive effect from the date of issue of the bonds.

27 The €5 million portion of subordinated bonds subscribed by the Voluntary Scheme using its own resources was not subject to conversion.

28 In further detail we report that, as part of the broader operation to increase the share capital, Cassa Centrale Banca was assigned a call option, which may be exercised between July 2020 and December 2021, on all the shares to which the Voluntary Scheme and the FITD.

29 As at 31st December, balance sheet item 20 c) contains a financial asset of €0.4 million for the portion of the subordinated bonds subscribed by the Voluntary Scheme using funds already available and not subject to conversion.

30 Plus €0.4 million pertaining to the portion of subordinated bonds not subject to conversion.

Write-off (or "derecognition") of impaired positions

In accordance with the provisions of IFRS 9, the gross book value of a financial asset is to be written off when there is no reasonable expectation of recovery[31]. In other words, this write-off constitutes a derecognition[32]. This can concern the financial asset in its entirety or a portion of it, and it may be recognised before the legal actions taken in order to recover the exposure are completed.

In accordance with the provisions of this ECB guidance and in light of the provisions of IFRS 9, the UBI Banca Group has adopted a policy, subject to refinement during the first half of the year, on the subject of write-offs aimed at assessing the existence or otherwise of a reasonable expectation of recovery, taking into consideration:
- the status of the exposure (bad loan, unlikely to pay);
- whether or not they are subject to bankruptcy proceedings;
- how long the position has been classified as impaired (the "vintage");
- the presence and value of any accessory collateral and the evolution of the collection process.

More specifically, the UBI Banca Group writes off non-performing positions in the following cases:
- irrecoverability of the exposure, based on objective, precise information, as described below:
  - involvement in bankruptcy proceedings. In this case, the write-off is done according to different timing based on the position's status (unlikely-to-pay or bad loan);
  - the vintage. Unsecured positions and positions secured by personal guarantees, classified as bad loans and not subject to bankruptcy proceedings, are written off when they surpass a vintage of 10 years from the date of classification as NPL, determined on the basis of historical collection data, such that the position can no longer reasonably be considered collectable;
  - positions backed by mortgages. In this case, the write-off is carried out if the foreclosure procedure ends with the asset not being sold;
- debt forgiveness, which may, for example, take place if it is no longer cost effective to proceed or continue with credit collection efforts.

The national consolidated tax option

The Testo Unico delle Imposte sui Redditi (Consolidated Income Tax Law) grants the option for companies belonging to the same Group to calculate a single total income corresponding, generally speaking, to the algebraic sum of the taxable income of the different companies (the Parent and companies directly and/or indirectly controlled by more than 50% according to certain requirements) and as a consequence to calculate a single tax on the income of the companies in the Group (known as a "national tax consolidation", regulated by articles 117-129 of the Consolidated Income Tax Law).
In view of this option, the Italian companies in the Group adhered to the national tax consolidation of the Parent, UBI Banca, and calculated the tax expense relating to them by transferring the corresponding taxable income to the Parent.

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31 In this regard, the European Central Bank's guidance to banks on non-performing loans (NPLs), published in March 2017 and subsequently amended in October 2018, provides guidelines concerning the policies for the derecognition (or "write-off") of NPLs.
32 A write-off does not necessarily imply that the Bank has waived its legal right to recover the credit. Such a waiver known as cancellation of the debt or "debt forgiveness", nevertheless involves cancellation or write-off of the impaired position.

List of the main IFRS standards endorsed by the European Commission[33]

IAS/IFRS	ACCOUNTING POLICIES	EU REGULATIONS
IAS 1	Presentation of financial statements	1274/08, 53/09, 70/09, 494/09, 243/10, 149/11, 475/12, 1254/12, 1255/12, 301/13, 2113/15, 2173/15, 2406/15, 1905/16, 2067/16, 1986/17, 2075/2019, 2104/2019
IAS 2	Inventories	1126/08, 1255/12, 1905/16, 2067/16, 1986/17
IAS 7	Statement of cash flows	1126/08, 1274/08, 70/09, 494/09, 243/10, 1254/12, 1174/13, 1986/17, 1990/17
IAS 8	Accounting policies, changes in accounting estimates and errors	1126/08, 1274/08, 70/09, 1255/12, 2067/16, 2075/2019, 2104/2019
IAS 10	Events after the reporting date	1126/08, 1274/08, 70/09, 1142/09, 1255/12, 2067/16, 2104/2019
IAS 12	Income taxes	1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 1174/13, 1905/16, 2067/16, 1986/17, 1989/17, 412/19
IAS 16	Property, plant and equipment	1126/08, 1274/08, 70/09, 495/09, 1255/12, 301/13, 28/15, 2113/15, 2231/15, 1905/16, 1986/17
IAS 19	Employee benefits	1126/08, 1274/08, 70/09, 475/12, 1255/12, 29/15, 2343/15, 402/19
IAS 20	Accounting for government grants and disclosure of government assistance	1126/08, 1274/08, 70/09, 475/12, 1255/12, 2067/16
IAS 21	The effects of changes in foreign exchange rates	1126/08, 1274/08, 69/09, 494/09, 149/11, 475/12, 1254/12, 1255/12, 2067/16, 1986/17
IAS 23	Borrowing costs	1260/08, 70/09, 2113/15, 2067/16, 1986/17, 412/19
IAS 24	Related party disclosures	632/10, 475/12, 1254/12, 1174/13, 28/15
IAS 26	Retirement benefit plans	1126/08
IAS 27	Consolidated and separate financial statements	1254/12, 1174/13, 2441/15
IAS 28	Investments in associates and joint ventures	1254/12, 2441/15, 1703/16, 2067/16, 182/18, 237/19
IAS 29	Financial reporting in hyperinflationary economies	1126/08, 1274/08, 70/09
IAS 32	Financial instruments: presentation	1126/08, 1274/08, 53/09, 70/2009, 495/09, 1293/09, 149/11, 475/12, 1254/12, 1255/12, 1256/12, 301/13, 1174/13, 1905/16,2067/16, 1986/17
IAS 33	Earnings per share	1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 2067/16
IAS 34	Interim financial reporting	1126/08, 1274/08, 70/09, 495/09, 149/11, 475/12, 1255/12, 301/13, 1174/13, 2343/15, 2406/15, 1905/16, 2075/2019, 2104/2019
IAS 36	Impairment of assets	1126/08, 1274/08, 69/09, 70/09, 495/09, 243/10, 1254/12, 1255/12, 1374/13, 2113/15, 1905/16,2067/16
IAS 37	Provisions, contingent liabilities and contingent assets	1126/08, 1274/08, 495/09, 28/15, 1905/16, 2067/16, 1986/17, 2075/2019, 2104/2019
IAS 38	Intangible assets	1126/08, 1274/08, 70/09, 495/09, 243/10, 1254/12, 1255/12, 28/15, 2231/15, 1905/16, 1986/17, 2075/2019
IAS 39	Financial instruments: recognition and measurement	1126/08, 1274/08, 53/2009, 70/09, 494/09, 495/09, 824/09, 839/09, 1171/09, 243/10, 149/11, 1254/12, 1255/12, 1174/13, 1375/13, 28/15,

33 To provide full information we report that on 8th February 2018, the European Commission published Regulation (EU) No. 2018/182 which endorses certain marginal modifications to the following accounting standards IFRS 1, IFRS 12 and IAS 28.

		1905/16, 2067/16, 1986/17
IAS 40	Investment property	1126/08, 1274/08, 70/09, 1255/12, 1361/14, 2113/15, 1905/16, 1986/17, 400/18
IAS 41	Agriculture	1126/08, 1274/08, 70/09, 1255/12, 2113/15, 1986/17
IFRS 1	First-time adoption of international financial reporting standards	1126/09, 1164/09, 550/10, 574/10, 662/10, 149/11, 475/12, 1254/12, 1255/12, 183/2013, 301/13, 313/13, 1174/13, 2343/15, 2441/15,1905/16, 2067/16, 1986/17, 182/18, 519/18
IFRS 2	Share-based payment	1126/08, 1261/08, 495/09, 243/10, 244/10, 1254/12, 1255/12, 28/15, 2067/16, 289/18, 2075/2019
IFRS 3	Business combinations	495/09, 149/11, 1254/12, 1255/12, 1174/13, 1361/14, 28/15, 1905/16, 2067/16, 1986/17, 412/19, 2075/2019
IFRS 4	Insurance contracts	1126/08, 1274/08, 1165/09, 1255/12, 1905/16, 2067/16, 1986/17, 1988/17
IFRS 5	Non-current assets held for sale and discontinued operations	1126/08, 1274/08, 70/09, 494/09, 1142/09, 243/10, 475/12, 1254/12, 1255/12, 2343/15, 2067/16
IFRS 6	Exploration for and evaluation of mineral resources	1126/08, 2075/2019
IFRS 7	Financial instruments: disclosures	1126/08, 1274/08, 53/09, 70/2009, 495/09, 824/09, 1165/09, 574/10, 149/11, 1205/11, 475/12, 1254/12, 1255/12, 1256/12, 1174/13, 2343/15, 2406/15, 2067/16, 1986/17
IFRS 8	Operating segments	1126/08, 1274/08, 243/10, 632/10, 475/12, 28/15
IFRS 9	Financial instruments	2067/16, 1986/17, 498/18
IFRS 10	Consolidated financial statements	1254/12, 313/13, 1174/13, 1703/16
IFRS 11	Joint arrangements	1254/12, 313/13, 2173/15, 412/19
IFRS 12	Disclosure of interests in other entities	1254/12, 313/13, 1174/13, 1703/16, 182/18
IFRS 13	Fair value measurement	1255/12, 1361/14,2067/16, 1986/17
IFRS 15	Revenue from contracts with customers	1905/16, 1986/17, 1987/17
IFRS 16	Leases	1986/17

SIC/IFRIC	INTERPRETATION DOCUMENTS	EU REGULATIONS
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	1126/08, 1274/08, 1986/17
IFRIC 2	Members' shares in co-operative entities and similar instruments	1126/08, 53/09, 1255/12, 301/13, 2067/16
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1126/08, 1254/12, 2067/16
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	1126/08
IFRIC 7	Applying the restatement approach under IAS 29 “Financial reporting in hyperinflationary economies”	1126/08, 1274/08
IFRIC 10	Interim financial reporting and impairment	1126/08, 1274/08, 2067/16
IFRIC 12	Service concession arrangements	254/09, 1905/16, 2067/16, 1986/17, 2075/2019
IFRIC 14	Prepayments of a minimum funding requirement	1263/08, 1274/08, 633/10, 475/12
IFRIC 16	Hedges of a net investment in a foreign operation	460/09, 243/10, 1254/12, 2067/16
IFRIC 17	Distributions of non-cash assets to owners	1142/09, 1254/12, 1255/12
IFRIC 19	Extinguishing financial liabilities with equity instruments	662/10, 1255/12, 2067/16, 2075/2019

IFRIC 20	Stripping costs in the production phase of a surface mine	1255/12, 2075/2019
IFRIC 21	Levies	634/14
IFRIC 22	Foreign currency transactions and advance consideration	519/18, 2075/2019
IFRIC 23	Uncertainty over income tax treatments	1595/18
SIC 7	Introduction of the euro	1126/08, 1274/08, 494/09
SIC 10	Government assistance – no specific relation to operating activities	1126/08, 1274/08
SIC 25	Income taxes – Changes in the tax status of an enterprise or its shareholders	1126/08, 1274/08
SIC 29	Service concession arrangements: disclosures	1126/08, 1274/08, 70/09, 1986/17
SIC 32	Intangible assets – Website costs	1126/08, 1274/08, 1905/16, 1986/17, 2075/2019

A.2 – THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

1. Financial assets measured at fair value through profit or loss (FVTPL)

1.1. *Definition and classification*

Those financial assets that are not classified within "Financial assets measured at fair value through other comprehensive income" and within "Financial assets measured at amortised cost" are classified within item "20. Financial assets measured through profit or loss". In detail:

a) Financial assets held for trading

A financial asset (debt security, equity security, loan, UCITS share) is recognised within item "20. a) Financial assets measured at fair value through profit or loss: financial assets held for trading" if it is:

- managed with the objective of realising cash flows through the disposal of the asset, and is therefore associated with Other business models, because it is
  - acquired or incurred principally for the purpose of selling or repurchasing it in the short-term;
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- or it is a financial asset which is a derivative[34] (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument[35]).

34 A "derivative" is defined as a financial instrument or other contract with the following characteristics:
- its value changes in response to the change in an interest rate, in the price of a financial instrument, in a commodity price, in a foreign currency exchange rate, in a price, interest rate or credit rating index, or credit worthiness index or other specific variable;
- it requires no initial investment, or a net initial investment that is smaller than would be required for other types of contract from which a similar response to changes in market factors would be expected;
- it is settled at a future date.

With regard to derivative financial instruments, these are subject to netting of current positive and negative values in the balance sheet where they relate to the same counterparty if the legal right currently exists to offset those amounts and they are then settled on a net basis. Derivatives also include those that are embedded in complex financial contracts in which the host contract is not a financial asset that falls within the scope of application of IFRS 9, which are subject to separate recognition because:
- their economic risks and characteristics are not closely related to the economic risks and characteristics of the host contract;
- the embedded instruments would meet the definition of a derivative even if separated;
- the hybrid instruments to which they belong are not measured at fair value with changes in fair value recognised in profit or loss.

35 Reference is made to point 4 "Hedging transactions" for further details.

b) *Financial assets designated at fair value*

A financial asset (debt securities and loans) may be designated on initial recognition on the basis of the fair value option recognised by IFRS 9, as classified within "Financial assets designated at fair value" and therefore recognised within item "20. b) Financial assets measured at fair value through profit or loss: financial assets designated at fair value".

A financial asset can only be designated at fair value through profit or loss on initial recognition when that designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'), which otherwise would result in the measurement of assets or liabilities or recognition of profit or loss on a different basis.

c) *Other financial assets mandatorily measured at fair value*

A financial asset (debt security, equity security, loan, UCITS share and loan) is recognised within item "20. c) Financial assets measured at fair value through profit or loss: financial assets mandatorily measured at fair value" if it is:

- a financial instrument for which the return is measured on the basis of the fair value and it is therefore associated with the Other business models;
- an instrument for which the objective contractual characteristics do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding where the solely payment of principal and interest test ("SPPI" test) has not been passed[36].

1.2. *Recognition criteria*

"Financial assets measured at fair value through profit or loss" are recognised initially when, and only when, the entity becomes party to the contractual provisions of the instruments, which is to say:

- at the time of settlement for debt securities equity securities or loans; or,
- on the subscription date if they are derivative contracts.

Measurement on initial recognition is at the fair value of the instrument (generally the same as its cost) without considering any transaction costs or income directly attributable to the instruments themselves.

1.3. *Measurement criteria*

Subsequent to initial recognition, these assets are measured at fair value[37] with changes in fair value recognised through profit or loss, within the following items:

- within item "80. Net trading income" for financial assets recognised within item "20. a) Financial assets held for trading";
- within item "110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value" for financial assets recognised within item "20. b) financial assets designated at fair value";
- within item "110. b) Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value" for financial assets recognised within item "20. c) other financial assets mandatorily measured at fair value".

Interest on financial instruments which are loans and debt securities classified within item "20. Financial assets held for trading" under balance sheet assets is also classified within the item "10. Interest and similar income".

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36 In fact IFRS 9 states that the classification of financial assets should be made on the basis:
of the entity's business model for managing the financial assets;
of the contractual cash flow characteristics of the financial asset.

37 The measurement of the fair value of the financial assets is based on prices quoted on active markets or on internal valuation models which are generally used in financial practice as described in greater detail in Part A.4 "Information on fair value" of the Notes to the consolidated financial statements of the UBI Banca Group.

1.4. *Derecognition criteria*

"Financial assets measured at fair value through profit or loss" are derecognised from the balance sheet when one of the following situations occurs:

- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off[38] and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset[39]; or
- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute "substantial" modifications[40].

The profit or loss resulting from the derecognition of financial assets is recognised through profit or loss within the following items:

- "80. Net trading income" for financial assets recognised within item "20. a) Financial assets held for trading";
- within item "110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value" for financial assets recognised within item "20. b) Financial assets designated at fair value";
- "110. b) Net income from other financial assets and liabilities measured at fair value through profit or loss: other financial assets mandatorily measured at fair value" for financial assets recognised within item "20. c) other financial assets mandatorily measured at fair value".

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

2.1 *Definition and classification*

The following financial assets (debt securities, equity securities and loans) are classified within asset item "30. Financial assets measured at fair value through other comprehensive income" in the balance sheet:

- financial instruments (debt securities and loans) associated with the hold to collect and sell business model, the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and which therefore have passed the SPPI test;
- equity securities (shareholdings that do not qualify as control, an associate or a joint arrangement) for which an "OCI election" has been made to present changes in the fair value in other comprehensive income[41].

Financial instruments held within the framework of a business model the objective of which is achieved both through the receipt of cash flows and through selling the instruments themselves can be associated with a hold to collect and sell business model.

2.2 *Recognition criteria*

Financial instruments measured at fair value through other comprehensive income are recognised initially when, and only when, the entity becomes a party to the contractual

38 See also the information reported below in subsection "16. "Other information".
39 Also known as "debt forgiveness".
40 Information concerning the identification of cases of substantial modifications is given in section 16 "Other information".
41 In fact in compliance with the provisions of IFRS 9, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

provisions of the instrument and that is at the time of settlement, at an amount equal to the fair value which is generally the same as their cost.
This value includes costs or income directly connected with the instruments themselves.

2.3 Measurement criteria

Subsequent to initial recognition, these assets continue to be measured at fair value[42] with changes in fair value recognised within item “120. Valuation reserves”.

Interest[43] on financial instruments which are loans and debt securities classified within asset item “30. Financial assets measured at fair value through other comprehensive income” in the balance sheet is recognised in the income statement within item “10. Interest and similar income”.

An estimate is made at the end of each annual or interim reporting period and solely for instruments associated with the hold to collect and sell business model of impairment losses on these assets, calculated in compliance with IFRS 9 impairment rules[44].
Impairment losses are recognised immediately in the income statement within the item “130. Net impairment losses for credit risk”, against the item “120. Valuation reserves”, as are recoveries of a portion or the entirety of impairment losses previously recognised. Reversals are recognised when the quality of the asset improves sufficiently to reduce the overall impairment loss previously recognised.

The amount which represents the progressive release of the discounting of the time value calculated at the time of recognition of an impairment loss is recognised in the income statement within item “10. Interest and similar income”.

Additionally, dividends relating to equity securities for which an “OCI election” has been made are recognised within item “70. Dividends and similar income”.

2.4 Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised from the balance sheet when one of the following situations occurs:
- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off[45] and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset[46]; or
- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute “substantial” modifications.

The profit or loss resulting from the derecognition of these assets is recognised as follows:
- in P&L within item “100. b) Income (losses) from disposal or repurchase of: financial assets measured at fair value through other comprehensive income” for financial instruments associated with the hold to collect and sell business model. Otherwise, in all other cases it is recognised within item “130. Net impairment losses for credit risk”;
- as equity within item “120. Valuation reserves” for equity instruments for which an “OCI election” has been made. Following the derecognition of these assets, the balance of the amounts recognised within item “120. Valuation reserves” is reclassified into item “150. Reserves”.

42 The measurement of the fair value of the assets in question is based on prices quoted on active markets or on internal valuation models which are generally used in financial practice as described in greater detail in Part A.4 “Information on fair value” of the Notes to the consolidated financial statements of the UBI Banca Group.
43 This interest is recognised through profit or loss by applying the effective interest rate. Details in this respect are given under the following point 3.3.
44 Details are given in section “16. Other information”.
45 See also in this regard the information reported in the subsequent section “16. Other information”.
46 Also known as “debt forgiveness”.

3. Financial assets measured at amortised cost

3.1 Definition and classification

Financial assets (debt securities and loans) associated with the hold to collect business model for which the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and which therefore have passed the SPPI test are recognised within item "40. Financial assets measured at amortised cost".

Financial instruments held within the framework of a business model the objective of which is to hold them in order to collect the cash flows are associated with the hold to collect business model.

More specifically the following are recognised within this item:

- loans and advances to banks (e.g.: current account overdrafts, security deposits, debt securities);
- loans and advances to customers (e.g. mortgages, financial lease transactions, factoring transactions, debt securities).

3.2 Recognition criteria

Financial instruments measured at amortised cost are recognised initially when, and only when, the entity becomes a party to the contractual provisions of the instrument and that is at the time of settlement, at an amount equal to the fair value, understood as the cost of the instrument, inclusive of any costs and income directly attributable to it[47].

Repurchase agreements with the obligation or right to repurchase or resell at term are recognised as funding or lending transactions. For transactions with a spot sale and forward repurchase, the spot cash received is recognised in the accounts as borrowings, while the spot purchase transactions with forward resale are recognised as lending for the spot amount paid.

3.3 Measurement criteria

These financial instruments are measured at amortised cost[48] calculated using the effective interest method. The result of the application of this method is recognised in the income statement within item "10. Interest and similar income".
The amortised cost of a financial asset is the amount at which it was measured on initial recognition net of principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and less any decrease (as a result of impairment, or inability to recover the asset).
The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or expense over the relative life. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. To determine the effective interest rate, the cash flows must be estimated considering all the contractual terms of the financial instrument (e.g. prepayment, call and similar options), but future credit losses shall not be considered. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, the transaction costs and all other premiums or discounts.

47 For loans and receivables which may not have been granted under market conditions, the initial fair value is calculated by applying special measurement techniques described subsequently. In these circumstances the difference between the fair value calculated in this way and the amount granted is recognise directly through profit or loss within the item interest.

48 The fair value is measured for all assets recognised within this item for information purposes only. For assets subject to effective hedging, the fair value is calculated in relation to the risk that is hedged for measurement purposes. The procedures employed to calculate the fair value of assets measured at amortised cost are described in Part A.4 "Information on fair value" of the Notes to the consolidated financial statements of the UBI Banca Group. No significant changes were made in the first quarter.

An estimate is made at the end of each annual or interim reporting period of impairment losses on these assets, calculated in compliance with IFRS 9 impairment rules[49].
Impairment losses are recognised immediately in the income statement within item "130. Net impairment losses for credit risk" as are recoveries of a portion or the entirety of the impairment losses previously recognised.
Reversals are recognised when the quality of the exposure improves sufficiently to reduce the overall impairment loss previously recognised.
The amount which represents the progressive release of the discounting of the time value calculated at the time of recognition of an impairment loss is recognised in the income statement within item "10. Interest and similar income".

3.4 Derecognition criteria

Financial assets measured at amortised cost are derecognised from the balance sheet when one of the following situations occurs:
- the contractual rights to the cash flows from the financial assets expire; or
- the financial assets are transferred with the substantial transfer of all the risks and rewards of ownership of them; or
- the financial asset is written off[50] and that is when there is no reasonable expectation of recovering the financial assets, inclusive of cases of giving up the asset[51]; or
- the entity retains the contractual right to receive the cash flows from them, but at the same time it assumes a contractual obligation to pay those cash flows to a third party; or
- contractual modifications are made that constitute "substantial" modifications.

The profit or loss resulting from the derecognition of financial assets measured at amortised cost is recognised in the income statement within item "100. a) Income (loss) from disposal or repurchase of: financial assets measured at amortised cost" in cases of transfer. Otherwise, in all other cases it is recognised within item "130. Net impairment losses for credit risk".

4. Hedging transactions

The UBI Banca Group has taken advantage of the option allowed on first-time adoption of IFRS 9 to use the provisions of international accounting standard IAS 39 for hedge accounting.

4.1 Definition and classification

Hedging transactions are designed to neutralise losses on determined assets or liabilities (or groups of assets and/or liabilities) attributable to a determined risk by means of the gains realised on another instrument (or group of instruments) if that particular risk should actually result in losses.
The UBI Banca Group uses the following types of hedging transactions, presented consistently in the accounts and described below:
- a fair value hedge: the objective is to offset adverse changes in the fair value of the asset or liability hedged;
- a cash flow hedge: the objective is to hedge against exposure to variability in expected cash flows with respect to the initial expectations.

Only derivative contracts with an external counterparty may be designated as hedging instruments.

49 Details are given in section "16. Other information".
50 See also in this regard the information reported in the subsequent section "16. Other information".
51 Also known as "debt forgiveness".

4.2 Recognition criteria

As with all derivatives, derivative financial instruments used for hedging are initially recognised and subsequently measured at fair value and are classified, depending on whether the value is positive or negative, in the balance sheet under assets within item "50. Hedging derivatives" and under liabilities within item "40. Hedging derivatives" respectively.

A relationship qualifies as a hedge and is appropriately represented in the accounts if, and only if, all the following conditions are satisfied:

- at the start of the hedging transaction the relationship is formally designated and documented, including the company's risk management objective and strategy for undertaking the hedge. This documentation includes identification of the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposures to changes in the fair value of the item hedged or in the cash flows attributable to the risk hedged;
- the hedging is expected to be highly effective;
- the planned transaction hedged, for hedging cash flows, is highly probable and presents an exposure to changes in cash flows that could have effects on the income statement;
- the effectiveness of the hedging can be reliably measured;
- the hedging is measured on an ongoing basis and is considered highly effective for all the financial years in which it was designated.

4.2.1 Methods for testing effectiveness

A hedge relationship is judged effective, and as such is appropriately presented in the accounts, if at its inception and during its life the changes in the fair value or cash flows of the hedged item attributable to the hedged risk are expected and have almost always been completely offset by the changes in the fair value or cash flows of the hedging instrument. This conclusion is reached when aforementioned changes in fair value or in cash flows fall within a range of between 80% and 125%.
The effectiveness of a hedge is tested at inception and at each reporting date by means of a prospective test designed to demonstrate the expected effectiveness of the hedge during its life.
Further retrospective tests are conducted monthly on a cumulative basis where the objective is to measure the degree of effectiveness of the hedge in the reporting period and therefore to verify whether the hedge has actually been effective in the period.
Derivative financial instruments that are considered hedges from a profit and loss viewpoint, but which do not satisfy the requirements to be considered effective instruments for hedging are recognised within item "20. a) Financial assets measured at fair value through profit and loss: financial assets held for trading" or within item "20. Financial liabilities held for trading" and the profits and losses within the corresponding item "80. Trading income (loss)".
If the above tests do not confirm the effectiveness of the hedge, then if it is not derecognised, the derivative contract is reclassified within derivatives held for trading and the instrument hedged is again measured according to the criterion applied for its balance sheet classification.

4.3 Measurement criteria

4.3.1 Fair value hedging

Fair value hedging is treated as follows:

- the profit or loss resulting from measuring a hedging instrument at fair value is included in the income statement under item "90. Net hedging income (loss)";
- the profit or loss on the item hedged attributable to the hedged risk adjusts the value in the accounts of the hedged item and is recognised immediately, regardless of the type of asset or liability hedged, in the income statement within the aforementioned item.

Hedge accounting is discontinued prospectively in the following cases:

1. the hedging instrument expires or is sold, terminated, or exercised;
2. the hedge no longer meets the hedge accounting criteria described above;
3. the entity revokes the designation.

If the asset or liability hedged is measured at amortised cost, the higher or lower value resulting from measuring them at fair value as a result of the hedge becoming ineffective is recognised through profit or loss, according to the effective interest rate method or at constant rates in the event of a hedge on a portfolio of assets and liabilities where that method is not feasible, or in a single amount if the hedge has been derecognised.
The methods used for measurement of the fair value of the risk hedged in the assets or liabilities subject to hedging are described in Part A.4 "Information on fair value" of the Notes to the 2019 Consolidated financial statements.

4.3.2 Cash flow hedging

When a derivative is designated as a hedge of exposure to changes in expected cash flows from an asset or liability in the balance sheet or a future transaction considered highly probable, the accounting treatment of the hedge is as follows:

- the profits or losses (from the measurement of the hedging derivative) attributable to the effective portion of the hedge are recognised in a special reserve in equity named "120. Valuation reserves";
- the profits or losses (from measurement of the hedging derivative) attributable to the ineffective portion of the hedge are recognised directly in the income statement under item "90. Net hedging income (loss)";
- the asset or liability hedged is measured according to the class of asset or liability to which it belongs.

If a future transaction occurs which involves recognising non-financial assets and liabilities, the corresponding profits or losses initially recognised under item "120. Valuation reserves" are then transferred from that reserve and included as an initial cost of the asset or liability that is recognised. If the future hedged transaction subsequently involves recognition of a financial asset or liability, the associated profits or losses that were originally recognised within item "120. Valuation reserves" are reclassified to the income statement in the same reporting period or periods during which the assets acquired or liabilities incurred have an effect on the income statement. If a portion of the profits or losses recognised in the aforementioned reserve are not considered recoverable, it is reclassified into the income statement within item "80. Net trading income (loss)".

In all cases other than those already described, the profits or losses initially recognised under the item "120. Valuation reserves" are transferred to the income statement to reflect the time and manner in which the future transaction is recognised in the income statement.

An entity must discontinue hedge accounting prospectively in each of the following circumstances:

(a) the hedging instrument expires or is sold, terminated, or exercised (for this purpose the replacement or exchange of one hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or exchange forms part of an entity's documented hedging strategy). In this case the total profit (or loss) on the hedging instrument continues to be recognised directly in equity until the reporting period in which the hedge became effective and it continues to be recognised separately until the programmed hedging transaction occurs;

(b) the hedge no longer satisfies the criteria for hedge accounting. In this case the total profit or loss on the hedging instrument continues to be recognised directly in equity starting from the reporting period in which the hedge became effective and it continues to be recognised separately in equity until the programmed hedging transaction occurs;

(c) it is no longer considered that the future transaction should occur, in which case any related total profit or loss on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge became effective must be recognised through profit or loss;

(d) the entity revokes the designation. For hedges of a programmed transaction, total profits or losses on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge became effective continues to be recognised separately in equity until the programmed transaction occurs or it is expected that it will no longer occur.

If it is expected that the transaction will no longer occur, the total profit (or loss) that had been recognised directly in equity is transferred to the income statement.

4.3.3 Hedging portfolios of assets and liabilities

Hedging of portfolios of assets and liabilities ("macrohedging") and appropriate accounting treatment is possible after first:

- identifying the portfolio to be hedged and dividing it by maturity dates;
- designating the risk to be hedged;
- identifying the interest rate risk to be hedged;
- designating the hedging instruments;
- determining the effectiveness.

The portfolio for which the interest rate risk is hedged may contain both assets and liabilities. This portfolio is divided on the basis of expected maturity or repricing dates of interest rates after first analysing the structure of the cash flows.

Changes in the fair value of the hedged instrument are recognised in the income statement within item "90. Net hedging income (loss)" and in the balance sheet within item "60. Fair value change in hedged financial assets" or within item "50. Fair value change in hedged financial liabilities".
Changes occurring in the fair value of the hedging instrument are recognised in the income statement within item "90. Net hedging income (loss)" and under assets in the balance sheet within item "50. Hedging derivatives" or under liabilities side within item "40. Hedging derivatives".

5. Equity investments

5.1 *Definition and classification*

5.1.1 Subsidiaries

A "subsidiary" is defined as a company over which the Parent exercises control. Such a condition occurs when the latter is exposed to variable returns or holds rights on those returns resulting from its relationship with the subsidiary and at the same time it has the ability to influence those returns by exercising its power over that entity.
The existence of control is also determined by considering the presence of potential voting rights and contractual rights which empower the owner to significantly influence the returns of the subsidiary.

5.1.2 Companies subject to joint control

A "company subject to joint control" is defined as a company governed by a contractual arrangement whereby the parties to it that hold joint control enjoy rights over the net assets of the arrangement. Joint control assumes that control over the arrangement is shared contractually and that it only exists when the unanimous consent of all the parties that share the control is required for decisions that regard important activities.

5.1.3 Associates

An "associate" is defined as a company in which the investor exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the company invested in but not to control or have joint control of it.

5.2 *Recognition criteria*

Equity investments in associates or joint ventures are recognised at cost of purchase plus any accessory costs.

5.3 *Measurement criteria*

In the consolidated financial statements equity investments in subsidiaries are fully consolidated line-by-line. Investments in associates and companies subject to joint control are measured by adopting the equity method.

Any objective evidence that an equity investment has been subject to impairment is assessed as at each annual or interim reporting date. The recoverable amount is then calculated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount calculated in this way is less than carrying amount the difference is recognised in the incombe statement under "250. Profits (losses) of equity investments (equity accounted investees)". Any future reversals of impairment are also included in the item where the reasons for the original impairment no longer apply.

5.4 *Derecognition criteria*

Equity investments are derecognised in the balance sheet when the contractual rights to the cash flows from the financial assets expire or when the financial assets are disposed of with the substantial transfer of all the risks and rewards deriving from ownership of them. The profit or loss on the disposal on investments valued using the equity method are recognised in the income statement within item "250. Profits (losses) of equity investments" (equity-accounted investees); the profit or loss on the disposal of equity investments other than those valued using the equity method is recognised in the income statement within item "280. Profits (losses) on disposal of investments".

6. Property, plant and equipment

6.1 Definition and classification

Property, plant and equipment includes assets for functional use (i.e. business assets)[52], investment property[53], land, moveables, furnishings and equipment of various types, which it is considered will be used over a time horizon of longer than one year.
This item also comprises property, plant and equipment, measured according to IAS 2 "Inventories", resulting both from the enforcement of guarantees and purchases at auction.
From 1st January 2019 it also comprises right-of-use assets acquired through lease contracts and the relative use of the physical assets (for the lessees) that are granted under operating leases (for the lessors) and also improvements and costs for additions incurred on owned assets and right-of-use physical assets arising from lease contracts.

6.2 Recognition criteria

Property, plant and equipment, functional and other, are initially recognised at cost (item "90. Property, plant and equipment"), inclusive of all costs directly connected with bringing it to working condition for the use of the assets and purchase taxes and duties that are not recoverable. This amount is subsequently increased to include expenses incurred from which it is expected future benefits will be obtained. The costs of ordinary maintenance are recognised in the income statement at the time at which they are incurred. On the other hand, costs for extraordinary maintenance (or improvements) from which future benefits are expected are capitalised by increasing the value of the related assets.
Such improvements and incremental expenses from which future benefits are expected, where incurred on leased assets under contracts as per IFRS 16, are recognised as follows:

- within the most appropriate category of item "90. Property, plant and equipment" if they are independent and can be separately identified;
- within item "90. Property, plant and equipment", if they are not independent and cannot be separately identified, as an increase in the right-of-use asset to which they relate on the basis of the provisions of IFRS 16.

Improvements and expenses incurred to increase the value of leased assets other than those in the preceding paragraph are recognised:

- within the most appropriate category of item "90. Property, plant and equipment" if they are independent and can be separately identified;
- within item "130. Other assets" if they are not independent and cannot be separately identified.

6.3 Measurement criteria

Subsequent to initial recognition, items of property, plant and equipment for use in operations are recognised at cost, as defined above, net of accumulated depreciation and any permanent cumulative impairment.

The depreciable amount, equal to cost less the residual value (i.e. the amount that would be normally obtained from disposal, less disposal costs, if the asset was normally in the conditions, including age, expected at the end of its useful life), should be allocated on a systematic basis over the asset's useful life by adopting the straight line method of depreciation. The useful life of an asset, which is reviewed periodically to detect any significant change in estimates compared to previous figures, is defined as:

- the period of time over which it is expected that the asset can be used by a company or,

52 "Assets for functional use" are defined as tangible assets possessed to be used for the purpose of carrying on a company's business and where the use is planned to last longer than one year. Assets for functional use also include properties rented to employees, ex employees and their heirs, as well as works of art.

53 "Investment property" is defined as properties held in order to earn rentals or for capital appreciation. As a consequence, investment property is to be distinguished from assets held for the use of the owner because they generate cash flows that are very different from the other assets held by the banking group.

- the quantity of products or similar units that an entity expects to obtain from the use of the asset.

Since property, plant and equipment may consist of items with different useful lives, land, whether by itself or as part of the value of a property is not depreciated since it constitutes a fixed asset with an indefinite life. The value attributable to the land is deducted from the total value of a property for all properties in proportion to the percentage of ownership. Buildings, on the other hand, are depreciated according to the criteria described above.
Works of art are not depreciated because they generally increase in value over time.
Depreciation of an asset starts when it is available for use and ceases when the asset is written off the accounts, which is the most recent of when it is classified as for sale and the date of elimination from the accounts. As a consequence depreciation does not stop when an asset is left idle or is no longer in use, unless the asset has already been fully depreciated.
Improvements and expenses which increase the value are depreciated as follows:

- if they are independent and can be separately identified, according to the presumed useful life as described above;
- if they are not independent and cannot be separately identified, then if they are held under an ordinary lease contract, over the shorter of the period in which the improvements and expenses can be used and that of the remaining life of the lease contract with account taken of renewal options if the lessee is reasonably certain that the option will be exercised. When the lease contract involves the transfer of ownership of the asset at the end of the lease term then the depreciation period can be the same as the useful life of the underlying asset.

At the end of each annual or interim reporting period the existence of indications that demonstrate the impairment of the value of an asset are assessed. The loss is determined by comparing the carrying amount of the property, plant or equipment with the lower recoverable amount. The latter is the greater of the fair value[54], net of any sales costs, and the relative value in use intended as the present value of future cash flows generated by the asset. The loss is immediately recognised in the income statement within item 210. "Depreciation and net impairment losses on property, plant and equipment"; the item also includes any future recovery in value if the causes of the original recognition of impairment no longer exist.

6.4 Property, plant and equipment shown as right-of-use assets relating to lease contracts

According to IFRS 16, a lease is a contract or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

A finance lease contract transfers substantially all the risks and rewards incident to ownership of an asset to the lessee (the user). Otherwise the leases is considered an "operating lease".

The beginning of the lease term is the date on which the lessee is authorised to exercise its right to use the asset leased and corresponds to the date on which the lease is initially recognised and includes any "rent-free" periods, i.e. periods under the contract during which the lessee uses the asset free-of-charge.

When the contract commences, the lessee recognises:

- a right-of-use asset for the asset underlying the lease contract. The asset is recognised at cost calculated as the sum of the following:
  - the lease liability;
  - any lease payments made before or at the commencement date (net of any lease incentives already received);
  - direct initial costs; and
  - an estimate of any costs for dismantling or restoring the underlying asset;

54 The procedures employed to calculate the fair value of real estate assets are described in Part A.4 "Information on fair value" of the Notes to the consolidated financial statements.

- a lease liability arising from the lease corresponding to the present value of the lease payments to be paid. The discount rate used is the implicit interest rate[55] if it can be determined. Otherwise the incremental borrowing rate of the lessee is used[56].

Where a lease contract contains "non-lease components" (e.g. the provision of services such as ordinary maintenance to be recognised according to IFRS 15) the lessee must account for the lease components and the non-lease components separately and allocate the consideration for the contract to the different components on the basis of the relative stand-alone prices.

A lessee may opt to recognise lease payments as follows:
- directly as an expense in the income statement on a straight-line basis over the lease term;
- by using another systematic basis representative of the pattern of the lessee's benefit, where:
  - it is a short-term lease (equal to or less than twelve months) which does not include a purchase option on the asset leased by the lessee;
  - a lease for which the underlying asset is of low value[57].

The UBI Banca Group opted for direct recognition as an expense in the income statement on a straight-line basis over the lease term.

The lease term is determined with account taken of[58]:
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain to exercise that option.

During the course of the lease term a lessee shall:
- measure the right-of-use at cost less accumulated depreciation and accumulated impairment losses[59] determined and recognised on the basis of the provisions of the IAS 36 "Impairment of assets", adjusted to take account of any remeasurement of the lease liability;
- increase the liability arising from the lease following the accrual of interest expense calculated at the interest rate implicit in the lease or alternatively at the incremental borrowing rate and increase it for payments of principal and interest made.

If changes are made to the lease payments then the lease liability must be reassessed. The impact of the reassessment of the liability is recognised as an adjustment to the right-of-use asset as the balancing entry.

6.5 Derecognition criteria

Property, plant and equipment are derecognised in the balance sheet when they are disposed of or when they are permanently retired from use and no future economic benefits are expected from their disposal. Any gains or losses resulting from the retirement or disposal of the tangible asset, calculated as the difference between the net consideration on the sale and the carrying amount of the asset are recognised in the income statement within item "280. Profits (losses) on the disposal of investments".

The right-of-use asset arising from a lease contract is derecognised at the end of the lease term.

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55 The interest rate implicit in the lease is the discount rate by which, on commencement of the lease, the present value of a) the lease payments and b) the unguaranteed residual value is equal to the fair value of the underlying asset and any initial direct costs of the lessor.

56 The incremental borrowing rate of a lessee is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

57 It is not possible to classify assets that are subleased by a lessee as being of low value.

58 Termination options held solely by the lessor are not considered when determining the lease term.

59 Account must be taken when determining the depreciation period of whether or not ownership of the underlying asset may be transferred at the end of the lease term or whether or not the cost of the right-of-use asset reflects that the lessee will exercise a purchase option. In the first case the depreciation period is that of the useful life of the underlying asset determined at the commencement date. In the second case the depreciation period is the useful life of the right-of-use asset or the lease term if it is shorter.

7. Intangible assets

7.1 Definition and classification

An intangible asset is defined as an identifiable non-monetary asset without physical substance that is used in carrying on a company's business.

The asset is identifiable when:
- it is separable, which is to say capable of being separated and sold, transferred, licensed, rented, or exchanged;
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from other rights and obligations.

An asset possesses the characteristic of being controlled by the enterprise as a result of past events and the assumption that its use will cause economic benefits to flow to the enterprise. An entity has control over an asset if it has the power to obtain future economic benefits arising from the resource in question and may also limit access by others to those benefits.
Future economic benefits arising from an intangible asset might include receipts from the sale of products or services, savings on costs or other benefits resulting from the use of the asset by an enterprise.

An intangible asset is recognised if, and only if:

(a) it is probable that the expected future economic benefits attributable to the asset will flow to the entity;

(b) the cost of the asset can be measured reliably.

The probability of future economic benefits occurring is assessed on the basis of reasonable and supportable assumptions that represent the best estimate of the economic conditions that will exist over the useful life of the asset.
The degree of probability attaching to the flow of economic benefits attributable to the use of the asset is assessed on the basis of the sources of information available at the time of initial recognition, giving greater weight to external sources of information.

In addition to goodwill and software used mainly over several years, intangible assets related to assets under management, assets under custody and core deposits recognised following business combination operations are also considered as intangible assets.

7.1.1 Intangible assets with a finite useful life

A finite useful life is defined for an asset where it is possible to estimate a limit to the period over which the related economic benefits are expected to be produced.
Intangible assets recognised considered as having a finite useful life include software, intangible assets related to assets under management and assets under custody and core deposits.

7.1.2 Intangible assets with an indefinite useful life

An indefinite useful life is defined for an asset where it is not possible to estimate a predictable limit to the period over which the asset is expected to generate economic benefits for a company. The attribution of an indefinite useful life to an asset does not arise from having already programmed future expenses which restore the standard level of performance of the asset over time and prolong its useful life.
Intangible assets considered as having an indefinite useful life include goodwill.

7.2 Recognition criteria

Assets recognised within balance sheet item "100. Intangible assets" are stated at cost and any expenses subsequent to the initial recognition are only capitalised if they are able to generate

future economic benefits and only if those expenses can be reliably determined and attributed to the Assets.
The cost of an intangible asset includes:

- the purchase price including any non-recoverable taxes and duties on purchases after commercial discounts and bonuses have been deducted;
- any direct costs incurred in bringing the asset into use.

7.3 Measurement criteria

Subsequent to initial recognition intangible assets with a finite useful life are recognised at cost net of total amortisation and any losses in value that may have occurred. Amortisation is calculated on a systematic basis over the best estimate of the useful life of the asset (see definition in the section "Property, plant and equipment) using the straight line method for all intangible assets except for intangible assets relating to customer accounts recognised following the purchase price allocation resulting from business combination operations. In this case the amortisation is calculated on the basis of the estimated average life of the customer relationships.

Amortisation begins when the asset is available for use and ceases on the date on which the asset is eliminated from the accounts.

Intangible assets with an indefinite useful life (see, goodwill, as defined in the section below if positive) are recognised at cost net of any impairment loss resulting from periodic reviews when tests are performed to verify the appropriateness of the carrying amount of the assets (see section below). As a consequence amortisation of these assets is not calculated.

No intangible assets arising from research (or from the research phase of an internal project) are recognised. Research expenses (or the research phase of an internal project) are recognised as expenses at the time at which they are incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if the following can be demonstrated:

(a) the technical feasibility of completing the intangible asset so that it becomes available for sale or use;
(b) the intention of the company to complete the intangible asset to use it or sell it;
(c) the capacity of the company to use or sell the intangible asset.

At the end of each annual or interim reporting period the existence of potential impairment of the value of intangible assets is assessed. The impairment is given by the difference between the carrying amount of the assets and the recoverable amount and is recognised, as are any recoveries of value, within item "220. Amortisation and net impairment losses on intangible assets", with the exception of impairment losses on goodwill which are recognised within item "270. Net impairment losses on goodwill".

7.4 Goodwill

Goodwill is defined as the difference between the purchase cost and the fair value of assets and liabilities acquired as part of a business combination which consists of the union of separate enterprises or businesses in a single entity required to prepare financial statements. The result of almost all business combinations consists in the fact that a sole entity, an acquirer, obtains control over one or more separate businesses of the acquiree. When an entity acquires a group of activities or net assets that do not constitute a business it allocates the cost of the group to individual assets and liabilities identified on the basis of their relative fair value at the date of acquisition.
A business combination may give rise to a holding relationship between a parent company and a subsidiary in which the acquirer is the parent company and the acquiree is the subsidiary.

All business combinations are accounted for using the purchase method of accounting.
The purchase method involves the following steps:

(a) identification of the acquirer (the acquirer is the combining enterprise that obtains control of the other combining enterprises or businesses);
(b) determination of the acquisition date;

(c) determination of the cost of the business combination, intended as the consideration transferred by the purchaser to the shareholders of the acquiree;
(d) the allocation, as at the acquisition date, of the cost of the business combination by means of the recognition, classification and measurement of the identifiable assets acquired and the identifiable liabilities assumed;
(e) recognition of any existing goodwill.

Business combinations performed with subsidiary undertakings or with companies belonging to the same group are recognised on the basis of the significant economic substance of the transactions.
In application of that principle, the goodwill arising from those transactions in the separate financial statements is recognised:
(a) within asset item 100 of the balance sheet if significant economic substance is found;
(b) as a deduction from equity if it is not found.

These transactions are eliminated from the consolidated financial statements and are therefore recognised solely as the relative costs incurred in relation to parties external to the Group.

The goodwill recognised in the consolidated financial statements of the Group ("goodwill arising on consolidation" resulting from the elimination of the equity investments in subsidiaries) is the result of all the goodwill and positive consolidation differences relating to some of the companies controlled by the Parent.
Any changes in the share of ownership which do not result in the loss or acquisition of control are to be considered, in compliance with IFRS 10, as transactions between shareholders and as a consequence the relative effects must be recognised as either an increase or a decrease in equity.

7.4.1 Allocation of the cost of a business combination to assets and liabilities and contingent liabilities

The acquirer:
(a) recognises the goodwill acquired in a business combination as assets;
(b) measures that goodwill at its cost to the extent that it is the excess of the cost of the business combination over the acquirer's share of interest in the net fair values of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill acquired in a business combination represents a payment made by the acquirer in the expectation of receiving economic future benefits from the asset which cannot be identified individually and recognised separately.
After initial recognition, the acquirer values the goodwill acquired in a business combination at the relative cost net of cumulative impairment.
The goodwill acquired in a business combination must not be amortised. The acquirer tests the asset for impairment annually or more frequently if specific events or changed circumstances indicate that it may have suffered a reduction in value, according to the relative accounting standard.

The standard states that an asset (including goodwill) has suffered an impairment loss when the amount recognised in the accounts exceeds the recoverable amount understood as the greater of the fair value, net of any sales expenses and its value in use, defined by section 6 of IAS 36.
In order to test for impairment, goodwill must be allocated to cash generating units or to groups of cash generating units, in observance of the maximum aggregation limit which cannot exceed the operating segment identified in accordance with IFRS 8.

7.4.2 Negative goodwill

If the acquirer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:
(a) reviews the identification and measurement of the identifiable assets, liabilities and contingent liabilities of the acquiree and the determination of the cost of the business combination;

(b) immediately recognises any excess existing after the new measurement in the income statement.

7.5 Derecognition criteria

Intangible assets are derecognised in the balance sheet following disposal or when no economic future benefit is expected from its use or disposal.

8. Non-current assets and disposal groups held for sale

The aggregate of non-current assets and liabilities and non-current groups of assets and liabilities is composed of

- assets held for sale that do not satisfy the requirements of IFRS 5 to qualify as "discontinued operations"; and
- "discontinued operations" as defined in IFRS 5.

The carrying amount of that aggregate will presumably be recovered through the sale rather than by continued use and the relative assets and liabilities are classified within the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with disposal groups held for sale" respectively.
In order to be classified within these items the assets or liabilities (or disposal groups) must be immediately available for sale and there must be active, concrete programmes to sell the assets or liabilities in the short term.

These assets or liabilities are measured at the lower of the carrying amount and their fair value net of disposal costs.
Profits and losses attributable to groups of assets or liabilities held for sale are recognised in the income statement within item "320. Profit (loss) after tax on non-current assets and groups of assets held for disposal".
Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

9. Current and deferred taxation

Tax assets and liabilities are stated in the balance sheet within items "110. Tax assets" and "60. Tax liabilities".

9.1 Current tax assets and liabilities

Current tax for the current and prior periods is recognised as a liability to the extent that it has not yet been settled; any excess compared to the amount due is recognised as an asset.
Current tax assets (liabilities) for the current and prior years, are measured at the amount expected to be paid to/recovered from taxation authorities, using the tax rates and tax laws in force.
Current tax assets and liabilities are derecognised in the accounts in the year in which the assets are realised or the liabilities are extinguished.

9.2 Deferred tax assets and liabilities

Deferred tax liabilities are recognised for all taxable temporary differences unless the deferred tax liability arises from:

- goodwill for which amortisation is not deductible for tax purposes or
- the initial recognition of an asset or a liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither the accounting nor the taxable profit.

Deferred tax assets are not calculated for higher values of assets for which the tax regime has been suspended relating to equity investments and to reserves for which the tax regime has been suspended because it is considered there are no reasonable grounds to assume they will be taxed in future.

Deferred tax liabilities are recognised in the balance sheet within item "60. Tax liabilities b) deferred".
A deferred tax asset is recognised for all deductible temporary differences if it is probable that a taxable income will be used against which it will be possible to use the deductible temporary difference, unless the deferred tax asset arises from:

- negative goodwill which is treated as deferred income;
- the initial recognition of an asset or liability in a transaction which:
  - which is not a business combination; and
  - affects neither the accounting profit nor the taxable profit at the time of the transaction.

Deferred tax assets are recognised within the balance sheet item 110 "Tax assets b) deferred".

Deferred tax assets and deferred tax liabilities are subject to constant monitoring and are measured using the tax rates that it is expected will apply in the period in which the tax asset will be realised or the tax liability will be extinguished on the basis of the tax regulations established by laws currently in force.

Deferred tax assets and deferred tax liabilities are derecognised in the accounts in the year in which:

- the temporary difference which gave rise to them becomes payable with regard to deferred tax liabilities or deductible with regard to deferred tax assets;
- the temporary difference which gave rise to them is no longer valid for tax purposes.

Deferred tax assets and deferred tax liabilities are not normally discounted to present values nor even, normally, offset one against the other.

10. Provisions for risks and charges

10.1 Definition

A provision is defined as a liability of uncertain timing or amount.

A contingent liability, however, is defined as:

- a possible obligation, the result of past events, the existence of which will only be confirmed by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
- a present obligation that is the result of past events, but which is not recognised in the accounts because:
  - it is improbable that financial resources will be needed to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the accounts, but are only reported, unless they are considered a remote possibility.

10.2 Recognition and measurement criteria

A provision is recognised if and only if:

- there is a present obligation (legal or implicit) that is the result of a past event; and
- it is probable that the use of resources suitable for producing economic benefits will be required to fulfil the obligation; and
- a reliable estimate can be made of the amount arising from fulfilment of the obligation.

The amount recognised as a provision represents the best estimate of the expenditure required to settle the present obligation at the reporting date and reflects the risks and uncertainties that inevitably characterise a number of facts and circumstances. The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is a substantial aspect. Future events that might affect the amount required to settle the obligation are only taken into consideration if there is sufficient objective evidence that they will occur.

Provisions made for risks and charges include those for the risk attaching to any existing tax litigation.

Provisions for risks and charges also include:

- provisions relating to financial commitments and guarantees issued subject to IFRS 9 impairment rules[60];
- expenses relating to pension funds and defined benefits pursuant to the provisions of IAS 19.

10.3 Derecognition criteria

The provision is reversed when it becomes improbable that the use of resources designed to produce economic benefits will be required to settle the obligation.

60 Details are given in section “16. Other information”.

11. Financial liabilities measured at amortised cost

11.1 Definition and classification

The various forms of interbank and customer funding are recognised within the following balance sheet items:

- "10. a) Financial liabilities measured at amortised cost: due to banks"
- "10. b) Financial liabilities measured at amortised cost: due to customers"; and
- "10. c) Financial liabilities measured at amortised cost: debt securities issued

These items also include liabilities recognised by a lessee in lease operations[61].

11.2 Recognition criteria

The liabilities in question are recognised in the balance sheet at the time when the funding is received or when the debt securities are issued.
The amount initially recognised is the fair value, which is normally the same as either the consideration received or the issue price, inclusive of any additional expenses or income that are directly attributable to the transaction and determinable from the outset, regardless of when they are paid.
The amount of the initial recognition does not include all those costs that are reimbursed by the creditor counterparty or that are attributable to internal costs of an administrative character.

11.3 Measurement criteria

After initial recognition medium to long-term financial liabilities are measured at amortised cost using the effective interest method as defined in previous paragraphs.
Short-term liabilities, for which the time factor is insignificant, are measured at cost[62].

11.4 Derecognition criteria

Financial liabilities are derecognised in the balance sheet when they mature or are extinguished.
The repurchase of own securities issued results in derecognition of the securities with the consequent redefinition of the liability for debt instruments issued. Any difference between the repurchase value of the own securities and the corresponding carrying amount of the liabilities is recognised in the income statement within the item "100. c) Income (loss) from the disposal or repurchase of: d) financial liabilities". Any subsequent re-issue of the securities previously subject to derecognition in the accounts constitutes a new issue for accounting purposes with the consequent recognition at the new issue price without any effect in the income statement.

61 See section 6.4 "Property, plant and equipment shown as right-of-use assets relating to lease contracts".
62 The procedures employed to calculate the fair value of liabilities and debt securities issued, performed for information purposes only, are described in Part A.4 "Information on fair value" of the Notes to the consolidated financial statements. No significant changes were made in the first quarter.

12. Financial liabilities held for trading

12.1 Definition and classification

A financial liability is defined as held for trading and is therefore recognised within item "20. Financial assets held for trading", if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short-term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument[63]).

12.2 Recognition criteria

Financial liabilities held for trading are recognised on the subscription date or the issue date.

Measurement on initial recognition is at cost considered to be the fair value of the instrument without considering any transaction costs or income directly attributable to them.

The negative value of derivative contracts held for trading, the negative value of any implicit derivatives implicit in complex contracts, but not strictly related to them and therefore subject to separation and liabilities that originate from uncovered short positions generated by securities trading activity are included in this category of liabilities.

12.3 Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes recognised within item "80. Net trading income"[64].

12.4 Derecognition criteria

Financial liabilities held for trading are derecognised from the balance sheet when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership.
The profit or loss from the transfer of financial assets held for trading is recognised in the income statement within item "80. Trading income (loss)".

63 Reference is made to point 4 "Hedging transactions" for further details.
64 Reference is made for details concerning the calculation of the fair value to Part A.4 "Information on fair value" of the Notes to the consolidated financial statements. No significant changes were made in the first quarter.

13. Financial liabilities designated at fair value

13.1 Definition and classification

A financial liability may be classified on initial recognition within "Financial liabilities designated at fair value", on the basis of the fair value option recognised by IFRS 9, or only when:

a) it is a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly alters the cash flows that would otherwise be generated by the contract;

b) the designation at fair value through profit or loss allows better information to be provided because:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities, or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

13.2. Recognition criteria

Financial liabilities designated at fair value, classified on the basis of the fair value option, are recognised as at the issue date.

Measurement on initial recognition is at cost considered to be the fair value of the instrument without considering any transaction costs or income directly attributable to them.

13.3. Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value[65] with changes recognised in the income statement within item "110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets designated at fair value".
With specific reference to changes in fair value relating to the credit rating, these are recognised within item "120. Valuation reserves" in equity unless the accounting treatment would create or enlarge an accounting mismatch in profit or loss. In the latter case the changes in question should be recognised in the aforementioned item in the income statement.

13.4 Derecognition criteria

Financial liabilities designated at fair value are derecognised from the balance sheet when the contractual rights to the cash flows resulting from them expire or when they are transferred with the substantial transfer of all the risks and rewards of their ownership.
The profit or loss from the transfer of financial liabilities designated at fair value held for trading is recognised in the income statement within item "110. a) Net income from other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value".

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65 Reference is made for details concerning the calculation of the fair value to Part A.4 "Information on fair value" of the Notes to the consolidated financial statements. No significant changes were made in the first quarter.

14. Foreign currency transactions

14.1 Definition

The foreign currency is a currency that is not the functional currency of the entity, which is in turn the currency of the primary economic environment in which an entity operates.

14.2 Recognition criteria

A foreign currency transaction is recorded at the time of initial recognition in the functional currency applying the spot exchange rate between the functional currency and the foreign currency ruling on the date of the transaction.

14.3 Measurement criteria

At each reporting date:

(a) foreign currency monetary amounts[66] are translated using the closing rate;

(b) non-monetary items[67] measured at historical cost in foreign currency are translated using the exchange rate ruling at the date of the transaction;

(c) non-monetary items measured at fair value in a foreign currency are translated using the exchange rates that existed on the dates when the fair values were determined.

Exchange rate differences arising from the settlement of monetary items, or from the translation of monetary items at rates different from those at which they were translated when initially recognised during the year or in previous financial statements, are recognised in the income statement for the period except for exchange rate differences arising on monetary items that form part of a net investment in a foreign operation.
Exchange rate differences arising from a monetary item that forms part of a net investment in a foreign operation of an entity that prepares financial statements are recognised in the income statement of the individual company financial statements of the entity that prepares the financial statements or the individual company financial statements of the foreign operation. These exchange rate differences in the financial statements that include the foreign operation (e.g. in the consolidated accounts when the foreign operation is a subsidiary) are initially recognised as a separate component in equity and are recognised in the income statement at the time of the disposal of the net investment.
When a profit or loss on a non-monetary item is recognised directly in equity, each change in that profit or loss is also recognised directly in equity. However, when a profit or loss on a non-monetary item is recognised in the income statement each change in that profit or loss is recognised in the income statement.

The financial statements of foreign subsidiaries and associates which employ an accounting currency that is different from that of the Parent are translated using the exchange rates ruling at the reporting date

66 Monetary" items are defined as relating to determined sums in foreign currency, which is to say to assets and liabilities which must be received or paid for a determined amount in foreign currency. The defining characteristic of a monetary item is therefore the right to receive or an obligation to pay a set or calculable number of foreign currency units.
67 See the note on "monetary" items for the contrary.

15. Insurance assets and liabilities

The UBI Banca Group recognises assets and liabilities and also the profits and losses for the period relating to its subsidiary insurance companies on the basis of the provisions of IFRS 9. It does this because:

- since it is not a "financial conglomerate" [68] it does not apply the "deferral approach"[69];
- it has opted not to apply the "overlay approach"[70].

15.1 Technical reserves

These relate solely to contracts falling within the scope of IFRS 4. An accounting practice known as "shadow accounting" has been adopted, where the fair value component of the assets in separate management portfolios, originally recognised in equity, is posted to the reserves. In fact, paragraph 30 of IFRS 4 states: *"In some accounting models, realised gains or losses on an insurer's assets have a direct effect on the measurement of some or all of (a) its insurance liabilities, (b) related deferred acquisition costs and (c) related intangible assets. An insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability shall be recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income."* On the basis of those provisions it is permitted to attribute income and expenses resulting from the fair value measurement of financial instruments assigned to separate management portfolios.
The value adjustment must be calculated by applying the minimum withheld to the balance of the unrealised capital gains and losses on the securities in each separate management portfolio, recognised in the fair value reserve.
A liability adequacy test (LAT) conducted in accordance with IFRS 4 shows that the requirements are met.
Any additional reserves in case of death relating to Business Sector III policies are reported in equity.

15.2 Net insurance premiums

Comprises premiums relating to Business Sector I and V contracts

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68 In accordance with Art. 2 of Directive 2002/87/EC, a group, or sub-group of a group, constitutes a financial conglomerate when it satisfies the following conditions:
a) a regulated entity is at the head of the group or at least one of the subsidiaries in the group is a regulated entity;
b) where there is a regulated entity at the head of the group, this is either a parent undertaking of another entity in the financial sector, an entity which holds a participation in another entity in the financial sector, or an entity linked with an entity in the financial sector by a relationship which involves management on a unified basis pursuant to a contract concluded with that undertaking or provisions in the articles of association or in which the administrative, management or supervisory bodies consist for the major part of the same persons;
c) where there is no regulated entity at the head of the group, the group's activities mainly occur in the financial sector;
d) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector;
e) the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant.

69 This approach is reserved to financial groups which constitute "financial conglomerates" on the basis of which entities belonging to them, within the insurance sector, may opt not to apply the provisions of IFRS 9 for the preparation of consolidated financial statements until the financial year ending 31st December 2020. This approach is also applicable for groups whose activities are predominantly connected with insurance activities.

70 An option which may taken by companies that issue insurance contracts, which are required to apply IFRS 9 because they do not belong to "financial conglomerates". This option, which may be exercised on first-time adoption of IFRS 9, allows the amount needed for the income statement result at the end of the year to be the same as it would have been had the company applied the provisions of IAS 39 in place of IFRS 9 to be reclassified from the income statement to the statement of OCI. The financial assets that can be designated for the aforementioned approach are only those which:
- are measured at fair value and recognised through profit or loss, but would not have been measured in that manner in accordance with IAS 39;
- are not held in relation to activities with no connection (e.g. banking activities) with contracts that fall within the scope of application of IFRS 4.

15.3 Net income/expenses from insurance operations

This includes the following items:

- commissions and other acquisition costs from insurance policy contracts relate to Business Sectors I and V only;
- management fees on investments related to securities management charges;
- acquisition and liquidation expenses relating to Business Sector III investment contracts;
- expenses relating to claims. This includes amounts disbursed for claims settlements, net of reinsurance and inclusive of liquidation expenses relating to contracts subject to IFRS 4. Amounts disbursed and liquidation expenses in insurance Business Sectors III and VI are not included, as they are classified as administrative expenses, nor are changes in mathematical reserves for Business Sector III and VI policies, while according to IAS they are defined as financial liabilities.

16. Other information

Impairment of financial instruments

The following items are subject to impairment rules in accordance with IFRS 9:

- "Financial assets measured at amortised cost";
- "Financial assets measured at fair value through other comprehensive income" that are not equity securities;
- loan commitments and guarantees granted that are not measured at fair value through profit or loss.

General approach

The calculation of "expected credit losses" (ECL), which is to say expected losses to be recognised through profit and loss as impairment losses, was carried out on the basis of whether there has been a significant increase in the credit risk of a financial instrument compared with that calculated on the date of its initial recognition.
To achieve this, the instruments subject to impairment rules are associated in accordance with those rules with different stages characterised by different approaches to the calculation of impairment losses[71].
In detail:

- in the absence of a significant increase in credit risk since its initial recognition, the financial instrument is maintained in stage 1 and an impairment loss is recognised in the financial statements equal to the 12-month expected credit losses (i.e. the expected credit losses that result from default events on a financial asset that are possible within 12 months of the reporting date);
- in the presence of a significant increase in credit risk since initial recognition, the financial instrument is assigned to stage 2 or stage 3 if the financial instrument is impaired[72] and an impairment loss is recognised in the balance sheet equal to the lifetime expected credit losses (i.e. the expected credit losses that result from all possible default events over the expected life of a financial asset).

"Purchase or originated credit impaired" (POCI) financial assets and assets that are measured in accordance with the "Simplified method" (details of which are given under special parts in this section) constitute an exception to the above.

An improvement in credit risk sufficient to eliminate the conditions that had led to a significant increase in it or in other words the loss of non-performing status leads to the

71 The stages differ not only in the procedures employed to calculate impairment losses on loans but also in those used to calculate interest, details of which are given under the relative point of this section 16.
72 In this respect, the UBI Banca Group has adopted the definition given in Bank of Italy Circular No. 262/2005 currently in force, which states that non-performing exposures are the sum of all exposures considered non-performing past due, unlikely to pay or bad, as defined under supervisory regulations in force.

return of the financial instrument to its previous stage. In this case the entity recalculates the impairment loss previously recognised, and recognises it through profit and loss as a reversal.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all possible cash shortfalls) over the expected life of the financial instrument.
The general approach used to estimate expected credit losses involves the application of regulatory risk parameters adjusted for compliance with the IFRS 9 accounting standard.

Expected credit losses over the following 12 months are a fraction of the expected losses over the entire lifetime of a loan and they represent losses that will occur if a default were to occur in the 12 months following the reporting date, weighted on the basis of the probabilities that a default will occur.

The evaluation of non-performing positions normally takes place on a case-by-case basis.
The method for estimating impairment losses recognised on non-performing exposures is based on discounting expected future cash flows, taking account of any guarantees to back the positions and of any advances received. The fundamental elements for determining the present value of cash flows are the identification of the estimated cash flows, the relative maturity dates and the discount rate to apply. The amount of the impairment losses is equal to the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the effective interest rate and appropriately updated for instruments with variable interest rates, or, for cases of exposures classified as bad, with the effective interest rate existing as at the date of classification as bad.

Simplified method

The calculation of expected credit losses according to the simplified method is always carried out on the basis of the lifetime ECL and does not therefore require verification of the presence of a significant increase in credit risk compared with that existing on the date of initial recognition.
The UBI Banca Group has adopted that method for trade loans and receivables and contractual assets in the absence of significant financial components, or in other words only for those cases for which the adoption of the simplified approach is compulsory under IFRS 9. In fact in this respect the Group as opted not to use this method for those cases in which application is optional.

Calculation of interest income on impaired financial assets

As already stated in previous sub-sections, the calculation of interest income is carried out by applying the “effective interest rate criterion” except for “purchase or originated credit impaired” (POCI) financial assets discussed in a following part of this sub-section.
The calculation of interest income differs according to the stage with which the financial instrument is associated for the purposes of determining impairment losses. In detail:

- for assets associated with stages 1 and 2, which is to say performing positions, the effective interest rate is applied to the gross carrying amount of the financial asset consisting of the amortised cost of the financial instrument without the overall impairment losses recognised;
- for assets associated with stages 3, which is to say non-performing positions, the effective interest rate is applied to the amortised cost of the financial instrument, consisting of the gross carrying amount less the cumulative impairment losses recognised.

Purchased or originated credit impaired assets (POCI)

“Purchase or originated credit impaired assets” (POCI) are defined as exposures that are non-performing at the purchase or origination date.
POCI assets also include credit exposures acquired in the course of disposal transactions (individual portfolio) and business combinations.
The assets in question are not identified by any specific balance sheet item, but are stated in the balance sheet in accordance with IFRS 9 classification rules.

On this basis reference is made to the information given on the items in question for the initial recognition, measurement and derecognition criteria. With specific reference to:

1. the application of the effective interest rate; and
2. the calculation of impairment losses;

the specifications given below are made.

1. The effective interest rate method

The interest recognised should be calculated by applying the "credit adjusted effective interest rate", which is the interest rate which at the time of initial recognition exactly discounts all the estimated future cash flows at amortised cost of the asset, incorporating also the expected credit losses in the estimate (unlike the method used to calculate the effective interest rate).
This interest rate is applied to the amortised cost of the instrument, which is the gross carrying amount of the asset minus the cumulative impairment losses.

2. Calculation of net impairment losses

The assets in question are subject to the calculation of the lifetime expected credit losses of the financial instrument with no possibility of transfer to 12-month expected credit losses should there be a significant improvement in the credit risk of the exposure. More specifically, it is underlined that the expected credit losses are not recognised on the first measurement date of the financial instrument because they are already included in the calculation of the "credit adjusted effective interest rate", but only if there have been changes in the expected credit losses compared with those initially estimated.

Contractual modifications of financial assets

Contractual modifications made to financial assets can be classified in the following two categories:

1. contractual modifications which, on the basis of their "significance", lead to the derecognition of the financial asset and are therefore treated according to "derecognition accounting" rules;
2. contractual modifications which do not lead to the derecognition of the financial asset and are therefore treated according to "modification accounting" rules.

1. "Derecognition accounting"

If the contractual modifications lead to derecognition of the financial asset the modified financial instrument is recognised as a new financial asset. The new modified asset is subject to an SPPI test in order to decide how to classify it and is recognised at fair value. The difference between the carrying amount of the derecognised asset and that which is recognised is stated within item "130. Net impairment losses for credit risk".

2. Modification accounting

In cases of modification accounting the gross carrying amount of the financial instrument is recalculated, by discounting the new cash flows determined by the modified contract at the original effective interest rate of the financial asset. All the differences between the amount recalculated in this way and the gross carrying amount are recognised in the income statement within item "140. Profits (losses) from contractual modifications without derecognition".

The UBI Banca Group defines "significance" in this respect on the basis of the nature of the modification requested by the counterparty. In this regard the following two cases are identified,

1. modifications made due to financial difficulties of the counterparty (i.e. forbearance measures);
2. modifications made for "commercial" reasons[73].

1. Modifications made due to financial difficulties of the counterparty

In cases of modifications for counterparties that present financial difficulties (both performing and non-performing), the definition given to the term "substantial" is essentially qualitative because with these modifications the Group intends to maximise the recovery of the original exposure. The quantitative impact that the contractual modifications may have on the value of the financial instrument the contractual provisions of which are subject to modification is therefore considered irrelevant.
On this basis, contractual modifications to the financial instrument are considered "substantial" where its owner is exposed to new types of risk or to modifications to the instrument which substantially alter its nature such as for example the introduction of clauses to convert the debt instrument into a capital instrument.

2. Modifications made for "commercial" reasons.

In cases of contractual modifications made solely for commercial reasons, such as changes to the interest rate, whether the modification is substantial or not is assessed not only on the basis of the qualitative reasoning mentioned in the previous point, but also on the basis of percentage changes in the cash flows from the financial instrument before and after the modification.
In this regard, the Group determines the significance of the change on the basis of a special quantitative parameter which is identified on the basis of current market interest rates in light of the consideration that the substantial nature of the commercial renegotiation is strictly linked to the level of market interest rates (i.e. the risk free interest rate), which has a determining influence on the bank's profits in terms of net interest income. More specifically, the UBI Banca Group sets a number of different significance thresholds based on the current level of market interest rates.

Write-off

The gross carrying amount of a financial asset is reduced when, in accordance with IFRS 9, there is no reasonable expectation of recovery. A write-off, which constitutes a derecognition event, may regard a financial asset in its entirety or a portion thereof and may be carried out before legal actions initiated for the purpose of recovering the exposure are concluded.
A write-off does not necessarily imply that the Bank has waived its legal right to recover the credit. Such a waiver known as cancellation of the debt or "debt forgiveness", nevertheless involves cancellation or write-off of the impaired position.
Any recoveries from payments received, subsequent to write-off, are recognised within reversals of impairment.

Derivatives embedded in hybrid contracts

An "embedded derivative" is defined as a component of a hybrid (combined) instrument that also includes a host non-derivative contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.
Derivatives embedded in financial liabilities are separated from the host contracts and treated in the accounts as stand-alone derivatives if and only if[74]:

- the economic risks and characteristics of the embedded derivative are not closely related to the economic risks and characteristics of the host contract;

73 This is defined as all those contractual modifications made for reasons that are not determined by financial difficulties of the counterparty.
74 In compliance with the provisions of IFRS 9, derivatives embedded in financial assets are not subject to separation. On the other hand, derivatives embedded in non-financial assets are subject to separation if the above-mentioned conditions are met.

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) contract is not measured at fair value with changes in fair value recognised through profit or loss.

Treasury shares

The treasury shares present in the UBI Banca Group portfolio are deducted from equity. No profit or loss arising from the purchase, sale, issue or cancellation of treasury shares is recognised in the income statement.
The differences between the purchase and sale price arising from these transactions are recorded in equity reserves.

Employee benefits

Definition

Employee benefits are defined as all forms of consideration given by an enterprise in exchange for services rendered by employees. Employee benefits can be classified as follows:

- short-term benefits (not including benefits due to employees for end of contract) which it is planned to pay entirely within twelve months from the end of the year in which the employees provided their services;
- post-employment benefits at the end of an unemployment contract due after the contract of employment has terminated;
- benefits due to employees for the ending of an employment contract;
- other long-term benefits, other than the previous, which it is not planned to pay entirely within the twelve months from end of the financial year in which employee rendered the relative employment service.

Post-employment benefits and defined service provisions

Recognition criteria

Following the reform of supplementary pensions pursuant to Legislative Decree No. 252/2005, portions of post-employment benefit funds maturing from 1st January 2007 constitute a "defined benefit plan".
The liability relating to those portions is measured on the basis of the contributions due without the application of any actuarial methods.
However, post-employment benefits maturing up until 31st December 2006 continue to constitute a "post-employment benefit" belonging to the "defined benefit plan" series and as such require the amount of the obligation to be determined on an actuarial basis and to be discounted to present values because the debt may be extinguished a long time after the employees have rendered the relative service.
The amount is accounted for as a liability amounting to:

(a) the present value of the defined benefit obligation as at the reporting date;
(b) plus any actuarial gains (less any actuarial losses) recognised in a separate reserve in equity;
(c) less the fair value at the reporting date of any assets at the service of the plan.

Measurement criteria

"Actuarial gains/losses", recognised in a special valuation reserve in equity, comprise the effects of adjustments arising from the reformulation of previous actuarial assumptions as a result of actual experience or from changes in the actuarial assumptions themselves.

The "Projected Unit Credit Method" is used to calculate the present value. This considers each single period of service as giving rise to an additional unit of severance payment and therefore measures each unit separately to arrive at the final obligation. This additional unit is obtained by dividing the total expected service by the number of years that have passed from the time service commenced until the expected payment date. Application of the method involves making projections of future payments based on historical analysis of statistics and of the demographic curve and discounting these flows on the basis of market interest rates. The rate used for present value discounting purposes is determined by making reference to market yields observed as at the reporting date for “high quality corporate bonds” or to yields on securities with a low credit risk.

Stock Options/Stock Grants

Stock option and stock grant plans are defined as personnel remuneration schemes where the service rendered by an employee (or a third party) is remunerated by using equity instruments (including options on shares).
The cost of these transactions is measured at the fair value of equity instruments granted and is recognised in the income statement under item “190. a) Administrative expenses: staff costs” on a straight line basis over the vesting period of the plan.
The fair value determined relates to the equity instruments granted at the time of grant and takes account of market prices, if available, and the terms and conditions upon which the instruments were granted.

Segment reporting

Segment reporting is defined as the manner in which financial information on an enterprise is reported by operating segment.
An operating segment is defined as a component of an entity:

- that engages in business activities that generate revenues and expenses;
- whose operating results are reviewed regularly by the entity’s chief operating decision maker, to make decisions about the resources to be allocated to the segment and assess its performance; and
- for which separate financial information is available.

Segment reporting is based on elements that senior management uses to make operating decisions (a “management approach”) and consequently the identification of operating segments is performed on the basis of the current system of reporting to management which is based primarily on operational analysis of legally recognised entities.
Segment reporting is completed by information on the geographical areas in which revenues are produced and assets are held.

Revenue

Definition

Revenue is the gross inflow of economic benefits resulting from business arising from the ordinary operating activities of an enterprise when these inflows create an increase in equity other than an increase resulting from payments made by shareholders.

Recognition criteria

Revenue resulting from contractual obligations towards customers is recognised only if the following criteria are met:

a. the parties to the contract have approved the contract and are committed to perform their respective obligations;
b. the entity can identify each party’s rights regarding the goods or services to be transferred;
c. the entity can identify the payment terms for the goods or services to be transferred;
d. the contract has commercial substance (i.e. the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
e. it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider

only the customer’s ability and intention to pay that amount of consideration when it is due.

Recognition of variable consideration

Revenue that consists of variable consideration is recognised through profit or loss if it can be reliably estimated and only if it is highly probable that all or a large part of the consideration will not need to be reversed in the income statement in subsequent periods.
In cases of great uncertainty over the nature of the consideration or the fact that probability of receipt is difficult to predict and beyond the control of the Bank, then it is only recognised when the uncertainty is resolved, which normally occurs close to or at the end of the financial year for consideration of this type.

Procedures and timing for the recognition of consideration

The consideration in a contract, the collection of which must be probable, is allocated to the single performance obligations resulting from the contract.
Some contracts with customers involve the provision of a package of services to a customer in return for payment of an annual fee. In order to recognise the consideration in the accounts, these services constitute different “performance obligations”, to which the bank must allocate the price of the operation on the basis of the relative stand-alone price.

The time at which recognition of revenue takes place is based on the time of the performance of the obligations either in one single solution or alternatively over the period of time set for performing the various obligations.

Revenue from financial assets

Interest is recognised on an accruals basis that takes into account the effective yield of the asset. Negative components of income accruing on financial assets are recognised within the item “Interest and similar expense”, while positive components accruing on financial liabilities are recognised within the item “Interest and similar income”;
Arrears of interest are recognised within item “10. Interest and similar income”, at the time at which they are actually collected.

Dividends are recognised when shareholders acquire the right to receive payment.

Expenses or revenues resulting from the sale or purchase of financial instruments, determined by the difference between the amount paid or received for the transaction and the fair value of the instrument are recognised through profit or loss on initial recognition of the financial instrument when the fair value is determined:

- by making reference to current and observable market transactions in the same instrument;
- by using measurement techniques which use, as variables, only data from observable markets.

Expenses

Expenses are recognised in the accounts at the time at which they are incurred while following the criteria of matching expenses to revenues that result directly and jointly from the same transactions or events. Expenses that cannot be associated with revenues are recognised immediately in the income statement.
Expenses directly attributable to financial instruments measured at amortised cost and determinable from the outset, regardless of the time at which they are settled, are recognised through profit and loss by applying the effective interest rate.
Impairment losses are recognised through profit and loss in the year in which they are measured.

A.3 – INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount, and interest income

The UBI Banca Group has not changed its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018. As a result, no financial assets have been reclassified during the year.

A.3.2 Reclassified financial assets: change of business model, fair value and effects on comprehensive income

The UBI Banca Group has not altered its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018. As a result, no financial assets have been reclassified during the year.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

The UBI Banca Group has not altered its business model in relation to the management of financial instruments established at the time of FTA of IFRS 9 on 1st January 2018. As a result, no financial assets have been reclassified during the year.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 – "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This value is therefore what is known as an "exit price" which reflects the properties of the asset or liability subject to measurement from the perspective of a third party market participant.
A fair value measurement relates to an ordinary transaction carried out or which could be carried out between market participants, where, the market is defined as:

- the principal market, which is the market with the highest volume and level of transactions for the asset or liability in question to which the Bank has access;
- or, in the absence of a principal market, the most advantageous market, which is that in which it is possible to obtain the highest price for the sale of an asset or the lowest purchase price for a liability with account taken of transaction and transport costs.

To increase consistency and comparability in fair value measurements and related disclosures, IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.
The objective of this classification is to establish a hierarchy in terms of the reliability of the fair value as a function of the degree of discretion adopted, by giving priority to observable market inputs which reflect the assumptions that market participants would use in the measurement of assets and liabilities.

The fair value hierarchy is defined on the basis of the data inputs (with reference to their origin, type and quality) using the models for determining fair value and not on the basis of the measurement models themselves. In this perspective the highest priority is given to input level one.

Fair value determined on the basis of level one inputs

Fair value is determined on the basis of observable inputs, i.e. quoted prices in active markets for the financial instrument, that the entity can access at the measurement date of the instrument. The existence of quoted prices in an active market is the most reliable evidence of fair value and therefore these quoted prices shall be given priority as the input to be used in the valuation process.

According to IFRS 13, a market is defined as active when transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

More specifically, equities and bonds quoted on a regulated market (e.g. MOT/MTS – electronic corporate/government bond markets) and those not quoted on regulated markets for which prices are available on a continuous basis from the main information platforms which represent actual and orderly market transactions.

The fair value of listed securities on regulated markets is normally given by the reference price published on the last trading day of the reporting period on the respective markets on which they are quoted. For securities not quoted on regulated markets, the fair value is given by the price on the last transaction date considered representative on the basis of internal policies.

As concerns other financial instruments that may be held with a level one input such as, for example, derivatives, exchange traded funds and listed property funds, the fair value is given by the closing price on the respective listed markets on the measurement date or in the case of listed UCITS, mutual funds, Sicav's and hedge funds, it is given by the official NAV (net asset value), if this is considered representative according to internal policies.

For financial liabilities issued where the issuer is the only liquidity provider of the liability, the market is not normally considered active.

Fair value determined on the basis of level two inputs

Where no prices are available on active markets, the fair value is measured by using prices observable on inactive markets or by using measurement models which make use of market inputs.

The valuation is performed by using inputs that are either directly or indirectly observable, such as for example:

- prices listed on active markets for identical assets or liabilities;
- observable inputs such as interest rates or yield curves, implicit volatilities, early repayment risk, default rates and illiquidity factors.

On the basis of the above, the valuation resulting from the technique adopted involves marginal use of unobservable inputs because the most important inputs used in the valuation are taken from the market and the results of the calculation methods used replicate quotations on active markets.

The following are included in level two:

- OTC derivatives;
- equity securities;
- bonds;
- loans and receivables;
- shares of funds (e.g. private equity funds)[75];
- certificates issued.

Assets and liabilities measured at cost or at amortised cost, for which the fair value is given in the notes to the financial statements purely for information purposes, are classified in level

75 For which the fair value is given by the NAV.

two only if the unobservable inputs do not have a significant impact on the result of the valuation. Otherwise they are classified in level three.

Fair value determined on the basis of level three inputs

The valuation is determined by the use of significant inputs not taken from the market, which therefore involve the adoption of estimates and internal assumptions.

The following are included in level three of the fair value hierarchy:
- OTC derivatives;
- equity securities measured:
  a. with the use of significant unobservable inputs;
  b. using methods based on an analysis of the fundamentals of the investee;
  c. at cost.
- hedge funds, for which consideration is given not only to the official NAVs but also to liquidity and/or counterparty risk;
- closed-end funds resulting from non-performing exposure disposals, for which consideration is given not only to the official NAVs or the subscription value, but also to liquidity risk;
- options on financial equity investments;
- loans and receivables;
- bonds resulting from the conversion of loans and receivables.

Finally, fair value is classified in level three as a result of the use of market inputs that have been adjusted significantly to reflect valuation aspects inherent to the instrument measured.

A.4.1 Fair value levels two and three: measurement techniques and the inputs used

This sub-section provides information on the measurement techniques and inputs used to determine the fair value of assets and liabilities subject to measurement in the balance sheet and those for which the fair value is given purely for information purposes.

Assets and liabilities subject to fair value measurement

OTC derivatives

The method adopted for the fair value measurement of over-the-counter (OTC) derivatives involves the use of both models with set formulas and simulation models. In detail, the main pricing models used for OTC derivatives are: Black Yield, Black Fwd, Black Swap Yield, Cox Fwd, Trinomial, Lnormal, Normal and CMS Convexity Analytical and Hybrid Model.
Derivative instruments that are not managed in the target software applications, relating to instruments used to hedge some types of embedded options in structured bonds issued, are measured using internal models (stochastic models with MonteCarlo simulations).
The pricing models implemented for derivatives are used on an ongoing basis and are subject to periodic verification designed to assess their reliability over time.

The market data used to calculate the fair values of derivatives is classified, according to its availability, as follows:
- the prices of quoted instruments: all products quoted by major international exchanges or on the main data provider platforms;
- market inputs available on info provider platforms: all instruments which, although not quoted on an official market, are readily available on info provider networks by means of guaranteed ongoing contributions from brokers and market makers.

The inputs used to calculate the fair value of OTC derivatives include yield curves and Cap&Floor volatilities for major currencies (euro, US dollar, GBP, yen, CHF), the main exchange rates and the relative volatilities and the FX swap points. As explained later in greater detail, the fair value of some types of OTC derivatives takes counterparty risk into account. The calculation of this component is carried out by using default probabilities and the percentage of credit recovery from counterparties.

As concerns credit risk, market practice is to adopt two measures capable of identifying the impacts of possible changes in counterparty credit rating and incorporating this in the fair value: credit value adjustment (CVA - counterparty non-performance risk) and debt value adjustment (DVA - own non-performance risk).
The method currently adopted by the UBI Banca Group to determine CVA and DVA is based on Monte Carlo simulations to estimate the future value of over-the-counter (OTC) derivatives.
This methodology involves the following implementation steps:

- the parameters are determined for the calculation using the Monte Carlo approach;
- the relative PD and LGD curves are associated with each corporate counterparty on the basis of a combination of the sector and the rating;
- market CDS curves are used for counterparties for which no internal PD curves exist;
- the future exposure is calculated for each derivative falling within the calculation perimeter. In the absence of collateral, the future exposure at time t is defined as the expected MtM value at the time t.

CVA and DVA are calculated for OTC derivatives entered into with counterparties outside the Group for whom no CSA agreements with complete daily or weekly margin calculations are present.
On the other hand, for OTC derivatives backed by CSAs with complete daily or weekly margin calculation, counterparty and own credit risk is considered not significant, and this therefore logically also reduces the CVAs and the DVAs to nil, which as a consequence are not calculated for these types of instruments. Similar considerations are also applicable to intragroup derivatives for the considerations reported above.

Given the predominant use of unobservable inputs, the fair value of OTC derivatives is classified in level two of the hierarchy, except for those derivatives where the CVA (estimated internally) is important for determination of the fair value. The fair value of these instruments is classified in fair level three of the hierarchy.

Derivatives of which the underlying securities are equity instruments that constitute an equity investment for the Group are also classified in level three of the hierarchy, given the significance of unobservable input used in measuring fair value.

Equity securities

As concerns the methods used to measure the fair value of equity instruments not quoted on an active market, the UBI Banca Group has identified the following hierarchy of valuation techniques:

1) the direct transactions method;
2) the comparable transactions method;
3) the stock market multiples method
4) balance sheet methods.

Equity instruments are measured by considering the applicability of the methods in the order given above. In the final instance, where it is impossible to use the above techniques, these instruments are measured at cost[76]. The characteristics of the valuation techniques used as at 31st December 2019 are given below.

The direct transactions method

Application of the direct transactions method involves applying the implicit value resulting from the most recent significant transaction recorded on the shares of the investee. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.
If the transaction that occurred on the market involved a controlling stake or one which gave significant influence over the investee by the acquirer, then it is possible that the price paid incorporated a premium for control. This aspect is considered by a possible adjustment to the value of the investment. Therefore the pro rata value of the economic capital of the company is

76 Use of measurement at cost implies classification in level three of the hierarchy.

reduced by between 25% and 35%. That adjustment, resulting from the use of unobservable and significant inputs results in classification of the fair value in level three of the hierarchy.

The comparable transactions method

Application of the comparable transactions method involves analysis of transactions to purchase shares in companies with operating and capital characteristics of the same type as those of the investee and the subsequent calculation of an implicit multiple given by the transaction price. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.
If the transaction that occurred on the market involved a controlling stake or one which gave significant influence over the investee by the acquirer, then it is possible that the price paid incorporated a premium for control. This aspect is considered by a possible adjustment to the value of the investment. Therefore the pro rata value of the economic capital of the company is reduced by between 25% and 35% to reflect the lack of powers within the investee. That adjustment, resulting from the use of unobservable and significant inputs results in classification of the fair value in level three of the hierarchy.

The stock market multiples method

This method allows a company to be valued on the basis of data derived from quotations of comparable companies (in terms of sales turnover, equity, leverage) observed on the relative stock market in a period within the last 30 days and last year prior to the measurement date. It is performed by processing the most significant multipliers (stock market multiples) resulting from the ratio between the value that the stock market attributes to these companies and those of their operating and capital performance indicators that are considered most significant. By using observable inputs, the fair value thereby obtained is classified in level two of the hierarchy.

In the not infrequent event that values measured by applying the stock market multiples method need to be adjusted in order to account for potential differences in the comparability of companies used for the calculations, and in the liquidity of the stocks used, then the pro rata value of the company's economic capital is generally reduced by between 10% and 40% to reflect, for example, the investment's limited liquidity and/or the significant difference in size between the investee and the companies in the sample. That adjustment, resulting from the use of unobservable and significant inputs results in classification of the fair value in level three of the hierarchy.

Balance sheet methods

Balance sheet methods provide a calculation of the fair value of an investee based on balance sheet figures, adjusted in the light of gains and losses implicit in the assets and liabilities of the investee and the possible valuation of intangible components. The fair value determined by using these methods, based on unobservable inputs, is classified in level three of the hierarchy.

Bonds

The procedure for estimating the fair value adopted by the UBI Banca Group for bonds involves the use of a specific valuation model: the discounted cash flow model. This measurement process can be summarised by the following steps:

- an estimate of the cash flows paid by the instrument both in terms of interest and repayment of capital;
- an estimate of the spread which represents the credit rating of the issuer of the instrument;
- an estimate of a spread which represents the illiquidity of the instrument in order to take account of the low liquidity which characterises the pricing of a "non-contributed" instrument (not officially quoted).

Given the predominant use of unobservable inputs, the fair value thereby calculated is classified in level two of the hierarchy, except for those instruments where the component of the spread that represents the illiquidity is important for determining the fair value and for some bonds resulting from the conversion of loans and receivables, which are classified in level three of the hierarchy.

The following are comprised within the inputs used to calculate the fair value of bonds: interest rate curves of major currencies (euro, US dollar, GBP, yen, CHF), the credit spreads of the issuers of the bond subject to measurement (taken from instruments quoted on markets considered active) and a spread representative of the illiquidity of the instrument measured, calculated on the basis of the credit spread of the issuer.

Financial assets

Loans and advances to customers or to banks that have been recognised under item "20. c) Financial assets measured at fair value: other financial assets mandatorily measured at fair value", for having not passed the Solely Payments of Principal and Interest (SPPI) Test are measured at fair value.
Loans and advances to customers are normally measured at fair value using valuation techniques.
More specifically the method adopted by the UBI Banca Group to estimate the fair value of performing loans and receivables involves discounting the cash flows, defined as the sum of the principal and interest resulting from the different due dates of the repayment schedule, reduced by the amount of the expected loss and discounted at a rate which incorporates the risk-free component and a spread representing the cost of capital and funding.

More specifically, the following inputs are used:

- a base discount rate, based on the Euribor yield curve;
- default risk and risk of potential loss, expected and unexpected, measured on the specific loan during its entire life. These values are represented by internal credit risk measurement parameters such as the rating, the PD and LGD, differentiated by customer segment. The PD associated with each rating is calculated on a multi-year basis and as with the LGD, it takes both point-in-time and forward-looking corrective factors into account. Finally, for the unexpected loss component, the Group's cost of equity is taken into account;
- the funding spread is calculated using blended curves. For each maturity date these curves represent the marginal cost of funding calculated as the weighted average of the market curves for the cost of the Bank's funding from customers (retail curve) and on wholesale markets (initial wholesale curve). The weights used for each funding curve are calculated at least annually when the Funds Transfer Pricing Regulation is updated on the basis of new inflows forecast by the Funding Plan.

In order to identify the correct level in the fair value hierarchy obtained using the above valuation technique, the level of significance of the unobservable inputs must be properly assessed.
In this respect, the fair value resulting from the application of the method described above is compared with a benchmark that is calculated which employs a discount curve composed from observable market data.
If the comparison shows that the fair value is significantly different from that calculated using the aforementioned benchmark, the fair value is classified in level three. Otherwise it is classified in fair value level two. In the case of non-performing positions, fair value is determined based on the recoverable value of the position. This is calculated by taking account of the elements of the contract on which the loan is based and may entail, for example, measurement of the cash flows resulting from the sale of the properties used to guarantee the loan or the measurement of any equity instruments acquirable following the introduction of an equity-conversion clause for the position.

The fair value of loans and advances to banks is normally determined based on the net present value (NPV) of the cash flows of these instruments.

Shares of private equity funds

The fair value of shares in private equity funds is calculated on the basis of the last NAV available and considering the various communications received from the fund (e.g. redemptions, dividend distributions) from the date of the last available NAV until the measurement date. The NAV is then adjusted if necessary to take into consideration situations of particular risk and non-performance associated with the investment.

Shares of hedge funds

The fair value of hedge funds classified under level three of the hierarchy is determined based on the official NAV and is adjusted to take account of liquidity and/or counterparty risk.

Investments in closed-end funds arising from the disposal of non-performing exposures

The fair value of shares of such funds is estimated based on the most recent NAV disclosed by the asset management firm or the subscription value of the shares adjusted to account for the higher liquidity risk that may occur following the disposal, as a consequence of the nature of the fund. The fair value calculated in this manner is classified in level three of the hierarchy.

Financial instruments issued

Certificates classified under item “20. Financial liabilities held for trading” are also valued at fair value.

For the sole purpose of fair value measurements, these certificates are subdivided as follows:

- a zero coupon bond, measured using the discounted cash flow model; and
- an “optional package” that replicates the payoff of the instrument over the course of its life, which is measured using a hybrid model that combines the pricing methods used to measure the fair value of the various components of this package.

In light of the type of inputs used for the measurements, the fair value of these certificates is classified in level two of the hierarchy.

Assets and liabilities, the fair value of which is given in the notes to the financial statements

Financial assets

Measurement of the fair value of loans to customers and to banks recognised within financial assets measured at amortised cost, which is done for the purposes of disclosures in the Notes the Financial Statements, is done in the same manner as described in the section “Loans” above with regard to assets and liabilities measured at fair value.
It should also be noted that the carrying amount is, according to convention, assumed to be equal to the fair value for:

- all non-instalment transactions (i.e. current accounts and unsecured guarantees);
- operations maturing within the year;
- non-performing positions;

which are classified as level three of the hierarchy.

With regard to non-performing positions, with the exception of situations in which the presence of objective factors deriving from measurements of specific positions and/or portfolios expressed by third parties call for the use of values derived from these measurements,
– the carrying amount has been assumed to be an approximation of fair value in that although there was an active market in 2018 and 2019 in Italy, too, for the purchase of portfolios of non-performing exposures
– given, in part, the nature of the financial assets concerned or the specific characteristics of each individual portfolio – the values seen, have been subject to a particularly high degree of

variability in relation to the discount rates implicit in the prices and, consequently, in the expected yields. Given the above, identification of a discount rate different from the one used in calculating amortised cost for the purpose of determining the fair value of non-performing positions has been deemed to be arbitrary/overly subjective.

Investment property

Reference is made for the determination of the fair value of investment properties to the market value, determined mainly by means of outside appraisers, defined as the highest price at which the sale of a property might reasonably be expected to have been concluded unconditionally for cash consideration on the measurement date between independent counterparties.
The procedures adopted for determining the market value are based on the following methods:

- the direct comparative or market method, based on a comparison between the asset in question and other similar assets subject to sale or currently on sale on the same market or on competing markets. The quotations obtained are subject to adjustments designed to incorporate the specific characteristics of the asset. More specifically, the value attributed to the asset considers its location, accessibility, quality and the possible presence of unique aspects.
- the income method based on the present value of potential market incomes for a similar property, obtained by capitalising the income at a market interest rate. This method is based on the existence of a direct relationship between an asset and the income that it is able to generate.

The above methods are carried out individually and the values obtained are appropriately averaged.

The method used for identifying the percentage of the market value attributable to land is based on an analysis of the location of the property, taking account of the type of construction, the state of conservation and the cost of rebuilding the entire building.

The fair value determined in this manner is classified in level three of the hierarchy due to the absence in the Italian market of reference indicators which might confirm the reliability of the valuation. As a consequence, the inputs used cannot be classified in level two.

Financial liabilities

The fair value of amounts due to banks and customers is normally calculated for the purposes of disclosure in the Notes to the Financial Statements for liabilities due after one year.
This is done by calculating the present value of future cash flows using a discount rate that incorporates a component related to our own credit risk, and it is applied both to amounts due to banks and amounts due to ordinary customers, including the “non-banking” companies of the Group. Using variables observable on the reference market, this approach results in the classification of the fair value under level two of the hierarchy.

For liabilities due within one year or with an indeterminate due date, the book value recognised can be considered an adequate approximation of the fair value, which as a consequence results in classification in level three of the hierarchy.
This classification is also adopted for amounts due to the European Central Bank.

Debt securities issued

As these are liabilities issued, held as assets by third parties, the valuation techniques used have been developed from the perspective of a market participant who holds the debt securities as assets. In this specific case the components considered are as follows:

- the time value of the money, measured by the risk-free yield curve;
- the risk of failing to satisfy own obligations, measured by own credit spread.

The inputs used to measure the fair value include the yield curves of major currencies (euro, US dollar, GBP, yen, CHF) and UBI Banca’s issue spreads, measured from the funding conditions existing as at the reporting date, classified by type of counterparty for whom the security issued is destined.

The inputs used are observable and involve classification in level two of the hierarchy, except for cases in which UBI Banca issue spreads are not available, an aspect which involves an internal estimate of those spreads and classification of the securities in level three of the hierarchy and of bonds issued by the Bank to loans granted to customers, for which the fair value is calculated using the loan parameters. In this case both instruments are classified within fair value level three of the hierarchy.

A.4.2 Measurement processes and sensitivities

The UBI Banca Group has set a special policy for the determination of fair values officially set out in special regulations approved by the competent governing bodies. The purpose of these policies is to ensure proper and consistent application of the provisions of IFRS 13.

An analysis is given below of the sensitivity of equity instruments for which the fair value measurement is classified in level three of the hierarchy as a result of the use of unobservable significant inputs.
This analysis was conducted by formulating a stress test for the inputs in question, which takes account of the minimum and maximum value that these inputs can take, reported for each valuation technique used in the previous sub-section A.4.1 “Fair value levels two and three”.
For equity instruments measured at fair value through profit or loss for which it is possible to conduct a sensitivity analysis given the measurement method used, if the maximum adjustment amount allowed for unobservable inputs is applied, then the fair value would be 3.6% lower than the figures reported in the financial statements. If, by contrast, the minimum adjustment amount were applied, then the fair value would be 15.8% greater than the figures reported. It should be noted that all securities involved in the sensitivity analysis described above are recognised under item “20. c) Financial assets measured at fair value through profit or loss – Other financial assets mandatorily measured at fair value”. As regards securities recognised under item “30. Financial assets measured at fair value through other comprehensive income”, it should be specified that no such sensitivity analysis was carried out, as the measurement methods used do not allow for such an analysis to be formulated.

With regard to credit exposures classified among “Financial assets measured at fair value through profit or loss – other financial assets mandatorily measured at fair value”, the fair-value measurement of which is classified as level three of the hierarchy, no sensitivity analysis is conducted because, in the case of performing exposures, the impact is not deemed to be relevant, whereas for non-performing exposures, given the method of determining fair value and the volatility of the estimates of expected cash flows, sensitivity analysis is not deemed to be significant.

As concerns other financial instruments subject to fair value measurement and classified within level three of the fair value hierarchy (OTC derivatives, shares of closed-end funds resulting from the disposal of non-performing exposures, hedge funds, bonds resulting from the conversion of loans and options on equity investments), no sensitivity analysis is conducted either because the methods of quantifying the fair value do not allow alternative hypotheses to be made concerning the unobservable inputs used for the purposes of valuation, or because the effects of changing those inputs are not considered important.

A.4.3 Fair value hierarchy

With regard to assets and liabilities subject to fair value measurement on a recurring basis, classification in the right level of the fair value hierarchy is carried out by making reference to rules and methods contained in Bank regulations. Possible transfers to a different level of the hierarchy are identified on a monthly basis. Examples might be transfers resulting from the “disappearance” of an active market on which they are quoted or the use of a different method of measurement not previously applicable.

A.4.4 Other information

No situations exist in the UBI Banca Group in which the maximum or best use of a non-financial asset is different from its current use.
Furthermore, no situations exist in which financial assets and liabilities managed on a net basis in relation to market or credit risk are subject to fair value measurement on the basis of the price that would be received from the sale of a net long position or from the transfer of a net short position.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value level

Assets/liabilities measured at fair value	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	418,212	598,791	741,727	257,120	672,276	534,133
a) financial assets held for trading	5,937	335,190	86,853	6,136	318,740	80,840
b) financial assets designated at fair value	10,278	-	-	11,028	-	-
c) other financial assets mandatorily measured at fair value	401,997	263,601	654,874	239,956	353,536	453,293
2. Financial assets measured at fair value through other comprehensive income	11,962,482	215,686	43,448	10,589,504	87,810	48,865
3. Hedging derivatives	-	35,117	-	-	42,479	1,605
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**12,380,694**	**849,594**	**785,175**	**10,846,624**	**802,565**	**584,603**
1. Financial liabilities held for trading	383	554,833	80	123	410,823	31
2. Financial liabilities designated at fair value	-	197,610	-	-	105,836	-
3. Hedging derivatives	-	386,778	-	-	110,801	-
Total	**383**	**1,139,221**	**80**	**123**	**627,460**	**31**

The impact of the credit value adjustment and debit valuation adjustment components on the fair value calculation for derivative financial instruments at the consolidated level is €7.1 million and €0.1 million, respectively.

No transfers were made worthy of note between level one and two in the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level three)

	Total	Financial assets measured at fair value through profit or loss			financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
		of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances	**584,603**	**80,840**	**-**	**453,293**	**48,865**	**1,605**	**-**	**-**
2. Increases	**319,770**	**11,051**	**-**	**308,115**	**604**	**-**	**-**	**-**
2.1. Purchases	99,269	-	-	99,269	-	-	-	-
2.2. Profits recognised in:	113,922	9,916	-	103,402	604	-	-	-
2.2.1. Income statement	113,319	9,916	-	103,402	1	-	-	-
- of which gains	99,503	9,900	-	89,603	-	-	-	-
2.2.2. Equity	603	X	X	X	603	-	-	-
2.3. Transfers from other levels	73,224	1,135	-	72,089	-	-	-	-
2.4. Other increases	33,355	-	-	33,355	-	-	-	-
3. Decreases	**(119,198)**	**(5,038)**	**-**	**(106,534)**	**(6,021)**	**(1,605)**	**-**	**-**
3.1.Sales	(10,054)	(30)	-	(9,460)	(564)	-	-	-
3.2. Redemptions	(29,608)	(5)	-	(29,180)	(423)	-	-	-
3.3. Losses recognised in:	(51,736)	(2,470)	-	(46,407)	(2,859)	-	-	-
3.3.1. Income statement	(48,877)	(2,470)	-	(46,407)	-	-	-	-
- of which losses	(44,143)	(1,825)	-	(42,318)	-	-	-	-
3.3.2. Equity	(2,859)	X	X	X	(2,859)	-	-	-
3.4. Transfers to other levels	(4,138)	(2,533)	-	-	-	(1,605)	-	-
3.5. Other decreases	(23,662)	-	-	(21,487)	(2,175)	-	-	-
4. Closing balances	**785,175**	**86,853**	**-**	**654,874**	**43,448**	**-**	**-**	**-**

- ***Financial assets held for trading***

The most significant increases related to OTC derivatives entered into with customers and is comprised, amongst other things, of transfers to level three of derivatives for which the credit valuation adjustment for the counterparty was higher than the limits set by the Bank's policy (€1.1 million).

Profits recognised through profit and loss, amounting to €9.9 million, related mainly to gains on options on equity investments (€9.2 million).

The most significant decreases related also to OTC derivatives entered into with customers and is comprised, amongst other things, of transfers to level three of derivatives for which at the end of 2019 the credit valuation adjustment for the counterparty was lower than the limits set by the Bank's policy (€2.5 million).

Losses recognised through profit or loss, amounting to €2.5 million, related to losses on derivative contracts outstanding amounting to €1.8 million and to losses on derivatives closed during the year amounting to €0.7 million.

- ***Financial assets mandatorily measured at fair value***

Increases, with reference in particular to purchases, included the following:
- new financial assets received from the disposal of loans, for a total amount of €97.3 million;
- subscription of mezzanine and junior notes as part of the transfer of a portfolio of bad loans totalling €0.4 million to the independent securitisation vehicle Iseo SPV Srl. Further details are given in Part E - Information on risks and hedging policies, Section 1 – Credit risk, which may be consulted.

Profits recognised through profit or loss related predominantly to capital gains of €78.7 million recorded on the securities portfolio, of which €67.6 million was generated by the appreciation of equity investments in Nuova Sorgenia Holding Spa. Profits were also recorded on disposals in the amount of €4.7 million, of which €4.2 million came from the disposal of the stake in the company Futura Srl.

The item 'transfers from other levels' also includes financial assets resulting from the disposal of loans.

Other increases included the impacts of certain extraordinary operations which involved the Bank's securities portfolio.

With regard to decreases, we report sales amounting to €9.5 million, which mainly concerned the Bank's portfolio of equity investments, along with redemptions amounting to €29.2 million, €2.2 million of which consisted of redemptions paid by the Atlante Fund.

Losses recognised through profit or loss related predominantly to capital losses of €19.3 million recorded on the securities portfolio (€18.5 million of which was from the impairment of financial assets received from the disposal of loans).

Other decreases included the impacts of certain extraordinary operations which involved the Bank's securities portfolio.

- ***Financial assets measured at fair value through other comprehensive income***

  Losses recognised in equity, amounting to €2.9 million, included impairment losses of €0.6 million on financial assets acquired following intervention by the Voluntary Scheme formed at the IDPF in favour of Carim and Carismi.

- ***Hedging derivatives***

  The decrease, in the amount of €1.6 million, is represented by the transfer to level two of a CCS derivative to hedge against currency risk.

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level three)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balances	**31**	**-**	**-**
2. Increases	**80**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses recognised in:	80	-	-
2.2.1. Income statement	80	-	-
- of which losses	80	-	-
2.2.2. Equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(31)**	**-**	**-**
3.1.Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised in:	(3)	-	-
3.3.1. Income statement	(3)	-	-
- of which gains	(1)	-	-
3.3.2. Equity	X	X	-
3.4. Transfers to other levels	(28)	-	-
3.5. Other decreases	-	-	-
4. Closing balances	**80**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: distribution by fair value level

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2019				31.12.2018			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	101,736,289	4,526,906	34,558,896	65,784,330	102,798,587	2,795,836	29,901,127	73,439,518
2. Investment property	405,289	-	-	482,595	257,931	-	-	335,458
3. Non-current assets and disposal groups held for sale	265,370	-	-	-	2,972	-	-	-
Total	**102,406,948**	**4,526,906**	**34,558,896**	**66,266,925**	**103,059,490**	**2,795,836**	**29,901,127**	**73,774,976**
1. Financial liabilities measured at amortised cost	109,795,016	15,692,732	7,534,080	86,942,044	109,445,664	17,096,164	6,434,671	85,493,786
2. Liabilities associated with assets held for sale	2,331	-	-	-	-	-	-	-
Total	**109,797,347**	**15,692,732**	**7,534,080**	**86,942,044**	**109,445,664**	**17,096,164**	**6,434,671**	**85,493,786**

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

The information relates to differences between transaction prices and the value obtained by using measurement techniques that emerge on initial recognition and that are not immediately recognised through profit or loss on the basis of paragraph B5.1.2 A of IFRS 9.
In consideration of the above, we report that during the year the UBI Banca Group did not perform any transactions for which a difference arose on initial recognition between the purchase price and the value of the instrument obtained using internal measurement techniques based on unobservable inputs (i.e. in level three of the hierarchy).

Part B – Notes to the consolidated balance sheet

ASSETS

SECTION 1 Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: composition

	Total 31.12.2019	Total 31.12.2018
a) Cash in hand	691,304	734,266
b) Sight deposits with central banks	3,446	983
Total	**694,750**	**735,249**

SECTION 2 Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: composition by type

Items/Amounts	31.12.2019			Total	31.12.2018			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
A. On-balance sheet assets								
1. Debt securities	258	11	100	369	340	208	100	648
1.1 Structured securities	13	7	100	120	1	32	100	133
1.2 Other debt securities	245	4	-	249	339	176	-	515
2. Equity securities	5,038	-	2	5,040	4,725	-	26	4,751
3. Shares of UCITS	-	-	-	-	1	-	-	1
4. Financing	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total A	**5,296**	**11**	**102**	**5,409**	**5,066**	**208**	**126**	**5,400**
B. Derivative instruments								
1. Financial derivatives	641	335,179	86,751	422,571	1,070	318,532	80,714	400,316
1.1 for trading	641	335,179	5,423	341,243	1,070	318,532	8,625	328,227
1.2 connected with fair value options	-	-	-	-	-	-	-	-
1.3 other	-	-	81,328	81,328	-	-	72,089	72,089
2. Credit derivatives	-	-	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-	-	-
2.2 connected with fair value options	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total B	**641**	**335,179**	**86,751**	**422,571**	**1,070**	**318,532**	**80,714**	**400,316**
Total (a+b)	**5,937**	**335,190**	**86,853**	**427,980**	**6,136**	**318,740**	**80,840**	**405,716**

The decrease recorded by "Debt securities – 1.2 other debt securities" in 2019 is primarily attributable to the sale of foreign government securities.

"Financial derivatives – 1.1 for trading" relate primarily to OTC transactions linked to trading activity and were composed of interest rate swaps (€291.8 million), options (€28.6 million), forwards (€20.7 million), swaps on commodities (€3.6 million) and futures (€0.2 million).
This change should be interpreted in relation to the corresponding item recognised within financial liabilities held for trading.

The amount for the item "Financial derivatives – 1.3 other" relates to options on equity investments.

2.2 Financial assets held for trading: composition by debtors/issuers/counterparties

Items/Amounts	Total 31.12.2019	Total 31.12.2018
A. ASSETS		
1. Debt securities	**369**	**648**
a) Central banks	-	-
b) Public administrations	254	366
c) Banks	5	148
d) Other financial companies	1	18
of which: insurance companies	-	-
e) Non-financial companies	109	116
2. Equity securities	**5,040**	**4,751**
a) Banks	20	17
b) Other financial companies	1,141	869
of which: insurance companies	26	44
c) Non-financial companies	3,879	3,865
d) Other issuers	-	-
3. Shares of UCITS	**-**	**1**
4. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**5,409**	**5,400**
B. DERIVATIVE INSTRUMENTS		
a) Central counterparties	207	612
b) other	422,364	399,704
Total B	**422,571**	**400,316**
Total (a+b)	**427,980**	**405,716**

2.3 Financial assets designated at fair value: composition by type

Items/Amounts	31.12.2019			Total	31.12.2018			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	**10,278**	**-**	**-**	**10,278**	**11,028**	**-**	**-**	**11,028**
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	10,278	-	-	10,278	11,028	-	-	11,028
2. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
Total	**10,278**	**-**	**-**	**10,278**	**11,028**	**-**	**-**	**11,028**

Financial assets designated at fair value were practically unchanged and relate entirely to the Group's insurance business.

Debt securities, the only item under this heading, were composed of €6 million of Italian government securities, down by approximately €0.8 million compared with 2018.

2.4 Financial assets designated at fair value: composition by debtors/issuers

Items/Amounts	Total 31.12.2019	Total 31.12.2018
1. Debt securities	**10,278**	**11,028**
a) Central banks	-	-
b) Public administrations	9,969	10,777
c) Banks	68	61
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	241	190
2. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**10,278**	**11,028**

2.5 Other financial assets mandatorily measured at fair value: composition by type

Items/Amounts	31.12.2019			Total	31.12.2018			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	**79,435**	**28,267**	**46,913**	**154,615**	**63,261**	**34,572**	**48,087**	**145,920**
1.1 Structured securities	2,928	27,632	46,913	77,473	2,942	33,970	48,087	84,999
1.2 Other debt securities	76,507	635	-	77,142	60,319	602	-	60,921
2. Equity securities	**64,718**	**35**	**260,108**	**324,861**	**22,241**	**2,377**	**200,729**	**225,347**
3. Shares of UCITS	**257,844**	**112,408**	**193,864**	**564,116**	**154,454**	**192,184**	**40,564**	**387,202**
4. Financing	**-**	**122,891**	**153,989**	**276,880**	**-**	**124,403**	**163,913**	**288,316**
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	122,891	153,989	276,880	-	124,403	163,913	288,316
Total	**401,997**	**263,601**	**654,874**	**1,320,472**	**239,956**	**353,536**	**453,293**	**1,046,785**

Equity securities (levels one and two) are attributable mainly to business carried out by the Group's insurance companies. Mention is made in particular of €3 million of Italian government securities relating entirely to insurance business because the Parent's portfolio of Italian government securities, mandatorily measured at fair value, was reduced completely, to nil, during the year.
The item "Debt securities - Level 3" is comprised mainly of financial instruments acquired as part of the restructuring of credit positions.
The item also includes the following:

- mezzanine and junior notes subscribed in 2018 by UBI Banca as part of the transfer of a portfolio of bad loans totalling €1.2 million to the independent securitisation vehicle Maior SPV Srl (see the special Section of Part E for further details);
- the remaining quota of financial assets acquired in 2018 following intervention by the Voluntary Scheme formed at the Interbank Deposit Protection Fund (IDPF) in favour of Banca Carige, which represents the subscription of a subordinated loan issued by the latter. Further details are given in Part A. Accounting policies – Section 5 – Other aspects, which may be consulted;
- mezzanine and junior notes subscribed by UBI Banca in 2019 as part of the transfer of a portfolio of bad loans totalling €0.4 million to the independent securitisation vehicle Iseo SPV Srl (see the special Section of Part E for further details).

The interest held in NEXI Spa, recognised within Equity securities - Level 1, totalled €44.4 million.

Equity securities - Level 3 relate primarily to investments in the following companies:
- shares in Banca d'Italia Spa: €99.2 million;
- equity instruments held in Nuova Sorgenia Holding Spa amounting to €67.6 million;
- shares in Società Aeroporto Civile di Bergamo Orio al Serio Spa: €57.2 million.

Shares of UCITS (level one) include €208.2 million attributable to insurance business. Shares of UCITS – Level 2 included closed-end real estate funds for a total of €35.1 million. Shares of UCITS – Level 3 consisted of financial assets received in return for loan disposals (€151.5 million), in addition to the Bank's residual investment in the Atlante Fund (€39.8 million).

2.6 Other financial assets mandatorily measured at fair value: composition by debtors/issuers

Items/Amounts	Total 31.12.2019	Total 31.12.2018
1. Equity securities	**324,861**	**225,347**
a) Banks	104,083	104,348
b) Other financial companies	132,187	29,974
c) Non-financial companies	88,591	91,025
2. Debt securities	**154,615**	**145,920**
a) Central banks	-	-
b) Public administrations	6,000	7,524
c) Banks	49,751	63,918
d) Other financial companies	39,231	24,332
of which: insurance companies	36,402	20,738
e) Non-financial companies	59,633	50,146
3. Shares of UCITS	**564,116**	**387,202**
4. Financing	**276,880**	**288,316**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	16,213	14,054
d) Other financial companies	71,197	59,175
of which: insurance companies	23,823	17,391
e) Non-financial companies	184,400	205,700
f) Households	5,070	9,387
Total	**1,320,472**	**1,046,785**

SECTION 3 Financial assets measured at fair value through other comprehensive income – Item 30

3.1 Financial assets measured at fair value through other comprehensive income: composition by type

Items/Amounts	31.12.2019			Total	31.12.2018			Total
	L 1	L 2	L 3		L 1	L 2	L 3	
1. Debt securities	**11,962,482**	**215,686**	**-**	**12,178,168**	**10,589,504**	**87,810**	**-**	**10,677,314**
1.1 Structured securities	1,366,001	6,921	-	1,372,922	714,515	6,688	-	721,203
1.2 Other debt securities	10,596,481	208,765	-	10,805,246	9,874,989	81,122	-	9,956,111
2. Equity securities	**-**	**-**	**43,448**	**43,448**	**-**	**-**	**48,850**	**48,850**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**15**
Total	**11,962,482**	**215,686**	**43,448**	**12,221,616**	**10,589,504**	**87,810**	**48,865**	**10,726,179**

Debt securities were composed of:
- Italian government securities – Level 1 – down compared with the previous year, amounting to €5.5 billion (of which €1.4 billion relating to insurance business);
- foreign government securities – Level 1 – amounting to €4.6 billion;
- other bonds issued by major national and international banks and financial and corporate institutions – Level 1 and 2 – amounting to €2.1 billion.

3.2 Financial assets measured at fair value through other comprehensive income: composition by debtors/issuers

Items/Amounts	Total 31.12.2019	Total 31.12.2018
1. Debt securities	**12,178,168**	**10,677,314**
a) Central banks	-	-
b) Public administrations	10,084,555	9,461,666
c) Banks	735,930	437,336
d) Other financial companies	528,311	304,660
of which: insurance companies	20,613	22,570
e) Non-financial companies	829,372	473,652
2. Equity securities	**43,448**	**48,850**
a) Banks	2,968	3,355
b) Other issuers:	40,480	45,495
- other financial companies	17,239	18,770
of which: insurance companies	-	-
- non-financial companies	23,241	26,460
- other	-	265
3. Financing	**-**	**15**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	15
of which: insurance companies	-	15
e) Non-financial companies	-	-
f) Households	-	-
Total	**12,221,616**	**10,726,179**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount				Total impairment losses			Total 31.12.2019	Total partial write-offs
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three		
- Debt securities	12,046,929	10,406,570	139,084	9,501	(5,885)	(1,960)	(9,501)	12,178,168	-
- Financing	-	-	-	-	-	-	-	-	-
31.12.2019	**12,046,929**	**10,406,570**	**139,084**	**9,501**	**(5,885)**	**(1,960)**	**(9,501)**	**12,178,168**	**-**
31.12.2018	**10,566,880**	**9,795,624**	**116,946**	**9,501**	**(4,732)**	**(1,765)**	**(9,501)**	**10,677,329**	**-**
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-	-

SECTION 4 Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: composition of loans and advances to banks by type

Type of transaction/Amounts	Total 31.12.2019						Total 31.12.2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and advances to central banks	**9,521,517**	**-**	**-**	-	-	**9,521,517**	**8,204,801**	**-**	**-**	-	-	**8,204,801**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve requirement	9,511,521	-	-	X	X	X	8,204,801	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	9,996	-	-	X	X	X	-	-	-	X	X	X
B. Loans and advances to banks	**2,397,952**	**1,820**	**-**	**203,340**	**26**	**2,202,378**	**1,861,080**	**-**	**-**	**-**	**113**	**1,860,964**
1. Financing	2,200,586	1,820	-	-	26	2,202,378	1,860,971	-	-	-	7	1,860,964
1.1 Current accounts and sight deposits	922,794	-	-	X	X	X	744,727	-	-	X	X	X
1.2. Term deposits	5,006	-	-	X	X	X	10,869	-	-	X	X	X
1.3. Other financing	1,272,786	1,820	-	X	X	X	1,105,375	-	-	X	X	X
- Reverse repurchase agreements	2,145	-	-	X	X	X	12	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- other	1,270,641	1,820	-	X	X	X	1,105,363	-	-	X	X	X
2. Debt securities	197,366	-	-	203,340	-	-	109	-	-	-	106	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	197,366	-	-	203,340	-	-	109	-	-	-	106	-
Total	**11,919,469**	**1,820**	**-**	**203,340**	**26**	**11,723,895**	**10,065,881**	**-**	**-**	**-**	**113**	**10,065,765**

The item "Loans and advances to central banks – 2. Compulsory reserve requirement" contains the deposit with the Bank of Italy relating to the compulsory reserve (of which €8.8 billion relating to freely available reserves).
The item "Loans and advances to central banks – 4. Other" relates to the account held with the Bank of Italy for the purposes of the new "instant credit transfer" service offered to customers.

"Debt securities – Other" consists entirely of bonds issued by banks classified in stage one.

The item "Other financing – Other", stage three, consists of an exposure to a foreign banking counterparty, classified as non-performing since July 2019.

4.2 *Financial assets measured at amortised cost: composition of loans and advances to customers by type*

Type of transaction/Amounts	Total 31.12.2019						Total 31.12.2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3	Stages one and two	Stage three	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	**80,392,569**	**4,171,464**	**454,863**	**-**	**34,554,905**	**53,162,197**	**83,011,632**	**5,975,964**	**597,121**	**-**	**29,901,014**	**62,740,411**
1. Current account overdrafts	6,365,913	461,231	100,795	X	X	X	6,951,328	613,160	134,164	X	X	X
2. Reverse repurchase agreements	850,699	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	52,799,167	2,852,501	257,702	X	X	X	55,500,752	3,771,400	343,941	X	X	X
4. Credit cards, personal loans and salary-backed loans	3,728,056	72,679	2,251	X	X	X	3,403,660	81,995	3,095	X	X	X
5. Finance leases	4,761,923	415,195	46,388	X	X	X	5,203,961	819,427	58,922	X	X	X
6. Factoring	2,366,313	33,231	-	X	X	X	2,309,088	215,404	-	X	X	X
7. Other financing	9,520,498	336,627	47,727	X	X	X	9,642,843	474,578	56,999	X	X	X
2. Debt securities	**5,250,967**	**-**	**-**	**4,323,566**	**3,965**	**898,238**	**3,745,110**	**-**	**-**	**2,795,836**	**-**	**633,342**
2.1 Structured securities	9,703	-	-	9,984	-	-	-	-	-	-	-	-
2.2 Other debt securities	5,241,264	-	-	4,313,582	3,965	898,238	3,745,110	-	-	2,795,836	-	633,342
Total	**85,643,536**	**4,171,464**	**454,863**	**4,323,566**	**34,558,870**	**54,060,435**	**86,756,742**	**5,975,964**	**597,121**	**2,795,836**	**29,901,014**	**63,373,753**

The most important items in the stage one and stage two portfolio are as follows:

- the item "1.3 Mortgages" includes, amongst other things, assets to back covered bond issuances amounting to €17.9 billion (of which €0.5 billion non-performing), assets subject to securitisation amounting to €4.0 billion (of which €0.1 billion non-performing) and also assets subject to synthetic securitisations amounting to €0.4 billion (of which €17.9 million non-performing);

- the item "1.4 Credit cards, personal loans and salary-backed loans" recorded growth, mainly attributable to consumer credit business due in particular to Prestitalia salary and pension-backed loans in light of initiatives taken to increase this business carried out under the 2017- 2020 Business Plan;

- the item "2.2 Other debt securities" consisted mainly of Italian government securities. This item also includes €524.8 million of senior securities subscribed by UBI Banca in 2018 as part of an operation to transfer a portfolio of bad loans to the independent securitisation vehicle Maior SPV Srl and €333.8 million of senior securities subscribed by UBI Banca in 2019 as part of an operation to transfer a further portfolio of bad loans to the independent securitisation vehicle Iseo SPV Srl (reference is made to Part E for further information).

4.3 Financial assets measured at amortised cost: composition by debtors/issuers of loans and advances to customers by type

Type of transaction/Amounts	Total 31.12.2019			Total 31.12.2018		
	Stages one and two	Stage three	of which: assets purchased or originated credit impaired	Stages one and two	Stage three	of which: assets purchased or originated credit impaired
1. Debt securities	**5,250,967**	**-**	**-**	**3,745,110**	**-**	**-**
a) Public administrations	4,344,759	-	-	3,116,567	-	-
b) Other financial companies	858,636	-	-	628,543	-	-
of which: insurance companies	3,083	-	-	3,550	-	-
c) Non-financial companies	47,572	-	-	-	-	-
2. Financing to:	**80,392,569**	**4,171,464**	**454,863**	**83,011,632**	**5,975,964**	**597,121**
a) Public administrations	937,647	12,319	723	969,103	16,196	701
b) Other financial companies	5,504,996	69,489	1,662	4,821,041	114,519	3,214
of which: insurance companies	123,452	4	4	141,757	4	2
c) Non-financial companies	39,280,484	2,892,647	312,200	41,933,140	3,891,431	406,845
d) Households	34,669,442	1,197,009	140,278	35,288,348	1,953,818	186,361
Total	**85,643,536**	**4,171,464**	**454,863**	**86,756,742**	**5,975,964**	**597,121**

4.4 Financial assets measured at amortised cost: gross amount and total impairment losses

	Gross amount				Total impairment losses			Total 31.12.2019	Total partial write-offs
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three		
- Debt securities	5,452,382	4,346,243	-	-	(4,049)	-	-	5,448,333	-
- Financing	83,353,973	852,849	9,225,141	6,840,661	(160,060)	(304,382)	(2,667,377)	96,287,956	1,072,911
31.12.2019	**88,806,355**	**5,199,092**	**9,225,141**	**6,840,661**	**(164,109)**	**(304,382)**	**(2,667,377)**	**101,736,289**	**1,072,911**
31.12.2018	**85,018,585**	**3,117,627**	**12,359,302**	**9,716,770**	**(172,341)**	**(382,923)**	**(3,740,806)**	**102,798,587**	**938,276**
of which: financial assets purchased or originated credit impaired	X	X	100,938	365,337	X	(6,212)	(5,200)	454,863	75,600

SECTION 5 Hedging derivatives – Item 50

5.1 Hedging derivatives: composition by type of hedge and by level

	Fair value 31.12.2019			NA 31.12.2019	Fair value 31.12.2018			NA 31.12.2018
	L 1	L 2	L 3		L 1	L 2	L 3	
A) Financial derivatives	**-**	**35,117**	**-**	**26,257,476**	**-**	**42,479**	**1,605**	**23,057,090**
1) Fair value	-	34,018	-	26,233,382	-	42,479	-	23,032,269
2) Cash flow	-	1,099	-	24,094	-	-	1,605	24,821
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**35,117**	**-**	**26,257,476**	**-**	**42,479**	**1,605**	**23,057,090**

Legend

NA = notional amount

Financial derivatives relate mainly to interest rate swaps used as interest rate hedges on specific financial assets and as macro hedges for portfolios of loans and advances to customers recognised within financial assets measured and amortised cost.

The fair value movement is recognised in item 90 of the income statement – "Net hedging income (loss)".

5.2. Hedging derivatives: composition by portfolios hedged and type of hedge

Transactions /Type of hedging	Fair value							Cash flow		Foreign investments
	Specifica						Macro-hedge	Specific	Macro-hedge	
	Debt securities and interest rates	Equity securities and share indices	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	364	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	1,099	X	X
3. Portfolio	X	X	X	X	X	X	16,048	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**364**	**-**	**-**	**-**	**-**	**-**	**16,048**	**1,099**	**-**	**-**
1. Financial liabilities	17,606	X	-	-	-		X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**17,606**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 Fair value change in hedged financial assets (macro-hedge) – Item 60

6.1 Fair value change in hedged assets: composition by portfolios hedged

Fair value change in hedged assets/Amounts	Total 31.12.2019	Total 31.12.2018
1. Positive changes	**574,057**	**122,799**
1.1 of specific portfolios:	574,057	122,799
a) financial assets measured at amortised cost	574,057	122,799
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 general	-	-
2. Negative changes	**(27,038)**	**(25,370)**
2.1 of specific portfolios	(27,038)	(25,370)
a) financial assets measured at amortised cost	(27,038)	(25,370)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 general	-	-
Total	**547,019**	**97,429**

SECTION 7 Equity investments – Item 70

7.1 Equity investments: information on investments

Name	Registered address	Operating headquarters	Type of ownership	Details of investment		% of votes
				Investing company	% held	
B. Companies subject to considerable influence						
1. Lombarda Vita Spa	Brescia	Verona	*significant influence*	UBI Banca Spa	40.000%	40.000%
2. Aviva Vita Spa	Milan	Milan	*significant influence*	UBI Banca Spa	20.000%	20.000%
3. Zhong Ou Fund Management Co.	Shanghai (China)	Shanghai (China)	*significant influence*	UBI Banca Spa	25.000%	25.000%
4. Polis Fondi SGR Spa	Milan	Milan	*significant influence*	UBI Banca Spa	19.600%	19.600%
5. SF Consulting Srl	Bergamo	Mantua	*significant influence*	UBI Banca Spa	35.000%	35.000%
6. UFI Servizi Srl	Rome	Rome	*significant influence*	Prestitalia Spa	23.167%	23.167%
7. Montefeltro Sviluppo Scarl	Urbania (PS)	Urbania (PS)	*significant influence*	UBI Banca Spa	26.370%	26.370%

As at 31st December 2019 the balance sheet included solely equity investments recognised using the equity method. The larger equity investments, for which the carrying amount includes goodwill arising on consolidation, were tested for impairment, using the average of the multiples of a sample of comparable companies.

The market value for the insurance companies Aviva Vita Spa and Lombarda Vita Spa was calculated on the basis of a sample of companies quoted on active European stock markets considering the price/book value (P/BV) multiple adjusted for non-controlling interests and for intangible assets. The source for the amounts used was Bloomberg. The value (pro rata) was compared with the carrying amount of the equity investments in the consolidated financial statements.

- **Aviva Vita Spa:** the equity attributable to the Parent, amounting to €78.2 million, inclusive of profit for the year ended 31st December 2019 and also of a positive consolidation difference amounting to €1.1 million;
- **Lombarda Vita Spa:** the equity attributable to the Parent, amounting to €166.5 million, inclusive of the profit for the year ended 31st December 2019 and also of a positive consolidation difference amounting to €29.4 million.

Testing of the amounts recognised for the equity investments in the consolidated financial statements against the "pro rata" fair value found no evidence of impairment losses as at 31st December 2019.

7.2 Significant investments: book value, fair value and dividends received

Name	Carrying amount	Fair value (*)	Dividends received
B. Companies subject to considerable influence			
1. Lombarda Vita Spa	166,548	-	9,351
2. Aviva Vita Spa	78,158	-	-
TOTAL	**244,706**	**-**	**9,351**

(*) The fair value of the equity investments is not given in the table because they are companies that are not listed.

7.3 Significant investments: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	Profit (loss) before tax on continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax on discontinued operations	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
B. Companies subject to considerable influence														
1. Lombarda Vita Spa	X	8,842,200	439,149	8,640,494	297,900	1,688,114	X	X	67,796	47,432	-	47,432	5,082	52,514
2. Aviva Vita Spa	X	17,418,500	246,900	16,300,100	979,800	4,081,600	X	X	93,400	60,400	-	60,400	-	60,400

(*) Profit (loss) for the year as in the reporting package provided by the insurance companies for the preparation of the consolidated financial statements and subject to audit.

7.4 Non-significant investments: accounting information

Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) on operating activities net of taxes	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1) + (2)
Companies subject to joint control	-	-	-	-	-	-	-	-	-
Companies subject to considerable influence	42,647	347,487	165,051	256,013	39,356	-	39,356	16	39,372

The accounting information relates to the following investments:

- Zhong Ou Fund Management Co.;
- Polis Fondi Sgr Spa;
- UFI Servizi Srl;
- SF Consulting Srl;
- Montefeltro Sviluppo Scarl.

7.5 Equity investments: annual changes

	Total 31.12.2019	Total 31.12.2018
A Opening balances	**254,128**	**243,165**
B Increases	**42,713**	**24,627**
B.1 Purchases	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	42,713	24,627
C Decreases	**(9,488)**	**(13,664)**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Write-downs	-	-
C.4 Other changes	(9,488)	(13,664)
D Final balances	**287,353**	**254,128**
E Total revaluations	**-**	**-**
F Total impairment losses	**-**	**-**

The amount recognised on line B.4 "Other changes" consists mainly of the profit for the year (€40,343 thousand in total) earned by the following companies:

Zhong Ou Fund Management Co.	€9,154 thousand
Lombarda Vita Spa	€18,973 thousand
Aviva Vita SpA	€12,100 thousand

The amount recognised on line C.4 "Other changes" consists mainly of dividends of €9,351 thousand received from Lombarda Vita Spa.

7.6 Significant assessments and assumptions to establish the existence of joint control or significant influence

Part A, Section 3 of these notes to the financial statements may be consulted for further information.

7.7 Commitments relating to equity investments in companies subject to joint control

Nothing to report.

7.8 Commitments relating to equity investments in companies subject to significant influence

Commitments relating to the possible exercise of options

Lombarda Vita Spa: as part of the renewal of life banc assurance agreements with the Cattolica Assicurazioni Group concluded on 30th September 2010, the options on the respective investments in the Lombarda Vita joint venture were reformulated with purchase options only, exercisable on the basis of the occurrence of predetermined conditions.

Aviva Vita Spa: as part of the definition of the new partnership agreements between the Aviva Group and the UBI Banca Group in the life insurance distribution sector concluded on 22nd December 2014, call options were agreed on the respective stakes held in the life insurance company, exercisable on the basis of the occurrence of predetermined conditions.

Zhong Ou Asset Management Company (formerly Lombarda China Fund Management Company): a partnership agreement entered into as part of asset management business focused on the Chinese market signed between UBI Banca and the current shareholders, which involves a series of call options which can be exercised if determined trigger events occur concerning the respective investment held in Zhong Ou Fund Asset Management Company. UBI Banca holds an approximately 1.7% stake in the total share capital of the company classified within non-current assets held for sale according to IFRS 5, because it is subject to future disposal on the basis of agreements entered into between the shareholders and the management of the company.

7.9 Significant restrictions

Nothing to report.

7.10 Other information

Nothing to report.

SECTION 8 Technical reserves of reinsurers – Item 80

8.1 Technical reserves of reinsurers: composition

Nothing to report.

SECTION 9 Property, plant and equipment – Item 90

9.1 Property, plant and equipment for functional use: composition of assets measured at cost

Assets/amounts	Total 31.12.2019	Total 31.12.2018
1. Owned assets	**1,428,245**	**1,666,706**
a) land	611,524	840,542
b) buildings	590,802	636,505
c) furnishings	52,135	44,521
d) electronic equipment	98,975	83,429
e) other	74,809	61,709
2. Right-of-use leased assets	**450,291**	**27,689**
a) land	15,946	15,946
b) buildings	420,098	11,743
c) furnishings	-	-
d) electronic equipment	11,706	-
e) other	2,541	-
Total	**1,878,536**	**1,694,395**
of which: obtained through the enforcement of guarantees received	-	*37,523*

Due to the introduction of the accounting standard IFRS16 that applies to lease contracts, which are contracts which grant a lessee the right to use an identified asset for a specified period of time in exchange for consideration, point 2 gives details of right-of-use assets that relate to real estate and other asset lease contracts.

The item "*of which: obtained through the enforcement of guarantees received*", which amounted to €37.5 million in 2018, relates to property, plant and equipment held by UBI Leasing following the termination of non-performing finance lease contracts. In 2019 this was classified within property, plant and equipment held for investment, as shown in the table below and amounted to €63 million.
Some real estate assets classified as for functional use were reclassified during the year as investment property, as a better representation of the purpose for which they were held.

9.2 Tangible assets held for investment: composition of assets valued at cost

Assets/amounts	Total 31.12.2019				Total 31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**405,107**	**-**	**-**	**482,407**	**257,745**	**-**	**-**	**335,270**
a) land	200,139	-	-	233,717	154,618	-	-	193,639
b) buildings	204,968	-	-	248,690	103,127	-	-	141,631
2. Right-of-use leased assets	**182**	**-**	**-**	**188**	**186**	**-**	**-**	**188**
a) land	33	-	-	34	33	-	-	33
b) buildings	149	-	-	154	153	-	-	155
Total	**405,289**	**-**	**-**	**482,595**	**257,931**	**-**	**-**	**335,458**
of which: obtained through the enforcement of guarantees received	63,007	-	-	73,316	-	-	-	-

The item "of which: obtained through the performance of guarantees received" includes property, plant and equipment held by UBI Leasing as a result of the termination of non-performing finance lease contracts.

9.3 Property, plant and equipment for functional use: composition of assets revalued

No items of this type exist for the UBI Banca Group.

9.4 Tangible assets held for investment: composition of assets measured at fair value

No items of this type exist for the UBI Banca Group.

9.5 Inventories of property, plant and equipment subject to IAS 2 rules: composition

Assets/amounts	31.12.2019	31.12.2018
1. Inventories of property, plant and equipment obtained through the enforcement of guarantees received	**14,320**	**12,908**
a) land	2,375	2,071
b) buildings	11,945	10,837
c) furnishings	-	-
d) electronic equipment	-	-
e) other	-	-
2. Other inventories of property, plant and equipment	**-**	**-**
Total	**14,320**	**12,908**
of which: measured at fair value net of selling expenses	-	-

Property, plant and equipment measured in accordance with IAS 2 "Inventories" resulting from their purchase at auction to close non-performing credit exposures carried out by the company Kedomus are recognised within this item.

9.6 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnishings	Electronic equipment	Other	Total
A. Gross opening balances	**982,642**	**1,645,923**	**316,980**	**422,552**	**573,915**	**3,942,012**
A.1 Total net reductions in value	(126,154)	(997,675)	(272,459)	(339,123)	(512,206)	(2,247,617)
A.1-a changes to opening balances	-	410,483	-	15,052	4,089	429,624
A.2 Net opening balances	**856,488**	**1,058,731**	**44,521**	**98,481**	**65,798**	**2,124,019**
B. Increases	**54,400**	**257,810**	**13,861**	**43,807**	**32,640**	**402,518**
B.1 Purchases	17,784	71,340	13,861	43,800	30,936	177,721
B.2 Capitalised improvement expenses	-	26,970	-	-	425	27,395
B.3 Reversal of impairment losses	-	-	-	-	-	-
B.4 Positive changes in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	3	-	-	-	3
B.6 Transfers from properties held for investment	2,700	2,779	X	X	X	5,479
B.7 Other changes	33,916	156,718	-	7	1,279	191,920
C. Decreases	**(283,418)**	**(305,641)**	**(6,247)**	**(31,607)**	**(21,088)**	**(648,001)**
C.1 Sales	-	-	(64)	(20)	(20)	(104)
C.2 Depreciation	-	(82,976)	(5,969)	(31,580)	(20,696)	(141,221)
C.3 Impairment losses recognised in:	(286)	(247)	-	-	-	(533)
a) equity	-	-	-	-	-	-
b) income statement	(286)	(247)	-	-	-	(533)
C.4 Negative changes in fair value recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	(262,978)	(140,000)	-	(5)	(22)	(403,005)
a) investment property	(73,820)	(104,889)	X	X	X	(178,709)
b) non-current assets and disposal groups held for sale	(189,158)	(35,111)	-	(5)	(22)	(224,296)
C.7 Other changes	(20,154)	(82,418)	(214)	(2)	(350)	(103,138)
D. Final net balances	**627,470**	**1,010,900**	**52,135**	**110,681**	**77,350**	**1,878,536**
D.1 Total net reductions in value	(75,961)	(1,005,365)	(268,827)	(351,245)	(523,429)	(2,224,827)
D.2 Final gross balances	**703,431**	**2,016,265**	**320,962**	**461,926**	**600,779**	**4,103,363**
E. Value at cost	-	-	-	-	-	-

The amounts stated online item “A.1-a changes to opening balances” relate to the First-Time Adoption of IFRS 16.

9.7 Property held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balances	**154,651**	**103,280**
B. Increases	**90,494**	**148,381**
B.1 Purchases	14,589	35,972
B.2 Capitalised improvement expenses	-	57
B.3 Positive changes in fair value	-	-
B.4 Reversals of impairment losses	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from properties used in operations	73,820	104,889
B.7 Other changes	2,085	7,463
C. Decreases	**(44,973)**	**(46,544)**
C.1 Sales	(4,110)	(4,738)
C.2 Depreciation	-	(10,280)
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	(2,411)	(3,164)
C.5 Negative exchange rate differences	-	-
C.6 Transfers to	(36,310)	(24,220)
a) properties for functional use	(2,700)	(2,779)
b) non-current assets and disposal groups held for sale	(33,610)	(21,441)
C.7 Other changes	(2,142)	(4,142)
D. Final balances	**200,172**	**205,117**
E. Fair value	**233,751**	**248,844**

When signals of potential impairment appeared, external appraisers were appointed for impairment testing purposes to appraise the entire real estate portfolio. It found marginal differences compared with the carrying amounts. In this context the fair value of properties was determined on the basis of generally accepted appraisal principles, by applying the following valuation criteria:

- the direct comparative or market method, based on a comparison between the asset in question and other similar assets subject to sale or currently on sale on the same market or competing markets;
- the income method, based on the present value of potential market incomes for a property, obtained by capitalising the income at a market rate.

The results of the appraisal method described resulted in a write-down of real estate property positions amounting to approximately €5.6 million (€1 million in the previous year).

9.8 Inventories of property, plant and equipment subject to IAS 2 rules: annual changes

	Inventories of property, plant and equipment obtained through the enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Furnishings	Electronic equipment	Other		
A. Opening balances	**2,071**	**10,837**	**-**	**-**	**-**	**-**	**12,908**
B. Increases	**1,046**	**4,667**	**-**	**-**	**-**	**-**	**5,713**
B.1 Purchases	1,046	4,667	-	-	-	-	5,713
B.2 Reversals of impairment losses	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	-	-
C. Decreases	**(742)**	**(3,559)**	**-**	**-**	**-**	**-**	**(4,301)**
C.1 Sales	(742)	(3,559)	-	-	-	-	(4,301)
C.2 Impairment losses	-	-	-	-	-	-	-
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Final balances	**2,375**	**11,945**	**-**	**-**	**-**	**-**	**14,320**

9.9 Commitments to purchase property, plant and equipment

Assets/amounts	Total 31.12.2019	Total 31.12.2018
A. Assets for functional use		
1.1 owned	2,046	108,024
- land	-	-
- buildings	236	94,438
- furnishings	-	290
- electronic equipment	10	-
- other	1,800	13,296
1.2 Finance lease	-	-
- land	-	-
- buildings	-	-
- furnishings	-	-
- electronic equipment	-	-
- other	-	-
Total A	**2,046**	**108,024**
B. Assets held for investment		
2.1 owned	-	-
- land	-	-
- buildings	-	-
2.2 Finance lease	-	-
- land	-	-
- buildings	-	-
Total B	**-**	**-**
Total (A+B)	**2,046**	**108,024**

The commitments reported above form part of the normal planning activities of the Bank and they represent orders not yet executed as at the balance sheet date.

As at 31st December 2018 the amount stated under the item Assets for operational use - owned - buildings, represented a commitment undertaken by the Parent for the total purchase of assets relating to a property fund originating from the merger of the former New Banks.

SECTION 10 Intangible assets – Item 100

10.1 Intangible assets: composition by type of asset

Assets/amounts	Total 31.12.2019		Total 31.12.2018	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**1,465,260**	**X**	**1,465,260**
A.1.1 attributable to the shareholders of the Parent	X	1,465,260	X	1,465,260
A.1.2 attributable to minority interests	X	-	X	-
A.2 Other intangible assets	**274,606**	**37**	**264,430**	**37**
A.2.1 Assets measured at cost:	274,606	37	264,430	37
a) Internally generated intangible assets	-	-	-	-
b) Other assets	274,606	37	264,430	37
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**274,606**	**1,465,297**	**264,430**	**1,465,297**

In compliance with IAS 36, an impairment test is performed at the end of each year (or more frequently if an analysis of internal or external circumstances should give rise to doubts that the value of the assets can be recovered). The result of the impairment test as at 31st December 2019 did not find any need to proceed to recognition of impairment losses on the item goodwill.

All the specific intangible assets of the UBI Banca Group (core deposits, intangible assets connected with assets under management and under custody) have a finite useful life. Therefore in accordance with IAS 38 there is no obligation to subject those assets to impairment tests on an annual basis, but only each time evidence appears of impairment that is greater than the amortisation.
Impairment testing of the carrying amounts for assets under management, assets under custody and core deposits was not carried out because it was not triggered by the relative indicators (changes in the relative volumes and/or relative returns).

Details of the item "Goodwill" are given below.

Figures in thousands of euro	Total 31.12.2019	Total 31.12.2018	Changes
UBI Banca Spa	1,195,840	1,195,840	-
Pramerica SGR Spa	170,284	170,284	-
IW Bank Spa	88,754	88,754	-
UBI Factor Spa	8,260	8,260	-
UBI Sistemi e Servizi SCpA	2,122	2,122	-
TOTAL	**1,465,260**	**1,465,260**	**-**

The goodwill recognised in the consolidated financial statements of the UBI Banca Group ("goodwill arising on consolidation" resulting from the elimination of the equity investments in subsidiaries) is the result of all the goodwill items relating to UBI Banca and to some of the companies controlled by it.

"Other finite useful life intangible assets" amounting to €274.6 million were comprised mainly of the assets:

- resulting from the purchase price allocation carried out on 1st April 2007 following the merger of the former Banca Lombarda e Piemontese Group into the former BPU Banca Group on 1st April 2007, for a total of €60.9 million relating to:
  - "asset management business" consisting both of the asset management and the relative distribution activities and totalling €32.7 million. These assets are amortised over the estimated remaining useful life of the customer relationships. The amortisation for the year amounted to €2.9 million (€3.1 million for the year ended 31st December 2018);
  - "assets under custody" business totalling €28.2 million, with total amortisation of €2 million (€2.2 million for the year ended 31st December 2018);
- resulting from the purchase price allocation carried out on 1st April 2017 following the merger of the New Banks for a total of €18.3 million relating to:
  - "asset management business" consisting both of the asset management and the relative distribution activities and totalling €8.5 million. These assets are amortised over the remaining useful life of the customer relationships. The amortisation for the year amounted to €3.8 million;
  - "assets under custody" business totalling €1.4 million with total amortisation for the year of €0.6 million;
  - "core deposits", which constitute intangible assets relating to customer relationships totalling €8.4 million with total amortisation for the year of €3.8 million.

The remaining balance consists almost exclusively of software, allocated mainly to UBISS Scpa, the UBI Group service company.

In compliance with IAS 36, an impairment test is performed at the end of each year (or more frequently if an analysis of internal or external circumstances should give rise to doubts that the value of the assets can be recovered). The result of the impairment test as at 31st December 2019 did not find any need to proceed to recognition of impairment losses on the item goodwill.

All the specific intangible assets of the UBI Banca Group (core deposits, intangible assets connected with assets under management and under custody) have a finite useful life. Therefore in accordance with IAS 38 there is no obligation to subject those assets to impairment tests on an annual basis, but only each time evidence appears of impairment that is greater than the amortisation.
Intangible assets associated with assets under management, assets under custody and core deposits originating from the merger operations mentioned above were not tested for impairment because no changes were recorded in the relative assets which determine the value of the intangible assets associated with them (within the perimeter of the PPA) by an amount greater than the annual amortisation rate and no changes occurred in terms of the profitability of those assets.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	31.12.2019
A Opening gross balances	**2,780,406**	**-**	**-**	**1,629,120**	**37**	**4,409,563**
A.1 Total net reductions in value	(1,315,146)	-	-	(1,364,690)	-	(2,679,836)
A.2 Net opening balances	**1,465,260**	**-**	**-**	**264,430**	**37**	**1,729,727**
B. Increases	**-**	**-**	**-**	**88,285**	**-**	**88,285**
B.1 Purchases	-	-	-	88,024	-	88,024
B.2 Increases in intangible internal assets	X	-	-	-	-	-
B.3 Reversal of impairment losses	X	-	-	-	-	-
B.4 Positive changes in fair value		-	-	-	-	-
- in equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	261	-	261
C. Decreases	**-**	**-**	**-**	**(78,109)**	**-**	**(78,109)**
C.1 Sales	-	-	-	(519)	-	(519)
C.2 Impairment losses	-	-	-	(77,585)	-	(77,585)
- Amortisation	X	-	-	(77,585)	-	(77,585)
- Impairment losses	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value		-	-	-	-	-
- in equity	X	-	-	-	-	-
- in the income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale.	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	(5)	-	(5)
D. Final net balances	**1,465,260**	**-**	**-**	**274,606**	**37**	**1,739,903**
D.1 Total net impairment losses	(1,315,146)	-	-	(1,442,275)	-	(2,757,421)
E. Final gross balances	**2,780,406**	**-**	**-**	**1,716,881**	**37**	**4,497,324**
F. Value at cost	-	-	-	-	-	-

10.3 Other information

Software

The useful life of software considered for the purposes of amortisation is five years.
The figure for contractual commitments to purchase intangible assets was €8.2 million for the acquisition of software.

Impairment tests on goodwill

The goodwill recognised in the consolidated balance sheet of UBI Banca is the result of all the goodwill items and all the positive consolidation differences arising from the business combinations of the subsidiaries of UBI Banca Spa, as reduced by prior year impairment losses. The criterion followed in the allocation of goodwill in the UBI Group considers the minimum level at which it is monitored which coincides, with regard to banking activities, to the banking segment (former IFRS 8) and with regard to other business to the respective legal entities (non-banking financial segment). A second level impairment test is conducted on consolidated cash flows to test the general integrity of the goodwill recognised in the consolidated balance sheet. The allocation criterion followed did not undergo any changes compared with 31.12.2018, because it was a consequence of the reorganisation began in 2016 (the Single Bank project) designed to simplify the organisational structure of the Group's banking business. This reorganisation involved the following:

- the merger by incorporation of the former network banks (Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Regionale Europea, CARIME, Banca Popolare di Ancona and Banca di Valle Camonica) during the last quarter of 2016 and in 2017;
- the merger into UBI Banca Spa of the banks acquired in 2017 consisting of Banca Adriatica (the former Nuova Banca delle Marche), Banca Tirrenica (the former Nuova Banca dell'Etruria) and Banca Teatina (the former Nuova Cassa di Risparmio di Chieti).

The UBI Banca Group has not changed its operating segments (pursuant to IFRS 8) following its reorganisation (consisting of banking, non-banking financial, and finance and corporate centre), because the reorganisation affected the banking operating segment only and did not modify (except marginally) the other segments. Following that organisational simplification, the Group proceeded to aggregate the goodwill relating to the “former network banks” within the banking segment. More specifically, the Single Bank’s structure involved the allocation of general banking activities to the two main customer targets ((individuals and corporate), but the detailed implementation and the pursuit of strategic objectives was accomplished by means of the creation of “macro geographical areas” in order to create unified management in the various local areas of the two segments.

This meant that the recoverability of goodwill took place by means of the unified and co-ordinated management of the commercial segments insofar as they are intrinsically related to each other. For that reason, the banking segment constitutes the Group CGU on which the recoverability of goodwill is tested because it is the minimum level at which: (i) the Group’s strategy aims at recovering the goodwill (and that monitoring its recoverability); (ii) the allocation of goodwill is not arbitrary. It should be considered here that international accounting standards identify the segment as the maximum limit at which goodwill can be tested and monitored.
The value measurement used to calculate the recoverable amount of the CGUs to which goodwill is allocated is the value in use. Making the value measurement (IAS 36.31) requires an estimate of the “future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal” and the application of “the appropriate discount rate to those future cash flows”. The financial measurement criterion adopted by the UBI Banca Group to calculate the value in use is the “Excess Capital” variant of the “Dividend Discount Model”. The carrying amount of the legal entities belonging to the non-banking financial segment and the carrying amount of the banking segment was calculated in a manner consistent with the criterion with which the recoverable amount was estimated. For the CGUs belonging to the non-banking financial segment, the notional carrying amount of each CGU to which goodwill was allocated corresponded to the sum of the following:

- the equity plus the profit of the legal entity, inclusive of goodwill, net of:
    - i) dividends currently being paid, calculated on the profit earned in 2019; and
    - ii) the carrying amounts of any equity investments that may be held by the legal entity;
- adjustments to the purchase price allocation (PPA former Banche Popolari Unite Group and former Banca Lombarda e Piemontese Group), inclusive of the write-ups of real estate properties, loans and receivables and obligations and intangible assets identified in the PPA;
- any consolidation differences there may be, “grossed up” on a notional basis.

As already reported, for CGUs that are not wholly owned, for impairment purposes goodwill must be restated on a notional basis including the goodwill attributable to minority interests (not recognised in the consolidated financial statements) by means of “grossing up” (i.e. goodwill attributable to the Group/percentage ownership attributable to the Group) in consideration, amongst other things, of example seven in IAS 36. This adjustment regards consolidation differences relating to Pramerica.
For the banking segment, which does not coincide with a legal entity, the carrying amount on the other hand is obtained starting from the following:

- the equity in the separate balance sheet of UBI Banca (to which the banking segment relates), inclusive of goodwill;
- the equity absorbed by other activities relating to UBI Banca. These are
    - a) the equity absorbed by “corporate centre” activities (inclusive of consolidated equity investments);
    - b) the equity absorbed by the finance activities.

The impairment test, for which the procedure was defined prior to the approval of the financial statements, made use of methodological support from an external appraiser of high standing.
The projections on which the value in use estimate is based:

a) are founded on reasonable and consistent assumptions, which represent the best estimate that can be made by management of the possible economic conditions that may manifest over the useful life of the asset in question;

b) use the 2020-2022 Business Plan[1] approved by the Board of Directors on 17th February 2020 and the projections for the following two-year period (2023-2024) as a starting point which incorporate the most recent macroeconomic and regulatory trends and make use of the best estimates available to management;

c) use a time horizon of five years as the explicit forecast period in compliance with IAS 36;

d) are only adopted for the purposes of measurement after appropriate analysis has been carried out of gaps between preliminary 2019 final figures and 2019 budget figures to find the causes of the gaps and after making sure that those gaps are incorporated in the projections;

e) with due prudence, involve a gradual return to normal market conditions in the medium-term as a result of:

   i) an estimate of short-term interbank interest rates (3-month Euribor rate) consistent with forward/future interest rates. The average annual three-month interbank rate (3-month Euribor rate) assumed by management was -0.287% for 2023 and -0.049% for 2024 (compared with the 3-month Euribor of 0.951% used in the impairment test as at 31/12/2018 relating to 2023). This level of interest rates forecast for 2024 is lower than the futures rate recorded as at 31/12/2019 (a futures interest rate on the 3-month Euribor as at 31/12/2019 forecast for December 2024 of 0.19%) and the forward rate (a forward interest rate on the 3-month Euribor as at 31/12/2019 forecast for December 2024 of 0.176%). The 3-month Euribor rate is again forecast to be negative for the whole of the 2020-2024 period and it is forecast as completely flat in the period 2020-2022 at -0.417%. The rise in interest rates in 2023 and 2024 ensures a progressive normalisation of markups and markdowns, even if still significantly lower than levels observed historically;

   ii) the projection for volumes of loans is essentially stable (an average annual growth rate in the period 2019-2024 of 0.8%). Projections for growth in direct funding are also flat, although lower than those for lending (CAGR 2019–2024 = -0.1%). The assumptions made show growth in operating income at a compound annual growth rate in line with the forecast rate for inflation due also to a forecast rise in interbank interest rates and a rise in net fees and commissions;

   iii) the cost of risk (net impairment losses on loans/loans to customers) is forecast to fall in 2024 compared with the figures for 2019 and those forecast for 2020.

The method applies involves the following steps:

a) the estimate of the cash flows freely distributable to shareholders after the explicit forecast period, based on the net profit forecast for the last year of the explicit forecast (2024). The sustainability of those cash flows is supported by the comparison of profits estimated by management with the forecasts of analysts that follow the UBI share up until 2023 (the last year for which projections are made by equity analysts who follow the share). For the purposes of calculating freely available cash flows, a preliminary calculation is made of the regulatory capital, in line with requirements set by the European Central Bank in terms of the Common Equity Tier 1 Capital Ratio (inclusive of the Pillar 2 capital guidance requirement) after the "Supervisory Review and Evaluation Process" (SREP).

b) capitalisation of the cash flow freely distributable to shareholders beyond the specific forecast period is calculated by applying a rate that represents the difference between the opportunity cost of equity ("ceo") and the estimated perpetual growth rate. The terminal value for the cash flow growth rate was assumed to be 0.90%, down on that used in the previous year which was assumed to be 1.40%, due to a fall in long-term estimates of the interest rate scenario (which together with the inflation scenario defines the growth rate for income beyond the explicit forecast period);

c) the terminal value is discounted to the cost of equity (coe).

1 More specifically, on 10th February 2020 the UBI Banca's Board of Directors approved the 2020-2024 operating and financial projections for impairment testing purposes. These projections for the period 2020-2022 are consistent with the 2020-2022 Business Plan, but in accordance with IAS 36 they exclude costs and benefits arising from the programme to restructure staff costs as set out in the 2020-2022 Business Plan, because as the necessary requirements had not been met, the relative expenses in accordance with IAS 37 had not yet been recognised in the accounts as at 31/12/2019. The effects of this staff restructuring were incorporated in order to normalise the cash flows in the estimation of the terminal value.

Finally, the value in use is based on the opportunity cost of capital (cost of equity – "coe") estimated consistent with the provisions of accounting standard IAS 36 and "Guidelines for impairment tests on goodwill in contexts of financial and real crisis" issued by the *Organismo Italiano di Valutazione* (OIV – Italian Valuation Body) on the basis of a capital asset pricing model (CAPM):

coe = Risk Free + b x Equity Risk Premium

The opportunity cost of capital is equal to the sum of the risk free rate and a risk premium corresponding to the product of the beta of the share and the overall market risk premium (equity risk premium).

a) the specific yield to maturity of the interbank rate for each year of the forecast was assumed as the risk free rate, in accordance with paragraph A21 of IAS 36, plus a spread between the corresponding yield to maturity of the benchmarks on Italian government securities and the same interbank interest rate. The risk free rate used to estimate the cost of equity is consistent with future interest rates forecast by management and assumed for the estimate of future cash flows used in the measurement. The risk free rate assumed in the terminal value is 1.36% (i.e. the sum of the 10-year interbank rate of 0.13% and the spread of 1.22% which is prudently higher than the estimates for risk free rates used by management for long-term forecasts of net interest income (average annual 3-month Euribor forecast for 2024 = -0.049%). The risk free in the terminal value rate fell by 1.59% compared with impairment measurements made as at 31.12.2018 (the amount assumed in the terminal value as at 31.12.2018 = 2.95%). The fall is attributable to a reduction in the spread between BTPs and the Bund and to a fall in interest rates;
b) the equity risk premium is 6.0%, in line with the consensus reported by equity analysts. The measurement of the equity risk premium as at 31.12.2019 had risen by 1% compared with that estimated as at 31.12.2018;
c) for the banking segment and for the Group as a whole (second level impairment test), the beta was estimated at 1.55x (1.62x as at 31.12.2018) and is based on historical returns on the share over five years and the FTSE Italia All Share market index. The beta estimate as at 31.12.2019 (1.55x), was higher than both those based on historical returns for the UBI share over one year (1.43x) and over two years (1.28x) and that implicit in options (1.15x). Therefore the choice of the beta estimate based on historical monthly returns over five years, using the same method as in previous years, was more prudent;
d) for the other companies, the beta was estimated using the same method as that used in the previous year, on the basis of the returns for comparable European companies.

On the basis of the parameters reported above, the opportunity cost of own capital for the banking segment and for the UBI Banca Group (impairment level II) was 10.66%, down compared with 11.03% as at 31.12.2018.
A growth rate for long-term income of 0.90% was assumed for the banking segment, down compared with that used the year before (1.40%), due to a fall in estimates of the long-term risk-free rates. The growth rate for companies that do not carry out conventional banking activities is 0%.

Therefore the rate of capitalisation (coe – g) for the banking segment as at 31.12.2019 was 9.76% (10.66% - 0.90%), up compared with the measure of 9.63% assumed for 2018 impairment test purposes.
The table below shows estimates of the opportunity cost of capital and of the growth rate in the terminal value for the different CGUs to which goodwill was allocated (in bold type). The same measures assumed for the impairment test as at 31.12.2018 are given in italics.

Consistent with the procedures employed for previous impairment tests, the fundamental estimate of the opportunity cost of capital for the banking segment and the UBI Banca Group is reconciled with the consensus estimate made by the equity analysts who follow the UBI Banca share.

CGU		Initial discount rate net of taxes	Final discount rate net of taxes	Nominal growth rate in income for the calculation of the terminal value	Rate of capitalisation of income for the calculation of the terminal value
Banking Segment / UBI Consolidated	**2019**	**8.96%**	**10.66%**	**0.90%**	**9.76%**
	2018	*8.28%*	*11.03%*	*1.40%*	*9.63%*
UBI Factor, Leasing, Prestitalia	**2019**	**7.01%**	**8.72%**	**0.00%**	**8.72%**
	2018	*6.21%*	*8.96%*	*0.00%*	*8.96%*
UBI Pramerica	**2019**	**5.93%**	**7.63%**	**0.00%**	**7.63%**
	2018	*5.80%*	*8.55%*	*0.00%*	*8.55%*
IW Bank Private Investment	**2019**	**5.96%**	**7.66%**	**0.00%**	**7.66%**
	2018	*5.10%*	*7.84%*	*0.00%*	*7.84%*

As a consequence of all the above, the impairment tests performed on the single CGUs resulted in no need to recognise impairment losses on goodwill. The second level impairment test showed recoverable amounts greater than equity.

The value in use of the Parent is greater than the stock market capitalisation. The difference between the value in use and the stock market capitalisation can be explained by the fact that in the current context, the stock market:

- only captures expected short-term results (representing a minority shareholder outlook) rather than longer-term result outlooks (even though consensus based) on which, however, the value in use estimate is based;
- values the non-performing exposure portfolio aligned with the implicit multiples of comparable transactions rather than with a loan management outlook on which the value in use estimate is based.

A sensitivity analysis was performed in compliance with IAS 36 to identify the variation in key variables (cost of equity, cost of risk, income growth rate in the terminal value, cost:income ratio) that would render the recoverable amount of the different CGUs/banking segment equal to their carrying amounts in the consolidated financial statements.

The analysis shows that for the banking segment an increase of 0.24% in the cost of risk, a rise of 2.23% in the cost of equity, a fall of -4.08% in the terminal value for the income growth rate and finally a rise of 4.43% in the cost:income ratio (equal to operating expenses divided by operating income) would bring the recoverable amount into line with the carrying amount.

For the other companies, the analysis shows that for UBI Factor an increase of 0.11% in the cost of risk, a rise in the cost of equity of 1.30%, a fall in the income growth rate in the terminal value of -2.14% and finally a rise of 8.30% in the cost:income ratio would bring the recoverable amount into line with the carrying amount.

Sensitivity

CGU / Segment	Rise in the cost of risk required to obtain: value in use = carrying amount	Rise in the cost:income ratio required to obtain: value in use = carrying amount	Rise in the cost of equity required to obtain: value in use = carrying amount	Growth rate needed to obtain: value in use = carrying amount
Banking Segment	0.24%	4.43%	2.23%	-4.08%
UBI Pramerica	n.s.	55.68%	24.29%	n.s.
IW Bank Private Investment	1.17%	3.97%	1.60%	-2.20%
UBI Factor	0.11%	8.30%	1.30%	-2.14%

SECTION 11 – Tax assets and tax liabilities – Asset item 110 and Liability item 60

11.1 Deferred tax assets: composition

	Total 31.12.2019	Total 31.12.2018
Balancing entry in the income statement	2,592,205	2,690,355
Balancing entry in equity	63,421	143,440
Total	**2,655,626**	**2,833,795**
for the following reasons:		
- intangible assets and goodwill	*1,039,530*	*1,039,545*
- impairment losses on loans and advances to customers not deducted	*754,921*	*765,571*
- losses	*313,224*	*345,277*
- IFRS9 reserve	*239,307*	*240,063*
- provisions for risks and charges not deducted	*59,640*	*73,171*
- property, plant and equipment	*53,244*	*50,603*
- staff costs	*47,867*	*35,949*
- to cover merger of New Banks	*47,111*	*82,119*
- impairment losses loans and advances to banks, unsecured loan guarantees and other not deducted	*28,955*	*33,241*
- fair value change in securities and equity investments	*26,443*	*118,640*
- application of IFRS (amortised cost in particular)	*20,388*	*24,550*
- post employment benefits	*11,202*	*8,593*
- advance depreciation and amortisation	*6,012*	*5,722*
- adjustment of Single Bank amortised cost	*390*	*2,949*
- other	*7,392*	*7,802*

11.2 Deferred tax liabilities: composition

	Total 31.12.2019	Total 31.12.2018
Balancing entry in the income statement	80,354	121,756
Balancing entry in equity	26,036	10,229
Total	**106,390**	**131,985**

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	**2,690,355**	**2,539,381**
2. Increases	**66,853**	**310,200**
2.1 Deferred tax assets arising during the year	58,158	298,023
a) relating to previous years	1,364	757
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	56,794	297,266
2.2 New taxes or increases in tax rates	3,212	2,571
2.3 Other increases	5,483	9,606
3. Decreases	**(165,003)**	**(159,226)**
3.1 Deferred tax assets derecognised during the year	(127,024)	(145,813)
a) reversals of temporary differences	(120,054)	(141,987)
b) impairment losses on non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(6,970)	(3,826)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(37,979)	(13,413)
a) transformation into tax credits pursuant to Law 214/2011	(10,657)	(12,978)
b) other	(27,322)	(435)
4. Final balance	**2,592,205**	**2,690,355**

With regard to changes in 2019, the increase in deferred tax assets recognised during the year was €58,158 thousand, mainly the consequence of provisions for risks and charges and off-balance sheet guarantees and amortisation and depreciation that was not deductible during the year.

Deferred tax assets derecognised during the year, amounting to €127,024 thousand, consisted mainly of the use/release of tax provisions, of the measurement of loans to which the purchase price had been allocated and the fair value measurement of financial instruments recognised in equity (FVOCI).

11.4 Changes in deferred tax assets pursuant to Law No. 214/2011

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	**1,804,988**	**1,817,819**
2. Increases	**-**	**147**
3. Decreases	**(10,657)**	**(12,978)**
3.1 Reversals of temporary differences	-	-
3.2 Transformation into tax credits	(10,657)	(12,978)
a) resulting from losses for the year	(10,657)	(3,080)
b) resulting from tax losses	-	(9,898)
3.3 Other decreases	-	-
4. Final balance	**1,794,331**	**1,804,988**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	**121,756**	**131,673**
2. Increases	**9,263**	**3,849**
2.1 Deferred tax liabilities arising during the year	3,602	2,893
a) relating to previous years	1	-
b) due to changes in accounting principles	-	-
c) other	3,601	2,893
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5,661	956
3. Decreases	**(50,665)**	**(13,766)**
3.1 Deferred tax liabilities derecognised during the year	(17,736)	(13,766)
a) reversals of temporary differences	(3,069)	(13,737)
b) due to changes in accounting policies	-	-
c) other	(14,667)	(29)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(32,929)	-
4. Final balance	**80,354**	**121,756**

11.6 Changes in deferred tax assets (balancing entry in equity)

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	**143,440**	**67,592**
2. Increases	**30,344**	**103,522**
2.1 Deferred tax assets arising during the year	5,140	103,519
a) relating to previous years	3	-
b) due to changes in accounting policies	-	-
c) other	5,137	103,519
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	25,204	3
3. Decreases	**(110,363)**	**(27,674)**
3.1 Deferred tax assets derecognised during the year	(107,907)	(19,016)
a) reversals of temporary differences	(107,659)	(19,005)
b) impairment losses on non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	(248)	(11)
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(2,456)	(8,658)
4. Final balance	**63,421**	**143,440**

11.7 Changes in deferred tax liabilities (balancing entry in equity)

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	**10,229**	**40,588**
2. Increases	**23,282**	**218**
2.1 Deferred tax liabilities arising during the year	23,274	30
a) relating to previous years	3	-
b) due to changes in accounting policies	-	-
c) other	23,271	30
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	8	188
3. Decreases	**(7,475)**	**(30,577)**
3.1 Deferred tax liabilities derecognised during the year	(2,155)	(26,655)
a) reversals of temporary differences	(747)	(26,655)
b) due to changes in accounting policies	-	-
c) other	(1,408)	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	(5,320)	(3,922)
4. Final balance	**26,036**	**10,229**

11.8 Other information

Finally, taxes of €3,112 thousand in respect of dividends that will be paid by subsidiaries in 2020 have been recognised within deferred tax liabilities with the balancing entry in the income statement (€2,683 thousand as at 31st December 2018).

Probability test on deferred taxes

As reported in Part A – Accounting Policies in these notes to the financial statements – the recognition of deferred tax liabilities and assets is performed in compliance with the criteria set out in IAS 12, as follows:

- with account taken of all taxable temporary differences, for deferred tax liabilities, except in some specific cases;
- with account taken of all taxable temporary differences, for deferred tax assets, if it is probable that future taxable income will be earned, against which the temporary difference may be used. The effects, amongst other things, of article 117 *et seq* of the Consolidated Income Tax Law (Tax Consolidation) are taken into consideration in the calculation of taxable income.

As is known, tax assets are measured on the basis of the tax rates that it is expected will apply in the year in which the tax asset will be realised. These assets are tested periodically to measure the degree of recoverability and to verify the level of the rates applicable as well as the obligation to measure assets not recognised or derecognised because they did not satisfy the requirements in prior years ("reassessment").

In this respect, as already reported, a surtax of 3.5% has been applied on corporate income tax (IRES) since 2017 which, limited to the banking sector only, therefore determines a total rate for IRES of 27.5%.

As at 31st December 2019 deferred tax assets recognised within the item "110 b) Deferred tax assets" totalled €2,655.6 million and were generated by the following:

- excess of impairment losses recognised on loans pursuant to Art. 106, paragraph 3, of the Consolidated Income Tax Law: €754.9 million;
- goodwill and other intangible assets, subject, amongst other things, to tax relief in accordance with the law, for which the amortisation is deductible in subsequent years: €1,039.4 million, with regard to the amounts reported in both the separate and the consolidated financial statements (Art. 15 c. paragraph 10 *bis* of Decree Law No. 185/2008 introduced by Decree Law No. 98/2011 converted by Law No. 111/2011);
- deduction of the reserve for First-Time Adoption of IFRS 9 for expected credit losses on loans and advances to customers, amounting to €240 million;
- impairment losses on the FVOCI securities portfolio, non-deductible provisions and expenses for timing reasons in accordance with the Consolidated Income Tax Law amounting to €307.9 million;
- tax losses accrued in prior years relating to the UBI Group tax consolidation amounting to €313.4 million.

It is underlined that total (qualified) deferred tax assets relating to write-downs of and credit losses on loans and advances to customers and amortisation instalments on goodwill and other intangible assets – points a) and b) above – were down by €10.7 million compared with the amount already recognised in the financial statements for the year ended 31st December 2018, mainly due to the transformation which took place in 2019 of DTAs into tax credits at UBI Leasing, since the 2020 Budget Law (Law No. 160 of 27 December 2019) expressly postponed the deductions allowed for 2019 until future years, both for corporate income taxes (IRES) and regional production tax (IRAP) purposes.

Furthermore, the 2020 Budget Law also provided for the following:

- the deferral until 2028 of the 2019 quota (10%) of the income components resulting from the adoption of the approach for the recognition of expected credit losses on First Time Adoption of the accounting standard IFRS 9. This item, mentioned in point c) above, already subject to a probability test last year because it resulted in the recognition of "non-qualified" deferred tax assets, was confirmed in the same amount again in 2019;
- the return of ACE (allowance for corporate equity – legislation introduced in 2011 to incentivise firms to increase their equity), by reversing provisions of the 2019 Budget Law which had repealed it as of 2019.

When the probability test was carried out on deferred tax assets recognised in the balance sheet as at 31st December 2019, those resulting from deductible temporary differences relating to write-downs and losses on loans, goodwill and other indefinite useful life intangible assets (known as "qualified deferred tax assets") amounting to €1,794.3 million were considered separately.

Since the tax year ended 31st December 2011, it has in fact been possible to convert into tax credits deferred tax assets (IRES –corporate income tax) recognised in the balance sheet against tax losses resulting from the deferred deduction of temporary differences relating to impairment losses on loans to customers and on goodwill (Art. 2, paragraph 56-*bis*, Decree Law No. 225 of 29th December 2010, introduced by Art. 9, Decree Law No. 201 of 6th December 2011). A similar conversion has been allowed with effect from the tax year 2013, if an IRAP (regional production tax) return declares a net negative value for production, relating to the deferred tax assets for IRAP which relate to the aforementioned temporary differences that led to the determination of a net negative value for production (Art. 2, paragraph 56-*bis* 1, Decree Law No. 225 of 29th December 2010, introduced by Law No. 147/2013). These conversion hypotheses – which are in addition to that already provided where an individual balance sheet records a loss for the year (Art. 2, paragraphs 55 and 56, Decree Law No. 225/2010, as last amended by Law No. 147/2013) – have introduced an additional and supplementary procedure for recovery designed to ensure the recovery of the deferred tax assets in question in all situations, independently of the future profits of a company.

The convertibility of deferred tax assets on IRES tax losses and on a net negative value of production for IRAP purposes determined by qualified temporary differences therefore amount to a sufficient condition for the recognition of the aforementioned deferred tax assets in the balance sheet which makes the relative probability test obsolete. This approach is also confirmed in a joint document No. 5 issued by the Bank of Italy, the Consob (securities market authority) and Isvap (insurance authority) on 15th May 2012 (issued in respect of a co-ordination committee on the application of the IFRS) relating to the tax accounting treatment for tax assets resulting from law No. 214/2011 and in the subsequent IAS Italian Banking Association document No. 112 of 31st May 2012 ("Tax credit resulting from the transformation of deferred tax assets: Bank of Italy, Consob and ISVAP clarifications on the application of IFRS").

On the basis of those assumptions, UBI Banca has carried out the following tests:

- identification of deferred tax assets, other than those relating to write-downs and losses on loans, goodwill and other indefinite useful life intangible assets ("non-qualified deferred tax assets") recognised in the balance sheet amounting to €861.3 million;
- analysis of those non-qualified deferred tax assets separately distinguishing them as follows:
  - those which depend on future profits and arise from temporary differences ("residual non-qualified deferred tax assets") which, at the time when the deferred taxation is recognised, are distinguished by probable type and timing of use;
  - those which depend on future profitability, but do not arise from temporary differences ("deferred tax assets arising from IRES tax losses");
- forecasts of future income designed to verify its capacity to absorb deferred tax assets specified in the preceding points.

Whether they are recognised is in fact strictly dependent on the Group's ability to generate future taxable income to absorb them, considering, with regard to IRES tax losses, that current tax law allows them to be carried forward with no limit on time (Art. 84, paragraph 1 of the Consolidated Income Tax Act).

The analysis carried out shows that with regard to IRES, the forecasts for future consolidated profits for the period 2020-2024 are such as to allow future taxable income for IRES purposes to fully recover the residual deferred tax assets.

As concerns deferred tax assets not yet recognised in the financial statements, the amount relating to the Group was approximately €550 million and related entirely to tax losses that can be carried forward with no time limit on this.
In this respect, as already reported, in accordance with IAS 12, whether these deferred tax assets can be recognised is strictly dependent on the Group's ability to generate sufficient future taxable income to absorb them, over the time frame considered, in compliance with the policies pursued by the UBI Group.

In the case in question, we report that following the probability test carried out as at 31st December 2019, the UBI Group considered it advisable not to recognise any benefit on the above amount (which concerns the deferred tax assets relating to the tax losses of the banks acquired) while account is taken of the fact that the necessary conditions for their recognition will manifest in future.

It is nevertheless underlined that the possibility of recognising these amounts in future years remains if the necessary conditions set by IAS 12 and the policies pursued by the UBI Banca Group in this respect are satisfied.

SECTION 12 Non-current assets and liabilities and groups of assets and the associated liabilities held for disposal – Asset item 120 and Liability item 70

12.1 Non current assets and disposal groups held for sale: composition by type of asset

	Total 31/12/2019	Total 31/12/2018
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	613	609
A.3 Property, plant and equipment	264,756	2,363
of which: obtained through the enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	1	-
Total A	**265,370**	**2,972**
of which measured at cost	**265,370**	2,972
of which measured at fair value level 1	**-**	**-**
of which measured at fair value level 2	**-**	**-**
of which measured at fair value level 3	**-**	**-**
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	**-**	**-**
of which measured at fair value level 1	**-**	**-**
of which measured at fair value level 2	**-**	**-**
of which measured at fair value level 3	**-**	**-**
C. Liabilities associated with assets held for sale		
C.1 Borrowings	2,331	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**2,331**	**-**
of which measured at cost	**2,331**	**-**
of which measured at fair value level 1		**-**
of which measured at fair value level 2		**-**
of which measured at fair value level 3		**-**
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which measured at cost	**-**	**-**
of which measured at fair value level 1	**-**	**-**
of which measured at fair value level 2	**-**	**-**
of which measured at fair value level 3	**-**	**-**

Property, plant and equipment held for sale as at 31st December 2019 included approximately €241.1 million in relation to the complex operation to reorganise the UBI Banca's real estate in Milan under the 2020-2022 Business Plan.

12.2 Other information

Nothing to report.

SECTION 13 Other assets - Item 130

13.1 Other assets: composition

Description/Amounts	Total 31.12.2019	Total 31.12.2018
Balance of illiquid portfolio items	-	-
VAT tax credits and payments on account	2,827	3,398
Payments on account for stamp duty on banking documents and deeds	279,580	318,587
Tax credits on withholding tax	938	664
Items in transit	161,635	238,215
Debtor items in transit not yet posted to destination accounts	379,892	374,786
Bills, securities, coupons and fees to be debited to customers and correspondents	102,290	108,066
Cheques drawn on the bank	-	-
Improvements to third party leased assets	102	35,564
Accrued income not attributed to specific items	5,507	15,040
Prepaid expenses not attributed to specific items	38,474	42,504
Sundry debtor items	229,721	141,893
Total	**1,200,966**	**1,278,717**

LIABILITIES

SECTION 1 Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: composition by type of amounts due to banks

Type of transaction/Amounts	Total 31.12.2019				Total 31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**9,998,976**	**X**	**X**	**X**	**12,380,250**	**X**	**X**	**X**
2. Due to banks	**4,369,009**	**X**	**X**	**X**	**4,854,329**	**X**	**X**	**X**
2.1 Current accounts and sight deposits	689,520	X	X	X	715,782	X	X	X
2.2 Term deposits	14,532	X	X	X	84,618	X	X	X
2.3 Financing	3,609,848	X	X	X	3,998,518	X	X	X
2.3.1 Repurchase agreements	2,405,568	X	X	X	2,460,728	X	X	X
2.3.2 Other	1,204,280	X	X	X	1,537,790	X	X	X
2.4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	10	X	X	X	-	X	X	X
2.6 Other payables	55,099	X	X	X	55,411	X	X	X
Total	**14,367,985**	**-**	**-**	**14,343,466**	**17,234,579**	**-**	**-**	**17,064,259**

Item "1. Due to central banks" shows the carrying amount of non-conventional refinancing operations with the ECB (TLTRO IIs) for a nominal amount of €10 billion, a decrease from 31st December 2018 following the early repayment of a nominal amount of €2.5 billion.

Item "2.3.2 Financing other" consists almost entirely of outstanding transactions with the European Investment Bank (EIB), i.e. medium to long-term funding transactions with the EIB designed to support SMEs.

For item "2.5 Lease liabilities", please refer to point 1.6 below.

1.2 Financial liabilities measured at amortised cost: composition by type of amounts due to customers

Type of transaction/Amounts	Total 31.12.2019				Total 31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	69,044,286	X	X	X	65,887,975	X	X	X
2. Term deposits	668,085	X	X	X	977,078	X	X	X
3. Financing	1,240,323	X	X	X	513,092	X	X	X
3.1 Repurchase agreements	881,816	X	X	X	239,639	X	X	X
3.2 Other	358,507	X	X	X	273,453	X	X	X
4. Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	388,990	X	X	X	-	X	X	X
6. Other payables	1,235,571	X	X	X	1,043,242	X	X	X
Total	**72,577,255**	**-**	**-**	**72,588,505**	**68,421,387**	**-**	**-**	**68,409,267**

Item "2. Term deposits", originated almost entirely by the New Banks, is reducing progressively as these are no longer subject to renewal on maturity;
Item "3.1 Repurchase agreements" is comprised mainly of repos with the Cassa di Compensazione e Garanzia (a central counterparty clearing house).

Item “3.2 Financing liabilities – other” includes approximately €348 million made available to the Group by the Cassa Depositi e Prestiti (CDP – state controlled fund and deposit institution) as part of intervention to support SMEs.

For item “5. Lease liabilities”, please refer to point 1.6 below.

1.3 Financial liabilities at amortised cost: composition by type of debt securities issued

Type of security/Amounts	Total 31.12.2019				Total 31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	22,717,564	15,692,732	7,401,868	10,073	23,422,397	17,096,164	6,067,370	20,260
1.1 structured	4,718,260	3,247,500	1,603,871	10,073	2,943,357	2,090,203	760,812	18,553
1.2 other	17,999,304	12,445,232	5,797,997	-	20,479,040	15,005,961	5,306,558	1,707
2. Other securities	132,212	-	132,212	-	367,301	-	367,301	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 Other	132,212	-	132,212	-	367,301	-	367,301	-
Total	**22,849,776**	**15,692,732**	**7,534,080**	**10,073**	**23,789,698**	**17,096,164**	**6,434,671**	**20,260**

As at 31st December 2019 bonds issued as part of covered bond operations amounted to €10.6 billion.
Bonds issued on the EMTN market totalled €7.2 billion.

1.4 Details of subordinated debt/securities

Description/Amount	31.12.2019	31.12.2018
Subordinated securities issued	2,114,612	2,420,271

A list of the individual bond issues is given in the table on the following page.

Subordinated securities

ISSUER			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT 31.12.2019	NOMINAL AMOUNT 31.12.2018	IAS AMOUNT 31.12.2019
UNIONE DI BANCHE ITALIANE	1	2017/2027 - mixed rate ISIN XS1580469895 - Currency euro - EMTN	Annual fixed rate 4.45% Until 2022; subsequently floating mid-swap rate 5Y + 4.24%	15-09-2027	Repaid in a single payment on maturity unless an early redemption option is exercised on 15/09/2022	500,000	500,000	512,875
	2	2019/2029 - mixed rate ISIN XS2026295126 - Currency euro - EMTN	Annual fixed rate 4.375% until 2024; subsequently floating EUSA5 + 4.75%	12-07-2029	12-07-2024	300,000	-	302,135
	3	2019/2029 - mixed rate ISIN XS1958656552 - Currency euro - EMTN	Annual fixed rate 5.875% until 2024; subsequently floating EUSA5 + 5.751%	04-03-2029	from 04-03-2024	500,000	-	528,792
	4	2009/2019 - mixed rate ISIN IT0004457070 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 4.15% until 2014; subsequently floating Euribor 6M + 1.85%	13-03-2019	from 13-03-2014	-	370,000	-
	5	2009/2019 - mixed rate ISIN IT0004497050 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 4% until 2014; subsequently floating Euribor 6M + 1.85%	30-06-2019	from 30-06-2014	-	365,000	-
	6	2012/2019 - fixed rate ISIN IT0004842370 Currency euro - Listed on MOT (electronic bond market) (*)	Half year fixed rate 6%	08-10-2019	Redemption by fixed rate annual amortisation schedule from 08-10-2015	-	194,091	-
	7	2012/2019 - mixed rate ISIN IT0004841778 Currency euro - Listed on MOT (electronic bond market)	Quarterly fixed rate 7.25% until 2014 and subsequently floating Euribor 3M + 5%	08-10-2019		-	200,000	-
	8	2016/2026 - mixed rate ISIN Number XS1404902535 - Currency euro - EMTN	Annual fixed rate 4.25% until 2021; subsequently floating mid-swap rate 5Y + 4.182%	05-05-2026	from 05-05-2021	750,000	750,000	770,810
Bancassurance Popolari	9	2014/2019 - fixed rate ISIN IT0005055436 Currency euro	Annual fixed rate 6.50%	29-09-2019	Repaid in a single payment on maturity	-	3,150	-
	10	2014/2019 - fixed rate ISIN IT0005072324 Currency euro	Annual fixed rate 6.50%	30-12-2019	Repaid in a single payment on maturity	-	1,700	-
						2,050,000	**2,383,941**	**2,114,612**

(*) In compliance with an interpretation given by the authorities on the qualification for the inclusion of subordinated liabilities, because that bond was issued after 31st December 2011 and has an amortisation schedule which starts to run before five years since issuance, it was not included among the eligible liabilities.

1.5 Details of structured debts

No structured debts have been recognised.

1.6 Lease liabilities

Lease liabilities debts shown in Table “1.1 Financial liabilities measured at amortised cost: composition by type of amounts due to banks” and in Table “1.2 Financial liabilities measured at amortised cost: composition by type of amounts due to customers” represent the present value of the remaining payments due in leases that fall within the scope of application of IFRS 16.
More specifically, the lease liability reported in the “Due to central banks” item, equal to €10 thousand, is entirely attributable to a property lease contract signed with a bank outside the Group that expires at the end of 2020.

The lease liability reported in the “Due to customers” item is €388.99 million, consisting of real estate leases (€374.43 million), vehicle rental contracts (€3.01 million) and IT hardware rental contracts (€11.55 million).

Details are given below of:

- information on cash outflows from lease payments:

	Total 31.12.2019			Total
	Real estate lease contracts	Motor vehicle lease contracts	IT hardware lease contracts	
Up to 1 year	50,285	2,230	3,749	**56,264**
One year to two years	41,750	585	3,255	**45,590**
Two years to three years	40,608	149	3,255	**44,012**
Three years to four years	39,428	47	1,622	**41,097**
Four years to five years	36,734	-	-	**36,734**
Over five years	237,330	-	-	**237,330**
Remaining liability	**446,135**	**3,011**	**11,881**	**461,027**

- the breakdown of payment deadlines, based on the provisions of IFRS 7:

	Total 31.12.2019			Total
	Real estate lease contracts	Motor vehicle lease contracts	IT hardware lease contracts	
Less than one month	10,342	353		**10,695**
One month to three months	348	404	3,700	**4,452**
Three months to one year	28,630	1,493		**30,123**
One year to five years	142,592	761	7,854	**151,207**
Over five years	192,513			**192,513**
Remaining liability	**374,425**	**3,011**	**11,554**	**388,990**

SECTION 2 Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: composition by type

Type of transaction/Amounts	Total 31.12.2019					Total 31.12.2018				
	VN	Fair value			FV*	NA	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	89,059	-	86,675	-	86,675	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	89,059	-	86,675	-	86,675	-	-	-	-	-
3.2.1 Structured	89,059	-	86,675	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**89,059**	**-**	**86,675**	**-**	**86,675**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives		383	468,158	80	468,621		123	410,823	31	410,977
1.1 for trading	X	383	468,158	80	X	X	123	410,823	31	X
1.2 connected with fair value options	X	-	-	-	X	X	-	-	-	X
1.3 other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-	-		-	-	-	-
2.1 for trading	X	-	-	-	X	X	-	-	-	X
2.2 connected with fair value options	X	-	-	-	X	X	-	-	-	X
2.3 other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**383**	**468,158**	**80**	**X**	**X**	**123**	**410,823**	**31**	**X**
Total (A+B)	**X**	**383**	**554,833**	**80**	**X**	**X**	**123**	**410,823**	**31**	**X**

NA = nominal or notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3
FV* = Fair value calculated excluding changes in value due to changes in the creditworthiness of the issuer since the issue date

The "Debt securities – 3.2 other securities" (Level 2) (€86.7 million) relate entirely to capital protected certificates issued by UBI Banca in December 2019.

The financial derivatives relate mainly to OTC transactions connected with trading activity and were composed of: interest rate swaps (€438.7 million), forwards (€17.6 million), options (€8.2 million), commodity swaps (€3.4 million), equity swaps (€0.5 million) and futures (€0.3 million).
The changes should be interpreted in relation to the corresponding item recognised within financial assets held for trading.

2.2 Details of "Financial liabilities held for trading": subordinated liabilities

No subordinated financial liabilities held for trading have been recognised.

2.3 Details of "Financial liabilities held for trading": structured debt

No structured debt financial liabilities held for trading have been recognised.

SECTION 3 Financial liabilities designated at fair value – Item 30

3.1 Financial assets designated at fair value: composition by type

Type of transaction/Amounts	Total 31.12.2019					Total 31.12.2018				
	NA	Fair value			FV*	VN	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- loan commitments	-	X	X	X	X	-	X	X	X	X
- financial guarantees granted	-	X	X	X	X	-	X	X	X	X
2. Due to customers	**197,610**	**-**	**197,610**	**-**	**197,610**	**105,836**	**-**	**105,836**	**-**	**105,836**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	197,610	-	197,610	-	X	105,836	-	105,836	-	X
of which:										
- loan commitments	-	X	X	X	X	-	X	X	X	X
- financial guarantees granted	-	X	X	X	X	-	X	X	X	X
3. Debt securities	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**197,610**	**-**	**197,610**	**-**	**197,610**	**105,836**	**-**	**105,836**	**-**	**105,836**

NA = nominal or notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3
FV* = Fair value calculated excluding changes in value due to changes in the creditworthiness of the issuer since the issue date

3.2 Details of "Financial liabilities designated at fair value": subordinated liabilities

No items of this type exist for the UBI Banca Group.

SECTION 4 Hedging derivatives – Item 40

4.1 Hedging derivatives: composition by type of hedge and by level

Type of transaction/Amounts	31.12.2019				31.12.2018			
	NA	Fair value			NA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives	**18,237,850**	**-**	**386,778**	**-**	**18,866,020**	**-**	**110,801**	**-**
1. Fair Value	18,237,850	-	386,778	-	18,866,020	-	110,801	-
2. Cash flow	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flow	-	-	-	-	-	-	-	-
Total	**18,237,850**	**-**	**386,778**	**-**	**18,866,020**	**-**	**110,801**	**-**

NA = nominal or notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The financial derivatives reported in this section are interest rate hedges in the form of interest rate swaps on specific financial assets measured at fair value through other comprehensive income and at amortised cost, along with macro-hedges on the portfolios of loans to customers recognised as financial assets measured at amortised cost.

4.2 Hedging derivatives: composition by portfolios hedged and type of hedge

Transactions /Type of hedging	Fair value							Cash flow		Foreign investments
	Specific						Macro-hedge	Specific	Macro-hedge	
	Debt securities and interest rates	Equity securities and share indices	Currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	148,138	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	131,724	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	106,916	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**279,862**	**-**	**-**	**-**	**-**	**-**	**106,916**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 5 Fair value change in macro-hedged financial liabilities – Item 50

5.1 Fair value change in hedged liabilities

Fair value change in hedged liabilities/Components of the group	Total 31.12.2019	Total 31.12.2018
1. Positive changes in financial liabilities	145,191	74,297
2. Negative changes in financial liabilities	-	-
Total	**145,191**	**74,297**

SECTION 6 Tax liabilities – Item 60

Details of tax liabilities are reported in Assets Section 11.

SECTION 7 Liabilities associated with assets held for disposal – Item 70

See Assets Section 12 for details

SECTION 8 Other liabilities – Item 80

8.1 Other liabilities: composition

Description / Amounts	Total 31.12.2019	Total 31.12.2018
Balance of illiquid portfolio items	651,500	668,995
Credit items in transit in departments or branches pending posting to accounts	551,351	607,581
Sums available to customers and banks for transactions in the course of payment	6,547	7,831
Items payable to tax authorities on behalf of third parties	30,871	30,378
Items in transit	29,014	57,106
Tax withheld on income paid to third parties	164,091	187,276
Indirect taxes payable	22,634	41,697
Social security contributions for third parties in the course of payment	1,031	944
Dividends and sums due to shareholders	325	343
Amounts due to staff pension funds, inclusive of accessory costs	20,618	23,752
Accrued expenses not attributed to specific items	16,460	16,091
Deferred income not attributed to specific items	28,226	26,910
Payables for educational, cultural, charitable and social purposes	2,449	2,184
Debt for post-employment benefit/welfare schemes	10	23
Doubtful overall outcomes on guarantees granted and commitments	-	-
Due to personnel	397,875	503,687
Residual creditor items	812,805	918,143
Total	**2,735,807**	**3,092,941**

SECTION 9 Post-employment benefits – Item 90

9.1 Annual changes in post-employment benefits

	Total 31.12.2019	Total 31.12.2018
A. Opening balances	**306,697**	**350,779**
B. Increases	**18,339**	**2,925**
B.1 Allocation for the year	778	580
B.2 Other changes	17,561	2,345
C. Decreases	**(35,395)**	**(47,007)**
C.1 Payments made	(31,453)	(43,503)
C.2 Other changes	(3,942)	(3,504)
D. Final balances	**289,641**	**306,697**

"Part A – Accounting policies - Section 16 – Other information" gives further details on the accounting policies pursued.

9.2 Other information

The demographic and actuarial hypotheses adopted to measure the post-employment benefit provision as at 31/12/2019	
Mortality rate	2018 SIM (Italian male statistics) and SIF (Italian female statistics) tables (Italian National Office of Statistics data) were used.
Post-employment benefit advances	The probability of advance payments, calculated on the basis of historical data for the Group, is 2% while the average amount requested is between 45% and 100% of the available provision.
Inflation rates	Long-term forecasts of the scenario for inflation led to the use of a rate of 1.5%.
Discount rates	A discount rate of 0.48%, was used, calculated as the weighted average of the EUR Composite AA curve as at 19.12.2019, using, as weights, the ratios between the amount paid and advanced for each maturity date and the total amount to be paid and advanced until the extinction of the population considered. This was performed because IAS 19 states that reference should be made to the market yields of "high quality corporate bonds", or to yields on securities with a low credit risk. By making reference to the definition of "investment grade" securities, where a security qualifies for that classification if its rating is equal to or higher than BBB for S&P or Baa2 for Moodys, it was decided to consider only securities issued by corporate issuers with a class "AA" rating with the assumption that this class identifies an average level for "investment grade" securities and thereby excludes higher risk securities. Since IAS 19 makes no explicit reference to a specific market sector for the bonds, it was decided to opt for a "composite" market curve which therefore summarises the prevailing market conditions on the valuation date for securities issued by companies belonging to different sectors, including utilities, telecom, financial, banking and industrial sectors. The euro area was used for the geographical area.

The demographic and actuarial hypotheses adopted to measure the post-employment benefit provision as at 31/12/2018	
Mortality rate	2017 SIM (Italian male statistics) and SIF (Italian female statistics) tables (Italian National Office of Statistics data) were used
Post-employment benefit advances	The probability of advance payments, calculated on the basis of historical data for the Group, is 2% while the average amount requested is between 45% and 100% of the available provision.
Inflation rates	Long-term forecasts of the scenario for inflation led to the use of a rate of 1.5%.
Discount rates	A discount rate of 1.03%, was used, calculated as the weighted average of the EUR Composite AA curve as at 20.12.2018, using, as weights, the ratios between the amount paid and advanced for each maturity date and the total amount to be paid and advanced until the extinction of the population considered. This was performed because IAS 19 states that reference should be made to the market yields of "high quality corporate bonds", or to yields on securities with a low credit risk. By making reference to the definition of "investment grade" securities, where a security qualifies for that classification if its rating is equal to or higher than BBB for S&P or Baa2 for Moodys, it was decided to consider only securities issued by corporate issuers with a class "AA" rating with the assumption that this class identifies an average level for "investment grade" securities and thereby excludes higher risk securities. Since IAS 19 makes no explicit reference to a specific market sector for the bonds, it was decided to opt for a "composite" market curve which therefore summarises the prevailing market conditions on the valuation date for securities issued by companies belonging to different sectors, including utilities, telecom, financial, banking and industrial sectors. The euro area was used for the geographical area.

SECTION 10 Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: composition

Items/Components	Total 31.12.2019	Total 31.12.2018
1. Provisions for credit risk relating to commitments and guarantees granted	54,005	64,410
2. Provisions on other commitments and guarantees granted	-	-
3. Company pension funds	86,756	91,932
4. Other provisions for risks and charges	348,724	348,849
4.1 litigation and tax	113,519	117,826
4.2 staff costs	110,717	62,963
4.3 other	124,488	168,060
Total	**489,485**	**505,191**

Provisions for risks and charges for litigation mainly concern disputes over compounding of interest and investment services provided.

Provisions for staff costs consist mainly of provisions for incentive schemes, company bonuses and trade union agreements, for liabilities that are still of uncertain amount and for the best estimates of redundancy incentive expenses.

10.2 Provisions for risks and charges: annual changes

	Provisions for commitments and other guarantees granted	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	**-**	**91,932**	**348,849**	**440,781**
B. Increases	**-**	**6,612**	**178,982**	**185,594**
B.1 Allocation for the year	-	45	173,678	173,723
B.2 Changes due to passage of time	-	854	-	854
B.3 Changes due to changes in discount rate	-	-	183	183
B.4 Other changes	-	5,713	5,121	10,834
C. Decreases	**-**	**(11,788)**	**(179,107)**	**(190,895)**
C.1 Use for the year	-	(8,702)	(103,732)	(112,434)
C.2 Changes due to changes in discount rate	-	-	-	-
C.3 Other changes	-	(3,086)	(75,375)	(78,461)
D. Final balances	**-**	**86,756**	**348,724**	**435,480**

10.3 Provisions for credit risk relating to commitments and guarantees granted

	Provisions for credit risk relating to commitments and guarantees granted			
	Stage one	Stage two	Stage three	Total
Commitments to pay funds	7,753	5,833	21	13,607
Financial guarantees granted	7,200	6,487	26,711	40,398
Total	**14,953**	**12,320**	**26,732**	**54,005**

10.4 Provisions for other commitments and other guarantees granted

No items of this type exist for the UBI Banca Group.

10.5 Defined benefit company pension funds

As concerns defined benefit company pension funds the entry on the balance sheet is composed of defined benefit obligations subject to periodic actuarial measurement in accordance with the applicable sector regulations in force, the rules laid down in the relative company regulations and the provisions of IAS 19.

The following demographic assumptions, valid for all the funds described below, were assumed:

- for the annual probabilities of death of pensioners and their surviving spouses and close family members, SI 2018 tables were used, modified to take account of the link with the progressive increase in life expectation;
- for the annual probabilities of death of personnel in service, where these cases occur, the SI 2018 tables were used, separately by gender and appropriately modified to take account of the historical mortality data for UBI Banca Group employees in service, and of data for larger similar groups;
- for the probabilities of leaving a family, those adopted in the INPS (national insurance institute) model, separately by gender;
- account was taken of the latest legislation for the maximum retirement age.

A detailed description is given below of the funds of which the item is composed. The following is given: movements occurring during the year; the specific economic and financial hypotheses for each one; the duration in years, and that is the average financial life as at the date of the measurement of future cash flows; sensitivity analysis of the DBO, which is to say the value of the liability obtained with shifts of plus or minus 50 bps in the hypothesised discount rate and inflation rate used for measurement purposes.

10.5.1 Description of the funds

		former Banca Regionale Europea Spa		former CARIME Spa			former Banca Adriatica Spa							
	former Centrobanca	**former B.M.L.**	**former C.R.C.**	**former CARICAL**	**former CARIPUGLIA**	**former CARISAL**	**former Banca Ca.Ri.Ma. (1)**	**former Banca Ca.Ri.Ma. transferred to former Se.Ri.Ma. (2)** (tax collection business)	**former Mediocredito Fondiario Centrale Italia (3)**	**former C.R. Pesaro (4)**	**former C.R. Jesi (5)**	**former C.R. Pesaro transferred to former SE.RI.T. (6)** (tax collection business)	**former CARILO**	**former TEATINA**
A. OPENING BALANCES	**886**	**8,282**	**10,249**	**28,921**	**8,058**	**562**	**14,740**	**343**	**2,219**	**7,579**	**6,908**	**159**	**785**	**2,241**
B. INCREASES	**82**	**712**	**856**	**2,219**	**639**	**56**	**997**	**3**	**211**	**500**	**323**	**13**	**-**	**-**
B.1 Interest expense	9	99	120	258	72	5	134	3	20	69	63	1	-	-
B.2 Actuarial losses	73	568	736	1,961	567	51	863	-	191	431	260	12	-	-
B.3 Provisions	-	45	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which business combination transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. DECREASES	**(65)**	**(513)**	**(941)**	**(3,010)**	**(875)**	**(65)**	**(1,483)**	**(94)**	**(231)**	**(715)**	**(752)**	**(15)**	**(785)**	**(2,241)**
C.1 Benefits paid	(65)	(513)	(941)	(3,010)	(875)	(65)	(1,483)	(35)	(231)	(715)	(752)	(15)	-	-
C.2 Actuarial gains	-	-	-	-	-	-	-	(59)	-	-	-	-	-	-
C.3 Other changes	-	-	-	-	-	-	-	-	-	-	-	-	(785)	(2,241)
D. FINAL BALANCES	**903**	**8,481**	**10,164**	**28,130**	**7,822**	**553**	**14,254**	**252**	**2,199**	**7,364**	**6,479**	**157**	**-**	**-**

For the funds labelled 1), 3), 4) and 5) investments were made in securities, liquidity and real estate properties, financed entirely from the Bank's own capital. The fund labelled 2) is governed by the regulations for the "Fund to supplement payments from the pension fund for office employees of direct tax collection and payment service providers pursuant to Law No. 377 of 2.4.1958, and subsequent amendments". Since the tax collection service was transferred on 1st January 1990 to the former Banca Se.Ri.Ma, now Equitalia, from the former Banca Ca.Ri.Ma., as a result of trade union and similar agreements the bank agreed to pay an amount equal to that portion of the supplementary pensions attributable to it relating to the period of service provided to the former Banca Ca.Ri.Ma. by employees of the former Se.Ri.Ma., currently retired pensioners. The fund labelled 6) relates to liabilities of the Bank for years of service provided to the former Cassa di Risparmio di Pesaro by employees in the tax collection sector, currently receiving a pension, as a result of agreements entered into as of 1st January 1990 when the tax collection service was transferred to Serit Spa.

Former Centrobanca

This is a supplementary pension fund for the staff of the company Centrobanca (Banca Centrale di Credito Popolare Spa) in which there are now eight remaining pensioners participating.
The fund provides the following types of direct pension benefits:

- a direct supplementary pension for old-age and length of service at the time when requirements for access to benefits paid by INPS (national insurance Institute) are met and provided the participant has participated in the fund for at least 15 years;
- a direct supplementary pension for invalidity at the time when requirements for access to benefits paid by INPS (national insurance Institute) are met and provided the participant has participated in the fund for at least five years;

Description of the main actuarial assumptions

	former Centrobanca	
a) Annual discount rate (*)	0.41%	
b) Annual pension revaluation rate	1.20%	
c) Inflation rate	1.50%	
d) Expected rate of wage increase	n.a.	
Direct pensioners	7	
Indirect pensioners	1	
In service and redundant	n.a.	
Total	**8**	
Average financial duration (in years)	9.03	
Sensitivity analysis on the DBO:	**+0.50%**	**-0.50%**
Discount rate	863,454	944,745
Inflation rate	937,534	870,114

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 19.12.2019.

UBI BANCA SPA (former BANCA REGIONALE EUROPEA Spa)

As at 31.12.2019 a fund existed to supplement compulsory invalidity, old-age and survivors insurance for the staff of Banca Regionale Europea (merged with effect from November 2016), originally from the former Banca del Monte di Lombardia and from the former Cassa di Risparmio di Cuneo.

The fund pays the following pension benefits as a direct pension for:

- old-age, when the participants have reached the age limits set in the contracts in force at the time, provided that they have participated in the fund for at least 15 years;
- length of service, when the participants have reached the minimum age limits set in the contracts in force at the time;
- invalidity when, having obtained recognition of the condition of invalidity and whatever the age, a length of service of at least five years has been served, or whatever the length of service, if the invalidity is permanent and caused by work.

Furthermore, survivors of participants receive an 'indirect pension' if a participant dies while in service after one year of participation in the fund or after any period if death was caused by work and a surviving dependent's pension if a participant dies, provided a direct pension has been paid.

Description of the main actuarial assumptions

	former B.M.L.		former C.R.C.	
a) Annual discount rate (*)	0.60%		0.60%	
b) Annual pension revaluation rate	1.20%		1.20%	
c) Inflation rate	1.50%		1.50%	
d) Expected rate of wage increase	2% for 2020-2022 and 3% from 2023 onwards		n.a	
Direct pensioners	33		29	
Indirect pensioners	20		35	
In service and redundant	16		n.a.	
Total	**69**		**64**	
Average financial duration (in years)	9.27		9.05	
Sensitivity analysis on the DBO:	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**
Discount rate	7,933,028	9,099,738	9,725,086	10,640,376
Inflation rate	8,924,797	8,053,280	10,559,102	9,798,735

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 19.12.2019.

UBI BANCA Spa (former CARIME Spa)

As a result of the merger by incorporation of Banca Carime Spa (with legal effect from February 2017), the following funds were acquired by UBI Banca:

1. the fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio di Calabria e Lucania (Registration No. 9059 in the Pension Fund Register);
2. the fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio di Puglia (Reg. No. 9124 in the Pension Fund Register);
3. the fund to supplement INPS (national insurance institute) benefits for compulsory invalidity, old age and survivors insurance for retired staff of the former Cassa di Risparmio Salernitana (Reg. No. 9053 in the Pension Fund Register).

The funds pay the following pension benefits as a direct pension for:

- old-age, when the participants have reached 60 years of age if men and 55 years of age if women, provided that they have provided at least 15 years of service;
- length of service, when the participants have provided 35 years of service if men, or 30 years, if women, independently of their age;
- invalidity at any age when permanently and completely unable to work through disability and participating in the fund (in addition, for the fund of the former Cassa di Risparmio di Puglia the invalidity must be caused by work and for the fund of the former Cassa di Risparmio Salernitana participation for at least 5 years is required).

Furthermore, survivors of participants receive an ‘indirect pension’ if a participant dies while in service and a surviving dependent’s pension if a participant dies, provided a direct pension has been paid.

Description of the main actuarial assumptions

	former CARICAL		former CARIPUGLIA		former CARISAL	
a) Annual discount rate (*)	0.36%		0.36%		0.36%	
b) Annual pension revaluation rate	1.20%		1.20%		1.20%	
c) Inflation rate	1.50%		1.50%		1.50%	
d) Expected rate of wage increase	n.a.		n.a.		n.a.	
Direct pensioners	101		34		3	
Indirect pensioners	135		37		3	
In service and redundant	n.a.		n.a.		n.a.	
Total	**236**		**71**		**6**	
Average financial duration (in years)	8.78		7.55		6.44	
Sensitivity analysis on the DBO:	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**
Discount rate	26,950,599	29,414,507	7,537,809	8,126,732	535,365	570,877
Inflation rate	29,194,432	27,149,822	8,077,123	7,584,785	568,095	538,140

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 19.12.2019.

UBI BANCA Spa (former Banca Adriatica Spa)

As at 31.12.2019 six types of defined benefit pension schemes existed following the merger by incorporation of Banca Adriatica Spa (with legal effect from October 2017):

1. Pension fund for staff belonging to the credit sector of the former Cassa di Risparmio di Macerata Spa (former Banca Ca.Ri.Ma);
2. pension fund for the former employees of Banca Ca.Ri.Ma transferred to Se.Ri.Ma. (now Equitalia Servizi di Riscossione Spa.);
3. Pension fund for the staff of the former Mediocredito Fondiario Centro Italia Spa;
4. Pension fund for the staff of the tax collection service of the former Cassa di Risparmio di Pesaro;
5. Pension fund for the staff of the former Cassa di Risparmio di Jesi;
6. Pension fund for the staff of the tax collection service of the former Cassa di Risparmio di Pesaro transferred to the former SE.RI.T. Spa.

The purpose of the aforementioned funds is to ensure that the participants receive benefits to supplement the pensions paid by the "invalidity, old-age and survivors insurance" managed by INPS (national insurance institute) in the amount and according to the procedures set by the individual sets of regulations.

Description of the main actuarial assumptions

	former Banca Ca.Ri.Ma.		former Banca Ca.Ri.Ma. transferred to former Se.Ri.Ma. (tax collection business)		former Mediocredito Fondiario Centro Italia		former C.R. Pesaro		former C.R. Jesi		former C.R. Pesaro transferred to former SE.RI.T. (tax collection business)	
a) Annual discount rate (*)	0.37%		0.37%		0.37%		0.37%		0.37%		0.37%	
b) Annual pension revaluation rate	1.20%		1.20%		1.20%		1.20%		1.20%		1.20%	
c) Inflation rate	1.50%		1.50%		1.50%		1.50%		1.50%		1.50%	
d) Expected rate of wage increase	n.a.		n.a.		n.a.		n.a.		n.a.		n.a.	
Direct pensioners	77		1		14		70		39		-	
Indirect pensioners	134		5		4		54		45		5	
In service and redundant	n.a.		n.a.		n.a.		n.a.		n.a.		n.a.	
Total	**211**		**6**		**18**		**124**		**84**		**5**	
Average financial duration (in years)	9.27		6.77		7.11		8.36		7.91		6.84	
Sensitivity analysis on the DBO:	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**	**+0.50%**	**-0.50%**
Discount rate	13,624,389	14,943,392	243,433	260,555	2,123,517	2,279,331	7,068,129	7,682,551	6,233,668	6,744,742	151,649	162,347
Inflation rate	14,823,045	13,731,150	259,186	244,789	2,266,574	2,135,871	7,628,919	7,117,810	6,700,771	6,274,506	161,491	152,496

(*) calculated as the weighted average of the EUR Composite AA yield curve as at 19.12.2019.

UBI BANCA Spa (former Cassa di Risparmio di Loreto Spa)

In implementation of the agreement with trade unions reached on 13th June 2018, on 1st January 2019 the collective and the mathematical reserves of the supplementary pension fund of the former Cassa di Risparmio di Loreto Spa were transferred to the external fund of the former Banca Popolare di Ancona.

Banca Teatina Spa

In implementation of the agreement with trade unions reached on 13th June 2018, on 1st January 2019 the collective and the mathematical reserves of the supplementary pension fund of the former Banca Teatina were transferred to the external fund of the former Banca Popolare di Ancona.

10.5.2 Description of the funds

No "plan assets" exist which meet the requirements of IAS 19. That standard states that this must be assets held by an entity that is legally separate from the reporting entity. Since there are no "plan assets" and because the actuarial gains and losses are recognised entirely in the year in which they occur, the current value of the funds is the same as the liabilities recognised in the balance sheet.

10.6 Provisions for risks and charges – other provisions

	Total 31.12.2019	Total 31.12.2018
1. Provision for revocation (clawback) risks	4,442	20,176
2. Provision for bonds and default	1,945	2,220
3. Other provisions for risks and charges	118,101	145,664
Total	**124,488**	**168,060**

10.7 Contingent liabilities

	Total 31.12.2019	Total 31.12.2018
for revocation (clawback) risks	8,566	8,566
for bonds in default	2,433	-
for tax litigation	4,523	140,157
for other litigation	747,010	910,531
Total	**762,532**	**1,059,254**

The liabilities regulated by IAS 37, characterised by the absence of certainty over the timing or the amount of future expense required to settle presumed liabilities, can be classified as being of the following types:

- probable liabilities;
- contingent liabilities (possible or remote).

The correct identification of the nature of liabilities is of fundamental importance because it determines whether or not the risk deriving from an obligation must be recognised in the financial statements.

The recognition of a provision for risks and charges represents a probable liability of uncertain timing or amount[1] and the amount recognised represents the best estimate of the expenditure required to settle the obligation existing as at the reporting date and reflects the risks and uncertainties that inevitably characterise a number of different facts and circumstances.

The amount of a provision is measured by the present value of the expenditure that it is assumed will be necessary to settle the obligation where the effect of the present value is significant.

Future events that might affect the amount required to settle the obligation are only taken into consideration if there is sufficient objective evidence that they will occur.

The measurement of provisions is periodically reviewed to verify that they are reasonable.

The general and theoretical legal parameters which govern the process of determining the present value of provisions, which is performed for each single case of litigation and for the relative residual life, are given below:

• **type/nature of the litigation**, to be assessed in the light of the legal claims formulated by the counterparty. Various "macro-families" are identifiable in this respect such as corporate litigation, labour law cases, financial intermediation litigation, litigation generically definable as compensation for damages (resulting from non-performance of contract obligations, illegal actions, violation of regulations);

• **degree of "innovation" in the litigation**, to be assessed by considering whether the issues turn on matters already known and "weighed" by the Bank or on completely new matters which therefore require study (e.g. resulting from a change in the legislation or in legal orientations);

• **degree of strategic importance of the litigation**: for commercial reasons the Group might for example decide to end a case very rapidly even if it had grounds for defence that would allow it to resist in court for a long time;

• **average length of litigation**, to be weighted taking account of geographical factors, which is to say the location of the jurisdiction in which the case is tried and the state of progress of the trial. In this respect a decision must be taken on the source of the statistics from which data is obtained and assistance can be obtained from the lawyers who represent the Bank in litigation and who have direct knowledge of the jurisdictions concerned for each case;

• **the "nature" of the counterparty** (e.g. a private individual or a legal entity, a professional operator or not, a consumer or not).

A contingent liability is defined as:

- a possible obligation, the result of past events, the existence of which will only be confirmed by the occurrence or (non-occurrence) of future events that are not totally under the control of the enterprise;
- a present obligation that is the result of past events, but which is not recognised in the accounts because:
  - it is improbable that financial resources will be needed to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the accounts, but if they are considered "possible", they are reported only. On the other hand, in compliance with IAS 37, contingent liabilities that are considered remote require no disclosure.

1 Details of the criteria for recognising provisions are given in Part A.2 of the notes to the financial statements "The main items in the financial statements", sub-section 12 "Provisions for risks and charges", which may be consulted.

As occurs for amounts relating to provisions (for probable liabilities), the amounts for contingent liabilities are also subject to periodic verification because it is possible that events may occur which make them remote or probable with the possible need, in the latter case, to make a provision for them in the financial statements.

A detailed report on both ordinary litigation and tax litigation, for which provisions were made or for which contingent liabilities were identified, is given in the following sub-sections which may be consulted.

Litigation

Ordinary litigation

The Group is party to a number of legal proceedings arising from the ordinary performance of its business. In order to meet the claims received, appropriate provisions have been made on the basis of a reconstruction of the amounts potentially at risk and an assessment of the risk in terms of the degree of "probability" and/or "possibility" as defined in the accounting standard IAS 37 and with account taken of established legal opinion on the matters in question. Therefore, while it is not possible to predict final outcomes with certainty, it is considered that an unfavourable conclusion of these proceedings, both taken singly or as a whole, would not have a significant effect on the financial and operating position of the Group.
Significant litigation (claims of greater than or equal to €5 million) for which the probable risk has been estimated by Group companies are as follows:

1. an action brought against UBI Banca (former Banca Popolare di Ancona) disputing various matters concerning loan transactions and damages for contractual and non-contractual liability;
2. a claim for damages against UBI Leasing, brought by a client company, for alleged contract breaches by UBI Leasing itself, along with erroneous reports to the Centrale Rischi (central credit register);
3. a claim for the reimbursement of amounts paid as contributions by a public body to UBI Leasing, on the basis of a transfer of credit by the leasing user that was returned to the client upon verification of correct payment of the lease instalments.

Significant litigation (claims of greater than or equal to €5 million) for which a possible risk (or contingent liability) has been estimated by Group companies are as follows:

UBI Banca

- a claim for a refund of payments due to the alleged breaching, by UBI Banca (former Banca Adriatica) of the usury rate limit, as well as for damages against a pool of banks (including Banca Adriatica) for alleged violation of agreements contained in the Interbank Convention connected with the plaintiff company's debt repayment plan pursuant to article 67 of the Bankruptcy Law. In its decision on 22nd October 2019, the Court of Urbino declared it did not have territorial jurisdiction, referring the case to the Court of Pesaro and indicating a 30-day deadline to reinstate the case with compensation for expenses. Proceedings were reinstated by the claimant at the Court of Pesaro on 19th November and the first hearing is to be held on 20th March 2020[2];

[2] For this dispute, the 18th January 2017 agreement between UBI Banca and the National Resolution Fund is applicable, given that the case concerns the operations of the New Banks prior to their acquisition. As already reported, the contract for the acquisition of the New Banks contained determined declarations, guarantees and releases from liability provided by the seller (the National Resolution Fund) in favour of UBI Banca [the guarantees and releases from liability related also to the period prior to the formation of the "Bridge Entities" (23rd November 2015) and they therefore also cover liabilities that may have originated from activities carried out by the banks (i.e. the "Old Banks"), before they were subject to resolution procedures]. This regarded, amongst other things, relations with REV Gestioni Crediti Spa and with the Atlante Fund II [as the transferors of the loans and receivables of those banks classified as bad and unlikely-to-pay (disposals of loans took place "without recourse" and therefore the seller assumed all the risks and rewards of the loans

- an action brought by a beneficiary of government subsidies, pursuant to Law No. 46/1982, in relation to which UBI Banca Spa (which took the place of the former Centrobanca in arrangements the latter had entered into with authorities that subsidised loans to manage formalities connected with processing applications) was been summoned jointly and severally with those concessionary authorities in its capacity as the "concessionary bank" appointed by those same authorities. More specifically, this is a case pending before the Civil Court of Rome in which the other party has applied for the annulment of a ministerial provision revoking subsidies granted (due to persistent arrears in the repayment of the loan granted by the Ministry of Economic Development, in compliance with the clearly stated regulations governing the matter) and the consequent commencement of the enforced recovery of the subsidies in addition to a claim for consequent damages caused by revocation of the presumed credit lines granted by banks to the company. The formalities for the subsidy application contested here were processed by Banca Popolare dell'Emilia Romagna, a member of a "Temporary Grouping of Businesses" led by UBI Banca, which should hold the Bank free from any resulting expense and risk;
- claims regarding securities trading made by a corporate counterparty, originating from the former Banca Popolare Commercio e Industria. The case was won by the Bank in the court of first instance in 2011 and also on appeal in 2015. In July 2015 the counterparty appealed to the Supreme Court of Cassation. A hearing in the Chambers is scheduled for 17th March 2020;
- a writ of summons, served on UBI Banca by a fund, a shareholder of the Bank (the claimants were originally three, but the two of these withdrew their claims) containing claims for compensation in relation to the amount of the redemption paid on shares subject to withdrawal following the transformation of UBI Banca into an ordinary joint-stock company which occurred in the context of the "reform of 'popular' co-operative banks" [pursuant to Art. 28, paragraph 2 *ter* of the Consolidated Banking Act – introduced with Decree Law No. 3/2015, converted into law with Law No. 33/2015 – which establishes that "the right in 'popular' banks (…) to the redemption of shares in the event of withdrawal, even following transformation (…) is limited according to the provisions made by the Bank of Italy, even as an exception to the provisions of the law, where that is necessary to ensure the inclusion of the shares in the Common Equity Tier 1 regulatory capital of the bank"].

  The bank considers that the position taken on the subject of the redemption of the shares of shareholders that have withdrawn is sound in view, amongst other things, of legal opinions received from advisers and it has filed a defence asking for the claims made to be rejected. The case is currently at the preliminary stage. In allowing one of the preliminary procedural objections raised by the Bank, the court ruled that pursuant to Art. 77 of the Italian Code for Civil Proceedings the claimant lacked the title to sue, underlining in particular that the claimant had not demonstrated that it was able to act in court on behalf of the funds represented. The case was adjourned until a hearing on 12th November 2019 to ascertain whether this procedural flaw has been resolved. At this hearing, the Bank objected that the documentation produced by the claimant was insufficient to demonstrate that it has the power of representation in court. The judge urged both sides to elaborate upon their cases in subsequent depositions, setting a new hearing date for 9th June 2020.

  On 15th December 2016, when hearing the appeal against the ruling by the TAR (administrative Court) which had rejected claims submitted by some consumer associations and the shareholders of some "popular" co-operative banks, the Council of State considered certain doubts over the constitutionality of the aforementioned legislation to be clearly groundless for the following reasons: (1) assumptions concerning the necessity and urgency which legitimise the issue of a decree law; (2) the possibility that the redemption paid to the withdrawing shareholders may be limited/excluded and not merely deferred in time, with payment of interest; (3) assignment to the Bank of Italy of regulatory powers even as an exception to the law. UBI Banca filed a defence in both actions before the Council of State in order to be able to also file a defence before the Constitutional Court, which in fact occurred in

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sold, IAS 39 – Derecognition)], regarding risks of a legal nature or risks in general relating to existing or threatened legal action, which is to say regarding violations of the law and any contingent liabilities.

April 2017. The President of the Court set 20th March 2018 as the date for the hearing to debate the case, on the conclusion of which the court threw out the question of legitimacy raised by the Council of State on its merits. The court first confirmed that the conditions of necessity and urgency in accordance with the decree law existed. Furthermore, the legislation appealed against, which in implementation of European legislation on capital requirements allows banks to set limits on redemptions in the event of a shareholder's withdrawal, did not harm the right of ownership. The regulatory powers conferred on the Bank of Italy fall within the limits permitted by the constitution. The case continued before the Council of State and following a discussion hearing held on 19th October 2018, the Council ruled and deemed that it should pass the case to the Court of Justice pursuant to Art. 267 of the Treaty on the functioning of the European Union in relation to five "questions" posed by the appellants. UBI Banca filed a defence deposition on 21st March 2019, illustrating its case by arguing full compliance of domestic reform legislation with the EU regulatory framework. The Registry of the Court of Justice notified the various parties to the case of the documents filed which included a defence document filed by the European Commission which argues that the first four questions formulated by the Council of State are completely without foundation and that the fifth question is inadmissible (or in any case otherwise without foundation). The importance of the fact that the European Commission's position is in line with that developed in the interests of the UBI is underlined. At the hearing on 11th February 2020, the Advocate General submitted its conclusions to the Court of Justice, which broadly coincided with the Bank's positions, that is, not acknowledging any contrast between Italian and European law. The Court is expected to rule on this case by the end of the summer;

- claim for damages against UBI Banca, originating from the former Banca Popolare di Ancona, relating to alleged irregularities in the credit granting process. The receiver of the bankrupt company appealed against a ruling of the court of first instance in favour of the Bank;
- an action brought against UBI Banca (former Banca Popolare di Ancona) by a bankrupt shipping company claiming alleged damages caused by the official receiver of the company acting together with former Banca Popolare di Ancona (and with all the other banks operating in the financial centre against which similar actions have been brought). This case regards the issue of the debt securities which had the appearance of bonds issued by the shipping company but which on the contrary had no legal connection with that company;
- an action brought by beneficiaries of public contributions in relation to which UBI Banca (which took the place of Centrobanca Spa), in its capacity as the "concessionary bank" was summoned jointly and severally before the Civil Court of Rome (after similar proceedings initiated before the Latium TAR [administrative tribunal] – were terminated due to lack of jurisdiction) together with the "concessionary authorities" concerned, for which it is the agent, for a concessionary position under Law No. 46/1982 processed by a third party bank belonging to its "RTI" (temporary grouping of companies);
- a case originating with the former Banca Carime for contractual and other liabilities resulting from the revocation of credit facilities. The ruling in favour of UBI Banca in the court of first instance was appealed against by the claimants. The appeal also concluded with a ruling in the Bank's favour. The deadline for a further appeal to the Court of Cassation is pending;
- claim for damages, brought within a bankruptcy case, relating to the Bank's role in financing a public tender offer. The operation contested in the summons is the same that had been contested in two previous compensation actions[3] started in 2011 by official receivers on behalf of another two companies belonging to the same Group as the current claimant and which had been abandoned in 2016 by the official receivers of the claimants.
- legal action brought by a beneficiary of public subsidies (the Region of Campania Programme Contract) in relation to which UBI Banca (replacing the former Centrobanca in arrangements the latter had entered into with authorities to manage formalities connected with processing subsidy applications) has been summoned jointly and severally with those concessionary authorities in its capacity as the 'concessionary bank' appointed by those authorities, before

3 These disputes, related to companies of the Burani group, have been covered in detailed disclosures in the financial statements for previous years (from 2011 to 2016).

the Civil Court of Rome, for the annulment of a ministry order revoking subsidies granted (this order had been issued as a result of our proposal, because the company in question had rented out its business, in violation of what is expressly stipulated in the relevant regulations) and for the full reinstatement of the subsidies;

- a dispute concerning contractual and non-contractual liability action, deriving from the non-disbursement (by UBI Banca to a now-bankrupt company) of several instalments of a land mortgage for a Stato Avanzamento Lavori (SAL – state of works progress declaration). Over the course of this case, the claim has increased owing to the voluntary intervention of three shareholders, who are protesting against the non-repayment of several loans granted to the same company following that company's bankruptcy. On 26th June 2018, a hearing was held for the questioning of witnesses. The outcome of this hearing – in keeping with the Bank's request and disregarding the other party's request for the court to appoint an expert – the judge has scheduled a hearing for final pleadings for 22nd October 2019. In early October 2019, a settlement was agreed between the Bank and the receiver of the bankrupt company and the court proceedings were dropped. The case continued for only the three shareholders who had intervened. On 16th January 2020, the Court of Milan issued a ruling in which it rejected in their entirety the claims against UBI brought by these shareholders, ordering them to pay the Bank's legal costs. Against this ruling, which was announced on 17th January 2020, the shareholders who intervened in the court of first instance have filed an appeal. The hearing for personal appearance of the parties is scheduled for 1st June 2020; the deadline to file the defence document for the appeal is therefore 12th May 2020;
- a summons served (originally against the former Banco di Brescia) by a company with a bankruptcy case which began in 1999 and is still in progress, which in the person of the receiver has requested the return of amounts drawn/used in the period September 1997-June 1998 by the sole director who ceased to be a director in September 1997 without the Bank being informed. In December 2012 the Judge accepted the objections raised by the bank and dismissed the case. The counterparty resumed the case within the relative time limits. In November 2017 a ruling was made by the Court of Trani rejecting the claims of the claimant and ordering the counterparty to pay costs. The ruling was notified to the counterparty in order to impose short time limits for an appeal. The case was appealed on 9th January 2018. The case has been adjourned until 13th March 2020 for final pleadings;
- claim for damages, brought by the receiver of a bankrupt company, for alleged fraudulent lending by the Bank and consequent exacerbation of its debt position. The next hearing is scheduled for 12th May 2020;
- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche Spa in an equity offering to increase the share capital. The case is currently at the judgement stage[4];
- claim for damages against UBI Banca (former Banca Adriatica) arising from the loss of value of the ownership stake held, by the Foundation, in Cassa di Risparmio di Loreto Spa. The case was adjourned until 19th November 2019, when final pleadings were presented. The case is currently at the judgement stage[4];
- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche SpA in an equity offering to increase the share capital. The case has been adjourned until 19th May 2020 for final pleadings[4];
- writ of summons brought by a guarantor against UBI Banca (former Banca Adriatica), in which the guarantor made a preliminary request, by decree pursuant to former article 700 of the Code for Civil Proceedings, to immediately cancel a report to the CRIF (a credit bureau), to nullify the classification of the debt position as non-performing and, above all, to void the guarantee, due to a violation of the principles of integrity and good faith by the Bank. The Court of Rome ruled against the claims brought by the claimant, ordering the latter to pay the

4 Cf. note 2.

Bank's legal costs. The Bank was notified on 30th November 2019 that an appeal had been filed by the claimant who lost the first instance case[4];

- claim for damages against UBI Banca (former Banca Adriatica) arising from the purchase of shares of the former Banca delle Marche Spa in an equity offering to increase the share capital. The case has been adjourned until 30th June 2020 for final pleadings, without admission of preliminary evidence[4];
- claim for damages against UBI Banca (former Banca Adriatica) resulting from alleged illegitimate and negligent conduct over time by the Bank in matters related to a regulated mortgage loan disbursed based on works in progress. The case is currently at the preliminary evidence stage[5];
- claim for damages against UBI Banca (former Banca Adriatica) for alleged usury interest rates charged on current accounts. The court of first instance reached a decision, rejecting all of the counterparty's claims; however, the deadline to file an appeal is still pending[5];
- claim for damages against UBI Banca (former Banca Adriatica) for supposed illegitimacy and invalidity of usury and compounding of interest clauses, and for alleged illegitimate and inappropriate conduct by the Bank in managing the contractual relationship[5];
- claim for damages against UBI Banca (former Banca Adriatica) and consequent request for contract terminations due to the Bank's alleged failure to fulfil its tender contract obligations on six leases of buildings under construction[4];
- summons, served by the receivership of a bankrupt company, against UBI Banca (traced back to the former Medioleasing SpA, a company that was merged into Nuova Banca Marche), to declare null and void a contract under which, in 2009, that company sold Medioleasing SpA a building in the context of a sale and lease back operation (with a building yet to be constructed) and to consequently return the building itself to the receivership, along with its present and future returns and revenue[5];
- summons, served by a party of 207 natural and legal persons, for UBI Banca Spa and Banca delle Marche Spa "in Resolution" (i.e. in forced administrative liquidation), amongst others, to appear in court in relation to subordinated bonds of the former Banca delle Marche Spa for which provisions of the Bank of Italy dated 22nd November 2015 ordered the full impairment or write-off of the value or that it should not be transferred to the bridge entity Nuova Banca delle Marche Spa. Those parties ask firstly that UBI Banca be ordered to return the nominal value plus interest to them and secondly that UBI Banca, amongst others, be ordered to pay damages for violation of Art. 94 and Art. 114 of the Consolidated Banking Law and articles 1337, 1439, 1440 and 2043 of the Italian Civil Code and finally that it be ordered to pay damages that those parties allege to have suffered because they trusted in false information they were given. The case has been filed with the court and is currently pending before the Court of Milan. The first hearing was held on 12th December 2019. Proceedings were adjourned until 20th December 2019, when the designated judge transferred the case to the Companies Section of the same court[5];
- summons in which the enforceability of a foreclosure advanced by UBI Banca is contested for various reasons, including a breach of regulations on the capitalisation of interest and on usury. The first hearing is scheduled for March 2020.

UBI Leasing

- legal action to challenge a settlement that seeks to resolve a dispute over the ownership of leased assets;
- summons for UBI Leasing to appear in court as a third party, in a case brought by the receivership of a company, to annul a contract under which the bankrupt company sold a property to Medioleasing Spa (which was merged into the former Banca Adriatica) in a sale and lease-back operation involving a building yet to be built. The first hearing was held on 19th

5 Cf. note 2.

September 2019. At that hearing, the judge set deadlines for the parties to submit preliminary documentation and adjourned the case until 20th April 2020 for the examination of preliminary evidence[6].

UBI Factor

- legal proceedings with a local health authority relating to receivables collected following an injunction of 2001 (this injunction is temporarily executive). Subsequently, in a partial ruling the Court of Appeal repealed the injunction, giving rise to the risk of having to return the amount collected arose. After a Supreme Court of Cassation ruling in 2015 (upheld further by the 30th January 2017 ruling by the Rome Court of Appeal, in which the judgement was summarised), the risk of potential losses was reduced to the difference between the amount of interest collected and the amount calculated by applying the legal interest rate. In rulings in May and June 2018, the Supreme Court of Cassation then rejected the two appeals over resolving the interest amount; as such, it will be quantified as per the original Court of Appeal judgement. At the same time, one of the two Supreme Court rulings was appealed against, as the preconditions were met. Upon conclusion of the two cases, any amount not recognised could be recovered by the transferor.
- legal dispute with the Region of Latium regarding healthcare credits collected in the course of a case (in execution of a provisionally enforceable second instance ruling). The Region has appealed to the Supreme Court of Cassation to annul the Court of Appeal sentence with reference to the 2007-2008 non-budget credits only; the case is currently awaiting a ruling.

* * *

With respect to the information reported in the previous Notes to the Financial Statements in the 2018 Annual Report, we highlight that the following significant legal disputes have come to a conclusion:

- a writ of summons – previously classified as a possible risk – brought by a guarantor against UBI Banca (former Banca Adriatica), in which the guarantor requests that fiduciary guarantees granted by the Bank be declared null and void, due to the failure to establish a maximum amount guaranteed pursuant to article 1938 of the Civil Code. The case was suspended and not reinstated by the deadline[7];
- a dispute – previously classified as a possible risk – regarding the cancellation of current account credit lines and subsequent disposal of pledged securities, an action which was carried out to offset debt exposures in the current account that had arisen as a result of intense trading in shares (especially foreign stocks) between 1999 and 2002, by means themselves the subject of a dispute. The dispute was settled out of court in July 2019; the full amount agreed was then paid to the Bank in September 2019 and the counterparty dropped the pending charges;
- legal action – previously classified as a probable risk – with a party transferring receivables brought against UBI Factor relating to a request for transfers of receivables carried out starting in April 2006 to be declared ineffective or unenforceable due to the absence of advances or the non-existence of a connection between the advances made and the documents relating to the transfer of the receivables. A consequent request was made for the return of the amounts collected against the receivables transferred and revocation of the payments made by the transferor from April 2011. The dispute was settled out of court in April 2019 as part of a broader settlement agreement, in which the transferor agreed to drop the charges;

6 The defendant is connected to another position related to UBI Banca. More specifically, it relates to a summons, served by the receivership of a bankrupt company, against the Parent (traced back to the former Medioleasing Spa), to declare null and void a contract under which, in 2009, the said company sold Medioleasing Spa a property in the context of a sale and lease back operation (with a building yet to be constructed) and to consequently return the building itself to the receivership, along with its present and future returns and revenue. For this dispute, the 18th January 2017 agreement between UBI Banca and the National Resolution Fund is applicable (for further details see the note 1).

7 Cf. note 2.

- a compensation action originating from the former Centrobanca for claimed damages brought by the official receiver of a company concerning the content of declarations made by the former Centrobanca to third parties regarding the availability of securities held on deposit at that bank. Following rulings in the Bank's favour in the first and second instances, an equally favourable final ruling was issued by the Supreme Court of Cassation;
- legal action brought by the receivership of a bankrupt company that was a user and supplier of UBI Leasing, seeking payment from UBI Leasing of amounts withheld as a security deposit in relation to the execution of works under a tender contract to build a property that was the subject of a lease. This litigation was concluded through a settlement.

* * *

In comparison with the information reported in the 2018 financial statements, we highlight the reclassification as a remote risk of a summons, originating from the former Banco di Brescia, served on 30th June 2014 by the receivership of a corporate counterparty which went bankrupt in 2010, with which a claim for damages against banks (including the former Banco di Brescia) was advanced for alleged improper credit support, which it is claimed delayed the winding up of the company and consequently caused damages to creditors in the insolvency proceedings and to the assets of the company itself. Following a first-instance ruling in the Bank's favour, appeal proceedings will move forward, with the first hearing scheduled for March 2020. The assessment of the likelihood of this case leading to losses, in terms of the risk of payouts for the Bank, has been changed based on an opinion received from an external legal expert.

* * *

To complete the information we report the following:

- *with a provision dated 15th May 2017 the Autorità Garante della Concorrenza e del Mercato (AGCM – Italian Competition Authority) ruled that no penalties should be imposed on the Italian Banking Association and 11 Banks (including UBI Banca) involved in the origination and definition of an interbank agreement for the service named "Sepa-compliant Electronic Database Alignment" (SEDA[8]) service, due to the non-serious nature of the violation relating to a presumed agreement restricting competition. This was also in view of the regulatory and economic framework in which the conduct occurred (see previous financial reports for greater details on the proceedings). The final provision of the proceedings ruled that the parties involved should in any event cease their current conduct, abstain in future from similar conduct and present a special report to give an account of the measures adopted by 1st January 2018.*
  Compliance with the provision was ensured by revising the interbank agreement in question and making changes to the general contract and the remuneration provided for in it, in order to change to a different system, previously already agreed upon with the AGCM, based on the application of multilateral interchange fees (MIF) linked to costs.
  Implementation of the new general contract, co-ordinated by the Italian Banking Association, which supervised the various stages with its circulars, involved the implementation of a set of changes to the structure of the contracts and to the software apps, and this required, amongst other things, the termination of all existing contracts and the need for the banks that held contractual agreements for the delivery of the beneficiary side of the SEDA service (i.e. the alignment PSP) to sign new contracts with customers who wanted to continue to use the service under the new conditions. The new contract came into force on 1st January 2018.
  All the activities carried out were promptly reported to the AGCM in a report prepared by the Italian Banking Association, to which UBI Banca adhered.
  On 10th August UBI Banca received an official notification from the AGCM to confirm that the procedures put in place by the Italian Banking Association and by the banks involved are considered by the authority to be compliant with the measures indicated in the final provision, although it reserves the right to monitor the correct implementation of the new model in the future.
  As already reported, UBI Banca appealed against the provision of 15th May 2017 before the administrative courts, disputing the entire basis of the existence of an agreement to restrict competition. A date has not yet

8 The SEDA (SEPA-compliant Electronic Database Alignment) is an optional service provided to customers to fill gaps in the new SEPA DD direct debit schemes, introduced in the SEPA area since February 2014, with respect to the previous RID direct debit domestic service.

been set at present for the hearing to debate the case before the TAR (regional administrative tribunal) of Latium.

- *The Bank did not comply with the unfavourable decisions made by the Arbitrator for Financial Disputes on appeals brought by former Banca delle Marche shareholders, as the reasoning provided by the Arbitrator, with reference to Legislative Decree No. 180/2015 and subsequent Bank of Italy provisions issued on 22nd November 2015, according to which the Bank's capacity to be a defendant in these proceedings does exist, is irreconcilable with the Bank's lack of alternative remedies permitted under the regulations governing the arbitration procedure. This non-compliance is thus the only option consistent with the defence position taken by the Bank, including in a court setting. The Bank's argument for non-compliance was put to the Arbitrator and to the Consob in a specific letter, which among other things stressed that the utmost consideration has been given to the work performed by the Arbitrator for Financial Disputes. Meanwhile, the administrative fees charged to the Bank in relation to the proceedings have been paid;*
- *on 19th June 2019, the AGCM commenced fact-finding proceedings vis-à-vis UBI Banca for alleged unfair commercial practices related to the sale of insurance policies offered or marketed by the Bank in conjunction with consumer credit contracts (specifically, residential mortgage loans), requesting information and the presentation of documents. On 2nd August 2019 the AGCM extended the proceedings to include the opening of current accounts jointly with the aforementioned contracts and a request for related information and documents. On 3rd October 2019, the AGCM notified the Bank of its intention to proceed with its inspection into a potential infringement via a preliminary investigation, which ended on 28th November 2019. The conclusion of this procedure has been postponed to 22nd February 2020. The Bank is awaiting official notification of the final provision.*

Anti money-laundering notifications

In 2019, the UBI Banca Group was served with one "written notifications of findings" for failure to report suspect transactions in accordance with articles 35 and 56 of the Anti-Money Laundering Law.

Details are provided below of both the new AML position and pre-existing ones for which updates took place during the year.

1) New position

- notification served to UBI Banca by the *Guardia di Finanza* (Finance Police) for failure to report transactions involving credit transfers received from abroad totalling €3.3 million. The notification also indicates that an administrative fine of €3,000 is being applied. The relevant defence documents were submitted to the MEF within the established time limits.

2) Updates to pre-existing positions

- a fine of €70 thousand imposed in 2013 on UBI Banca jointly and severally (on charges dating back to 2008 for which the relevant employee was fined €120 thousand), notified to a branch manager of the former Banca Carime, regarding transactions totalling €1.2 million, against which an appeal was filed to the first instance court in 2013, which was rejected in 2015. An appeal to the appellate court was then filed and in 2016 a suspension request was rejected and the court was adjourned until final pleadings. The Appellate Court of Rome issued its ruling on 13th February 2019, against which an appeal has been filed with the Court of Cassation. In the meantime, the fine of €124,269.23 has been paid, along with the sum of €9,500 to the Ministry of Economy and Finance for legal expenses;
- in a case where during 2018 the Bank's appeal was partially upheld, with the fine reduced from €797,427 to €40,000, the MEF did not challenge, within the time limit, this first instance decision issued by the Court of Rome, which UBI Banca executed and which thus becomes the final verdict. This legal issue is therefore considered closed;
- in 2019, no notifications were received for alleged failure to report suspect transactions.

No new events occurred during the year with regard to notifications served in 2018 to IW Bank and to UBI Factor, for which related defence documents were submitted within the established time limits.

Also, given that five years have passed since the relative notification dates, the following proceedings, for which defence documents in response to the MEF's claims were drafted and sent within the established time limits, can be considered expired:

- notifications served by the *Guardia di Finanza* on 19th December 2013 to two branch managers and to the former Nuova Banca delle Marche, for failure to report a suspicious transaction in the amount of approximately €240,000;
- notifications served by the Guardia di Finanza on 7th May 2014 to two branch managers and on 7th and 8th May 2014 to the former Banca Popolare di Bergamo and Banco di Brescia, for failure to report a suspicious transaction in the amount of around €8,900,000;
- notification served by the Guardia di Finanza on 13th November 2014 to a branch manager and on 14th November 2014 to the former Banco di Brescia, for failure to report a suspicious transaction in the amount of approximately €90,000;
- notifications served by the *Guardia di Finanza* on 28th January and 4th February 2014 to two branch managers and on 31st January and 28th February 2014 to the former Nuova Banca Etruria, for failure to report a suspicious transaction in the amount of approximately €120,000.

As regards the remaining 28 pre-existing positions, no noteworthy events occurred during the year.

Finally, concerning the status of notifications served to the **former New Banks**, as included in the information reported above, we report that in a case, where in 2018 the Bank's appeal was partially upheld and the fine reduced from €797,427 to €40,000, the MEF did not challenge, within the time limit, this first instance decision issued by the Court of Rome, which UBI Banca executed and which thus becomes the final verdict. This legal issue is therefore considered closed.

Due to five years having passed since the notification date, two alleged violations notified to two employees for failure to report suspect transactions totalling €120,000 can be considered expired.

For the remaining nine positions relating to the former New Banks, no noteworthy events occurred during the year.

Over the course of 2019 the UBI Banca Group received 20 formal notifications for non-compliance with the provisions of Title III of amended Legislative Decree No. 231/2007, for which the total maximum fine is €300 thousand. Seventeen of those notifications have been settled by means of payments in exchange for the cancellation of any criminal charges, while for three others, defence documents have been submitted.

Concerning the status of notifications served to the former New Banks, we report that no notifications were received in 2019 of alleged infractions or violations of these regulations.

Tax litigation

The following section covers the investigations by tax authorities as well as the tax liability disputes of the UBI Banca Group amounting to more than €100,000, inclusive of the disputed taxes and related penalties.

Tax inspections and other investigative activities

On 6th December 2017 the Arezzo Police Tax Unit of the Guardia di Finanza (finance police) commenced a general tax inspection into Oro Italia Trading Spa in liquidation for the tax years 2013, 2014 and 2015. The inspection was concluded on 5th July 2018 with notification of a tax assessment report already forwarded to the Tuscany Regional Department of the Revenue Agency, responsible for making the necessary checks in preparation for the issue of a possible notice of assessment. Oro Italia Trading Spa in liquidation opted to make use of the 'fiscal peace agreement' (Art. 1 of Decree Law No. 119/2018), by settling the dispute without waiting to be notified of the tax assessment report. All obligations related to this settlement were executed in May 2019, taking the contractual agreements for the acquisition of the New Banks into account.

On 18th March 2019 the Italian Revenue Agency (Calabria Regional Headquarters Assessment Office) began a general tax audit on the 2016 tax year of merged company Banca Carime. This audit concluded on 4th July 2019 with notification of a tax assessment report. UBI Banca has settled the findings contained in the audit report by submitting corrected income tax returns and IRAP (regional production tax) returns for the years 2016 and 2017, and by paying €200 for dutifully acknowledged taxes owed, on 31st July 2019.

On 20th November 2018, the Spanish tax agency (Agencia Tributaria) began a tax audit regarding income taxes for the tax years 2014 and 2015 as well as VAT for the year 2015 on the Madrid branch of UBI Banca, which ended its business operations on 31st December 2018. This audit is still ongoing. Contacts are in progress towards a settlement of any findings and the payment will be an insignificant amount.

Assessment notices

UBI BANCA SPA (FOR ITSELF AND FOR THE MERGED BANCA CARIME AND BPB IMMOBILIARE): THE CONTRIBUTION OF IMMOBILIARE SERICO

This is litigation brought by companies in UBI Banca Group (UBI Banca Spa for itself and for the merged Banca Carime and BPB Immobiliare) against action taken by the tax authorities designed to reclassify operations to contribute lines of property business carried out in 2003 to the company Immobiliare Serico as the disposal of real estate properties.
The reclassification carried out by the tax authorities resulted in a demand for additional IRPEG (former corporate income tax) and VAT and the relative fines totalling €82.8 million plus interest. The actions brought by companies in the UBI Banca Group were successful before the courts of both first and second instance, but going through the State Attorney the tax authorities appealed the rulings made before the court of second instance to the Supreme Court of Cassation.
UBI Banca Spa (both for itself and for the merged Banca Carime Spa) and BPB Immobiliare Srl availed itself of the "fiscal peace agreement" (as per Article 6 of Decree Law No. 119/2018), settling the dispute by paying around €989,000 (for UBI Banca Spa itself) plus around €820,000 (for BPB Immobiliare Srl). All administrative requirements connected with the settlement were put in place in May 2019.

UBI BANCA: 2003 IRPEG (FORMER CORPORATE INCOME TAX)

In November 2011 UBI Banca Spa (the former BPU Banca) was served with a notice of assessment in relation to its tax treatment for IRPEG (former corporate income tax) purposes of the contribution of a bank made on 1st July 2003 to the then newly formed Banca Popolare di Bergamo and Banca Popolare Commercio e Industria. In particular, the full deduction by the transferor BPU Banca of the

taxed provisions for risks and charges set aside in previous years was disputed. The Revenue Agency's objection resulted in a demand for additional IRPEG (former corporate income tax) and the relative fines totalling €43.1 million plus interest.
UBI Banca Spa was victorious in both the first and second instance rulings. The Revenue Agency, through the State Attorney, presented an appeal to the Supreme Court of Cassation on 8th May 2017 and UBI Banca applied to appear in its defence within the legal time limits. UBI Banca then opted to take advantage of the "fiscal peace agreement" (as per Art. 6 of Decree Law No. 119/2018) and settled the dispute by paying approximately €900 thousand. All administrative requirements connected with the settlement were put in place in May 2019.

UBI BANCA SPA, FORMER BANCA CARIME: IRPEG AND ILOR (FORMER CORPORATION TAX-FORMER LOCAL INCOME TAX) 1996 AND 1997

This litigation regards two notices of tax assessment regarding the claimed usefulness over more than one year of costs incurred in 1996 and 1997 and fully charged to the income statement in those years.
Banca Carime Spa contested these assessment notices and, in 2011, was victorious at the second instance. The Revenue Agency then filed an appeal to the Supreme Court of Cassation and the Bank applied to appear in defence within the legal time limits.
Following the hearing held in chambers on 10th July 2018, with an order lodged on 26th September 2018, the Supreme Court of Cassation upheld the appeal made by the Revenue Agency and passed the case back to the Regional Tax Commission of Calabria. UBI Banca Spa, as the survivor of the Banca Carime merger, took up the case in its defence once again within the established time limits.
UBI Banca then opted to take advantage of the "fiscal peace agreement" (as per Article 6 of Decree Law No. 119/2018) and settled the dispute by paying around €2.9 million. All administrative requirements connected with the settlement were put in place in May 2019.
Because Banca Carime was purchased by IntesaBCI (now IntesaSanPaolo Spa) and the tax years assessed are covered by a full contractual guarantee properly implemented in favour of UBI Banca Spa, no provision was made to cover this litigation.

UBI BANCA, FORMER BANCA DELLE MARCHE: 'MAXI-INSTALMENT' MARITIME LEASING

On 23rd December 2008, the Revenue Agency notified the former Banca delle Marche Spa of a tax assessment report for the year 2003. The Revenue Agency contended that maritime lease arrangements should have been classified for tax purposes as sale contracts due to their high initial instalment and, as a result, claimed that the bank owed an additional €210 thousand in VAT, €263 thousand in fines, plus interest. Banca delle Marche contested the notification and was victorious in the first instance. The Revenue Agency appealed to the Marche Regional Tax Commission.
UBI Banca opted to take advantage of the "fiscal peace agreement" (as per Article 6 of Decree Law No. 119/2018) and settled the dispute by paying approximately €84 thousand. All administrative requirements connected with the settlement were put in place in May 2019.

UBI BANCA SPA: REGISTRATION TAX

The Revenue Agency (Bologna office) notified UBI Banca Spa of a demand for payment of a registration tax on a pledge stipulated on the value of stakes in limited liability companies, calculating the additional tax owed at about €108 thousand. UBI Banca filed an appeal, jointly with the counterparty in the pledge, to the Bologna Provincial Tax Commission on 16th February 2019. In its ruling on 20th December 2019, the Tax Commission upheld the appeal. The deadline for the Revenue Agency to appeal the ruling is currently pending.

UBI BANCA SPA (FORMER BANCA TIRRENICA) AND ORO ITALIA TRADING: 2014 VAT

As part of payment of Group VAT in operation since 31st December 2014, on 28th December 2015 Nuova Banca dell'Etruria e del Lazio and Oro Italia Trading Spa submitted an application to the

Department of the Region of Tuscany of the Revenue Agency for a VAT rebate for the tax year 2014 amounting to approximately €3.2 million, which prudentially had not been deducted due to possible contestations of an alleged "carousel fraud". The Revenue Agency denied the right to the rebate and in April 2016 the two companies appealed to the Tax Commission of the Province of Florence. The hearing, originally set for May 2017, was adjourned with no date set.

UBI LEASING: RESOLUTION OF VARIOUS TAX DISPUTES FOR 2003 (IRPEG, IRAP AND VAT) AND 2004 (IRES AND IRAP)

In December 2008, the Revenue Agency notified UBI Leasing Spa of a tax assessment containing findings regarding IRPEG (the former Italian corporate income tax), IRAP (regional production tax) and VAT for the tax year 2003, claiming additional taxes due totalling approximately €257 thousand plus interest and fines. These claims are related to invoices issued by two suppliers for transactions that, according to the Revenue Agency, objectively did not take place (specifically, equipment sold several times to several different companies that operate financial leasing businesses). UBI Leasing challenged these notices and won both the first and second instance court cases (the appeals to the two notices were combined into one case beginning with the first instance). In 2013, the Revenue Agency, through the State Attorney, submitted an appeal to the Supreme Court of Cassation. The company applied to appear in defence within the legal time limits.
On 13th October 2009, the Revenue Agency notified UBI Leasing of a tax assessment containing findings regarding corporate income tax (IRES) and IRAP (regional production tax) for the tax year 2004. This assessment report essentially concerns non-deductible depreciation and amortisation of long-term costs, provisions for impairment losses on loans implicit in financial leasing contracts (the main finding in numerical terms) and costs considered non-deductible, amounting to additional taxes due totalling €217 thousand, plus interest and fines.
UBI Leasing accepted some of the findings and, over the course of the case, the tax authorities' claim was reduced to approximately €158 thousand.
UBI Leasing took advantage of the so-called pace fiscale ("fiscal peace agreement") regulation (pursuant to article 6 of Decree Law No. 119/2018) and ended all the aforementioned disputes by paying approximately €15 thousand. All administrative requirements connected with the settlement were put in place in April 2019.

UBI BANCA (FORMER BANCA TIRRENICA IN ITS CAPACITY AS THE SURVIVOR OF THE ETRURIA LEASING MERGER): 2010 MORTGAGE TAXES

On 23rd April 2012 the Revenue Agency (Department I of the Province of Rome) served an adjustment and payment notice on the former Etruria Leasing regarding the sales value of a real estate property purchased in 2010 by the leasing company (it assessed a value of €15.6 million compared with a declared value of €3.5 million) and as a result demanded additional mortgage tax of €181 thousand and additional land registry tax of €60 thousand, plus interest and fines.
In November 2012, the former Etruria Leasing lodged an appeal before the Tax Commission of the Province of Rome, which was upheld in full.
The Revenue Agency appealed that ruling before the Tax Commission of the Region of Latium, which in its ruling filed on 14th February 2018 partially upheld the Revenue Agency's appeal and recalculated the sales value of the property at €9 million.
On 21st August 2018, UBI Banca submitted an appeal before the Supreme Court of Cassation against the Regional Tax Commission's verdict. In a ruling filed on 11th December 2019, this appeal was upheld, thus sending the case back to another section of the Regional Tax Commission. UBI Banca will submit its defence application for the appeal within the legal time limit.

IW BANK: FINE FOR PARTIAL NON-PAYMENT OF BALANCE OF WITHHOLDING TAXES ON INTEREST INCOME FOR 2007

In 2010, IW Bank proceeded to settle its position for partial non-payment of the balance of withholding taxes on customers' interest income from deposits and current accounts paid in

2007. This was accomplished by paying the full amount of withholding taxes deemed unpaid, plus the related interest, after having submitted corrections to tax returns. IW Bank still expected administrative fines to be issued, given that the time limit to submit a dutiful acknowledgement of taxes owed had lapsed.
In 2011, the Revenue Agency initially imposed an administrative fine for filing inaccurate tax returns for the full amount of the undeclared withholdings (this fine was paid by IW Bank in accordance with the law), and subsequently served a further payment demand for approximately €624 thousand (30% of the withholdings not paid). The bank challenged this payment demand in the courts, and won in both the first and second instance.
In 2014, the Revenue Agency filed an appeal to the Supreme Court of Cassation, and IW Bank applied to appear in defence within the legal time limits. A date for the hearing to debate the case has not yet been set.

IW BANK: FINE FOR PARTIAL NON-PAYMENT OF WITHHOLDING TAX PAYMENTS ON ACCOUNT ON INTEREST INCOME FOR 2007

In May 2011, the Revenue Agency served IW Bank with a payment demand for approximately €102 thousand, citing an alleged insufficient payment on account of withholding taxes on interest income from deposits and current accounts paid to customers, also imposing a fine of €94 thousand plus collection fees.
The dispute lies in the fact that the bank made the advance payment on withholding taxes for an amount equal to 90% of the amount due for the previous tax year, whereas the Revenue Agency contended that the appropriate payment to make was 100% of the amount due for the previous year.
IW Bank challenged this payment demand in the courts, and won in both the first and second instance. In 2014, the Revenue Agency filed an appeal to the Supreme Court of Cassation, and IW Bank applied to appear in defence within the legal time limits. A date for the hearing to debate the case has not yet been set.

SECTION 11 Technical reserves – Item 110

11.1 Technical reserves: composition

This item corresponds to liabilities item C in the balance sheet of an insurance company.

	Direct work	Indirect work	31.12.2019	31.12.2018
A. Non-life sector	**-**	**-**	**-**	**-**
A.1 Premium reserves	-	-	-	-
A.2 Claims reserves	-	-	-	-
A.3 Other reserves	-	-	-	-
B. Life sector	**2,210,294**	**-**	**2,210,294**	**1,877,449**
B.1 Mathematical reserves	2,193,511	-	2,193,511	1,863,880
B.2 Reserves for sums to be paid	13,804	-	13,804	12,865
B.3 Other reserves	2,979	-	2,979	704
C. Technical reserves where the investment risk is borne by the insured	**-**	**-**	**-**	**-**
C.1 Reserves relating to contracts where the payouts are linked to investment funds and market indices	-	-	-	-
C.2 Reserves resulting from the management of pension funds	-	-	-	-
D. Total technical reserves	**2,210,294**	**-**	**2,210,294**	**1,877,449**

11.2 Technical reserves: annual changes

	31.12.2019
A. Non-life sector	
Opening balances	-
Business combination transactions	
change in reserves	-
Final holdings	**-**
B. Life sector	
Opening balances	**1,877,449**
Business combination transactions	
Change due to premiums	274,316
Change due to income and other bonuses paid to policy holders	57,469
Change due to exchange rate differences	
Change in other technical reserves	1,060
Final holdings	**2,210,294**
Total	**2,210,294**

SECTION 12 Redeemable shares – Item 130

12.1 Redeemable shares: composition

No shares have been issued with redemption clauses.

SECTION 13 Equity attributable to the Parent – Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "treasury shares": composition

	31.12.2019	31.12.2018
Number of ordinary shares	1,144,285,146	1,144,285,146
Number of treasury shares	9,251,800	7,861,190

The share capital of UBI Banca Spa as at 31st December 2019 amounted to 2,843,177,160.24 divided into 1,144,285,146 shares with no nominal value.

13.2 Share capital – Number of shares of the Parent: annual changes

Items/Type	Ordinary	Other
A. Shares existing at the beginning of the year	**1,144,285,146**	**-**
- fully paid up	1,144,285,146	-
- not fully paid up	-	-
A.1 Treasury shares (-)	(7,861,190)	-
A.2 Outstanding shares: initial number	**1,136,423,956**	**-**
B. Increases	**188,890**	**-**
B.1 New issues	-	-
- by payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of Directors	-	-
- other	-	-
B.2 Sale of treasury shares	188,890	-
B.3 Other changes	-	-
C. Decreases	**(1,579,500)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(1,579,500)	-
C.3 Company disposal operations	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	**1,135,033,346**	**-**
D.1 Treasury shares (+)	9,251,800	-
D.2 Shares existing at year-end	1,144,285,146	-
- fully paid up	1,144,285,146	-
- not fully paid up	-	-

13.3 Share capital: other information

A total of 188,890 treasury shares were granted during the year, in implementation of “Remuneration and incentive policies for ‘identified staff’”. 1,579,500 treasury shares were also purchased for use in the personnel incentive schemes. For further details see “Part I – Share-based payments”.

13.4 Reserves of profits: other information

Reserves of profits in the consolidated financial statements increased by €283.5 million due to the capitalisation of the 2018 consolidated profit of €425.6 million, after having allocated €142.1 million to distribute dividends of €0.12 per share on 22nd May 2019.

13.5 Capital instruments: composition and annual changes

Nothing to report.

13.6 Other information

Nothing to report.

SECTION 14 Minority interests – Item 190

14.1 Details of the item 190 "minority interests"

Name of companies	Total 31.12.2019	Total 31.12.2018
Equity investments in consolidated companies with significant minority interests		
1. Pramerica SGR Spa	55,728	46,875
Other equity investments	2,502	3,909
Total	**58,230**	**50,784**

14.2 Capital instruments: composition and annual changes

Nothing to report.

OTHER INFORMATION

1. Commitments and financial guarantees granted

Transactions	Nominal value of commitments and financial guarantees granted			Total 31.12.2019	Total 31.12.2018
	Stage one	Stage two	Stage three		
1. Loan commitments	**34,121,386**	**2,299,713**	**248,366**	**36,669,465**	**35,973,033**
a) Central banks	-	-	-	-	-
b) Public administrations	1,509,684	85,535	526	1,595,745	2,316,346
c) Banks	487,307	3,704	-	491,011	318,277
d) Other financial companies	2,808,412	73,927	4,238	2,886,577	2,043,993
e) Non-financial companies	25,933,717	2,007,624	234,273	28,175,614	28,113,026
f) Households	3,382,266	128,923	9,329	3,520,518	3,181,391
2. Financial guarantees granted	**5,575,937**	**407,540**	**100,464**	**6,083,941**	**5,903,987**
a) Central banks	120,000	-	-	120,000	120,000
b) Public administrations	71,024	16	-	71,040	73,213
c) Banks	250,021	2,195	-	252,216	281,534
d) Other financial companies	140,676	5,111	47	145,834	304,838
e) Non-financial companies	4,688,645	334,878	97,241	5,120,764	4,731,482
f) Households	305,571	65,340	3,176	374,087	392,920

2. Other commitments and other guarantees granted

No items of this type exist in the UBI Banca Group.

3. Assets pledged to secure own liabilities and commitments

Portfolios	Nominal amount	
	Total 31.12.2019	Total 31.12.2018
1. Financial assets measured at fair value through profit or loss	1,742	7,751
2. Financial assets measured at fair value through other comprehensive income	5,195,944	10,013,732
3. Financial assets measured at amortised cost	31,114,828	33,961,395
4. Property, plant and equipment	-	-
of which: property, plant and equipment which constitute inventories	-	-
Total	**36,312,514**	**43,982,878**

The table summarises assets recognised in the balance sheet pledged by the UBI Banca Group to secure its liabilities.
The amount shown in item "3. Financial assets measured at amortised cost" includes around €15,743,300 relating to mortgages transferred to the special purpose entity UBI Finance Srl as part of programmes to issue covered bonds.
The above is summarised as follows:

	31.12.2019	31.12.2018
- UBI Finance Srl	15,743,306	15,550,239
- Own securitisations	-	1,186,852
- Total	**15,743,306**	**16,737,091**

The assets reported in the table used to back covered bond operations relate to the UBI Finance programme, for which UBI Banca Spa is the covered bond issuer.
No assets pledged to back the Bank's own securitisations are reported here, given that as at 31/12/2019, there were no such securitisations in place where all or a portion of the notes are sold on the market.
The tables to not include assets to back the UBI Finance CB2 covered bond operation because the relative notes, issued by UBI Banca Spa, have all been repurchased by the issuer and therefore do not appear among liabilities in the balance sheet.
Similarly loans used to back "self-retained securitisations" do not appear in the table where the notes are entirely repurchased by UBI Banca Spa or by Group companies. These consist of the following operations:

- 24-7 Finance securitisation: €734 million of assets transferred against securities issued by 24-7 Finance Srl and entirely retained by UBI Banca;
- UBI SPV Group 2016: securitisation: €2,371 million, against securities issued by UBI SPV Group 2016 Srl and entirely retained by UBI Banca;
- UBI SPV Lease 2016: securitisation: €2,903 million, against securities issued by UBI SPV Lease 2016 Srl and held entirely by UBI Leasing Spa;
- Marche Mutui 6 securitisation: €939 million, against securities issued by Marche Mutui 6 Srl and entirely retained by UBI Banca Spa.

Reference is made to the special section in these notes for further details on the securitisations and covered bonds mentioned above.

The financial assets contained in the table relate to securities owned, pledged to guarantee liabilities and commitments of the Group as follows:

Portfolios	Guarantees of liabilities or commitments	
Financial assets measured at fair value through profit or loss		
	Bank of Italy Advances	957
	Mortgages to back covered bonds	84
	Mortgages to guarantee own securitisations	-
	EIB Financing	701
	Pension Funds	-
		1,742
financial assets measured at fair value through other comprehensive income		
	Bank of Italy Advances	3,075,477
	EIB Financing	-
	Repurchase agreements	2,120,334
	Pension Funds	-
	Other transactions	133
		5,195,944
Financial assets at amortised cost - Customers		
	Bank of Italy Advances	12,990,358
	EIB Financing	1,095,330
	Mortgages to back covered bonds	15,743,306
	Mortgages to guarantee own securitisations	-
	Repurchase agreements	1,086,652
	Other transactions	199,182
		31,114,828

In addition to the assets reported above, securities were also pledged as guarantees as follows:

To guarantee Liabilities and commitments	Nominal amount of securities issued by third parties
Bank of Italy Advances	5,012,070

In the table above the securities lodged with the Bank of Italy to back advances, acquired by means of reverse repurchase agreements, were issued by the special purpose entity UBI Lease 2016 for €2.1 billion (senior tranches) and acquired by the originator UBI Leasing Spa.
Furthermore the notes issued as part of the securitisations originated by UBI Banca included notes owned lodged as security with the Bank of Italy against advances relating to the following operations:
- 24-7 Finance: €402.6 million;
- UBI SPV Group 2016: €2.086 billion;
- Marche M6: €422.9 million.

4. Composition of investments for unit-linked and index-linked policies

As at 31.12.2019 the UBI Banca Group held no index-linked policies in portfolio. Investments relating to unit-linked policies and pension funds were composed mainly of shares of UCITS (94.4% of the item), debt securities (5.3% of the item) and equity instruments to a minor extent.

5. Management and intermediation on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	**57,502,210**
a) Purchases	27,968,677
1. Settled	27,964,801
2. Not settled	3,876
b) Sales	29,533,533
1. Settled	29,529,357
2. Not settled	4,176
2. Portfolio managements	**66,892,200**
a) Individual	31,389,193
b) Collective	35,503,007
3. Custody and management of securities	**79,511,141**
a) Securities of third parties held on deposit: connected with depository bank activity (not including portfolio management)	-
1. Securities issued by companies included in the consolidation	-
2. Other securities	-
b) securities of third parties held on deposit (not including portfolio management): other	60,463,775
1. Securities issued by companies included in the consolidation	10,783,038
2. Other securities	49,680,737
c) Securities belonging to third parties, deposited with third parties	58,517,585
d) Own securities deposited with third parties	19,047,366
4. Other transactions	**245,877,273**

6. Financial assets subject to offsetting in the financial statements, or subject to master netting arrangements or similar agreements.

Type of instrument	Gross amount of the financial assets (a)	Amount of the financial liabilities offset in the accounts (b)	Net amount of the financial assets reported in the accounts (c=a-b)	Related amounts not offset in the accounts		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	876,788	776,804	99,984	51,225	40,143	8,616	1,390
2. Repurchase agreements	852,849	-	852,849	852,849	-	-	-
3. Stock lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31.12.2019	**1,729,637**	**776,804**	**952,833**	**904,074**	**40,143**	**8,616**	**X**
Total 31.12.2018	**600,903**	**490,182**	**110,721**	**71,463**	**37,868**	**X**	**1,390**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar agreements.

Type of instrument	Gross amount of the financial liabilities (a)	Amount of financial assets offset in the accounts (b)	Net amount of the financial liabilities reported in the accounts (c=a-b)	Related amounts not offset in the accounts		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	1,617,015	776,804	840,211	51,225	784,105	4,881	18,784
2. Repurchase agreements	3,166,784	-	3,166,784	3,155,390	8,693	2,701	-
3. Stock lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31.12.2019	**4,783,799**	**776,804**	**4,006,995**	**3,206,615**	**792,798**	**7,582**	**X**
Total 31.12.2018	**3,485,127**	**490,182**	**2,994,945**	**2,570,393**	**405,768**	**X**	**18,784**

With regard to derivatives, offsetting has been carried out in the accounts between the same counterparties for an amount of €776.8 million, where all of the criteria laid down by IAS 32 are met. This offsetting involved certain classes of OTC derivatives (IRS Plain Vanilla) in line with the provisions of European Regulation No. 648/2012 (European Market Infrastructure Regulation – "EMIR").
The following has been reported in the columns for related amounts not subject to offsetting: the value of the related derivative by single counterparty up to the full amount under financial instruments, while the margin deposits are given up to the full amount, again for single related counterparty under the column for deposits received or made.
As a consequence, given the related items for derivatives assets and liabilities and the amount of the respective margin deposits received or made, the column for the net amount (table 7) represents the residual exposure solely of the Parent by counterparty of €8.6 million, while the residual exposure of third parties (table 8) is €4.9 million.
The conditions set by IAS 32 were not met for offsetting asset and liability repo positions with the same counterparties in the financial statements.
The following has been reported in the columns for related amounts not subject to offsetting: the fair value of the underlying security by single counterparty up to the full amount under instruments, while the margin deposits are given up to the full amount, also by single related counterparty under the column for deposits received.

8. Stock lending transactions

The UBI Banca Group offers – through the company IW Bank Spa – a stock lending service for both institutional and retail counterparties. For retail counterparties, this enables customers to both borrow securities (against payment of a commission) and to lend securities (in return for a consideration paid by IW Bank Spa). As concerns institutional counterparties, on the other hand, IW Bank Spa lends securities to counterparties in return for a commission.

9. Information on joint arrangements

Nothing to report.

PART C – NOTES TO THE CONSOLIDATED INCOME STATEMENT

SECTION 1 Interest – Items 10 and 20

1.1 Interest income and similar: composition

Items/Type	Debt securities	Financing	Other transactions	Total 2019	Total 2018
1. Financial assets measured at fair value through profit or loss:	**10,076**	**5,697**	**-**	**15,773**	**7,809**
1.1 Financial assets held for trading	338	-	-	338	119
1.2 Financial assets designated at fair value	138	-	-	138	-
1.3 Other financial assets mandatorily measured at fair value	9,600	5,697	-	15,297	7,690
2. Financial assets measured at fair value through other comprehensive income	**164,408**	**-**	**X**	**164,408**	**176,100**
3. Financial assets measured at amortised cost	**82,235**	**1,888,783**	**-**	**1,971,018**	**2,028,730**
3.1 Loans and advances to banks	1,071	6,226	X	7,297	6,138
3.2 Loans and advances to customers	81,164	1,882,557	X	1,963,721	2,022,592
4. Hedging derivatives	**X**	**X**	**(29,192)**	(29,192)	**(51,734)**
5. Other assets	**X**	**X**	**428**	**428**	**170**
6. Financial liabilities	**X**	**X**	**X**	**58,009**	**59,029**
Total	**256,719**	**1,894,480**	**(28,764)**	**2,180,444**	**2,220,104**
of which: interest income on impaired financial assets	-	220,660	-	220,660	278,841
of which: interest income on finance leases	-	131,469	-	131,469	157,157

The item “3.2 Financial assets measured at amortised cost – Loans and advances to customers” included interest amounting to €327.9 million earned on loans transferred to back covered bond issues and also interest of €73.7 million earned on securitised loans.

Item “4. Hedging derivatives” contains the balance on the hedging differential stated on the basis of the positive or negative value of the interest that the derivatives themselves actually modify.

Item “6. Financial liabilities” includes the interest income earned on financial liabilities due to the effect of negative interest rates and more specifically, €48.7 million of income earned on amounts due to banks relating to the TLTRO II benefit earned in the period.

The item “of which: interest income on impaired financial assets”, which totalled €220.7 million, shows interest relating to impaired exposures to customers. In compliance with IFRS 9, the balance for the year ended 31st December 2019 includes €110.6 million net in relation to the reversal of time value connected with the measurement of non-performing exposures, to interest recognised on a net basis on non-performing exposures and also to the release of the time value of the PPA relating to non-performing exposures resulting from the operation to acquire the former New Banks.

According to the provisions of Bank of Italy Circular No. 262/2005 (sixth update), the comparative column for the item “of which: interest income on finance leases” restates that which was published in the Consolidated Financial Statements as at and for the year ended 31st December 2018 in the balance stated in the table in Part C under “1.2.2 Interest income on finance lease transactions”.

1.2. Interest income and similar income: other information

1.2.1 Interest income on financial assets held in foreign currency

Items	Total 2019	Total 2018
Interest income on financial assets held in foreign currency	84,153	32,451

1.3 Interest expense and similar: composition

Items/Type	Borrowings	Securities	Other transactions	Total 2019	Total 2018
1. Financial liabilities measured at amortised cost	(111,518)	(403,041)	-	**(514,559)**	**(507,295)**
1.1. Due to central banks	(95)	X	X	**(95)**	-
1.2. Due to banks	(55,015)	X	X	**(55,015)**	**(36,455)**
1.3. Due to customers	(56,408)	X	X	**(56,408)**	**(57,540)**
1.4. Debt securities issued	X	(403,041)	X	**(403,041)**	**(413,300)**
2. Financial liabilities held for trading	(597)	-	-	**(597)**	**(2)**
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(59)	**(59)**	**(36)**
5. Hedging derivatives	X	X	187,686	**187,686**	**197,509**
6. Financial assets	X	X	X	**(50,404)**	**(36,995)**
Total	**(112,115)**	**(403,041)**	**187,627**	**(377,933)**	**(346,819)**
of which: interest expense relating to lease liabilities	(8,207)	-	-	(8,207)	(1,225)

Item “5. Hedging derivatives” contains the balance on the hedging differential stated on the basis of the positive or negative value of the interest that the derivatives themselves actually modify.

Item “6. Financial liabilities” shows income expense incurred on financial assets as a result of negative interest rates.

According to the provisions of Bank of Italy Circular No. 262/2005 (sixth update), the comparative column for the item “of which: interest expense relating to lease liabilities” restates that which was published in the Consolidated Financial Statements as at and for the year ended 31st December 2018 in the balance stated in the table in Part C under “1.4.2 Interest expense on finance lease transactions”.

1.4 Interest expense and similar: other information

1.4.1 Interest expense on financial assets held in foreign currency

Items	Total 2019	Total 2018
Interest expense on liabilities held in foreign currency	(52,150)	(39,555)

1.5 Differentials relating to hedging transactions

Items	Total 2019	Total 2018
A. Positive differentials on hedging transactions	209,487	238,964
B. Negative differentials on hedging transactions	(50,993)	(93,189)
C. Balance (A-B)	**158,494**	**145,775**

The interest relating to hedging transaction differentials recorded a positive balance of €158.5 million for the year ended 31st December 2019.

SECTION 2 Fees and Commissions – Items 40 and 50

2.1 Fee and commission income: composition

Type of service/Amounts	Total 2019	Total 2018
a) guarantees granted	49,347	49,341
b) credit derivatives	-	-
C) management, trading and advisory services:	1,024,899	957,538
1. trading in financial instruments	8,342	9,194
2. foreign exchange trading	8,532	8,297
3. portfolio management	420,159	391,662
3.1. individual	66,096	70,181
3.2. collective	354,063	321,481
4. custody and administration of securities	10,103	9,070
5. depository banking	-	-
6. placement of securities	262,839	245,814
7. receipt and transmission of orders	34,241	33,536
8. advisory activities	11,420	10,860
8.1 on investments	11,420	10,860
8.2 on financial structure	-	-
9. distribution of third party services	269,263	249,105
9.1. portfolio management	667	582
9.1.1. individual	667	582
9.1.2. collective	-	-
9.2. insurance products	233,183	214,256
9.3. other products	35,413	34,267
d) collection and payment services	186,113	183,812
e) servicer activities for securitisation transactions	-	-
f) services for factoring transactions	13,144	12,428
g) tax collection and payment services	-	-
h) management of multilateral trading systems	-	-
i) current account administration	266,701	225,757
j) other services	354,660	350,274
Total	**1,894,864**	**1,779,150**

The item j) "Other services" for 2019 includes "Other fee and commission income" consisting of:

- financing to customers €214.5 million (€220.3 million in 2018)
- foreign transactions €14.4 million (€14.7 million in 2018)

2.2 Fee and commission expense: composition

Services/Amounts	Total 2019	Total 2018
a) guarantees received	(32,221)	(18,242)
b) credit derivatives	-	-
c) management and trading services:	(90,045)	(83,439)
1. trading in financial instruments	(9,842)	(9,615)
2. foreign exchange trading	(6)	(3)
3. portfolio management	(7,883)	(8,751)
3.1. own	-	-
3.2. on behalf of third parties	(7,883)	(8,751)
4. custody and administration of securities	(6,538)	(6,497)
5. placement of financial instruments	(7,196)	(5,836)
6. financial instruments, products and services distributed through indirect networks	(58,580)	(52,737)
d) collection and payment services	(62,314)	(56,504)
e) other services	(44,715)	(40,048)
Total	**(229,295)**	**(198,233)**

SECTION 3 Dividends and similar income – Item 70

3.1 Dividends and similar income: composition

Items/Income	Total 2019		Total 2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	223	-	1,478	-
B. Other financial assets mandatorily measured at fair value	6,905	904	20,809	1,682
C. Financial assets measured at fair value through other comprehensive income	482	-	810	-
D. Equity investments	-	-	-	-
Total	**7,610**	**904**	**23,097**	**1,682**

Item "B. Other financial assets mandatorily measured at fair value" includes dividends of €4.5 million received on shares held in the Bank of Italy, approximately €1.2 million on shares held in Sacbo and €0.1 million on shares held in SIA.

SECTION 4 Net trading income (loss) – Item 80

4.1 Net trading income (loss): composition

Transactions/components of income	Gains (A)	Income from trading (B)	Losses (C)	Losses from trading (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	**857**	**25,551**	**(411)**	**(1,674)**	**24,323**
1.1 Debt securities	1	4,026	(124)	(842)	3,061
1.2 Equity securities	856	786	(287)	(415)	940
1.3 Shares in UCITS	-	76	-	(4)	72
1.4 Financing	-	-	-	-	-
1.5 Other	-	20,663	-	(413)	20,250
2. Financial liabilities held for trading	**192**	**3,953**	**-**	**(3,322)**	**823**
2.1 Debt securities	192	3,953	-	(3,322)	823
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(28,771)**
4. Derivative instruments	**253,634**	**135,680**	**(199,139)**	**(157,072)**	**32,317**
4.1 Financial derivatives	253,634	135,650	(199,139)	(157,042)	32,317
- on debt securities and interest rates	240,414	118,617	(194,894)	(141,219)	22,918
- on equity securities and share indices	9,569	5,148	(729)	(4,141)	9,847
- on currencies and gold	X	X	X	X	(786)
- other	3,651	11,885	(3,516)	(11,682)	338
4.2 Credit derivatives	-	30	-	(30)	-
of which: natural hedges related to the fair value option	X	X	X	X	-
Total	**254,683**	**165,184**	**(199,550)**	**(162,068)**	**28,692**

The more significant impacts include the following:

- under the item "1. Financial assets held for trading", the sub-item "1.5 Other" recorded a net positive result of approximately €20.3 million (the item in question includes profits realised and losses incurred on currency transactions closed during the year). On the other hand, the net positive result recorded for "1.1 Debt securities" and the net positive result recorded for the item "1.2 Equity securities" (to which insurance business also contributed approximately €0.2 million) were for residual amounts;
- a negative result of approximately -€29 million for exchange rate differences on financial assets and liabilities;
- with regard to derivatives instruments, net positive results for financial derivatives on debt securities and interest rates and on equity securities and share indices (amounting to approximately €22.9 million and €9.8 million respectively), compared with a net negative result for financial derivatives on currencies and gold (-€0.8 million).

SECTION 5 Net hedging income (loss) – Item 90

5.1 Net hedging income (loss): composition

Income components/Amounts	Total 2019	Total 2018
A. Income relating to:		
A.1 Fair value hedge derivatives	636,197	249,795
A.2 Hedged financial assets (fair value)	1,165,996	298,335
A.3 Hedged financial liabilities (fair value)	70,827	82,141
A.4 Cash flow hedge financial derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging activity (A)	**1,873,020**	**630,271**
B. Expense relating to:		
B.1 Fair value hedge derivatives	(1,282,661)	(388,993)
B.2 Hedged financial assets (fair value)	(266,463)	(42,072)
B.3 Hedged financial liabilities (fair value)	(339,325)	(209,531)
B.4 Cash flow hedge financial derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total expense from hedging activity (B)	**(1,888,449)**	**(640,596)**
C. Net hedging income (loss) (A-B)	**(15,429)**	**(10,325)**
of which: result of hedges on net positions	-	-

With regard to the underlying positions of the hedging transactions, reference is made in particular to approximately -€1.7 million relating to debt securities measured at amortised cost, -€13.3 million relating to loans and advances to customers and -€1.3 million to bonds issued.

SECTION 6 Income (loss) from disposals or repurchases – Item 100

6.1 Income (loss) from disposals or repurchases: composition

Items/Income components	Total 2019			Total 2018		
	Profits	Losses	Net income	Profits	Losses	Net income
Financial assets						
1. Financial assets measured at amortised cost	40,109	(90,936)	(50,827)	45,657	(122,314)	(76,657)
1.1 Loans and advances to banks	-	-	-	6	-	6
1.2 Loans and advances to customers	40,109	(90,936)	(50,827)	45,651	(122,314)	(76,663)
2. Financial assets measured at fair value through other comprehensive income	36,991	(3,411)	33,580	99,959	(30,482)	69,477
2.1 Debt securities	36,990	(3,411)	33,579	99,959	(30,482)	69,477
2.2 Financing	1	-	1	-	-	-
Total assets	**77,100**	**(94,347)**	**(17,247)**	**145,616**	**(152,796)**	**(7,180)**
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	356	-	356
3. Debt securities issued	118	(4,042)	(3,924)	1,935	(7,863)	(5,928)
Total liabilities	**118**	**(4,042)**	**(3,924)**	**2,291**	**(7,863)**	**(5,572)**

The item "1.2 Financial assets measured at amortised cost – Loans and advances to customers" includes -€34 million from a GACS[1] (state guarantee) backed securitisation of bad loans concluded in December, -€27 million from wholesale disposals of non-performing exposures (-€25.5 million from a disposal by UBI Leasing and -€1.5 million from a disposal by UBI Factor), +€2.6 million from disposals of unlikely-to-pay exposures and +€10.3 million from disposals of Spanish government securities for consideration of €120 million nominal. Furthermore, as already reported, the figure for the previous year included -€74 million from a previous GACS backed bad loan securitisation.

As concerns item "2.1 Financial assets measured at fair value through other comprehensive income – Debt securities", the net profits relate mainly to the Parent (disposals of government securities for €25.1 million and of corporate bonds for €7.5 million).

Item "3. Debt securities issued" includes a loss attributable to the repurchase of Group bonds subscribed by institutional counterparties and by retail customers.

SECTION 7 Net income (loss) from other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Net change in fair value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets designated at fair value

Transactions/components of income	Gains (A)	Profit on sale (B)	Losses (C)	Losses on sale (D)	Net income [(A+B) - (C+D)]
1. Financial assets	**14,157**	**1,012**	**(148)**	**(421)**	**14,600**
1.1 Debt securities	14,157	1,012	(148)	(421)	14,600
1.2 Financing	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**(14,031)**	**-**	**(14,031)**
2.1 Debt securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	(14,031)	-	(14,031)
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**14,157**	**1,012**	**(14,179)**	**(421)**	**569**

This item shows the net result for financial assets designated at fair value, relating entirely to activity carried out as part of the Group's insurance business.

1 For further information reference is made to Part E – Section C – Securitisations in these notes to the consolidated financial statements.

7.2 Net change in fair value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets mandatorily measured at fair value

Transactions/components of income	Gains (A)	Profit on sale (B)	Losses (C)	Losses on sale (D)	Net income [(A+B) - (C+D)]
1. Financial assets	**126,148**	**7,735**	**(35,631)**	**(3,873)**	**94,379**
1.2 Debt securities	1,132	178	(13)	(234)	1,063
1.1 Equity securities	112,659	5,620	(1,793)	(2,546)	113,940
1.3 Shares in UCITS	7,443	1,309	(24,482)	(26)	(15,756)
1.4 Financing	4,914	628	(9,343)	(1,067)	(4,868)
2. Financial assets: exchange rate differences	**X**	**X**	**X**	**X**	**19,864**
Total	**126,148**	**7,735**	**(35,631)**	**(3,873)**	**114,243**

The net result for "Other financial liabilities mandatorily measured at fair value", which was an overall gain of €114.2 million, is attributable mainly to the items equity securities (+€113.9 million) and to a lesser extent to exchange rate differences (+€19.9 million) and to shares of UCITS (-€15.8 million).
The item "1.1 Equity securities" under gains includes the appreciation of the equity investment in Sorgenia amounting to €67.6 million and gains of €33.1 million on the investment in NEXI Spa (classified within fair value level one after the share was listed in April).

The item "1.3 Shares in UCITS" contains €18.5 million of losses arising, in compliance with Group policy, from the valuation of financial assets received in return for loans transferred.

SECTION 8 Net impairment losses for credit risk – Item 130

8.1 Net impairment losses for credit risk relating to financial assets measured at amortised cost: composition

Transactions/components of income	Impairment losses (1)			Reversals of impairment losses (2)		Total 2019	Total 2018
	Stages one and two	Stage three		Stages one and two	Stage three		
		Write-offs	Other				
A. Loans and advances to banks	**(579)**	**-**	**-**	**137**	**-**	**(442)**	**2,869**
- Financing	-	-	-	137	-	137	2,867
- Debt securities	(579)	-	-	-	-	(579)	2
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-
B. Loans and advances to customers	**(1,875)**	**(86,668)**	**(956,391)**	**24,160**	**280,461**	**(740,313)**	**(641,872)**
- Financing	-	(86,668)	(956,391)	24,160	280,461	(738,438)	(642,786)
- Debt securities	(1,875)	-	-	-	-	(1,875)	914
of which: purchased or originated credit-impaired loans	-	-	-	-	-	-	-
Total	**(2,454)**	**(86,668)**	**(956,391)**	**24,297**	**280,461**	**(740,755)**	**(639,003)**

Net impairment losses recognised in 2019 gave a loan loss rate of 0.87% compared with 0.72% for the year ended 31st December 2018.

8.2 Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: composition

Transactions/components of income	Impairment losses (1)			Reversals of impairment losses (2)		Total 2019	Total 2018
	Stages one and two	Stage three		Stages one and two	Stage three		
		Write-offs	Other				
A. Debt securities	**(4,165)**	**-**	**-**	**822**	**-**	**(3,343)**	**726**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-
Total	**(4,165)**	**-**	**-**	**822**	**-**	**(3,343)**	**726**

SECTION 9 Profits (losses) from contractual modifications without derecognition – Item 140

9.1 Profits (losses) from contractual modifications: composition

This item, which recorded a loss of €25.3 million as at 31st December 2019 (-€37.4 million as at 31st December 2018), incorporates the impacts of contractual modifications on medium to long-term loans and advances to customers which, not being of a substantial amount (in accordance with the provisions of IFRS 9 and also with Group accounting regulations) do not involve derecognition of the assets in question, but recognition through profit or loss of the modifications to the contractual cash flows.

SECTION 10 Net insurance premiums – Item 160

10.1 Net premiums: composition

Premiums from insurance activities	Direct work	Indirect work	Total 2019	Total 2018
A. Life				
A.1 Gross premiums recognised (+)	314,541	-	314,541	372,603
A.2 Premiums reinsured (-)	(227)	X	(227)	(108)
A.3 Total	**314,314**	**-**	**314,314**	**372,495**
B. Non-life				
B.1 Gross premiums recognised (+)	-	-	-	1,357
B.2 Premiums reinsured (-)	-	X	-	(267)
B.3 Change in gross premiums reserve (+/-)	-	-	-	392
B.4 Change in reinsurer premium reserves (+/-)	-	-	-	(201)
B.5 Total	**-**	**-**	-	**1,281**
C. Total net premiums	**314,314**	**-**	**314,314**	**373,776**

This item comprises for premiums for the year net of reinsurance transfers which fall within the scope of IFRS 4 – “Insurance contracts”.

SECTION 11 – Balance of other income/expenses of insurance operations – Item 170

11.1 Balance of other income/expense of insurance operations: composition

Items	Total 2019	Total 2018
1. Net change in technical reserves	(119,924)	(158,425)
2 Claims paid during the year	(214,957)	(231,250)
3. Other income and expense on insurance operations	(2,272)	(6,421)
Total	**(337,153)**	**(396,096)**

11.2 Composition of the sub-item "Net change in technical reserves"

Net change in technical reserves	Total 2019	Total 2018
1. Life		
A. Mathematical reserves	**(117,925)**	**(157,493)**
A.1 Gross annual amount	(117,925)	(157,493)
A.2 (-) Portion borne by reinsurers	-	-
B. Other technical reserves	**(1,999)**	**(930)**
B.1 Gross annual amount	(1,999)	(930)
B.2 (-) Portion borne by reinsurers	-	-
C. Technical reserves where the investment risk is borne by the insurers	**-**	**-**
C.1 Gross annual amount	-	-
C.2 (-) Portion borne by reinsurers	-	-
Total "life sector reserves"	**(119,924)**	**(158,423)**
2. Non-life	**-**	**-**
Changes in other non-life technical reserves other than claims reserves net of reinsurance	-	(2)
Total	**(119,924)**	**(158,425)**

11.3 Composition of the sub-item "Claims paid during the year"

Costs for claims	2019	2018
Life sector: costs of claims net of reinsurance		
A. Amounts paid	**(214,717)**	**(230,324)**
A.1 Gross annual amount	(214,733)	(230,324)
A.2 (-) Portion borne by reinsurers	16	-
B. Change in reserves for sums to be paid	**(240)**	(814)
B.1 Gross annual amount	(291)	(814)
B.2 (-) Portion borne by reinsurers	51	-
Total life sector claims	**(214,957)**	**(231,138)**
Non-life sector: cost of claims, net of recoveries and reinsurance		
C. Amounts paid	**-**	(99)
C.1 Gross annual amount	-	(168)
C.2 (-) Portion borne by reinsurers	-	69
D. Change in recoveries net of portion borne by reinsurers	-	-
E. Changes in the claims reserve	**-**	(13)
E.1 Gross annual amount	-	(191)
E.2 (-) Portion borne by reinsurers	-	178
Total non-life sector claims	**-**	**(112)**
	(214,957)	**(231,250)**

The balance for the item is composed of income and expense from insurance operations that fall within the scope of IFRS 4 – "Insurance contracts" and which are not included in item "160. – Net insurance premiums" in the income statement. In particular it includes amounts paid to insureds, net of transfers to reassurance, the change in net technical reserves and other components of insurance income and expenses relating principally to commissions paid to the distribution network for the sale and maintenance of insurance policies with customers.

11.4 Composition of the sub-item "Other income and expenses of insurance operations"

	2019	2018
Other income	**13**	**433**
Life business	13	270
Non-life business	-	163
Other costs	**(2,285)**	**(6,854)**
Life business	(2,285)	(6,786)
Non-life business	-	(68)

SECTION 12 Administrative expenses – Item 190

12.1 Staff costs: composition

Type of expense/Sectors	Total 2019	Total 2018
1) Employees	**(1,551,268)**	**(1,535,802)**
a) Wages and salaries	(1,008,343)	(1,048,541)
b) Social security charges	(266,676)	(276,007)
c) Post-employment benefits	(58,406)	(60,439)
d) Pension expense	(99)	(73)
e) Provision for post-employment benefits	(454)	27
f) Provision for pension and similar:	(899)	66
- defined contribution	-	1,027
- defined benefit	(899)	(961)
g) Payments to external supplementary pension plans:	(44,564)	(44,006)
- defined contribution	(44,564)	(44,003)
- defined benefit	-	(3)
h) Expenses resulting from share-based payments	-	-
i) Other employee benefits	(171,827)	(106,829)
2) Other staff in service	**(1,180)**	**(993)**
3) Directors and statutory auditors	**(8,885)**	**(9,114)**
4) Expenses for retired staff	**-**	**-**
Total	**(1,561,333)**	**(1,545,909)**

Attention is drawn in particular to the item "Other employee benefits" which includes an expense of €133.7 million for the year ended 31st December 2019 and €55.3 million for the previous year, consisting of a contribution to the "solidarity fund" for voluntary redundancies under the Group Business Plan.

An analysis of the main changes that occurred compared with the previous year is given in the section "The income statement" in the Consolidated Management Report, which may be consulted.

12.2 Average number of employees by category

	2019	2018
EMPLOYEES	**18,763**	**19,540**
A) senior managers	355	366
b) middle managers	8,021	8,189
c) remaining employees	10,387	10,985
OTHER PERSONNEL	**85**	**104**

"Other personnel" also includes the directors and statutory auditors of Group member companies.

12.3 Defined benefit company pension funds: expenses and income

See section 10.5 "Defined benefit company pension funds" in the balance sheet liabilities section.

12.4 Other employee benefits

The item "Other benefits for employees" consists mainly of expenses relating to the incentivised redundancy scheme amounting to €133.7 million (€55.3 million as at 31.12.2018) and expenses for luncheon vouchers amounting to €18.2 million.

12.5 Other administrative expenses: composition

	Total 2019	Total 2018
A. Other administrative expenses	**(671,607)**	**(758,107)**
Rent payable	(3,405)	(70,561)
Professional and advisory services	(122,151)	(125,948)
Rentals hardware, software and other assets	(26,987)	(38,001)
Maintenance of hardware, software and other assets	(55,604)	(53,680)
Tenancy of premises	(49,479)	(48,410)
Property maintenance	(30,009)	(31,973)
Counting, transport and management of valuables	(12,037)	(12,990)
Membership fees	(124,168)	(97,139)
Information services and land registry searches	(9,851)	(11,162)
Books and periodicals	(1,191)	(1,064)
Postal	(11,037)	(12,428)
Insurance premiums	(28,308)	(32,195)
Advertising	(20,367)	(19,893)
Entertainment expenses	(1,091)	(1,111)
Telephone and data transmission expenses	(48,955)	(50,743)
Outsourced services	(49,597)	(57,828)
Travel expenses	(15,818)	(18,429)
Credit recovery expenses	(29,224)	(44,873)
Forms, stationery and consumables	(5,752)	(6,080)
Transport and removals	(8,523)	(8,771)
Security	(12,376)	(9,098)
Other expenses	(5,677)	(5,730)
B. Indirect taxes	**(260,694)**	**(266,541)**
Indirect taxes and duties	(10,073)	(11,414)
Stamp duty	(203,711)	(206,684)
Municipal property tax	(23,858)	(22,999)
Other taxes	(23,052)	(25,444)
Total	**(932,301)**	**(1,024,648)**

As a general rule, the new provisions introduced by the accounting standard IFRS 16 involve the recognition in the balance sheet of a right-of-use asset and a lease liability which represents the obligation to pay lease instalments over the life of the contract. The expenses incurred for the lease instalments are therefore not recognised within the relative item "Other administrative expenses", except for some limited exceptions such as short-term leases and low value asset leases in accordance with paragraph 53, letters c) and d) of IFRS 16. "Part A – Accounting policies" of these Notes to the Financial Statements, may be consulted for further information.
The item 'Membership fees' includes the ordinary contribution for the year 2019 to the National Resolution Fund (€60.1 million, of which €18.1 million for extraordinary contributions) and to the DGS (€47.5 million), as required by the respective EU directives recently issued.

Further information is given in a special section of the Consolidated Management Report.

SECTION 13 Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relating to loan commitments and guarantees granted

	Provisions	Releases	Net provisions in 2019	Net provisions in 2018
Net provisions for credit risk relating to loan commitments and guarantees granted	(10,644)	10,618	(26)	23,923

The almost nil net balance is attributable, amongst other things, to the enforcement of a guarantee as a result of a disposal transaction performed by UBI Factor.
As at 31st December 2018 the net releases for credit risk relating to guarantees and commitments arose from both collective impairment losses on performing unsecured guarantees and from non-performing exposures.

13.2 Net provisions relating to other commitments and to other guarantees granted: composition

No items of this type exist for the UBI Banca Group.

13.3 Net provisions for other risks and charges: composition

	Provisions	Releases	Net provisions in 2019	Net provisions in 2018
for revocation (clawback) risks	(739)	1,532	793	(9,459)
staff costs	-	-	-	-
for bonds in default	(708)	324	(384)	(158)
for litigation	(23,183)	16,484	(6,699)	(12,146)
other	(36,908)	18,389	(18,519)	17,272
Total net provisions for other risks and charges: composition	**(61,538)**	**36,729**	**(24,809)**	**(4,491)**

Is underlined that the item "other" under provisions included an estimate of the risks and expenses prepared by a Group company in light of recent legislative developments. The balance as at 31st December 2018 includes a release of €31.9 million attributable to real estate transactions relating to contracts originating from the former New Banks, for which the conditions arose at the end 2018 to recognise a release due to the disappearance of the liability.

SECTION 14 Depreciation and net impairment losses on property, plant and equipment – Item 210

14.1 Net impairment losses on property, plant and equipment: composition

Assets/Components of income	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Property, plant and equipment				
1. For functional use	(141,221)	(533)	-	(141,754)
- owned	(88,148)	(533)	-	(88,681)
- right-of-use leased assets	(53,073)	-	-	(53,073)
2. Held for investment	(10,280)	(5,575)	-	(15,855)
- owned	(10,275)	(5,575)	-	(15,850)
- right-of-use leased assets	(5)	-	-	(5)
3. Inventories	X	-	-	-
Total	**(151,501)**	**(6,108)**	**-**	**(157,609)**

The column "Net impairment losses" relates to the results of impairment tests on property, plant and equipment, in compliance with the provisions of IAS 36. See section 9.7 of Part B of these notes to the consolidated financial statements for further information.
In accordance with the accounting standard IFRS 16, item "1. – right-of-use leased assets" contains depreciation of the assets leased in relation to real estate lease contracts and to a lesser extent to extraordinary maintenance ("improvements to leased assets") on assets relating to those contracts as well as depreciation of company motor vehicles and IT hardware.

SECTION 15 Amortisation and net impairment losses on intangible assets – Item 220

15.1 Amortisation and net impairment losses on intangible assets: composition

Assets/Components of income	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(77,585)	-	-	(77,585)
- Internally generated by the Bank	-	-	-	-
- Other	(77,585)	-	-	(77,585)
A.2 Right-of-use leased assets	-	-	-	-
Total	**(77,585)**	**-**	**-**	**(77,585)**

Further details are given in Section 10 "Intangible assets" in Section B of the assets part of these notes to the consolidated financial statements.

SECTION 16 Other net operating income/expense – Item 230

16.1 Other operating expense: composition

	Total 2019	Total 2018
Other operating expenses	**(72,680)**	**(67,787)**
Fines and charges for late tax payments	(21)	-
Depreciation of improvements to third party leased assets	(118)	(5,422)
Ordinary maintenance of investment properties	-	-
Other expenses and prior year expense	(72,541)	(62,365)
- of which costs relating to finance lease contracts	*(21,811)*	*(10,846)*

In compliance with Bank of Italy Circular No. 262/2005 (sixth update), extraordinary maintenance costs (“leasehold improvements”) relating to contracts subject to the provisions of IFRS 16 have been reclassified out of the item “Other assets” and into the item “Property, plant and equipment ”, as an increase in the amount for right-of-use assets. As a consequence steps were taken to recognise the depreciation of those improvements within the item “Depreciation and net impairment losses on property, plant and equipment”.

16.2 Other operating income: composition

	Total 2019	Total 2018
Other operating income	**355,800**	**361,258**
Charges to third parties for expenses on deposit and current accounts	17,281	20,451
Recovery of insurance premiums	17,097	17,998
Other income for property management	-	36
Recovery of taxes	221,022	227,245
Rent income	6,686	6,625
Other income, expense recoveries and prior year income	93,714	88,903
- of which recoveries on lease contracts	*17,805*	*15,026*

The item “Other income, expense recoveries and prior year income” comprises “Fast credit processing fees” amounting to €14.3 million (€30.6 million for the year ended 31st December 2018).

SECTION 17 Profits (losses) of equity investments – Item 250

17.1 Profits (losses) of equity investments: composition

Income components/sectors	Total 2019	Total 2018
1) Jointly controlled entities		
A. Income	-	-
1. Revaluations	-	-
2. Profits on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expense	-	-
Net income	**-**	**-**
2) Companies subject to significant influence		
A. Income	40,462	24,602
1. Revaluations	-	-
2. Profits on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	40,462	24,602
B. Expense	(119)	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expense	(119)	-
Net income	**40,343**	**24,602**
Total	**40,343**	**24,602**

The amount in item “2.A.4 Companies subject to significant influence – Other income” represents the profits of equity-accounted investees. More specifically, the most significant profits were approximately €9 million earned by Zhong Ou, approximately €19 million earned by Lombarda Vita and approximately €12 million by Aviva Vita.
Details of the contribution to profits of the main companies consolidated using the equity method are given in the note at the foot of Table 7.5 entitled “Equity investments: annual changes” in the balance sheet section.

SECTION 18 Net result of changes in the fair value of property, plant and equipment and intangible assets – Item 260

18.1 Net result of changes in the fair value (or the revalued value) or the presumable realisable value of property, plant and equipment: composition

No “Net result of changes in the fair value of property, plant and equipment and intangible assets” was recognised.

SECTION 19 Net impairment losses on goodwill – Item 270

19.1 Net impairment losses on goodwill: composition

No net impairment losses on goodwill were recognised in 2019.

SECTION 20 Profits (losses) from disposal of investments – Item 280

20.1 Profits (losses) from disposal of investments: composition

Income components/sectors	Total 2019	Total 2018
A. Properties	5,487	1,230
- Profits on sale	5,497	1,328
- Losses on sale	(10)	(98)
B. Other assets	614	4,114
- Profit on sale	646	4,195
- Losses on sale	(32)	(81)
Net income	**6,101**	**5,344**

The item "A. Properties – Profits on sale" includes €2.7 million realised on the disposal real estate assets.

SECTION 21 Taxes on income for the year for continuing operations – Item 300

21.1 Taxes on income for the year from continuing operations: composition

Income components/sectors	Total 2019	Total 2018
1. Current taxes (-)	(94,926)	(114,432)
2. Change in current taxes of prior years (+/-)	(649)	(2,944)
3. Reduction in current taxes for the year (+)	30,306	29,420
3.a Reduction in current taxes for the year for tax credits pursuant to Law 214/2011 (+)	10,657	12,978
4. Change in deferred tax assets (+/-)	(75,671)	124,174
5. Change in deferred tax liabilities (+/-)	48,150	11,645
6. Taxation for the year (-) (-1+/-2+3+3a+/-4+/-5)	**(82,133)**	**60,841**

As at 31st December 2019 taxes on income for the year from continuing operations, amounting to €82.1 million, benefited, amongst other things, from a reduction in current taxation amounting to €10.7 million, following the transformation of deferred tax assets into tax credits due to the losses incurred by UBI Leasing Spa and UBI Factor Spa in the financial year 2018.
The balance as at 31st December 2018 was positive by €60.8 million due to greater deferred tax assets recorded as a result of the 2019 Budget Law which changed the deductibility rules for the IFRS 9 First-Time-Adoption (FTA) reserve for expected credit losses.

Reconciliation between theoretical taxation and actual taxation recorded in the accounts

IRES (corporate income tax)	Taxable income	IRES	%
Theoretical IRES payable	**506,604**	**(139,316)**	**27.50%**
Permanent increases			
- Losses and impairment losses on FVLP securities	18,262	(5,022)	0.99%
- Provisions and other non-deductible expenses for IRES	11,175	(3,073)	0.61%
- Taxes on dividends of UBI subsidiaries	-	(3,131)	0.62%
- Substitute tax for asset realignment	-	(16,934)	3.34%
Permanent decreases			
- Valuation of equity-accounted investees	(40,343)	11,094	-2.19%
- ACE (economic growth law)	(20,423)	5,616	-1.11%
- PEX and impairment reversals on FVPL securities	(105,942)	29,134	-5.75%
- Release of DTLs for asset realignment	-	29,620	-5.85%
- Government budget impact	-	-	0.00%
Effective IRES payable	**369,333**	**(92,012)**	**18.16%**

IRAP (regional production tax)	Taxable income	IRAP	%
Theoretical IRAP payable	**506,604**	**(28,218)**	**5.57%**
Permanent increases			
- Provisions and other non-deductible expenses for IRAP	166,390	(9,268)	1.83%
- Non-recoverable negative IRAP taxable income	76,590	(4,266)	0.84%
Permanent decreases			
- Valuation of equity-accounted investees	(40,343)	2,247	-0.44%
- Release of DTLs for asset realignment	-	3,307	-0.65%
Effective IRAP payable	**709,241**	**(36,198)**	7.15%
Total effective IRES and IRAP tax expense	**506,604**	**(128,209)**	**25.31%**

The figures given in the table are taken from the reclassified financial statements presented in the Management Report.

SECTION 22 Profit (loss) after tax from discontinued operations – Item 320

22.1 Profit (loss) after tax from discontinued operations: composition

No “Profit (loss) after tax from discontinued operations” was recognised.

22.2 Details of taxes on income in relation to discontinued operations

No “Taxes on income in relation to discontinued operations” were recognised.

SECTION 23 Profit (Loss) for the year attributable to minority interests – Item 340

23.1 Details of the item 340 "Profit (loss) for the year attributable to minority interests"

Profit attributable to minority interests, inclusive of the effects of consolidation entries, totalled €33,848 thousand and was composed as follows:

Name of companies	Total 2019	Total 2018
Consolidated equity investments with significant minority interests		
1.Pramerica SGR Spa	(33,618)	(24,983)
2. Bancassurance Popolari Spa	-	(637)
Other equity investments	(230)	(274)
Total	**(33,848)**	**(25,894)**

SECTION 24 Other information

No situations exist which require further information.

SECTION 25 Earnings per share

Introduction

With the adoption of international accounting standards, all listed companies, or companies for which listing is in progress, which are required to prepare separate company and/or consolidated financial statements in compliance with IFRS (Legislative Decree No. 38/2005), must report the calculation of their earnings per share (EPS) in their financial statements in accordance with IAS 33.
More specifically that standard requires both basic earnings per share and diluted earnings per share to be reported:

(i) **basic EPS** has been calculated by dividing the profit attributable to the ordinary equity holders of the Parent (numerator) by the weighted average number of ordinary outstanding shares (denominator) during the year;

(ii) **diluted EPS** has been calculated by taking into account the dilutive effect of potential ordinary shares, i.e. financial instruments and/or contracts which assign rights to the holders to acquire ordinary shares.

Earnings per share in 2019

Calculation of basic EPS

On the basis of what has been stated above, the numerator for calculating basic EPS amounts to €124,368 thousand.
With regard to the denominator of this indicator, the weighted average number of outstanding ordinary shares as at 31st December 2019 was 1,135,142,364.
In this respect:

(i) as at 1st January 2019 ordinary shares of UBI Banca outstanding numbered 1,136,423,956;
(ii) as at 31st December 2019 UBI Banca held 9,251,800 treasury shares in portfolio following movements resulting from the sales and further purchases and grants for a total of 1,390,610 shares in 2019;
(iii) as a result of the above changes, the ordinary shares outstanding of UBI Banca numbered 1,135,033,346 as at 31st December 2019.

Calculation of diluted EPS

For the purposes of calculating diluted EPS, as already stated, account must be taken of the dilutive effect on the ordinary shares of the Parent resulting from the presence of "potential" ordinary shares that are outstanding, such as for example:

(i) instruments representing debt or equity, including preference shares, that are convertible into ordinary shares;

(ii) options and warrants;

(iii) shares to be issued if the conditions defined in contractual agreements are met.

To summarise:

EPS	2019	2018
Consolidated profit attributable to the Parent (thousands of euro)	124,368	392,774
Weighted average number of ordinary shares outstanding	1,135,142,364	1,139,580,841
Basic earnings per share (in euro)	**0.1096**	**0.3447**
Diluted earnings per share (in euro)	**0.1096**	**0.3447**

The table that follows contains: (i) a reconciliation of consolidated profit attributable to the Parent and profit attributable to ordinary equity holders and also (ii) the dilutive effect on the average number of outstanding ordinary shares.

EPS	2019	2018
EPS with recognised profits		
Consolidated net profit attributable to the Parent (thousands of euro)	**251,198**	**425,608**
Profit not attributable to owners of ordinary equity instruments (thousands of euro) (*)	126,830	32,834
Consolidated profit attributable to the Parent (thousands of euro)	124,368	392,774
Number of shares in issue at the beginning of the year	1,136,423,956	1,141,300,266
Number of shares issued during the year	-	-
Change in the number of treasury shares during the year (+/-)	(1,390,610)	(4,876,310)
Number of shares in issue at the end of the year	1,135,033,346	1,136,423,956
Weighted average number of ordinary shares outstanding	1,135,142,364	1,139,580,841
Weighted average number of ordinary shares for diluted capital	1,135,142,364	1,139,580,841
Basic earnings per share (in euro)	**0.1096**	**0.3447**
Diluted earnings per share (in euro)	**0.1096**	**0.3447**

(*) This consists mainly of the quota allocated to the unavailable reserve in accordance with the former Art. 6 of Legislative Decree No. 28/2006.

Part D – Consolidated statement of comprehensive income

Detailed statement of consolidated comprehensive income

	Items	31.12.2019	31.12.2018
10.	**Profit (loss) for the year**	**285,046**	**451,502**
	Other comprehensive income without transfer to the income statement:		
20.	Equity securities designated at fair value through other comprehensive income:	(823)	(3,292)
	a) change in fair value	(823)	(3,292)
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in their creditworthiness):	-	-
	a) change in fair value	-	-
	b) transfers to other equity items	-	-
40.	Hedges of equity securities designated at fair value through other comprehensive income:	-	-
	a) change in fair value (hedged instrument)	-	-
	a) change in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	-	(1,008)
60.	Intangible assets	-	-
70.	Defined benefit plans	(22,475)	976
80.	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserves of equity-accounted investees	560	(338)
100.	Income taxes relating to other comprehensive income without transfer to the income statement	5,439	2,442
	Other comprehensive income with transfer to the income statement:		
110.	**Foreign investment hedges:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
120.	**Exchange rate differences:**	**-**	**-**
	a) changes in value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
130.	**Cash flow hedges:**	**27**	**(52)**
	a) changes in fair value	27	(52)
	b) transfer to the income statement	-	-
	c) other changes	-	-
140	**Hedging instruments (items not designated):**	**-**	**-**
	a) changes in value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
150.	**Financial assets (other than equity securities) measured at fair value through other comprehensive income:**	**350,749**	**(389,576)**
	a) changes in fair value	328,189	(375,915)
	b) transfer to the income statement	22,515	(14,058)
	- impairment losses for credit risk	2,814	(2,411)
	- profits and losses from sale	19,701	(11,647)
	c) other changes	45	397
160.	**Non-current assets and disposal groups held for sale:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to the income statement	-	-
	c) other changes	-	-
170.	**Share of valuation reserves attributable to equity-accounted investees:**	**2,241**	**(4,037)**
	a) changes in fair value	1,018	3,159
	b) transfer to the income statement	1,219	-
	- impairment losses	-	-
	- profits (losses) from sale	1,219	-
	c) other changes	4	(7,196)
180.	**Income taxes relating to other comprehensive income with transfer to the income statement**	**(116,714)**	**130,980**
190.	**Total other comprehensive income items**	**219,004**	**(263,905)**
200.	**Comprehensive income (item 10+190)**	**504,050**	**187,597**
210.	Consolidated comprehensive income attributable to minority interests	**33,834**	**25,858**
220.	**Consolidated comprehensive income attributable to the shareholders of the Parent**	**470,216**	**161,739**

Part E - Information on risks and the relative hedging policies

SECTION 1 – Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, impairment losses, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and according to credit quality (carrying amount)

Portfolios/Quality	Bad loans	Unlikely-to-pay exposures	Non-performing past-due exposures	Performing past-due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	1,707,130	2,364,897	101,257	3,038,803	94,524,202	**101,736,289**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	12,178,168	**12,178,168**
3. Financial assets designated at fair value	-	-	-	-	10,278	**10,278**
4. Other financial assets mandatorily measured at fair value	3,348	89,234	1,659	445	336,809	**431,495**
5. Financial assets held for sale	-	-	-	-	-	**-**
Total 31.12.2019	**1,710,478**	**2,454,131**	**102,916**	**3,039,248**	**107,049,457**	**114,356,230**
Total 31.12.2018	**2,770,841**	**3,286,316**	**64,059**	**4,788,634**	**103,011,330**	**113,921,180**

As at 31st December 2019, forborne exposures amounted to €3.658 billion net (of which €2.006 billion non-performing and €1.652 billion performing) and they related mainly to "Financial assets measured at amortised cost: loans and advances to customers". See table A.1.5 for further details.

A.1.2 Distribution of financial assets by portfolio and according to credit quality (gross and net amounts)

Portfolios/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total impairment losses	Net exposure	Total partial write-offs	Gross exposure	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	6,840,661	(2,667,377)	4,173,284	1,072,911	98,031,496	(468,491)	97,563,005	101,736,289
2. Financial assets measured at fair value through other comprehensive income	9,501	(9,501)	-	-	12,186,013	(7,845)	12,178,168	12,178,168
3. Financial assets designated at fair value	-	-	-	-	X	X	10,278	10,278
4. Other financial assets mandatorily measured at fair value	185,295	(91,054)	94,241	13,781	X	X	337,254	431,495
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31.12.2019	**7,035,457**	**(2,767,932)**	**4,267,525**	**1,086,692**	**110,217,509**	**(476,336)**	**110,088,705**	**114,356,230**
Total 31.12.2018	**9,957,709**	**(3,836,493)**	**6,121,216**	**940,795**	**108,061,713**	**(561,761)**	**107,799,964**	**113,921,180**

Portfolios/Quality	Assets with markedly poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
Financial assets held for trading	2,708	4,734	418,206
Hedging derivatives	-	-	35,117
Total 31.12.2019	**2,708**	**4,734**	**453,323**
Total 31.12.2018	**930**	**4,726**	**440,322**

B. Information on structured entities (other than securitisation special purpose entities)

Nothing to report.

B.1 Consolidated structured entities

Nothing to report.

B.2 Unconsolidated structured entities recognised in the accounts

Nothing to report.

B.2.1. Prudently consolidated structured entities

Nothing to report.

B.2.2. Other structured entities

Nothing to report.

SECTION 2 – Prudential consolidation risks

In compliance with current regulations, the UBI Banca Group has adopted a risk control system which disciplines in an integrated manner the guidelines of the system of internal controls, seen as an organisation, regulatory and methodological framework which all Group companies must comply with in order to allow the Parent to perform its activities of strategic, management and operational control in an effective and economical manner.

Group member companies co-operate pro-actively in identifying risks to which they are subject and in defining the relative criteria for measuring, managing and monitoring them.
The key principles on which Group risk analysis and management are based for the pursuit of an increasingly more knowledgeable and efficient allocation of economic and regulatory capital are as follows:

- rigorous containment of financial and credit risks and strong management of all types of risk;
- the use of a sustainable value creation approach to the definition of risk appetite and the allocation of capital;
- definition of the Group's risk appetite with reference to specific types of risk and/or specific activities in a set of policy regulations for the Group and for the single entities within it.

The appetite for risk helps to define the strategic positioning of the Group and it is defined in compliance with its mission and its strategy and its business and value creation objectives.

The definition of the UBI Banca Group's appetite for risk includes quantitative and qualitative factors:

- from a quantitative viewpoint, the risk appetite is given by the amount of capital that the Bank is willing to put at risk and it helps to define the strategic positioning of the Group;
- from a qualitative viewpoint, risk appetite relates to the Group's desire to strengthen its management and monitoring systems and the efficiency and effectiveness of its system of internal controls.

Risk objectives and governance and risk-taking policies are set by the Board of Directors, with support from specific committees (which have policy-formulation, consultative and fact-finding functions) and from the Chief Risk Officer (CRO). More specifically, it is the duty of the CRO to formally identify the relative framework of reference in order to determine the Group's "risk appetite framework". He is responsible for implementing governance and risk management system policies and for the measurement and monitoring of the Group's exposure to different types of risk. He also helps develop and foster a control culture within the Group and oversees the detection and monitoring of potential failure to comply with legislation and regulations.
Management of the risks to which the Group is exposed is carried out by means of a set of policies and the relative regulations to implement them which the Group has developed. The policies that govern different types of risk must comply with the definition of the target measures for measurable risk, while measures of an organisational nature must be specified for non-measurable risks.
The regulations to implement the management of each type of risk defined in the policies contain details of the risk-taking model, the characteristics of the measurement and monitoring system, the roles and responsibilities of personnel and the operational limits and rules used to determine them.

With Provisions No. 423940 of 16th May 2012 and 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 sub-classes of the retail regulatory segment "exposures backed by residential real estate" and "other exposures (SME-retail)", and for the corporate regulatory segment respectively. The authorisation allows the use of internal estimates for probability of default (PD) and loss given default (LGD) parameters for the RRE (Residential Real Estate - Individuals and Retail Businesses), the Retail Other (Retail Businesses) and the Corporate portfolios. On 18th March 2019, in the area of credit risk, UBI Banca received the authorisation to apply the new models, starting with supervisory reports as at 31st March 2019, (i.e. the roll-out of internal models for the determination of capital absorption relating to the corporate and retail portfolios originated by the New Banks and also for the progressive roll-out of the IRB perimeter to the Other Private Individual and Qualifying Revolving Retail Segment), with resulting benefits in terms of lower capital absorption.

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

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

The application for validation, which was approved by the Bank of Italy involves a roll-out plan for the portfolios subject to the AIRB approach which contains set deadlines for each supervisory customer segment ("corporate", "retail – RRE" and "retail – other") and for different risk indicators (PD, LGD, exposure at default - EAD, maturity - M). The roll-out plan covers the period 2019-2025, while permanent exemption from the application of AIRB was requested for Group banks and for the following exposures:

- exposures to central governments and central banks;
- exposures to supervised intermediaries;
- exposures to nonprofit institutions;
- exposures to members of the banking Group;
- exposures to equity instruments;
- exposures secured by collateral and counter-guarantees issued by the government, recognised in accordance with the legislation and regulations on credit risk mitigation;
- exposures backed by credit protection provided by the parties listed above (central governments, central banks and supervised intermediaries);
- generic types of exposure to economic counterparties not directly attributable to single debtor/creditor counterparties, but mainly to special purpose entities formed for covered bond operations and self-securitisations.

In April 2020 the ICAAP Report and the ILAAP Report as at 31st December 2019 on the capital adequacy self-assessment process and on liquidity respectively are to be sent to the supervisory authority.

When this document is published, the Pillar Three Disclosures will be published at the same time on the corporate website of UBI Banca (www.ubibanca.it – Investor Relations Section). The regulations[1] have introduced obligations to publish information on capital adequacy, exposure to risks and the general characteristics of the systems designed to identify, measure and manage them.
The information to be provided favours greater transparency in the ways in which banks manage risk. The Bank of Italy has made special tables available in this respect in which the quantitative and qualitative information which banks must publish is classified, thereby making the data comparable.

This part – sections 1 to 4[2] - furnishes information on the risk profiles listed below, on the relative management and hedging policies pursued by the Group and its activities relating to financial derivative instruments:

a) credit risk;
b) market risks:
    − interest rate,
    − price,
    − currency;
c) liquidity risk;
d) operational risks.

Sections 5 and 6 also provide information on the risks pertaining to the insurance companies and other companies in the consolidation.

1 Pillar 3 Disclosures are regulated by Part Eight and Part Ten (Title I, Chapter 3) of Regulation EU 575/2013 (the "CRR") and by regulatory and implementation provisions issued by the European Commission.
2 Sections 1 to 4 provide information for the banking group only, except in cases where explicit reference is made to all the companies in the consolidation.

A report on the general framework of the risks and uncertainties to which the UBI Group is exposed is given in a special section of the Management Report, prepared in compliance with Legislative Decree No. 32 of 2nd February 2007, which implements EC Directive No. 2003/51/EC. With regard to the spread of the coronavirus and the related consequences, this may lead to a general slowdown in the economy, with potential effects on the UBI Banca Group, which cannot yet be determined as at 28th February 2020, and which will be continuously monitored during 2020.

1.1 CREDIT RISK

Qualitative information

1. General aspects

Within the UBI Group, the Parent, UBI Banca Spa, assumes the role of governance and formalizes the strategic guidelines with reference, in part, to the taking on and management of credit risk with regard to ordinary customers, institutional counterparties, and foreign subjects (risks for each country). UBI Banca also prepares the guidelines that inform the commercial policies of the consolidated loan portfolio and directs the processes and methods of credit processing, authorisation, disbursement and monitoring, and the collection of non-performing positions.

There is a particular focus in the formulation of policies to manage credit risk on maintaining an appropriate risk-return profile and on taking risks that are consistent with the mission of the UBI Banca Group.

The UBI Banca Group intends to strengthen its position at the service of Italy's economic growth. Customer relationships are aimed at building lasting bonds that promote the sustainable generation of wealth according to processes that are sensitive to the social and environmental needs of the local communities in which we operate. The Group intends to provide an appropriate availability of credit, adhering to applicable agreements with the Italian Banking Association, the Ministry of the Economy and Finance, and industry associations.

We constantly strive to listen to the financing needs of households and of small and medium sized-enterprises, as well as of the broader value chains in which businesses are involved due to the presence of larger manufacturing firms.

The UBI Banca Group prefers transparency-based conduct, and our borrowers are urged to strengthen their attitude to information disclosure, which is considered an essential prerequisite for the development of the lending relationship. Greater transparency into the financial standing of the counterpart both makes it possible to personalise the product offering and allows for a more accurate assessment of creditworthiness to the benefit of projects with greater added value.

Innovation of the product lines is aimed at supporting the development of demand through balanced proposals in which interest rate levels are commensurate with the rating and are modulated also in the presence of risk mitigation factors, such as through collateral or personal guarantees. When designing new products, a detailed report is prepared for senior management presenting the risk-return characteristics for the purpose of full and transparent compliance with strategic guidelines on the assumption of credit risk.

With regard to the household segment, updates to products and services were aimed at optimizing the flexibility of our offering, while at the same time ensuring a balanced composition of the loan portfolio between the main types of lending operations, and namely: mortgage-backed loans, unsecured loans, personal loans, guarantees, institutional or internal subsidised measures, opening lines of credit, debit/credit cards, and pension or salary-backed loans. In any event, preference remains to be for transactions backed by collateral over unsecured credit.

As for the corporate segment, features of the new offerings ask visualisation by sector or supply chain and preference has been given to entering into positions within the scope of agreements with industry associations By doing this, the UBI Banca Group intends to incentivise the local economies to work collaboratively, which would be to the benefit of the many small businesses that contribute to the productivity of the Italian economy as a whole.
In the direct relationship with each borrower company, the granting of loans is carried out through actions of varying intensity, from the development to closure of positions, and so as to select the organisations of greatest creditworthiness, certain crucial drivers have been introduced to the process. These drivers supplement the assessment of the counterparty alongside the typical factors concerning the market, such as macroeconomic variables and the outlook for the industry to which the counterparty belongs.
In conducting it business, the UBI Banca Group places particular emphasis on ESG issues in its guiding principles and its operations. Some of these aspects have also long been taken into account for the purposes of risk taking and monitoring the related sensitive factors. These factors are considered in the rating assignment for the qualitative ratings (these include aspects related to environmental impacts, climate change, new regulations, social issues and negative industry trends that could have repercussions for credit approvals) and can also contribute to rating changes through the override process.
In addition to internal risk measures, external ratings, which in turn consider ESG information, are also taken into account in assessing credit ratings and the rating assignment.
Aspects related to ESG factors are also monitored within the reputational risk framework (e.g. controversial sectors and sustainability ratings).
Going forward, we will be incorporating ESG aspects into the Risk Appetite Framework, progressively over the course of the 2020-2022 business plan.

2. Credit risk management policies

In the performance of its traditional banking business, the Group is exposed to the risk that the loans it grants will not be repaid by borrowers when they are due and that partial or full impairment losses must be recognised on them. More specifically, the risk profile for lending is sensitive to the performance of the economy as a whole, to the deterioration in the financial position of counterparties (shortage of liquidity, insolvency, etc.), or to changes in their competitiveness, to structural or technological changes in corporate debtors and to other external factors (e.g. changes in legislation, deterioration in the value of financial guarantees and mortgages connected with market performance). A further element of risk to which the Group pays particular attention is the degree of concentration of the loan portfolio in terms of borrowers or of industries.

2.1 Organisational aspects

The organisational model on which the units which manage lending activity is based is as follows:

- Parent units for centralised monitoring and co-ordination of the other banks/product companies;
- central units for the grant and monitoring of UBI Banca loans;
- business lines specialising in specific customer segments (Top Private Banking, Corporate & Investment Banking, Remote Channels, Global Transaction Banking, etc.);
- Macro Geographical Areas (hereinafter MGAs) and the General Managements of subsidiaries, to which the following report:
  - Credit Areas present in each MGA, with organisational units for centralised management (Loan Grant and Central Credit), the units responsible for managing and monitoring credit their territories, and local units (Local Loan Approval Committees and Local Credit Units);
  - Local departments and branches,
  - Credit Departments of the product companies.

Within the Parent, the Chief Lending Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Audit Executive oversee the management of lending policies, overall monitoring of the loan portfolio, the refinement of assessment systems, problem loan management, and compliance with regulations.

Disbursement of loans is overseen by the Chief Lending Officer, to whom the "MGA Credit" units within each of the seven Macro Geographical Areas (MGAs) functionally report. The MGAs are the geographical divisions of UBI Banca Spa resulting from the merger of the Group's former network banks. The MGA Credit units, in turn, hierarchically manage the MGA Loan Disbursement units directly and manage the organisational levels of the MGA Central Credit and MGA Local Credit units and the Local Loan Approval Committees indirectly. Within each MGA, there are also the aforementioned specialised units dedicated to monitoring the quality of the credit of performing and non-performing past-due exposures (Credit Quality Monitoring and Monitoring) and to the management of administrative support activities (Lending Administrative Support).

Then there are units organised by business in the form of the lending units dedicated to Corporate and Investment Banking, to Top-Private Customers and to the Remote Channels.

Within the product companies and IW Bank, the Credit Departments manage loan disbursement in compliance with the policies of the Group and under the oversight of the Chief Lending Officer and Chief Risk Officer of UBI Banca.

The bodies authorising credit act in accordance with the criteria established by the Board of Directors of UBI Banca Spa and, in particular, the principle of separation between proposing and authorising bodies is broadly applied. The powers granted also take into account the level of risk determined by the internal rating process. For all counterparties (individuals or groups of companies) with credit lines in place at the banks and companies of the Group in amounts of greater than €50 million (low-risk borrowers), greater than €35 million (intermediate-risk borrowers), or greater than €25 million (high-risk borrowers), the Parent must approve an Operational Limit to the credit that can be granted to the counterparty across the UBI Banca Group. Responsibility for approval of the granting/change/renewal/revocation of these Operational Limits has, on the basis of specific thresholds, been assigned to the Board of

Directors or to the Credit Committee along with the obligation to inform the governing bodies in the event of a relevant resolution pursuant to the current credit risk management policies. Any changes in the operational limits regarding important counterparties pursuant to Art. 136 of the Consolidated Banking Act are subject to compliance with supervisory regulations and, therefore, require the unanimous approval of the Directors taking part in the vote and the vote in favour of all members of the Management Control Committee (including those not taking part in the vote by the Board of Directors), with abstention of those directly concerned.

Loan granting activity is also differentiated, at local level, by customer segment (retail/private banking/corporate and institutional) and specialised by the status of the loan: performing or non-performing past-due exposures (managed by retail, private banking and corporate lending units) and other non-performing positions (managed by the problem loan units).

IW Bank and the companies of the Group must also request a prior, consultative, nonbinding opinion from the Parent for combinations of specific amounts of authorised credit and determined internal rating classes. It is the Parent's duty to assess whether it is consistent with the credit policies of the Group, according to the criteria and parameters laid down in the credit authorisation regulations of the Group. A prior opinion is not required for credit authorisations for single counterparties or groups of companies which fall within the operational limits that have been set.

The various organisational units in UBI Banca, IW Bank, and the product companies that disburse loans are responsible for credit and commercial activities and they also hold responsibility for monitoring both the activity they perform directly and that performed by those units which report to them.

In particular, responsibility for managing and monitoring performing loans and non-performing past-due exposures is assigned, in the first instance, to the Account Managers, who maintain the relationship with customers on a daily basis and who can immediately perceive any signs of difficulty or deterioration in credit quality. Nevertheless, all employees of Group member companies are required to promptly report all information that might allow difficulties to be identified at an early stage or which might recommend different ways of managing accounts, by concretely participating in the monitoring process.

In the second instance, the local organisational units responsible for monitoring credit risk are the "Credit Quality Management and Monitoring Units" of the MGAs, which carry out monitoring, supervision and analysis of performing positions and of past-due exposures on both a case-by-case and a collective basis, where the intensity and degree of detail of the analysis is a function of the risk class attributed to the counterparties and the seriousness of the performance problems. The Credit Quality Management and Monitoring unit of the MGA, not involved in loan approval procedures, either on its own initiative or on submission of a proposal, may assess a position and decide or propose to a superior decision-making unit (through its own MGA Credit Area, when the decision does not lie within its powers) to change the classification of performing counterparties to a more serious status.

The Chief Lending Officer is assisted internally by the Credit Policies and Monitoring Area in defining the rules and guidelines for the management and monitoring of the Group's loan portfolio while monitoring quality. This area also manages the system of single loan reporting system at the Group level and ensures co-ordination of credit governance and is also equipped with a centralised unit dedicated to credit management in order to support the Account Manager in the timely resolution of credit irregularities (past-due instalments or overdrafts) regarding performing customers, both individuals and small economic operators. This unit makes use of: i) phone collection efforts, which involve reminder calls aimed at correcting the situation and assigning the positions to external credit recovery companies in order to track down customers that could not be reached; ii) centralised settlement efforts in order to analyse the causes that led to the irregularity and to assess the sustainability for the customer of any concessions in order to identify the most suitable solutions to restore the position to good standing.

Within the Parent, reporting to the Chief Lending Officer, there are two distinct units for the management of non-performing exposures, the Credit Recovery Area, which handles bad loans, and the Problem Loans Area, which centrally manages exposures classified as unlikely to pay. Past-due exposures are handled directly by the specific units of the commercial functions.

The Problem Loan Area consists of services and functions that specialise in the following:

- the Problem Loan Support Function responsible for monitoring the problem loan portfolio (not including bad loans) and for providing support to the Head of the Problem Loan Area;
- the Restructuring and Significant Exposures service for the management of counterparties being restructured or classified as “unlikely-to-pay” restructured loans of UBI Banca and of UBI Leasing;
- the Individuals, Businesses and Small Sums Credit Service responsible for the management of other non-performing counterparties (with the exclusion of bad loans).

Over the last few years, the Credit Recovery Area has been the subject of a major re-organisation, and its activities include: the segmentation of bad loans and the creation of related portfolios based on the size and complexity of the position; the specialisation of recovery processes and of the units involved in line with the segments and portfolios defined; the monitoring of credit management processes; the assignment of recovery objectives to the account managers and assessment of the results achieved; the implementation of strategies aimed at optimising the recovery of specific portfolios, such as turning to real estate companies for the development of properties used as collateral for mortgage loans. This area is organised internally by way of services dedicated to specific segments:

- the Problem Loan Support Service, which is responsible for the overall monitoring both of unlikely-to-pay positions for the Group and of external credit recovery firms;
- Small Sum Recovery Service, to manage bad unsecured loans to private individuals for amounts of less than €25,000;
- Large Loan Recovery Service, specialising in the management of bad loans to both private individuals and businesses for amounts of over €1 million, or with a net book value of over €500,000. Particularly complex types of position are also managed by this service (e.g. pool financing, etc.);
- Northern and Southern Loan Recovery Services, both Retail and Corporate, which are responsible for managing other types of loans that are not included within the scope of the Small Sum or Large Loan services.

The organisational area headed by the Chief Risk Officer contains the following areas: Capital & Liquidity Risk Management and Credit Risk Management which, through the specific functions that report to them and each within their own areas of responsibility, perform the following:

- define criteria and methodologies for the development of internal rating models – probability of default (PD), loss given default (LGD) and exposure at default (EAD) – in line with regulatory requirements and best practices;
- define corporate methods for assigning counterparty ratings;
- calculate default rates for the Group and define the relative calculation methods for individual legal entities;
- produce periodic analyses which illustrate the risk profile of the total loan portfolio and the commercial sub-portfolios at Group level and at the level of individual legal entities, in terms of distribution by rating class, LGD and Expected Loss, rates of loan deterioration and concentration in the most exposed customers;
- develop methods for the determination of the collective allocations to provisions based on the risk indicators (PD, LGD and CCF – Credit Conversion Factor) assigned to the instruments based on a hierarchy of rules that establish the following priority sequence of application: models calibrated on internal Group (AIRB) data, models calibrated on "ECAI agencies" data for portfolios for which no internal observations are available, internal operational parameters, and lastly industry parameters;
- provide input parameters (PD and LGD) for product pricing activities.

A specific unit is also in place with regard to credit risk for non-performing exposures, in light, amongst other things, of the new "Guidance to banks on non-performing loans (NPLs)[3]" issued in March 2017 by the European Central Bank which requires banks to formulate a strategy for non-performing exposure[4] with the aim of defining governance to manage them and reduce their amount.
Under the regulations issued by the Supervisory Authority and the European Union, banks are required to carry out further measurements on their NPL portfolios, in terms of expected provisioning, for the purpose of determining capital adequacy. To this end, in 2019 the Group set up processes, instruments and methods for handling these regulatory changes.
With regard to the risk control function in particular, the aforementioned guidance outlines a specific role of second level control for the overall management of the NPL portfolio, both for banks putting remediation plans in place and with regard to the appropriateness of the levels of write-down applied. In line with the regulatory instructions, the controls implemented by the risk control function include backtesting on provisioning adequacy and quality assurance checks on the reports produced to support the credit assessments.
Additionally, in accordance with the regulations on controls, the risk control function is also responsible for monitoring the overall portfolio either through:

- large-scale verifications aimed at analysing the effectiveness and efficiency of credit management processes and the analysis of individual positions (single file review), with regard to credit processes for the monitoring, classification and write down of loans and credit recovery;
- specific ex-ante checks aimed at the issuance of an opinion for the verification of compliance with the rules set by the UBI Banca Group for proposals relating to the amendment or confirmation of the amount of provisions on non-performing positions and the financial sustainability of the subsequent long-term forbearance measures;
- monitoring and control of the appraisals of real estate assets provided as collateral.

3 Guidance to banks on non-performing loans (NPLs), the European Central Bank, March 2017.
4 Non-performing exposures include, past-due, unlikely-to-pay and bad loan categories.

Furthermore, the units headed by the Chief Risk Officer play a key role within the Basel 2 project:

- they formulate guidelines on credit risk matters generally and also with regard to periodical reporting to the Supervisory Authority;
- they draw up roll-out plans for models implemented at the Parent;
- they monitor the extent to which regulatory provisions are covered by internal rating models;
- they co-ordinate activities for the development and maintenance of internal rating processes and systems;
- they formulate policies for the assumption and management of credit risk.

More specifically, the Credit Risk Management Area formulates the operational details of policies by preparing regulations to implement them and also detailed documents, both for the Parent and for the single legal entities. These documents illustrate aspects relating to the definition, use, monitoring and reporting of risk in relation to compliance with the guidelines and the indicators that are set.

These documents are implemented by the corporate units in the various legal entities of the Group, which must have a knowledge of the risk profile and all the risk management policies defined by the senior management of the Parent, each contributing, within the scope of their responsibilities, to the implementation, consistent with their corporate realities, of the risk management strategies and policies decided by the senior management of the Parent.

The area also:

- provides specialist support for the operational implementation of the policies and regulations for them, concerning the assumption and management of credit risk and it periodically monitors their consistency with Group operations, and proposes corrective action if necessary;
- monitors the progress of the strategic planks of the operational plan for the Group NPL Strategy, overseeing the monitoring indicators of the management strategy for non-performing exposures in order to verify the actual implementation of the actions designed to achieve the objectives set in the NPL strategy.

Lastly, the units that report to the Chief Risk Officer then define in detail, and undertake, active credit portfolio management action in order to take initiatives to mitigate, monitor and transfer credit risk, assessing its impact on economic capital and on regulatory capital requirements and specific matters.

2.2 Management, measurement and control systems

The Credit Risk Management Area is jointly responsible for Group reporting on credit risk also in order to monitor changes in the risk attached to lending for individual Macro Geographical Areas (MGAs)/Lines of Business/regulatory portfolios. The reports of single Group companies are submitted quarterly to the Board of Directors. For UBI Banca and the main product companies those reports describe the distributions of the exposures by regulatory portfolio and by internal rating classes and risk parameters. They also show changes in average risk connected with the Corporate segments and the Retail segments (Businesses and Individuals portfolio) the Private Banking and Other segments, while for the product companies the reports describe risks attaching to the various types of exposure and products marketed.
Special reports on specific matters are also prepared on the main components of credit risk.

The set of models which constitute the Group's internal rating system is managed by the area that reports to the Risk Management Officer with the support of the Credit Area.

Ratings are calculated using a counterparty approach. In line with internal policies, and on an annual basis, they are monitored in order to assess recalibration resulting from updates of the historical data series. For the "exposures to corporates" supervisory portfolio, the PD models developed by the UBI Banca Group provide an overall assessment of counterparty risk through a combination of a quantitative and 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 (target) is dichotomous, either default or performing. The qualitative component of the rating model is based on information acquired by the account manager or a central unit[5] of UBI Banca for large corporate positions and it meets the need to incorporate qualitative factors and information on the client that cannot be automatically standardised 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 to retail exposure classes (for retail businesses and private individuals) except that the qualitative component is not considered. The quantitative component for granting and monitoring loans assesses the credit rating for small-size companies, by integrating it with geo-sectoral, economic and financial, and internal and external performance type assessments. The quantitative component for granting mortgages to private individuals assesses counterparty risk by integrating it with information on personal details and on the product, while the quantitative component for monitoring mortgages to private individuals assesses the credit rating by integrating it with information on personal details and external and internal performance.

The output of the models consists of nine rating classes that correspond to the relative PDs.

The determining parameters for LGD are as follows: 1) Bad Loan LGD and average time to recovery (ATR) 2) Downturn LGD 3) Danger Rate.

Bad Loan LGD: for the calculation of LGD relating to bad loans, a model has been developed that calculates the values of Accounting LGD related to the entire recovery process (the "Lifetime Accounting" model), along with a model that recalibrates these values depending on the age of the bad loan (the "Defaulted Assets Accounting" model). To calculate LGD for positions in a status other than Bad Loan, a model has been developed that calculates the Economic LGD for the entire recovery process (the "Lifetime Economic" model). The historical depth of the data observations for the estimate of Network Bank and UBI Banca Bad Loan LGD always guarantees at least eight years of closed non-performing exposures.

Average Time to Recovery **(ATR)**: for bad loans, the Accounting LGD obtained with the models (both Lifetime and Defaulted Assets) are discounted based on an average time of recovery, which is determined by way of a special model.

Downturn LGD is an estimate, for regulatory econometric models, of the economic loss incurred on bad loans during periods of recession, calculated by applying a correction factor to the Bad Loan LGD to represent the greater expected risk with respect to the long-term average. This corrective factor is applied as a multiplier of the recovery rates.

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

Danger Rate is the parameter applied to the estimated LGD (i.e. Bad Loan LGD * Downturn LGD) for performing and non-performing counterparties (in relation to the default Past Due and Unlikely-to-Pay statuses). This parameter defines the potential path taken by a performing or default counterparty (other than a bad loan) towards the "dead-end" state of bad loan. To calculate it, it is first necessary to calculate three specific components:

- probability of migration between default states, which measures the probability of being classified into bad loan status from performing, past-due, and unlikely-to-pay statuses respectively;
- exposure delta, which measures the change in exposure observed from the date of classification as defaulted to the date of migration to bad loan status;
- indirect costs related to the problem loan management process.

The historical depth of the data observed for estimating the Danger Rate corresponds to the period January 2007 - December 2016 for the corporate segment and January 2009 - December 2016 for the retail regulatory segment.
Credit processes within the Group work with information channelled from the rating system as described in detail below.
The operational units involved in the loan grant and renewal process use internal credit ratings, which constitute necessary and essential evaluation factors for credit authorisations when these are assessed and revised. Powers to authorise loans are based on the risk profiles of the customers or the transactions given by the credit rating and by the expected loss, while they are managed using *Pratica Elettronica di Fido* (electronic credit authorisation) software. The credit ratings are used, amongst other things, to monitor loans both by the management reporting system and in the information made available to units involved in the lending process.
The assignment to rating classes that are different from those calculated by the internal rating system on the basis of the models adopted is made by proposing an override on the rating for which the methods of presentation, examination and validation are different for cases of:

- higher rating override;
- lower rating override.

In addition to the rating override, the UBI Banca Group has also developed a specific framework for managing the LGD override. The framework governs the value of the LGDs (historically observed loss rate for bad loan positions), either on a best case or worse case basis, determined by the regulatory models based on the collateral's actual ability to satisfy the Bank's credit claims in the event of enforcement of the collateral.

These changes are made on the basis of information not already considered by the rating or LGD model, not adequately weighted by the models or where it is intended to anticipate the future influence of the information.

In addition to the process for the disbursement, renewal and monitoring of credit and to the departmental reporting process just described, the processes directly affected by internal ratings or in which internal estimates of PD and LGD are described below.

The calculation of collective impairment losses on performing loans

On this topic, see sub-section 2.3, "Methods for the measurement of expected credit losses", below.

Calculation of minimum theoretical price levels for loans to customers

The minimum theoretical price is the break-even price which ensures remuneration of lending risk such as expected loss and unexpected loss, or in other words the cost of the capital absorbed in accordance with prudential supervisory regulations. The minimum theoretical price corresponds to a level of profit adjusted for risk consistent with value creation approaches in place in the UBI Banca Group.

Value creation, capital allocation and incentive schemes

As part of its capital allocation processes, the UBI Banca Group applies methodologies to assess risk adjusted performance that are designed to measure and summarise the effects of economic, asset, risk (recognition of impairment) and capital (risk weighted assets and expected loss net of impairment losses recognised) variables that impact the creation of wealth for shareholders. The creation of value is fully incorporated in incentive schemes as a determining factor in triggering incentives.

Stress tests

In order to assess vulnerabilities in its capital and liquidity management, the UBI Banca Group has developed a set of quantitative and qualitative techniques with which it assesses its exposure to exceptional, but plausible events. These techniques, termed “stress tests”, measure impacts for the Bank in terms of risk resulting from combined changes in operating and financial variables, under adverse scenario assumptions. Stress tests allow the Group’s resilience to be measured by simulating and estimating the impacts of adverse situations with account taken of “propagation” mechanisms. They furnish intermediaries with important indications of their exposure to risks and to instruments, the adequacy of the relative mitigation and control systems and their ability to withstand unexpected losses also from a forward looking and planning viewpoint.

The UBI Banca Group performs three types of stress test:

- Global and regulatory stress tests (scenario analysis): These are activities both promoted by the supervisory authorities (EBA, ECB) aimed at testing the resilience of banks under adverse market conditions according to a framework methodology common to all the institutions involved concerning various types of risk simultaneously and carried out internally within the general risk management framework and in conjunction with the (at least annual) preparation of the ICAAP-ILAAP report.
- Specific stress tests (sensitivity analysis): the Group assesses the impact that stress on a single risk factor (both macroeconomic and financial), on one or more regulatory parameters (e.g. PD, LGD, EAD), or on possible idiosyncratic events may have on capital adequacy, liquidity and profitability, both at the consolidated level and at the level of individual market or product. Specific stress tests are conducted by using sensitivity analysis to assess the impacts of changes in the risk factors that are tested;
- Reverse stress tests: the UBI Banca Group carries out reverse stress tests that start from identification of a predefined result with the aim of identifying the main vulnerabilities of the Group and improving risk management.

Activity also continued in 2019 to revise, update and adopt policies and regulations for credit risk management. Existing policies are listed below together with the principal contents.

Credit risk management policy

Policies exist within the UBI Banca Group, the "UBI Group credit risk management policy" together with the relative regulations to implement it and documents to set limits both for the Group and for single banks and companies. This regulation allows a common approach to be followed for the risk-taking and procedures to manage it across the entire Group and it standardises risk indicators, while taking account of the specifics of each class of risk.
The policy gives details of limits and it defines the procedures for taking on risk for the following types of risk:

- credit risk: the risk of incurring losses resulting from the default by a counterparty with whom a position of credit exposure exists. Credit risk can be divided into the following two types:
  - credit risk relating to business with ordinary customers, with a specific focus on credit risk for structured finance operations (specialised lending, including leveraged transactions);
  - credit risk relating to business with institutional customers and with ordinary customers resident in high risk countries;
- concentration risk: risk resulting from the existence of large exposures to single counterparties or groups of companies.

Ordinary customers

Standards, principles and limits to manage credit risk are set for ordinary customers both at consolidated level and for individual legal entities, on the basis of the availability of risk drivers generated by the internal rating model (rating class, probability of default and loss given default). The definition of the limits is based on a series of indicators expressed in terms of: capital allocation, values for maximum risk (defined as maximum expected loss and target [early warning threshold] and as credit loss), limits on the assumption of risks in terms of the distribution of exposures by credit rating class and the management of credit quality.

The Credit Risk Management Area prepares quarterly reports on compliance with the indicators set for all the areas concerned and for the governing bodies of the Parent and the companies in the Group.

Structured finance

The Parent's operations include a specific focus on structured finance business (specialised lending and leveraged transactions[6]).

The term "structured finance operations" refers to non-standard finance operations, formulated on the basis of the specific requirements of customers, usually performed for industrial or infrastructure investments, or characterised by high levels of financial leverage.

With regard to Structured Finance customers, the limits for each counterparty are defined on the basis of an analysis carried out using a portfolio model that considers the riskiness and characteristics of the Structured Finance portfolio, the early warning capital attributed to it, and first-pillar (relating to credit risks) and second-pillar (covering single-name concentration risk) absorption.

6 Financing that highlights the characteristics envisaged by the Guidance on Leveraged Transactions issued by the European Central Bank in May 2017. This includes committed transactions with counterparties with a post-financing debt-to-EBITDA ratio of greater than 4 and/or counterparties owned by one or more financial sponsors, or private-equity or LBO investment companies with an investment time horizon of more than six months.

Specifically, the following are defined: overall risk limits resulting from capital absorption based on the target capital ratios; limits by individual exposure at both the separate and consolidated level, based on the counterparty rating in addition to the parameters set by the supervisory authority; portfolio risk limits based on the target and maximum expected loss (on the sub-portfolio of the on-balance sheet performing leveraged transaction exposures only[7]).

Institutional counterparties and country risk

For institutional and ordinary customers resident in high risk countries, the risk management policy, the relative regulations to implement it and the documents containing the limits set standards, principles and limits designed to ensure proper management of the entire process of the assumption, management and monitoring of credit risk in this area.
Limits are set for maximum exposure to credit risk as follows:

- a maximum limit in terms of the degree of risk (minimum rating) for institutional counterparties and for countries;
- maximum exposure limits: an overall exposure limit (total amounts drawn) formulated by the different risk classes of the exposures (combinations of counterparty ratings and country ratings) at Group and individual company level;
- single name concentration limits: maximum limits on total authorised credit for each borrower for the different risk classes (combinations of counterparty ratings and country of residence ratings) defined at group level;
- country concentration limits: maximum limits on total authorised credit for each country defined at Group and individual company level.

Concentration risk

Concentration risk is dealt with as part of second pillar risks. The policy sets a specific capital requirement to take account of the higher sensitivity of a more concentrated portfolio.
Single name concentration risk is addressed by setting maximum exposure limits for single counterparties in order to limit risks of instability that would arise from high rates of concentration for loans to major borrowers if one of these should default. The limits set are based on counterparty ratings and the type of transaction.

The contents of the policy are set out in regulations and in a document which gives details of limits, the latter approved by the Board of Directors.

7 For the specialised lending sub-portfolio, no target regulatory or early warning expected loss values are defined, given that the UBI Banca Group has been authorised to apply the slotting criteria for these exposures for regulatory purposes.

Securitisation risk

With the update of the 2018 Risk Appetite Framework, securitisation risk has been added as a specific section to the "Policy on Residual credit risk", which sets guidelines for the Group on managing securitisation risk, defined as "the risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk". This risk relates to both conventional and synthetic securitisations originated by the Group.
The process of implementing a securitisation must involve formally stating the objective of the transaction and the role played by the UBI Banca Group in it, quantification of the impacts on the financial statements and the tax aspects, consistency with development guidelines for the loan portfolio and verification that it is fully compliant with the requirements contained in supervisory regulations and other internal and external regulations[8].

The UBI Banca Group will make sole use of agencies recognised by the Bank of Italy (ECAI – External Credit Assessment Institution) when assigning ratings to bonds and/or the tranches issued.

Policy for the distribution of mortgages through brokers

This policy regulates the procedures for the use of external distribution networks for granting mortgages to non-captive customers in order to mitigate potential credit, operational and reputational risks.
The policy defines the following:

- minimum capitalisation limits for the brokerage companies and a prohibition on direct agreements with mortgage brokers and real estate agents;
- minimum contents for agreements between distribution networks and companies in the UBI Banca Group including, for example, the specification of a minimum list of risk indicators to be monitored for which there must be a provision in the agreement that requires the network to remain within certain limits. Once those limits are exceeded penalties are applied (if maximum risk limits are exceeded) or bonuses are paid (if particularly low levels of risk are achieved) to the distribution network;
- an obligation by banks entering into agreements to put a process in place to monitor changes in the risk indicators just mentioned, with support from the Parent.

Policy for the management of guarantees acquired for credit risk mitigation purposes

The "Policy for the management of guarantees acquired for credit risk mitigation purposes" was introduced in 2018 by the Credit Risk Management Area. That policy on the basis of risks identified in the documents entitled "RAF - Risk appetite framework" and "RAF - Risks in the UBI Banca Group" that policy lays down guidelines to manage collateral posted as security both at the initial stage and at the management and monitoring stage. The policy also sets out the monitoring process and the relative reference indicators for "residual" risk which are considered non-measurable with respect to the risks specified by supervisory regulations with reference to Pillar II and for which therefore internal capital is not allocated.

8 See updates in the European Regulations 2401 and 2402 of 2017, as well as the regulations on STS (Simple Transparent and Standardised) securitisations.

With regard to credit risk mitigation, the policy verifies the following: the consistency with the regulations that govern the management of credit risk mitigation instruments in compliance with the guidelines set by the governing bodies; the effective application of internal regulations "ex post"; the effectiveness and efficiency of the management model for guarantees within the framework of second level credit control activities. It also defines the strategic guidelines relating to compliance with prudential eligibility criteria and the minimum operational requirements for guarantees acquired and the indicators to be monitored if significant for proper management of credit risk mitigation activities.

Policy on internal controls to manage risk assets and conflicts of interest with regard to connected parties.

The "Policy on internal controls to manage risk assets and conflicts of interest with regard to connected parties", which implements Bank of Italy recommendations on "risk weighted assets and conflicts of interest with regard to connected parties". Connected counterparty risk arises from the fact that "the closeness of persons to the decision-making centres of a bank might compromise the objectivity and impartiality of decisions concerning the grant of loans to, and other transactions with, those persons, which may result in possible distortions in the resource allocation process, the exposure of the bank to inadequately measured or monitored risks, and potential harm to depositors and shareholders".
The policy defines guidelines and criteria for the adoption by the Group as a whole of appropriate organisational structures, internal control systems and specific internal policies to manage that risk within two areas defined by the regulations: prudential limits and approval procedures.

Finally, in order to take account of potential risks of conflicts of interest caused by counterparties that do not, strictly speaking, fall under the definition of connected parties, but whose work could in any case have a significant impact on the bank's risk profile (e.g. "key staff[9]", which is to say employees or associate workers of Group companies who are not related parties, but fall within the perimeter of the "identified staff"), the UBI Group has adopted – in line with provisions on connected counterparties – appropriate processes to manage transactions in which such parties could have a direct or indirect interest, personally or otherwise.

Policy to manage equity risk

The "Policy to manage equity risk" completes the adoption of policies to manage the various risks to which the UBI Banca Group is exposed in terms of its operating and organisational characteristics and it incorporates provisions issued by the Bank of Italy on the subject of "Equity investments that may be held".
Equity risk is defined as "Exposures to equity instruments"[10] assumed by the Group, with the exclusion of fully consolidated equity investments, in relation to the following:

- equity investments held directly in both financial and non-financial companies and equity investments held indirectly through private equity funds (equity investments in banc assurance companies are not included given that they are included under insurance risk);

9 See also the Single Policy on transactions with Related Parties in accordance with Consob Regulation No. 17221/2010, Connected Parties in accordance with Bank of Italy Supervisory Regulations Circular No. 263, Identified Staff of the UBI Group, Identified Parties in accordance with Art. 136 of the Consolidated Banking Law and Other Identified Parties, and the regulations governing transactions with connected persons of the UBI Banca Group, which contains the principles and guidelines for all situations of actual or potential conflict of interest.

10 Cf. "Regulation (EU) No. 575/2013", Article 133, with the exception of positions that are liquid within one day and/or already included in other risks defined in the document "RAF - Propensione al Rischio".

- other capital instruments that are not liquid within one day (equities, UCITS, property funds, hedge funds, debt and non-debt exposures including debt securities representing subordinated liabilities that confer a residual subordinated credit, residual commitments, etc.) included in portfolios in the banking book;
- equity investments acquired in businesses in temporary financial difficulty and for credit recovery.

With the adoption of this policy the Group has put appropriate controls in place designed to:

- contain the risk of locking up too much liquidity as a result of making equity investments in financial and non-financial companies;
- with specific reference to non-financial companies, promote risk and conflicting interest management that complies with the criterion of sound and prudent management.

Finally, a specific focus was placed on private equity business which consists of acquiring stakes in a target company either by purchasing existing shares from third parties or by subscribing new share issues to bring new capital to the target company. More specifically the mission and relative strategies are specified, distinguishing between the acquisition of direct interests and the subscription of units in private equity funds formed by entities within the Group or outside it.

2.3 Methods for the measurement of expected credit losses

IFRS 9 calls for a single, forward-looking impairment model to be applied to financial assets measured at amortised cost and to those measured at fair value through other comprehensive income[11] (OCI, i.e. equity), as well as to financial guarantees and commitments to disburse loans, which requires the immediate recognition of credit losses even if only expected.

The more discretionary aspects of the standard, relating to the methods of calculating the impairment of financial instruments (both loans and debt securities), classified and measured at amortised cost or at FVOCI, are related to:

- the stage allocation of financial instruments following the determination of a significant increase in credit risk;
- incorporation of ‘forward-looking’ scenarios in the definition of both stage allocation and the expected credit loss (ECL)[12].

Stage allocation

For financial assets that are not impaired at the time they are purchased (or originated), in accordance with IFRS 9 impairment rules, they are divided into three stages and the recognition of credit losses is determined on the basis of the stage to which they are assigned as summarised in the table below.

11 Except for equity instruments for which the entity decides to opt for the OCI election.

12 The standard defines expected credit losses as the “weighted average of credit losses with the respective risks of a default occurring as the weights”. Expected credit losses must be estimated by considering possible scenarios and therefore by considering the best available information on past events, current conditions and supportable forecasts of future events, known as a “forward-looking approach”.

Stage	Performing/Non-performing	Amount calculation Expected loss
Stage 1	Performing financial assets for which no significant increase in credit risk has been recorded since initial recognition for which the credit risk is considered low.	In proportion to the amount of the expected credit losses over the next 12 months (expected losses resulting from default events on the financial asset that are considered possible within 12 months of the reporting period).
Stage 2	Performing financial assets for which a significant increase in credit risk has been recorded since initial recognition.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).
Stage 3	Non-performing financial assets.	In proportion to the amount of the expected credit losses over the lifetime of the instrument (expected losses resulting from default events on financial assets considered possible over the lifetime of the financial asset).

Given the above, we specify that the Group's stage allocation model, based on a case-by-case or tranche approach, in the case of debt securities (see the information given below), involves both qualitative and quantitative criteria in order to measure a significant increase in credit risk between the date of initial recognition of the financial instrument and the measurement date.

More specifically, moving a financial instrument from stage 1 to stage 2 is caused mainly by one of the following:

- lifetime probability of default (PD) changes with respect to a threshold value, specific for each transaction, calculated on the basis of the significant risk characteristics;
- presence of a continuously past-due position at the counterparty level of at least 30 days, if greater than the significance threshold determined in accordance with supervisory regulations concerning classification as non-performing;
- a forbearance measure has been agreed.

More specifically, with regard to the quantitative indicator (change in lifetime PD), a significant increase in credit risk is normally determined by comparing the change in lifetime PD recorded between the date of initial recognition of an individual transaction, or tranche if it is a debt instrument, and that of the observation, with threshold values specific to each transaction which consider the relevant risk characteristics.
The attribution of a lifetime PD to single transactions is carried out on the basis of the segment and rating class assigned to the debtor, or issuer of debt securities, both at the date of initial recognition and that of the observation. The PDs used to measure SICRs are the same as those used to calculate expected credit losses, which include forecasts of future macroeconomic factors by applying special satellite models (see the information reported below).

The relative changes in lifetime PD described above represent the quantitative indicators of changes in credit risk encountered in the reporting period. Special thresholds are defined as follows in order to establish whether an increase is considered significant and therefore requires allocation to a different stage:

- if the relative change in lifetime PD observed on a position is below the significance threshold, then the increase in credit risk is deemed not significant and the position is classified in stage 1 with measurement of the expected credit loss over the next 12 months;
- if the relative change in lifetime PD observed on a position is above the significance threshold, then the increase in credit risk is deemed significant and the position is classified in stage 2 with measurement of the expected credit loss over the lifetime of the instrument.

That threshold is determined by using statistical models based on an analysis of the distribution of lifetime changes in PD in the portfolio. The calibration of the threshold is set at a level for which the significant increase in credit risk is set at least equal to the level of the long-term deterioration of the portfolio, which is observed by means of historical migration tables of the ratings.
The thresholds are differentiated by counterparty segment and type of exposure and they are determined by the relevant risk characteristics

- the risk of default for a financial instrument at initial recognition;
- the time the instrument has been in the portfolio;
- the remaining term of the instrument.

Furthermore, the Group has decided to:

- refute the assumption that a position at least 30 days past-due should automatically be classified in stage 2, though only with respect to loans pertaining to certain business areas, thereby resulting in maintaining the position in stage 1 in the absence of other indicators;
- exercise, both on first-time adoption and once fully operative, the “low credit risk exemption” on the sovereign bond portfolio only, considering the characteristics of those securities in the portfolio. As a function of this, the instruments of low credit risk, in this case identified as investment grade (i.e. a perimeter characterised by low risk including in light of the default rate statistics published by the External Credit Assessment Institutions, or “ECAIs”) are classified as stage 1. Thereafter, if those securities lost their investment grade rating, they would be transferred to another stage only in the event of a significant increase in credit risk since the initial recognition date.
- use the “first in, first out” (FIFO) method to compare the tranche’s original credit rating to its rating on the reporting date for each single tranche of debt securities acquired.

The Stage Allocation model is a symmetrical model in that it allows for the transition from stage 1 to stage 2 and vice versa. In particular, if a financial instrument had been classified as Stage 2 at the previous balance sheet date, but at the current balance sheet date it no longer meets the requirements for the recognition of a provision equal to the expected losses throughout the lifetime of the instrument, the position is reclassified as stage 1. Therefore, no specific criteria of permanence in stage 2 are applied, except those specific to the quantitative and qualitative parameters that determine the staging (e.g. with reference to forborne exposures).
Based on the above, following the modification of these parameters and the consequent reallocation to stage 1, it is not considered necessary to consider additional time spent in stage 2, since the sustainability of improvement of the customer’s creditworthiness is already assessed during the processes governed by applicable laws and regulations for each staging parameter.

For the purpose of allocating exposures to the various stages on first-time adoption of the accounting standard, performing exposures have been classified in stages 1 and 2, whereas non-performing exposures have been allocated to stage 3. For the latter, we specify that the UBI Banca Group has adopted the definition provided in Bank of Italy Circular No. 262/2005, according to which non-performing exposures are the sum of all exposures considered non-performing: past-due, unlikely-to-pay or bad, as defined under supervisory regulations in force.

Estimating the expected credit loss (ECL) and incorporating forward-looking scenarios

The calculation of "expected credit losses" (ECL), which is to say expected losses to be recognised through profit and loss as impairment losses, was carried out on the basis of whether there has been a significant increase in the credit risk of a financial instrument compared with that calculated on the date of its initial recognition. These impairment losses are recognised on the basis of risk parameters estimated for homogeneous clusters differentiated on the basis of the type and risk of the counterparty (risk segment and internal/external rating) and of the characteristics of the individual exposure.
The general approach adopted by the Group for the purpose of quantifying expected credit losses is to ensure compatibility with regulatory risk parameters.

Stages 1 and 2

Expected credit losses are an estimate of losses (i.e. the present value of all potentially lost future cash flows) determined on the basis of the probability of default over the expected lifetime of the financial instrument. More specifically, the estimate is made by applying an estimate of the loss given default (LGD) and the marginal probability of default (Marginal PD) to the remaining debt on each repayment date.
Expected credit losses for the following 12 months are a fraction of the expected losses throughout the lifetime of the loan and represent the losses that will result if a default occurs in the 12 months following the balance sheet date.
Expected credit losses, lifetime or over 12 months are discounted back to the reporting date using the effective interest rate of the financial instrument determined on initial recognition and updated for instruments with variable interest rates. In its absence the contracted rate or an average portfolio interest-rate for residual types of loan is used (mainly relating to off-balance sheet exposures).
As concerns the model for the calculation of expected credit losses for the measurement of expected losses on instruments classified in stages 1 and 2, specific adjustments have been made to the estimated risk parameters for regulatory purposes in order to ensure full consistency, net of the different regulatory provisions, between the accounting and the regulatory treatments. The main adjustments developed are designed to:

- introduce point-in-time components (hereinafter PITs) estimated using a through-the-cycle[13] approach in accordance with regulatory provisions;
- introduce forward-looking scenarios;
- extend credit risk parameters to cover a long-term horizon.

The risk indicators (PD, LGD and CCF – Credit Conversion Factor) are assigned to the instruments on the basis of a hierarchy of rules by which priority is given to models calibrated on internal Group data and then to models calibrated on "ECAI agencies" data for portfolios for which no internal observations are available.

13 On the basis of that approach cyclical factors are removed from the estimate of risk parameters, by using the long-term component for the credit ratings of debtors independently of the state of the economy at the time of the measurement. On the other hand, a "point-in-time" approach produces risk parameters sensitive to short-term macroeconomic changes in the business cycle.

A probability of default curve is associated with each instrument on the basis of the segment to which the counterparty belongs and of the rating according to a rating assignment process, which takes account of the availability of an internal rating at Group level or an ECAI rating. In the absence of these ratings, and usually for product company exposures, limited to those not held in common with UBI Banca, the AIRB lifetime PD benchmark curve that best approximates exposure risk is assigned, , while in a few residual cases the rating of the counterparty's country of origin is assigned, downgraded by one notch.
The starting point for calculating PD is the parameters of the AIRB internal models. These parameters are adjusted, where necessary, in order to make them comply with the requirements of the standard. More, specifically with reference to:

- multi-period, through-the-cycle PD curves;
- the PIT adjustment, which is factored by way of the re-calibration to one year of the historical time horizon;
- the integration of macroeconomic and forward-looking variables, which is performed with the aid of satellite models developed for the purpose of credit risk stress tests.

Calculation of the expected loss given default – IFRS 9 compliant LGD – is carried out by applying specific corrective factors to regulatory internal LGDs.
In particular, for the estimation of the IFRS 9 compliant LGD, the undiscounted management accounting LGD, which differs from LGD calculated for capital purposes, is considered for the following aspects:

- absence of the downturn component;
- absence of the indirect costs component, because these costs are already recognised through profit and loss;
- absence of the unexpected losses component;
- absence of MOC (margin of conservatism);
- eligibility of all guarantees for credit risk mitigation purposes.

Where management accounting internal LGD models estimated on internal Group data are not applicable, models are applied starting with the empirical recovery rates of the ECAI agencies, or the LGD value forecast for senior unsecured positions in the FIRB method in supervisory regulations for marginal portfolios for which neither internal nor external historical time series data is available (e.g. loans and advances to banks).

With particular reference to the accounting standard's guidance to incorporate forward-looking scenarios, including macroeconomic scenarios, in expected loss estimates, the UBI Banca Group has decided to include these, as well as geo-sectoral trend forecasts (in sectors where the counterparty does business), in its internal models, which are already available, having been developed for stress tests on credit risk and adjusted as needed to make them compatible with the rules of the new standard.

In compliance with IFRS 9, for which estimates of ECLs must be the result of a series of the probability-weighted possible forward-looking scenarios, these models consider the use of 'most likely' scenarios combined with best and worst scenarios, each of which is assigned a percentage likelihood. These macroeconomic scenarios are consistent with those adopted for other purposes, such as budgeting and capital allocation. Definition of the probability of the scenarios and the aforementioned weighting affects the level of ECL. In this regard, the Group has associated a probability of 70% to the most likely scenario and 15% to the best and worst-case scenarios.

In order to draw up macroeconomic scenarios that include projections of national and international, macroeconomic and financial indicators, the UBI Banca Group uses an "Integrated Forecast Model", which generates forecasts that are updated periodically. The model is used to construct a baseline scenario (most likely) which is normally based exclusively on the output of its own equations. Following this, both a benchmarking analysis is carried out, which takes its benchmarks from major international institutions (e.g. IMF, ECB and OECD), and checks are made for the presence of external factors, such as international and monetary policies, exogenous to the model and which usually can neither be predicted nor analysed using statistical models, but which can nevertheless have a non-negligible impact on forecasts.

As concerns the main variables (e.g. Italian GDP, Italian inflation, the Italian unemployment rate, residential and other domestic real estate prices, the euro-to-dollar exchange rate, the 3-month Euribor, the yield on 10-year BTPs) and the leading countries in Europe and around the world, alternative (add-on) scenarios are constructed using special calculation software.
These best and worst scenarios are constructed using statistical simulation techniques and then two extreme scenarios with the equal probabilities of occurring are selected. Use is also made of external scenarios which incorporate given assumptions or simulate the impact of shocks. Thresholds for the acceptability of the estimates are normally calculated for all variables contained in the model on the basis of forecasts provided by a benchmark from at least two specialist international institutions. If the value generated by the model is beyond the threshold of acceptability then it is replaced by the benchmark value.

Provided below is information on the main macroeconomic and financial indicators used in the most likely, best and worst-case scenarios relating to the three-year period 2020-2022, which were calculated last December:

- the most likely scenario is characterised by forecasted annual growth in Italian GDP within a range of values between +0.3% and +0.7%. Italian inflation is expected to be in a range between +0.9% and +1.4%. A stable 3-month Euribor rate, which is expected to be negative until 2022, at -0.4%. Progressive growth also describes the trend in real estate prices in Italy, which is estimated to be in a range between +0.3% and +1.1%, for residential properties and between -0.3% and +0.6%, for non-residential properties;
- in the best-case scenario, annual growth in Italy's GDP is expected to be within a range between +1.1% and +1.4%. Italian inflation is estimated to be within a range between +1.3% and +1.9%. The 3-month Euribor rate is expected to remain stable over the three-year period at close to zero. In the case of Italian real estate prices, the best-case scenario includes an expectation of growth over the three-year period in a range between +2.3% and +3.1% for residential properties and between +1.8% and 2.6%, for non-residential properties;
- in the worst-case scenario, Italy's GDP is estimated to be within a range between -0.4% and -0.1%. Italian inflation is estimated to be within a range between +0.4% and +1%. The 3-month Euribor rate is expected to remain stable over the three-year period at -0.9%. The trend in the price of real estate in Italy is expected to be downward, although progressively improving over the three-year period within a range of values between -1.7% and -0.9%, for residential properties and between -2.3% and -1.4%, for non-residential properties.

A sensitivity analysis conducted on the data as at 31st December 2019 on the probability of occurrence of the forward-looking scenarios shows a change in ECL for positions classified as stage 1 and stage 2 of +4%/-4% (both respectively solely in the worst- or best-case scenario).

Lastly, during the 2019 financial year, the method was updated for the calibration of the threshold used to identify a significant increase in credit risk, resulting in the update of the regression parameters used for the staging allocation.

Stage 3

With regard to non-performing positions, the determination usually takes place on a case-by-case basis. The method for estimating impairment losses recognised on non-performing exposures is based on discounting expected future cash flows, taking account of any guarantees to back the positions and of any advances received. The fundamental elements for determining the present value of cash flows are the identification of the estimated cash flows, the relative maturity dates and the discount rate to apply. The amount of the impairment losses is equal to the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the effective interest rate and appropriately updated for instruments with variable interest rates, or, for cases of exposures classified as bad, with the effective interest rate existing as at the date of classification as bad.
Depending on the size of the impairment loss and of the exposure, estimates of the amount recoverable are based either on a going concern approach, which assumes that the counterparty's business will continue to generate operational cash flows or alternatively on a gone concern basis. The latter is based on the assumption that the company's operations will be discontinued and as a consequence the only cash flows available to recover the exposure will be generated by the enforcement of the underlying guarantees. Estimates of the amount of credit recoverable, which are expressed in a manner consistent with the situation in which the exposures are found, include available forward-looking information. In this regard, and with specific reference to bad loans, the rules of case-by-case determination include forward-looking information:

- for estimating the percentage impairment of real estate pledged as collateral (as estimated via up-to-date appraisals or based on the report of a court-appointed expert);
- by means of the introduction of specific exposure recovery scenarios, considering that the Group intends to sell them within a reasonable timeframe, to a third party, both in order to maximise cash flows in the short-term and to pursue a specific non-performing loan management strategy. Consequently, the expected credit loss estimates for those positions reflect not only the expected recovery amount through ordinary management of the loan, but also the presence of an appropriately calibrated sale scenario that would lead to cash flows from the transaction.

2.4 Techniques for mitigating credit risk

The Group employs standard risk mitigation techniques used in the banking sector by acquiring collateral such as properties and financial instruments as well as personal guarantees from counterparties for some types of loan. Determination of the total amount of credit that can be granted to a given customer and/or group of companies to which the customer belongs takes account of special criteria for assigning weightings to the different categories of risk and to guarantees. Prudent "haircuts" are applied to the estimated value of collateral depending on the type of security.

The main types of security accepted by the Group are as follows:

- real estate mortgage;
- pledge.

In the case of mortgage collateral, a distinction is made between specially regulated “land” mortgage loans and ordinary mortgage loans with regard to the amount of the loan, which in the former case must comply with limits set in relation to the value or the cost of the assets used as collateral.

Pledges represent the second general class of collateral used and different possible types of pledge exist within the Group depending on the instrument which is used as the collateral. They are as follows:

- pledges on dematerialised financial instruments such as for example government securities, bonds and shares in listed companies, customer portfolio managements, bonds of the Group, etc.;
- pledges of material securities, e.g. valuables and/or sums deposited on current accounts or bearer or named savings accounts, certificates of deposit, units in mutual funds, shares and bonds issued by unlisted companies;
- pledges on insurance policies;
- pledges of quotas held in limited liability companies, which by law must take the form of a notarial deed and are subject to registration.

A pledge on the value of financial instruments is performed using defined measurement criteria and special “haircuts” which reflect the variability in the value of the security pledged. In the case of financial instruments denominated in foreign currency, the “haircut” applied for the volatility of the exchange rate must be added to that for the volatility of the security.

As concerns pledges on rights arising from insurance policies, these may only be constituted on life insurance policies for which the regulations expressly allow the possibility of a pledge in favour of the Bank and only if determined conditions are met (e.g. once the time limit for exercising redemption rights has expired, policies which pay only in “case of death” must be excluded, and so forth). Special valuation criteria are also defined for insurance policies with haircuts that reflect the variability in value.

In order to ensure that general and specific requirements are met for recognition of collateral, as part of its credit risk mitigation techniques (CRM) in accordance with supervisory regulations, for prudent purposes the UBI Banca Group has performed the following:

- redefined credit processes relating to the acquisition and management of collateral. With particular regard to mortgages, it is compulsory to enter all data on a property needed to render collateral eligible in account manager software systems. Particular attention was paid to the compulsory nature of expert appraisals and to the prompt acquisition of the relative information, including notarial information (details of registrations), essential for guarantees to be accepted;
- retrieved, for existing mortgages, all the information required to ensure that they are admissible, in line with regulations in terms of specific requirements.

3. Non-performing credit exposures

3.1 Management policies and strategies

The classification of non-performing exposures incorporates the regulatory provisions that introduced the following categories:

- “Past-due exposures”;
- “Unlikely-to-pay exposures”;
- “Bad loans”.

Exposures previously classified as “impaired” and “restructured” are now comprised within the “unlikely-to-pay” class.
In addition to these three categories, there remains a type of problem loan in respect of country risk for unsecured exposures to institutional and ordinary customers belonging to countries considered as at risk as defined by the supervisory authority.

On 1st July 2019 the UBI Banca Group adopted the new EU provisions on the classification of borrowers to default status (EBA/GL/2016/07 - “Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013”). The new rules establish strict criteria and procedures for the examination of credit exposures for the purposes of their classification in non-performing administrative statuses. The regulatory change called for by the EBA is also an important step towards harmonising practices and regulatory frameworks of the EU countries.

The EBA guidelines on the Default Definition (“DoD”) represent a significant change in relation to the following aspects:

1. alignment of the classification to defaulted status of a borrower that has financing relationships with several companies belonging to the same banking group;
2. inability to offset credit lines;
3. parameter thresholds for classification as past-due;
4. methodology for calculating days past-due for the purposes of classification as past-due and the introduction of a monitoring period prior to readmission to performing status;
5. propagation of the past-due status;
6. obligation to calculate the Diminished Financial Obligation (below also “DFO”) in order to verify the appropriateness of the classification to defaulted status of a borrower in performing status that has been granted a forbearance measure because it is in financial difficulty (see paragraph 3.3 above). Financial assets subject to commercial renegotiation and forborne exposures

In compliance with the provisions of the above-mentioned EBA guidelines, from 1st July 2019 the UBI Banca Group’s lending policy has established that:

1. for the purposes of classification as past-due, the amounts past-due in relation to on-balance sheet loans are recognised at the level of the banking group, and therefore considering the sum of the debt exposures to all the companies in the UBI Banca Group;
2. the offsetting of any past-due amounts on credit lines against the margins still available for other loan relationships with the same counterparty is not permitted;

3. the relative materiality threshold – to be compared against the past-due amounts as a proportion of the total on-balance sheet exposure of a counterparty to the UBI Banca Group – has been lowered to 1%, from the previous level of 5%. An additional materiality threshold, defined as the absolute component, has also been introduced, amounting to:
    - €100 for exposures relating to the "Private Individuals" and "Businesses" customer portfolio (i.e. counterparties belonging to the "Credit Risk Segments" 2400 = Private Individuals and 2500 = Retail Businesses);
    - €500 for all other exposures (i.e. included in "Credit Risk Segments" other than those indicated in the point above).

   The number of days past-due is only increased if the counterparty exceeds both the materiality thresholds;
4. for the automatic classification to past-due status, the materiality thresholds must be exceeded for 90 continuous days. A significant new feature that has increased the strictness of the credit policy is the requirement for a monitoring period: a counterparty that rectifies its position by bringing its past-due positions below at least one of the materiality thresholds cannot immediately be reclassified to performing status. To restore performing status, the position must be in a condition of compliance for at least 90 consecutive days (the monitoring period). The condition of compliance means that the past-due amounts recorded at UBI Banca Group level must not exceed either of the materiality thresholds during the 90 days of monitoring;
5. for joint accounts classified as past-due, this administrative status may be propagated for the individual joint account holders. The transmission of the above-mentioned administrative status takes place automatically if the on-balance sheet exposure of the joint account exceeds 20% of the total on-balance sheet draw down attributable to the joint account holder (sum of the cash exposures of the joint accounts and of those registered directly to the joint account holder). There are also mechanisms for propagating the past-due administrative status of the joint holders of a joint account in performing status, if at least one of the joint holders assumes that status and none of the remaining joint account holders is in performing status.

Non-performing past-due exposures are subject to constant monitoring to decide, within a maximum operational period of 180 days, whether to reclassify them to more impaired non-performing categories. This transition may be temporarily suspended only when the counterparty has rectified its position and is undergoing the monitoring period (or "probation period" according to the nomenclature used by EBA/GL/2016/07 - "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013"). If that period is interrupted due to a resumption of past-due amounts beyond the materiality thresholds, the position is automatically classified as unlikely-to-pay. The return to performing status is always subject to an assessment and can only take place at the end of the monitoring period, once compliance of the position has been restored.

The management of problem loans (unlikely-to pay and bad loan) is performed on the basis of the level of risk and is normally performed by the organisational units responsible for the management of problem loans of the banks (UBI Banca Spa and IW Bank Spa) and the product companies (UBI Leasing Spa, UBI Factor Spa and Prestitalia Spa).

With specific reference to UBI Banca Spa, non-performing exposures in the state of past-due, as well small-sum (less than €1.000) unlikely-to-pay positions, are managed by the commercial units.

The management of unlikely-to-pay positions of greater amount (€1,000 and above) is centralised within the Problem Loans Area of UBI Banca SpA.

The UBI Banca Problem Loan Area also manages counterparties undergoing restructuring and classified for management purposes as unlikely-to-pay restructured exposures, i.e. exposures for which the borrower, due to a deterioration financial standing, or pertains changes to the original financing agreement through restructuring measures (normally arrangements with creditors, debt restructuring agreements, or turnaround plans). Under a specific mandate, the Problem Loans Area also manages the restructured exposures of UBI Leasing SpA.

Unlikely-to-pay positions of counterparties of the legal entities of the UBI Banca Group other that UBI Banca (IW Bank Spa, Prestitalia Spa, UBI Leasing Spa and UBI Factor Spa) are managed by their respective Credit Departments responsible for Problem Loans, with the obligation to request opinions from the Parent, UBI Banca SpA regarding the compliance of the management proposals with regard to significant exposures.

UBI Banca's bad loans are assigned to the UBI Credit Recovery Area, which, under the mandate assigned to it, also manages the bad loans of IW Bank SpA and Prestitalia SpA. The bad loans of the remaining legal entities (UBI Leasing SpA and UBI Factor SpA) are managed by the Credit Departments of those companies, with the obligation to request opinions from the Parent UBI Banca SpA regarding the compliance of the management proposals with regard to significant exposures.

The UBI Banca Group internal policy is consistent with the EBA/GL/2016/07 guidelines which prohibit a banking group from maintaining counterparties common to several legal entities (so-called common clients) classified as performing at one legal entity and non-performing at another legal entity within the same group.

Specifically with regard to the exposures of UBI Banca Spa classified as bad loans or unlikely-to-pay, a new approach was introduced in February 2017 that calls for a specialisation by cluster and the selection of dedicated account managers, who work respectively on the recovery and restoration of the exposures.

The renewed ability of a non-performing customer to regularly meet its financial obligations is the determining factor in restoring it to performing status. This event essentially relates to:

- exposures classified as past-due for which return to performing status is subject to successful completion of the 90-day monitoring period, in order to verify restoration of complete and stable repayment capacity;
- exposures classified as unlikely-to-pay for which return to performing status is subject to the restoration of a structural situation of credit compliance and financial stability.

Assessment of the appropriateness of impairment losses recognised is performed on a case-by-case basis for individual non-performing positions with exposures of over €25 thousand to ensure adequate levels of cover for expected losses. The analysis of non-performing exposures is performed continuously by the single operational units which manage risks and by the Parent.

The annual update of the Strategic Plan for the reduction of non-performing loans (NPLs), as required by the guidelines on NPLs published by the European Central Bank in March 2017, was submitted to the supervisory authority in March 2019.

The new plan, which covers a three-year period, confirms priorities given to the internal management of credit recovery, in addition to support for significant disposals of non-performing exposures.

In order to achieve the planned results, the following strategic levers have been identified:

- continuation of the performance in terms of recovery rate and default rate achieved in 2018, thanks to the consolidation of the internal management model and continued implementation of initiatives aimed at improving credit quality;
- extraordinary disposals plan for the bad loans of the subsidiaries UBI Factor Spa and UBI Leasing Spa.

Achievement of the NPL-reduction targets is monitored quarterly within the Parent by the Chief Financial Officer, for the financial aspects, and the Chief Lending Officer, for situations of an operational nature and deviations from the targets in order to determine the appropriate corrective measures. In this respect, the reduction targets for non-performing exposures set for 2021 in the NPL strategic plan were already achieved in 2019. An appreciable contribution was also made by the disposals.

Updates to the NPL strategic plan are made annually, and the next release is to be presented to the ECB by March 2020.

3.2 Write-offs

A write-off refers to the partial or total derecognition of a financial asset and does not imply a legal waiver of the loan by the Bank, which may continue to enforce its credit claims on the debtor and the guarantors.

The write-off is a derecognition event (within the meaning of the relevant accounting standards) to be carried out when there are no longer any reasonable expectations of chances of recovery of the loan.

Loans that the competent bodies, by means of specific resolution, have acknowledged are not recoverable in whole or in part, are promptly derecognised in the year in which the loan or part thereof is considered non-recoverable. Once a write-off has been made, the derecognised loan cannot be subject to subsequent write-back or reverse adjustment, which differs from the practice adopted for provisions, for which subsequent write-backs and adjustments may be recorded if there are changes in the loss estimates. In addition, if there are recoveries from collections on exposures that have been written-off, these collections are recognised directly in profit or loss as an income item.

As specified above, the write-off is carried out when there is no reasonable expectation of recovery as a result of facts or information indicating that the customer will not be able to meet all or part of the obligations assumed and there is reasonable certainty of the loss.

The write-offs do not apply to positions in the process of disposal, because these positions come under the scope of assets held for disposal.

The exposures subject to write-offs are monitored by means of specific reporting provided half-yearly to the UBI Loans Committee and the trend of the write-offs is also verified during periodic monitoring of the NPL Strategy, in order to ensure that the application of the write-offs is consistent with the Bank's strategic plan.

3.3 Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets are those exposures that are found to be non-performing when initially recognised.

The UBI Banca Group classifies exposures as POCI either when purchasing non-performing financial instruments from third parties or when disbursing new loans to non-performing counterparties of the Group when new grant is of significance in comparison with the original exposure and characterised by pricing conditions that reflect the high level of risk.

As at 31st December 2019, POCI financial assets included the non-performing exposures acquired as part of the acquisition of the New Banks, which was recognised in 2017 in observance of IFRS 3 – Business Combinations and in application of the purchase-price allocation (PPA) approach.

More specifically, these loans are recognised at fair value as at the date of acquisition and have an internal rate of return that discounts the initial measurement of the expected losses throughout the lifetime of the loans. Both the originally recognised fair value and the consequent effective reference rate have been determined for the entire portfolio. As a result, when overall recovery estimates remain unchanged, these exposures contribute to profit and loss to the extent of the time-value effect implicit in the rate determined at the time of initial recognition.

This portfolio is monitored in order to verify the validity of the assumptions made when preparing the recovery plan. More specifically, potential marked deviations in portfolio risk (e.g. the danger rate) and in collections (e.g. the recovery rate) compared to estimates are periodically verified in order to promote any necessary updates to the forecasts of the plan defined for the purposes of the PPA process.

4. Financial assets subject to commercial renegotiation and forborne exposures

UBI Banca Group regulations establish clear lines of demarcation between measures of commercial renegotiation and those of forbearance in relation to existing credit positions.

The goal of commercial renegotiation is to consolidate the relationship with borrowers who, after an in-depth investigation, prove to be able to fulfil their original financial obligations in a timely manner. Forbearance measures, on the other hand, represent a change in the contractual terms and conditions for borrowers who it is considered may be temporarily unable to meet their initially agreed financial obligations without forbearance measures.

Therefore, verified financial hardship is a determinant factor in classifying changes in the value or in the repayment schedule as a forbearance. Any objective problems in the credit exposure detected by the system support account managers in their judgemental assessment of a customer. For performing positions, objective financial hardship is always subjected to a subsequent judgemental assessment, which may or may not confirm the financial hardship of the customer. A discretionary assessment is made independently of the detection of actual objective problems. Situations of financial hardship are considered to be confirmed when the counterparty is classified as non-performing.

For a position to be classified as forborne, the forbearance measure must fall within a specifically defined scope of forbearance in accordance with EU legislation and with company regulations.

Following a request for forbearance by a customer, the most appropriate, sustainable measure is identified based on the current and future characteristics of the counterparty and the financial feasibility of the given solution. When identifying the most appropriate measure, the following factors are also assessed: the nature of the customer's potential financial hardship and related causes; the type of credit agreement concerned; and the administrative status of the counterparty.

Approval of a forbearance measure:

- involves completion of structured procedures that call for a rigorous analysis aimed at determining whether the forbearance will be effective at restoring the borrower's independent ability to repay the debt without the need for further assistance and bringing the exposure back to a situation of sustainable repayment and, in the case of non-performing exposures, with the key objective of laying the groundwork for a return to performing status. The analysis takes place in various stages based on both objective and subjective information;
- involves classifying the position concerned as forborne, upon approval of the measure. A performing counterparty who is granted a forbearance measure may maintain that administrative status. However, the counterparty's rating cannot be better than "average" and the exposure concerned by the forbearance shall be classified as stage 2. These two requirements must be met for the entire period in which the position subject to forbearance remains in the forborne state;
- solely for performing positions, for which financial difficulty has been determined, a check is carried out – in application of the EBA Guidelines (EBA/GL/2016/07) – on whether the 1% threshold of the "Diminished Financial Obligation" has been exceeded. This is calculated as follows:

  $DFO = (NPV_0 – NPV_1) / NPV_0$

where:

- DFO is the diminished financial obligation;
- NPV_0 is the net present value of the cash flows (including unpaid interest and fees) expected under the obligations originally agreed before the changes in terms and conditions of the contract. The discount rate is the original effective interest rate for the transaction;
- NPV_1 is the net present value of the cash flows expected under the new arrangement, discounted using the original effective interest rate of the transaction being amended.

If the calculation of the DFO as detailed above generates a value above the 1% threshold, upon completion of the forbearance operation, the counterparty must be classified as non-performing in the administrative status of unlikely-to-pay.

Upon completion of the forbearance measure, there is an observation period that may be either a probation period (a two-year period for performing forborne exposures) or a cure period (a minimum of one year for non-performing forborne exposures). At the end of these periods, the possibility of an improvement in the status of the position, or the removal of forborne status for performing positions, may only be considered when the conduct of the borrower has actually returned to normal and the conditions defined by applicable laws and regulations have been met.

However, it should also be noted that the characteristics of "substantial" changes in terms and conditions, based on company policy and whether the changes are of a commercial nature or are forbearance measures, may result in the financial asset being derecognised and in a new asset being recognised (in accordance with the principles of derecognition accounting). In such cases, and with specific regard to those positions that pass the SPPI test, the UBI Banca

Group, for the purposes of impairment, considers the date of initial recognition to be the date on which the change in the asset took place.
Conversely, in the event of changes to the contractual terms and conditions that are "not substantial" and, therefore, not subject to derecognition accounting, the date of initial recognition for the purposes of impairment provisions is the origination date of the asset.

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, impairment losses, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by time past due (carrying amounts)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	1 day to 30 days	Over 30 days to 90 days	Over 90 Days	1 day to 30 days	Over 30 days to 90 days	Over 90 Days	1 day to 30 days	Over 30 days to 90 days	Over 90 Days
1. Financial assets measured at amortised cost	1,779,575	41,081	14,679	1,027,902	122,639	52,927	152,869	100,512	3,204,320
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31.12.2019	**1,779,575**	**41,081**	**14,679**	**1,027,902**	**122,639**	**52,927**	**152,869**	**100,512**	**3,204,320**
Total 31.12.2018	**2,791,196**	**297,426**	**75,757**	**1,243,772**	**278,804**	**100,628**	**190,316**	**205,226**	**4,711,480**

A.1.2 Prudential consolidation – Financial assets, commitments to pay funds and financial guarantees granted: changes in total net impairment losses and total provisions

Description/ risk stages	Total impairment losses																Total provisions on commitments to pay funds and financial guarantees granted			Total
	Assets in stage one					Assets in stage two					Assets in stage three					of which: financial assets purchased or originated credit impaired				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses		Stage one	Stage two	Stage three	
Total initial value adjustments	**(172,341)**	**(3,154)**	**-**	**-**	**(175,495)**	**(382,923)**	**(1,765)**	-	**-**	**(384,688)**	**(3,740,806)**	**(9,501)**	-	**(3,750,307)**	**-**	**(8,251)**	**(24,724)**	**(11,910)**	**(27,776)**	**(4,374,900)**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions that are not write-offs	-	-	-	-	-	6,050	-	-	-	6,050	808,736	-	-	808,736	-	12	-	-	-	814,786
Net impairment losses for credit risk (+/-)	9,261	(928)	-	-	8,333	35,303	(195)	-	-	35,108	(374,404)	-	-	(374,404)	-	(2,627)	9,771	(410)	1,044	(320,558)
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit of loss	8	-	-	-	8	527	-	-	-	527	674,721	-	-	674,721	-	-	-	-	-	675,256
Other changes	(1,037)	-	-	-	(1,037)	36,661	-	-	-	36,661	(35,624)	-	-	(35,624)	-	(546)	-	-	-	-
Final total adjustments	**(164,109)**	**(4,082)**	**-**	**-**	**(168,191)**	**(304,382)**	**(1,960)**	**-**	**-**	**(306,342)**	**(2,667,377)**	**(9,501)**	**-**	**(2,676,878)**	**-**	**(11,412)**	**(14,953)**	**(12,320)**	**(26,732)**	**(3,205,416)**
Recoveries on collection of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	(9,366)	-	-	(9,366)	-	-	-	-	-	(9,366)
Write-offs recognised directly through profit or loss	34	-	-	-	34	80	-	-	-	80	85,815	-	-	85,815	-	37	-	-	-	85,929

A.1.3 Prudential consolidation – Financial assets, commitments to pay funds and financial guarantees granted: transfers between different credit stages (gross and nominal amounts)

Portfolios/risk stages	Gross amounts/nominal amounts					
	Transfers between stage one and stage two		Transfers between stage two and stage three		Transfers between stage one and stage three	
	From stage one to stage two	From stage two to stage one	From stage two to stage three	From stage three to stage two	From stage one to stage three	From stage three to stage one
1. Financial assets measured at amortised cost	2,649,191	3,982,888	474,763	204,341	240,415	27,349
2. Financial assets measured at fair value through other comprehensive income	52,049	27,463	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to pay funds and financial guarantees granted	1,361,388	1,265,923	38,458	70,044	9,857	36,551
Total 31.12.2019	**4,062,628**	**5,276,274**	**513,221**	**274,385**	**250,272**	**63,900**
Total 31.12.2018	**6,134,759**	**8,820,896**	**778,582**	**435,629**	**400,583**	**56,408**

A.1.4 Prudential consolidation – On- and off-balance sheet exposures to banks: gross and net amounts

Type of exposure/amounts	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet credit exposures	**2,188**	**12,546,827**	**(4,546)**	**12,544,469**	**-**
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay exposures	2,188	X	(368)	1,820	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	1,969	(12)	1,957	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	12,544,858	(4,166)	12,540,692	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**2,188**	**12,546,827**	**(4,546)**	**12,544,469**	**-**
B. Off-balance sheet credit exposures	**-**	**1,061,384**	**(338)**	**1,061,046**	**-**
a) Non-performing	-	X	-	-	-
b) Performing	X	1,061,384	(338)	1,061,046	-
Total (B)	**-**	**1,061,384**	**(338)**	**1,061,046**	**-**
Total (A+B)	**2,188**	**13,608,211**	**(4,884)**	**13,605,515**	**-**

A.1.5 Prudential consolidation – On- and off-balance sheet exposures to customers: gross and net amounts

Type of exposure/amounts	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet credit exposures	**7,033,269**	**95,756,585**	**(3,237,918)**	**99,551,936**	**1,086,692**
a) Bad loans	3,572,539	X	(1,862,061)	1,710,478	1,055,680
- of which: forborne exposures	835,966	X	(360,771)	475,195	218,302
b) Unlikely to pay exposures	3,348,609	X	(896,298)	2,452,311	31,012
- of which: forborne exposures	2,033,938	X	(524,111)	1,509,827	23,013
c) Non-performing past-due exposures	112,121	X	(9,205)	102,916	-
- of which: forborne exposures	23,073	X	(1,656)	21,417	-
d) Performing past-due exposures	X	3,105,636	(68,345)	3,037,291	-
- of which: forborne exposures	X	300,680	(17,500)	283,180	-
e) Other performing exposures	X	92,650,949	(402,009)	92,248,940	-
- of which: forborne exposures	X	1,431,848	(63,745)	1,368,103	-
Total (A)	**7,033,269**	**95,756,585**	**(3,237,918)**	**99,551,936**	**1,086,692**
B. Off-balance sheet credit exposures	**348,830**	**41,910,836**	**(53,667)**	**42,205,999**	**-**
a) Non-performing	348,830	X	(26,733)	322,097	-
b) Performing	X	41,910,836	(26,934)	41,883,902	-
Total (B)	**348,830**	**41,910,836**	**(53,667)**	**42,205,999**	**-**
Total (A+B)	**7,382,099**	**137,667,421**	**(3,291,585)**	**141,757,935**	**1,086,692**

A.1.6 Prudential consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Description/categories	Bad loans	Unlikely-to-pay exposures	Non-performing past-due exposures
A. Initial gross exposure			
- of which: exposures transferred not derecognised	-	-	-
B. Increases	**-**	**2,212**	**-**
B.1 inflows from performing exposures	-	2,212	-
B.2 inflows from financial assets purchased or originated credit impaired	-	-	-
B.3 transfers from other classes of non-performing exposures	-	-	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**(24)**	**-**
C.1 outflows to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 payments received	-	(24)	-
C.4 from disposals	-	-	-
C.5 losses on the disposal	-	-	-
C.6 transfers to other classes of non-performing exposure	-	-	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**-**	**2,188**	**-**
- of which: exposures transferred not derecognised	-	-	-

A.1.6.a Prudential consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

No items of this type exist in the UBI Banca Group.

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Description/categories	Bad loans	Unlikely-to-pay exposures	Non-performing past-due exposures
A. Initial gross exposure	**5,438,425**	**4,447,977**	**71,307**
- of which: exposures transferred not derecognised	-	-	-
B. Increases	**964,112**	**715,450**	**118,210**
B.1 inflows from performing exposures	146,016	571,740	103,129
B.2 inflows from financial assets purchased or originated credit impa	-	-	-
B.3 transfers from other classes of non-performing exposures	712,768	32,705	10,737
B.4 contractual modifications without derecognition	-	271	-
B.5 other increases	105,328	110,734	4,344
C. Decreases	**(2,829,998)**	**(1,814,818)**	**(77,396)**
C.1 outflows to performing loans	(156,887)	(309,662)	(13,883)
C.2 write-offs	(685,265)	(133,308)	(29)
C.3 payments received	(367,723)	(370,495)	(12,788)
C.4 from disposals	(652,971)	(134,283)	-
C.5 losses on the disposal	(122,364)	(23,690)	-
C.6 transfers to other classes of non-performing exposure	(7,318)	(698,349)	(50,543)
C.7 contractual modifications without derecognition	(668)	(5,325)	(37)
C.8 other decreases	(836,802)	(139,706)	(116)
D. Final gross exposure	**3,572,539**	**3,348,609**	**112,121**
- of which: exposures transferred not derecognised	-	-	-

A.1.7.a Prudential consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Descriptions/quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**3,626,853**	**2,174,041**
- of which: exposures transferred not derecognised	-	-
B. Increases	**468,500**	**708,189**
B.1 inflows from performing non-forborne exposures	61,414	446,649
B.2 inflows from performing forborne exposures	213,166	X
B.3 inflows from non-performing forborne exposures	X	234,177
B.4 inflows from non-performing non-forborne exposures	1,815	-
B.5 other increases	192,105	27,363
C. Decreases	**(1,202,376)**	**(1,149,702)**
C.1 outflows to performing non-forborne exposures	X	(728,265)
C.2 outflows to performing forborne exposures	(234,177)	X
C.3 outflows to non-performing forborne exposures	X	(213,166)
C.4 write-offs	(111,226)	(17)
C.5 payments received	(452,589)	(204,968)
C.6 disposals	(82,544)	-
C.7 losses on the disposal	(23,739)	-
C.8 other decreases	(298,101)	(3,286)
D. Final gross exposure	**2,892,977**	**1,732,528**
- of which: exposures transferred not derecognised	-	-

A.1.8 Prudential consolidation – Non-performing on-balance sheet credit exposures to banks: changes in total impairment losses

Description/categories	Bad loans		Unlikely-to-pay exposures		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total initial net impairment						
- of which: exposures transferred not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**(368)**	**-**	**-**	**-**
B.1 impairment losses on financial assets purchased or originated credit impaired	-	X	-	X	-	X
B.2 other impairment losses	-	-	-	-	-	-
B.3 losses on the disposal	-	-	-	-	-	-
B.4 transfers from other classes of non-performing exposures	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	(368)	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 unrealised reversals of impairment losses	-	-	-	-	-	-
C.2 realised reversals of impairment losses	-	-	-	-	-	-
C.3 profits on the disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.2 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total closing net impairment	**-**	**-**	**(368)**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation – Non-performing on-balance sheet credit exposures to customers: changes in total impairment losses

Description/categories	Bad loans		Unlikely-to-pay exposures		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total initial net impairment	**(2,667,584)**	**(402,277)**	**(1,161,661)**	**(638,101)**	**(7,248)**	**(842)**
- of which: exposures transferred not derecognised	-	-	-	-	-	-
B. Increases	**(908,849)**	**(175,895)**	**(438,048)**	**(127,725)**	**(11,158)**	**(2,158)**
B.1 impairment losses on financial assets purchased or originated credit impaired	(781)	X	(61)	X	-	X
B.2 other impairment losses	(662,748)	(164,589)	(366,232)	(113,485)	(5,893)	(579)
B.3 losses on the disposal	(7,652)	-	(23,350)	(12)	-	-
B.4 transfers from other classes of non-performing exposures	(225,477)	(10,315)	(4,447)	(902)	(1,952)	(666)
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	(12,191)	(991)	(43,958)	(13,326)	(3,313)	(913)
C. Decreases	**1,714,372**	**217,401**	**703,411**	**241,715**	**9,201**	**1,344**
C.1 unrealised reversals of impairment losses	347,350	22,192	52,103	26,742	752	3
C.2 realised reversals of impairment losses	124,090	8,690	96,684	39,136	3,080	718
C.3 profits on the disposal	6,924	10	17,460	114	-	-
C.4 write-offs	685,265	54,795	133,308	56,431	29	-
C.2 transfers to other categories of non-performing exposures	2,033	294	224,503	10,966	5,340	623
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	548,710	131,420	179,353	108,326	-	-
D. Total closing net impairment	**(1,862,061)**	**(360,771)**	**(896,298)**	**(524,111)**	**(9,205)**	**(1,656)**
- of which: exposures transferred not derecognised	-	-	-	-	-	-

A.2 Classification of exposures on the basis of external and internal ratings

A.2.1 Prudential consolidation – Distribution of financial assets, commitments to pay funds and financial guarantees granted by external credit rating classes (gross amounts)

Exposures	External rating classes						Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**176,620**	**375,839**	**5,316,713**	**643,857**	**107,788**	**1,221,531**	**97,031,231**	**104,873,579**
- Stage one	174,862	284,895	5,306,901	602,914	93,148	900,989	81,444,068	**88,807,777**
- Stage two	1,758	90,944	9,812	40,943	4,303	309,542	8,767,839	**9,225,141**
- Stage three	-	-	-	-	10,337	11,000	6,819,324	**6,840,661**
B. Financial assets measured at fair value through other comprehensive income	**2,580,165**	**625,270**	**6,514,667**	**110,268**	**-**	**-**	**218,217**	**10,048,587**
- Stage one	2,580,165	608,253	6,435,555	94,226	-	-	181,803	**9,900,002**
- Stage two	-	17,017	79,112	16,042	-	-	26,913	**139,084**
- Stage three	-	-	-	-	-	-	9,501	**9,501**
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage one	-	-	-	-	-	-	-	**-**
- Stage two	-	-	-	-	-	-	-	**-**
- Stage three	-	-	-	-	-	-	-	**-**
Total (A + B + C)	**2,756,785**	**1,001,109**	**11,831,380**	**754,125**	**107,788**	**1,221,531**	**97,249,448**	**114,922,166**
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	6,715	459,560	**466,275**
D. Commitments to pay funds and financial guarantees granted	**5,100**	**111,266**	**3,278,867**	**1,027,197**	**30,127**	**26,533**	**38,274,322**	**42,753,412**
- Stage one	5,100	108,110	2,926,029	1,016,184	21,489	22,523	35,597,894	**39,697,329**
- Stage two	-	3,156	352,838	11,013	8,638	4,010	2,327,598	**2,707,253**
- Stage three	-	-	-	-	-	-	348,830	**348,830**
Total (D)	**5,100**	**111,266**	**3,278,867**	**1,027,197**	**30,127**	**26,533**	**38,274,322**	**42,753,412**
Total (A + B + C + D)	**2,761,885**	**1,112,375**	**15,110,247**	**1,781,322**	**137,915**	**1,248,064**	**135,523,770**	**157,675,578**

The following table gives the relationship between external rating classes reported in the table and the classes of Moody's the agency concerned.

Class	Moody's Ratings
1	Aaa,Aa,Aa1,Aa2,Aa3
2	A,A1,A2,A3
3	Baa,Baa1,Baa2,Baa3
4	Ba,Ba1,Ba2,Ba3
5	B,B1,B2,B3
6	Caa,Caa1,Caa2,Caa3,Ca,C,DDD,DD,D

A.2.2 Prudential consolidation – Distribution of financial assets, commitments to pay funds and financial guarantees granted by internal credit rating classes (gross amounts)

Exposures	Internal rating classes														Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6	class 7	class 8	class 9	class 10	class 11	class 12	class 13	class 14		
A. Financial assets measured at amortised cost	**2,191,291**	**11,606,489**	**12,815,879**	**7,892,951**	**13,401,851**	**1,531,908**	**5,892,213**	**6,259,059**	**1,504,270**	**2,379,427**	**1,168,027**	**410,694**	**412,634**	**299,157**	**26,880,541**	**94,646,391**
- Stage one	2,190,404	11,595,898	12,613,611	7,704,749	12,814,679	1,471,337	5,323,786	4,267,361	1,018,085	929,976	147,259	12,369	23,903	12,953	20,701,378	**80,827,748**
- Stage two	887	10,591	202,268	188,202	587,172	60,571	568,427	1,991,698	486,185	1,449,451	1,020,768	398,325	388,731	286,204	293,184	**7,932,664**
- Stage three	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,885,979	**5,885,979**
B. Financial assets measured at fair value through other comprehensive income	**15,670**	**72,847**	**-**	**23,126**	**14,168**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,922,776**	**10,048,587**
- Stage one	15,670	52,681	-	23,126	14,168	-	-	-	-	-	-	-	-	-	9,794,357	**9,900,002**
- Stage two	-	20,166	-	-	-	-	-	-	-	-	-	-	-	-	118,918	**139,084**
- Stage three	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,501	**9,501**
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage one	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (A + B + C)	**2,206,961**	**11,679,336**	**12,815,879**	**7,916,077**	**13,416,019**	**1,531,908**	**5,892,213**	**6,259,059**	**1,504,270**	**2,379,427**	**1,168,027**	**410,694**	**412,634**	**299,157**	**36,803,317**	**104,694,978**
of which: financial assets purchased or originated credit impaired	46	153	1,927	30	1,822	264	616	20,846	6,932	13,296	19,517	1,406	4,987	601	341,668	**414,111**
D. Commitments to pay funds and financial guarantees granted	**3,783,437**	**11,847,808**	**2,075,986**	**8,433,682**	**5,500,735**	**612,266**	**2,278,413**	**1,431,399**	**367,248**	**689,990**	**86,249**	**13,618**	**16,257**	**29,855**	**4,591,077**	**41,758,020**
- Stage one	3,780,955	11,734,471	2,053,834	7,914,311	5,271,120	590,942	2,058,199	680,696	255,639	303,307	11,672	1,803	604	67	4,143,141	**38,800,761**
- Stage two	2,482	113,337	22,152	519,371	229,615	21,324	220,214	750,703	111,608	386,683	74,577	11,815	15,587	29,788	104,925	**2,614,181**
- Stage three	-	-	-	-	-	-	-	-	1	-	-	-	66	-	343,011	**343,078**
Total (D)	**3,783,437**	**11,847,808**	**2,075,986**	**8,433,682**	**5,500,735**	**612,266**	**2,278,413**	**1,431,399**	**367,248**	**689,990**	**86,249**	**13,618**	**16,257**	**29,855**	**4,591,077**	**41,758,020**
Total (A + B + C + D)	**5,990,398**	**23,527,144**	**14,891,865**	**16,349,759**	**18,916,754**	**2,144,174**	**8,170,626**	**7,690,458**	**1,871,518**	**3,069,417**	**1,254,276**	**424,312**	**428,891**	**329,012**	**41,394,394**	**146,452,998**

The classes on the "Master Scale" consist of probability of default (PD) intervals within which PDs corresponding to the single classes of the different internal rating models are mapped. The rating classes are presented in decreasing order of creditworthiness: the best creditworthiness in rating class 1; the worst creditworthiness in rating class 14. The distribution shows the aggregates of exposures, net of intercompany eliminations, to the ordinary customers of UBI Banca Spa and IW Bank Spa to which internal credit ratings have been assigned.

A.3 Distribution of guaranteed/secured credit exposures by type of guarantee

A.3.1 Prudential consolidation – Guaranteed/secured on- and off-balance sheet exposures to banks

			Secured (1)				Personal guarantees (2)									
							Credit derivatives					Off-balance sheet exposure				
								Other derivatives								
	Gross exposure	Net exposure	Properties - mortgages	Properties – Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	Total (1)+(2)
1. On-balance sheet secured/guaranteed credit exposures:	**17,115**	**17,105**	**2,484**	-	**14,313**	**307**	-	-	-	-	-	-	-	-	-	**17,104**
1.1 fully guaranteed/secured	14,965	14,960	2,484	-	12,170	307	-	-	-	-	-	-	-	-	-	**14,961**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially guaranteed/secured	2,150	2,145	-	-	2,143	-	-	-	-	-	-	-	-	-	-	**2,143**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Off-balance sheet secured/guaranteed credit exposures:	**19,605**	**19,605**	-	-	**3,877**	**15,526**	-	-	-	-	-	-	-	-	-	**19,403**
2.1 fully guaranteed/secured	18,664	18,664	-	-	3,877	14,787	-	-	-	-	-	-	-	-	-	**18,664**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed/secured	941	941	-	-	-	739	-	-	-	-	-	-	-	-	-	**739**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

A.3.2 Prudential consolidation – Guaranteed/secured on- and off-balance sheet exposures to customers

			Secured (1)				Personal guarantees (2)									
							Credit derivatives					Off-balance sheet exposure				
								Other Derivatives								
	Gross exposure	Net exposure	Properties - mortgages	Properties – Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	Total (1)+(2)
1. On-balance sheet secured/guaranteed credit exposures:	**64,696,623**	**62,386,985**	**39,414,999**	**3,936,517**	**1,904,562**	**2,800,698**	-	-	-	-	-	**1,452,826**	**41,186**	**545,204**	**6,837,874**	**56,933,866**
1.1 fully guaranteed/secured	60,663,715	58,471,882	39,400,936	3,936,517	1,653,558	2,652,977	-	-	-	-	-	988,708	25,158	467,809	6,524,854	**55,650,517**
- of which non-performing	5,598,854	3,743,880	2,851,202	370,137	7,570	81,595	-	-	-	-	-	56,057	1,108	59,458	269,511	**3,696,638**
1.2 partially guaranteed/secured	4,032,908	3,915,103	14,063	-	251,004	147,721	-	-	-	-	-	464,118	16,028	77,395	313,020	**1,283,349**
- of which non-performing	206,757	103,244	1,020	-	2,027	1,276	-	-	-	-	-	12,315	848	10,296	45,786	**73,568**
2. Off-balance sheet secured/guaranteed credit exposures:	**7,859,859**	**7,843,142**	**494,899**	-	**536,497**	**271,066**	-	-	-	-	-	**91,173**	**13,789**	**103,084**	**5,594,074**	**7,104,582**
2.1 fully guaranteed/secured	6,671,099	6,655,712	494,479	-	478,946	225,705	-	-	-	-	-	60,936	7,073	78,438	5,041,590	**6,387,167**
- of which non-performing	136,569	126,237	31,043	-	4,143	2,556	-	-	-	-	-	1,424	338	2,041	72,175	**113,720**
2.2 partially guaranteed/secured	1,188,760	1,187,430	420	-	57,551	45,361	-	-	-	-	-	30,237	6,716	24,646	552,484	**717,415**
- of which non-performing	12,949	12,394	-	-	696	1,288	-	-	-	-	-	973	-	1,281	5,270	**9,508**

A.4 Prudential consolidation – financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross amount	Total impairment losses	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	**68,682**	**81,218**	**(3,891)**	**77,327**	**33,370**
A.1 For functional use	-	-	-	-	-
A.2 For investment	63,007	66,898	(3,891)	63,007	29,368
A.3 Inventories	5,675	14,320	-	14,320	4,002
B. Equity securities and debt securities	-	-	-	-	-
C. Other assets	-	-	-	-	-
D. Non-current assets and disposal groups held for sale	-	-	-	-	-
D.1 Property, plant and equipment	-	-	-	-	-
D.2 Other assets	-	-	-	-	-
Total 31.12.2019	**68,682**	**81,218**	**(3,891)**	**77,327**	**33,370**
Total 31.12.2018	**42,068**	**53,524**	**(3,093)**	**50,161**	**21,389**

The difference between the derecognised credit exposure and that of the assets obtained through the enforcement of guarantees received is due mainly to the different timing of the recognition of the assets and the receipt of the payments.

As at 31st December 2019 assets obtained through the enforcement of guarantees received consisted solely of property, plant and equipment, partly for functional use and partly inventories. In this regard see also the information provided in section 9 of Part B – Assets with reference to “Property, plant and equipment”.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Distribution by sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	6,481	(4,049)	28,540	(35,259)	4	-	1,282,881	(1,216,249)	392,576	(606,504)
- of which: forborne exposures	6	-	8,674	(1,582)	-	-	366,524	(270,226)	99,991	(88,963)
A.2 Unlikely-to-pay exposures	3,331	(2,106)	44,392	(13,604)	-	-	1,665,970	(665,296)	738,618	(215,292)
- of which: forborne exposures	-	-	34,275	(7,097)	-	-	1,069,903	(425,473)	405,649	(91,541)
A.3 Non-performing past-due exposures	2,507	(9)	145	(17)	-	-	33,414	(3,274)	66,850	(5,905)
- of which: forborne exposures	-	-	11	(2)	-	-	11,281	(819)	10,125	(835)
A.4 Performing exposures	13,592,323	(6,854)	6,919,033	(17,785)	157,197	(107)	40,102,857	(272,802)	34,672,018	(172,913)
- of which: forborne exposures	4,917	(73)	13,786	(755)	-	-	924,064	(52,851)	708,516	(27,566)
Total (A)	**13,604,642**	**(13,018)**	**6,992,110**	**(66,665)**	**157,201**	**(107)**	**43,085,122**	**(2,157,621)**	**35,870,062**	**(1,000,614)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	526	-	4,276	(8)	-	-	305,697	(25,818)	11,593	(907)
B.2 Performing exposures	1,669,803	(207)	3,127,734	(1,150)	121,059	(28)	33,195,821	(18,546)	3,887,914	(7,031)
Total (B)	**1,670,329**	**(207)**	**3,132,010**	**(1,158)**	**121,059**	**(28)**	**33,501,518**	**(44,364)**	**3,899,507**	**(7,938)**
Total (A + B) 31.12.2019	**15,274,971**	**(13,225)**	**10,124,120**	**(67,823)**	**278,260**	**(135)**	**76,586,640**	**(2,201,985)**	**39,769,569**	**(1,008,552)**
Total (A + B) 31.12.2018	**14,461,651**	**(13,731)**	**8,056,128**	**(116,020)**	**289,412**	**(167)**	**79,421,711**	**(2,797,983)**	**40,826,420**	**(1,529,365)**

B.2 Prudential consolidation – Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	1,707,598	(1,847,876)	2,880	(14,176)	-	(9)	-	-	-	-
A.2 Unlikely-to-pay exposures	2,445,543	(893,710)	4,284	(1,182)	186	(53)	-	-	2,298	(1,353)
A.3 Non-performing past-due exposures	102,908	(9,204)	8	(1)	-	-	-	-	-	-
A.4 Performing exposures	88,165,398	(459,081)	4,351,853	(8,874)	2,293,194	(1,670)	450,108	(691)	25,678	(38)
Total (A)	**92,421,447**	**(3,209,871)**	**4,359,025**	**(24,233)**	**2,293,380**	**(1,732)**	**450,108**	**(691)**	**27,976**	**(1,391)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	321,147	(26,601)	940	(132)	5	-	-	-	-	-
B.2 Performing exposures	40,875,683	(25,939)	761,915	(674)	118,373	(105)	120,072	(215)	5,229	(1)
Total (B)	**41,196,830**	**(52,540)**	**762,855**	**(806)**	**118,378**	**(105)**	**120,072**	**(215)**	**5,229**	**(1)**
Total (A + B) 31.12.2019	**133,618,277**	**(3,262,411)**	**5,121,880**	**(25,039)**	**2,411,758**	**(1,837)**	**570,180**	**(906)**	**33,205**	**(1,392)**
Total (A + B) 31.12.2018	**136,860,088**	**(4,422,559)**	**3,715,099**	**(32,093)**	**1,971,634**	**(1,110)**	**482,190**	**(804)**	**26,311**	**(700)**

B.3 Prudential consolidation – Geographical distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay exposures	-	-	-	-	1,820	(368)	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	11,064,154	(1,978)	1,357,072	(1,526)	34,251	(18)	60,465	(428)	26,707	(228)
Total (A)	**11,064,154**	**(1,978)**	**1,357,072**	**(1,526)**	**36,071**	**(386)**	**60,465**	**(428)**	**26,707**	**(228)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	564,870	(5)	215,197	(84)	5,629	(2)	97,489	(194)	26,429	(53)
Total (B)	**564,870**	**(5)**	**215,197**	**(84)**	**5,629**	**(2)**	**97,489**	**(194)**	**26,429**	**(53)**
Total (A + B) 31.12.2019	**11,629,024**	**(1,983)**	**1,572,269**	**(1,610)**	**41,700**	**(388)**	**157,954**	**(622)**	**53,136**	**(281)**
Total (A + B) 31.12.2018	**9,791,664**	**(1,483)**	**1,093,343**	**(1,765)**	**29,325**	**(199)**	**175,858**	**(315)**	**40,785**	**(56)**

B.4 Large exposures

On the basis of circulars No. 285 of 17th December 2013 and No. 286 of 17th December 2013, the number of large exposures presented in the table was determined by making reference to the non-weighted "exposures", including those towards Group counterparties, with a nominal value equal to or greater than 10% of the regulatory capital, where "exposures" are defined as the sum of on-balance sheet risk assets and off-balance sheet commitments (excluding those deducted from regulatory capital) to a customer or group of connected customers, without the application of weighting factors.
These exposure criteria result also in the inclusion in the balance sheet table of large risk positions which – although they have a weighting factor of 0% - have a non-weighted exposure of greater than 10% of the capital valid for the purposes of large risks.

	31.12.2019
Number of positions	7
Exposure	35,878,381
Risk position	4,590,240

"Large exposures" consisted of the following:

- €14,725 million to the Ministry of the Economy and Finance (€81 million considering weighting factors), relating mainly to investments in government securities by the Parent and to a residual extent to current and deferred tax assets;
- €9,621 million to the Bank of Italy (€99 million considering weighting factors), relating to the Parent's operations;
- €1,823 million to the central counterparty clearing house *Cassa di Compensazione e Garanzia* (€0 million considering weighting factors), mainly for repurchase agreements;
- €1,779 million to the United States Treasury (€0 million considering weighting factors), regarding investments in United States treasuries.
- €1,300 million to the kingdom of Spain (€0 considering weighting factors) relating to investments in government securities;
- €1,143 million to a major banking counterparty (€473 thousand considering weighting factors), mainly linked to repurchase agreements and current accounts;
- €1,025 million to a major banking group (€519 thousand considering weighting factors), mainly linked to repurchase agreements, derivatives, and current accounts in foreign currency.

The percentage of consolidated regulatory capital is well below the limit of 25% set for banking groups for each of the exposures reported.

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

Underlying objectives strategies and processes of securitisations

▪ *Own securitisations*

Law No. 130/99 "Measures on the securitisation of loans" introduced the possibility into national legislation of performing securitisation transactions using specially formed Italian registered companies (termed special purpose entities), which allow an entity to acquire funding by securitising part of the assets which it owns. This operation involves the transfer of assets (usually loans and receivables) recognised in the balance sheet of an entity (termed the "originator") to a special purpose entity which in order to fund the purchase issues bonds which it then sells on the market and pays the proceeds back to the transferor. The redemption and return on the notes issued depend on the cash flows generated by the assets transferred.

On the other hand, with "self-retained securitisation" transactions it is the originator itself (banks or companies in the UBI Banca Group) which fully subscribes the various tranches of notes issued by the special purpose entity to fund the purchase of the loans. The senior notes assigned a rating are listed and can be used for refinancing operations with the ECB.
Notes from self-retained securitisations can also be used for bilateral collateralised funding transactions (e.g. financing repos).
The "own" securitisations of the UBI Banca Group as at the reporting date consisted entirely of "self-retained securitisations". These consist of the following operations:

- securitisations of the assets of UBI Banca Group companies carried out in 2016 (UBI SPV Group 2016 and UBI SPV Lease 2016) or in prior years (24-7 Finance) which have been specially formed for the purpose of generating assets eligible for refinancing operations with the European Central Bank, in order to strengthen the Group's liquidity position in accordance with the provisions of internal policies and to thereby maintain a high counterbalancing capacity;
- the Marche Mutui 6 securitisation, carried out in 2013 by Banca delle Marche[14], as a "self-retained securitisation", whose class A1 and A2 senior notes were subsequently placed on the market, while the originator retained the class A3 senior notes and the junior notes. The A1 and A2 notes were fully redeemed in 2019 and in the previous years and, currently, only the A3 and junior notes, held by UBI Banca, remain outstanding. Accordingly, as at the date of these financial statements, this securitisation qualifies again as a "self-retained securitisation". The A3 senior note held is also used as an eligible security for this securitisation.

For the purposes of full disclosure, we also report that two market securitisations, called Mecenate 2007 and Marche Mutui 2, structured in previous years by Banca delle Marche and Banca Popolare dell'Etruria e del Lazio[15] respectively, were closed down in 2019. The senior notes of these securitisations had been placed entirely or partially with institutional investors and the junior notes were held entirely by UBI Banca. For both securitisations, the remaining

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14 With regard to securitisations carried out by Banca delle Marche Spa, as already reported following the issue of Decree No. 183 of 22/11/2015, which was authorised the formation of the bridge institutions (in accordance with Art. 42 of Legislative Decree No. 180 of 16/11/2015,) Nuova Banca delle Marche Spa took the place of Banca delle Marche Spa, with no interruption, in all the roles performed regarding contractual agreements for the securitisation. Similarly, by virtue of the merger of Banca Adriatica Spa (former Nuova Banca delle Marche Spa) into UBI Banca Spa concluded in October 2017, the latter took over all the roles performed in the same securitisations originally performed by Banca delle Marche that were still existing as at the merger date.

15 With regard to the securitisations carried out by Banca Popolare dell'Etruria, as already reported, following the issue of Decree No. 183 of 22/11/2015, which authorised the formation of bridge institutions (in accordance with Art. 42 of Legislative Decree No. 180 of 16/11/2015), Nuova Banca dell'Etruria e del Lazio Spa took the place of Banca Popolare dell'Etruria e del Lazio Spa, with no interruption, in all the roles performed regarding contractual agreements for the securitisation. Similarly, by virtue of the merger of Banca Tirrenica Spa (former Nuova Banca Popolare dell'Etruria e del Lazio Spa) into UBI Banca Spa concluded in November 2017, the latter took over all the roles performed in the same securitisations originally performed by Banca Popolare dell'Etruria e del Lazio (hereinafter Banca Etruria) that were still existing as at the merger date.

assets were repurchased by UBI Banca as the originator and the notes issued were fully redeemed by the SPE, including the notes held by UBI Banca.

Conventional securitisations have been added to since 2017 by synthetic securitisations formed in order to optimise use of capital, by freeing up regulatory capital through the reduction of the credit risk of one or more of the underlying portfolios.

We also report that in the second half of 2019 the Parent, UBI Banca participated, in the capacity of originator, in a bad loan securitisation structured in accordance with the government guarantee scheme pursuant to Decree Law No. 18 of 14th February 2016 ("GACS") with the aim of the deconsolidating Group assets classified as bad loans. The relative securities issued by SPV Iseo Srl, were initially subscribed by UBI Banca, which subsequently sold almost all[16] the mezzanine and junior tranches to parties outside the Group.
A similar securitisation was carried in 2018 by the Parent, UBI Banca, and by the subsidiary IW Bank, as originators, and by SPV Maior Srl. As at the reporting date, UBI Banca held all the senior notes issued by Maior, backed by the "GACS" guarantee, and 5% of the mezzanine and junior notes[17].

The sub-sections below provide the required disclosures of a qualitative and quantitative nature for the conventional and synthetic securitisations mentioned above and for the "GACS" (Government guarantee for bad loan securitisations) transaction. As allowed by regulations for "self-retained securitisations", the relative sections of the notes to the financial statements have not been compiled. For full information the main characteristics of the transactions existing as at the 31st December 2019 have nevertheless been reported in these notes.

The table below summarises the stakes held in securitisation special purpose entities existing as at 31st December 2019:

Securitisation name/ Special purpose entity	Registered address	Group stakes	Type of securitisation
24-7 Finance	Via XX Settembre, 8 - Brescia	10.00%	Retained securitisation
UBI Finance 2 in Liquidation	Via XX Settembre, 8 - Brescia	10.00%	Operation closed down
UBI SPV GROUP 2016 Srl	Corso Vercelli, 40 – Milano	10.00%	Retained securitisation
UBI SPV LEASE 2016 Srl	Corso Vercelli, 40 – Milano	10.00%	Retained securitisation
Marche M6 Srl	Via Alfieri, 1 - Conegliano	0.00%	Retained securitisation
Mecenate Srl in liquidation	Via Calamandrei, 255 - Arezzo	95.00%	Operation closed down

The UBI Finance 2 securitisation was closed down in 2014 and the SPE was then placed in liquidation during the first quarter of 2015. The Mecenate 2007 and Marche Mutui 2 securitisations were closed down, as already mentioned, in 2019 and the related SPEs were placed in liquidation.

- *Third party securitisation transactions*

Following the merger by acquisition of Banca Adriatica, which took place in the third quarter of 2017, the Parent, UBI Banca acquired a floating rate senior class B note with maturity in 2022, a nil carrying amount and a nominal value of €1.5 million.

16 UBI Banca kept 5% of each tranche in order to comply with the "retention" requirements under the applicable legislation and regulations. Reference is made to the special sub-section in this section for further details;
17 Also in this case held as a retention.

- *Securitisations: entities and roles*

The entities involved in the securitisations existing as at the reporting date, both companies of the UBI Banca Group and external entities, and the respective roles performed, are listed below:

24-7 Finance

Originator	UBI Banca Spa
Issuer	24-7 Finance Srl
Servicer	UBI Banca Spa
English Account Bank	The Bank of New York Mellon London Branch
Italian Account Bank	The Bank of New York Mellon Sa/Nv, Milan Branch
Additional Transaction Bank	UBI Banca Spa
Cash Manager	The Bank of New York Mellon London Branch
Additional Cash Manager	UBI Banca Spa
Paying Agent	The Bank of New York Mellon Sa/Nv, Milan Branch
Calculation Agent	The Bank of New York Mellon London Branch
Swap Counterparty	JPMorgan Securities Plc
Representative of the Noteholders	BNY Corporate Trustee Services Limited

UBI SPV Lease 2016

Originator	UBI Leasing Spa
Issuer	UBI SPV Lease 2016 Srl
Servicer	UBI Banca Spa
Sub-Servicer	UBI Leasing Spa
Back-up Servicer Facilitator	Zenith Service Spa
Account Bank	UBI Banca Spa
Cash Manager	UBI Banca Spa
Calculation Agent	UBI Banca Spa
Payment Account Bank	BNP Paribas Securitiers Services, Milan Branch
Paying Agent	BNP Paribas Securitiers Services, Milan Branch
Representative of the Noteholders	Zenith Service Spa

UBI SPV Group 2016

Originator [18]	UBI Banca Spa Banca Carime Spa Banco di Brescia Spa Banca Regionale Europea Spa Banca Popolare di Ancona Spa Banca Popolare di Bergamo Spa Banca Popolare Commercio e Industria Spa
Issuer	UBI SPV Group 2016 Srl
Master Servicer	UBI Banca Spa
Back-up Servicer Facilitator	Zenith Service Spa
Italian Account Bank	UBI Banca Spa
Cash Manager	UBI Banca Spa
Paying Agent	The Bank of New York Mellon Sa/Nv, Milan Branch
Calculation Agent	UBI Banca Spa
Representative of the Noteholders	Zenith Service Spa

Marche M6

Originator	UBI Banca Spa[19]
Issuer	Marche M6 Srl
Master Servicer	UBI Banca Spa
Italian Account Bank	BNP Paribas Securities Services, Milan Branch
Paying Agent	BNP Paribas Securities Services, Milan Branch
English Account Bank	BNP Paribas Securities Services, London Branch
Calculation Agent	Securitisation Services Spa
Representative of the Noteholders	Securitisation Services Spa
Swap Counterparty	J.P.Morgan Securities PLC

18 The original originator banks are shown (subsequently merged into UBI Banca in November 2016 and in February 2017).

19 UBI Banca performed the role of originator following the merger by acquisition of Banca Adriatica Spa. Reference is made for further details on the roles filled by the different counterparties and the relative changes over the time to the information given in the relative sub-section that follows.

For the securitisations with a “GACS” guarantee (Maior SPV Srl and Iseo SPV Srl) all the roles were assigned to entities outside the UBI Banca Group, in accordance with the regulatory requirements. See the related specific paragraph for further details.

▪ *Securitisations: financial support from the UBI Banca Group*

In addition to the roles reported in the paragraphs above, in order to ensure that the management of securitisations functions properly, the companies in the UBI Banca Group also have the duty to provide further financial support to securitisations in order to cover certain specific or generic risks.

A report is given below of the quantification of the financial support given as at 31st December 2019, by UBI Banca or by subsidiaries on the basis of existing contractual agreements and divided on the basis of the type of risk underlying each financing:

UBI BANCA GROUP

SUBORDINATED FINANCING BY UBI Banca GROUP BANKS TO retained securitisation SPEs - Total REMAINING PRINCIPAL DEBT AS AT 31/12/2019 (figures in whole euro)							
FINANCING BANK	ENTITY FINANCED	TOTAL AS AT 31/12/2018	TOTAL AS AT 31/12/2019	ITEM IN BALANCE SHEET OF FINANCING BANK	PURPOSE OF FINANCING		
					PURCHASE OF LOANS	*TO COVER LIQUIDITY RISKS*	*TO COVER COMMINGLING RISK*
Banc@ 24-7 (then merged into UBI Banca)	24-7 Finance Srl (1)	24,422,348	24,422,348	BS asset item 130 (recognised net of securitisation and CB operations)		24,422,348	
UBI BANCA	24-7 Finance Srl. (1)	73,132,224	73,132,224	BS asset item 130 (recognised net of securitisation and CB operations)		73,132,224	
Banca Tirrenica (then merged into UBI Banca)	Mecenate Srl (2)	4,402,525	-	BS liability item 10b (Liabilities related to assets transferred not derecognised)	-		
Banca Tirrenica (then merged into UBI Banca)	Mecenate Srl (3)	4,642,740	-	BS asset item 40a			-
Banca Adriatica (then merged into UBI Banca)	Marche Mutui 2 (4)	8,208,664	-	BS liability item 10b (Liabilities related to assets transferred not derecognised)		-	
UBI BANCA	UBI Spv Group 2016 Srl (5)	NA	46,926,000	BS asset item 130 (recognised net of securitisation and CB operations)		46,926,000	
TOTAL SECURITISATIONS		**114,808,501**	**144,480,572**			**144,480,572**	

Notes:
(1) The currently outstanding loan granted by UBI Banca to 24-7 Finance Srl was disbursed in two tranches: an initial tranche paid when the notes were issued by the originator B@nca 24-7 (which was then merged into UBI Banca) and a second tranche paid by UBI Banca when the securitisation was restructured at the time of the merger of B@nca 24-7 into UBI Banca.
(2) Part of the price for the transfer of the original portfolio transferred by Banca Tirrenica (former Banca Etruria) to Mecenate for the Mecenate 2007 securitisation, corresponding to the portion of the interest earned on the portfolio transferred as at the transfer date, not financed by the issue of notes, but by deferment of payment of the amount to a subsequent time when the notes issued are fully redeemed, in accordance with the contractual provisions of the securitisation.
(3) Sums deposited by Banca Tirrenica (former Banca Etruria) with BNP Paribas to cover commingling risk underlying the Mecenate 2007 securitised portfolio.
(4) A loan granted by Banca Adriatica (former Banca delle Marche) to Marche Mutui 2 to cover the general liquidity risks of the operation.
(5) A loan granted by UBI Banca to UBI Spv Group 2016 to cover the general liquidity risks of the operation.

The underlying reasons for the financing reported in the table are given below.

a) *To cover liquidity risk*

With regard to the 24-7 Finance securitisation, the originator B@nca 24-7 also filled the role of subordinated loan provider, having granted a subordinated loan designed to create a debt reserve amount to meet possible shortages of liquidity for the operation. At the time of the merger into UBI Banca in 2012, a subordinated loan of approximately €24.4 million was outstanding, which was subsequently increased in 2013 by a further €73.1 million. The financial support provided by UBI Banca to the securitisation, given that no repayments of the loan had been made since 2012, amounted to €97.6 million.

Also for Mecenate 2 (2007) and Marche Mutui 2, closed down in 2019, the originators performed the role of subordinated lender, in order to create cash reserves to guarantee the noteholders against possible liquidity difficulties. The loan provided for the Mecenate 2007 securitisation was progressively repaid during the course of the securitisation and was paid off in April 2018, while the subordinated loan provided to Marche Mutui 2 was paid off when the securitisation was closed in May 2019.

The new securitisations, UBI SPV Lease 2016 and UBI SPV Group 2016, structured in 2016, did not involve any form of direct financial support provided by the grant of subordinated loans as in the case of those described above. For both these transactions, the subscription of junior notes by the originators had made it possible to create a cash reserve amounting to €31.5 million for UBI SPV Lease 2016 and a total of €83.4 million for UBI SPV Group 2016. These sums have not yet been drawn on and remained entirely available in the two securitisations at the reporting date of this financial report.
In the first quarter of 2019, for the UBI SPV Group 2016 securitisation, as part of action taken to lengthen the revolving period of the securitisation and to strengthen its structure, financial support from the originator, UBI Banca, was also contractually agreed in the form of a subordinated loan. The new loan, amounting to €46.9 million, increased the cash reserve available to the SPE, bringing it up to €130.3 million.

In order to complete the information we report that as part of the "Maior" bad loan securitisation structured in accordance with the government guarantee scheme pursuant to Decree Law No. 18 of 14th February 2016 ("GACS"), in the second half of 2018 the originator, UBI Banca, granted the transferee, Maior SPV Srl, a loan with limited recourse of approximately €25.1 million, for the purpose of creating a cash reserve available to the SPE to make the interest payments on the senior notes on the basis of the order of the applicable payments. A similar loan was granted in 2019 by UBI Banca to the special purpose entity Iseo SPV Srl as part of the "Iseo" bad loans securitisation structured pursuant to the "GACS" decree in December 2019. In accordance with the GACS decree and the rules governing the notes in the two securitisations, unlike the subordinated loans granted for the other UBI Banca Group securitisations reported in the table, payment of the sums due to UBI Banca as repayment of this type of subordinated loan will be given priority with respect to repayment of the principal of the senior tranches and payments relating to the other tranches with a higher degree of subordination. Reference is made for further details on the "GACS" securitisations to the special sub-section in this section.

b) *Purchase of Loans:*

For Mecenate 2007, the originator also provided another form of financial support to the securitisation by deferred payment of part of the amount for the loans transferred corresponding to the interest accruing on the portfolio (but not yet due) as at the transfer date. This amount was repaid in full when the securitisation was closed down in October 2019.

c) *To cover commingling risk*

The risk of commingling relates to the account bank role performed by the Parent or by other Group companies that are depositories of the securitisation's liquidity. It represents the risk that, in the event of a downgrade which rendered the depository bank no longer eligible as a depository for the sums received, it would be unable to make an immediate transfer of the sums received by the servicer to another credit institution. Coverage of that risk by means of a supporting loan was only provided for the Mecenate 2007 securitisation. In fact in 2010 Banca Popolare dell'Etruria e del Lazio made a deposit (a "commingling reserve"), at an external depositary bank, for an initial amount of €9.2 million. This deposit, which was adjusted quarterly during the course of the securitisation, was repaid in full after the securitisation was closed down.

Internal risk measurement and monitoring systems connected with securitisation transactions including measurement, for those transactions originated by the Group, where risks were transferred to third parties. Illustration of the organisational structure for managing securitisation transactions including systems for reporting to senior management or to a similar body.

To complete the information given in the preceding pages on the management of the securitised portfolios and the parties internal to and external to the Group who fill the various roles, we report the following with regard to the corporate servicing activities of the SPEs:

- it was decided to outsource these activities to TMF Management Italy Srl for the UBI SPV Lease 2016 and UBI SPV Group 2016 securitisations;
- corporate servicing activities were carried out by Zenith Service Spa for the 24-7 Finance securitisation;
- corporate servicing activities were carried out by Securitisation Services Spa for the Marche M6 securitisation.

Furthermore, taking a prudential approach, in order to comply with the eligibility requirements even under market stress scenario conditions, a backup service facilitator was also appointed for the 2016 UBI SPV Lease 2016 and UBI SPV Group 2016 securitisations. That role is performed by Zenith Service Spa for both securitisations.

On the other hand, it was decided not to outsource IT and accounting operations related to servicer activities. The management of cash collection activities for the portfolios continues to be performed by the originators, in their capacities as servicers or sub-servicers, who may make use, amongst other things, of the main Group accounting platform. This was also useful for reconstructing movements in the accounts of the securitisation companies and therefore for providing them with the information needed by the corporate servicers for preparing financial statements.
In order to ensure continuity and effectiveness in the performance of their functions, the servicers have created appropriate technical and organisational units to monitor the various phases of the securitisation process. Accounting and reporting systems in particular have been put in place with account taken of the need to be able to reconstruct all transactions at any moment.

At the level of the Parent, UBI Banca, the main organisational units responsible for managing the securitisations were the units reporting to the Chief Wealth and Welfare Officer (Treasury and Funding Area), the Chief Financial Officer and the Chief Risk Officer. The roles and tasks relating to the performance of the various operational phases of servicing and also those relating to monitoring performance data and, where required, those of the calculation agent, were defined in those units. More specifically, a special set of quarterly reports are prepared to monitor each individual securitisation transaction.
In terms of operational processes, conventional securitisations are governed by specific Group regulatory documents: the Regulation "Collateral Management (supporting group liquidity)" and the "Treasury and Institutional Funding Regulation" which govern, among others, the roles and responsibilities for the structuring and management of securitisation and covered bond transactions (both documents were updated in 2019), as well as Circular 168 of 2015.
For the synthetic securitisations, in 2018 a specific Circular was issued to govern the operational process (Circular 384 of 2018) and in the first half of 2019 a specific Regulation was issued that governs the roles and internal macro-processes for the structuring and management of these types of securitisations.

Description of the hedging policies adopted to mitigate risks connected with securitisations, including the strategies and processes adopted to continuously monitor the effectiveness of these policies.

All the securitisations carried out until the end of 2011 had been hedged by swap derivative contracts where the main objective was to stabilise the flow of interest generated by the securitised portfolio and to protect the special purpose entity from interest rate risk.
Only one of these securitisations existed at the end of 2019, and this was the 24-7 Finance securitisation where the swap contracts were concluded between the SPE and the respective swap counterparty, who then signed contracts identical in form but opposite in their effects ("back-to-back swaps") with UBI Banca (which following the merger of B@nca 24-7 in 2012, also filled the role of originator of the securitisation).
As at 31st December 2019, this approach was being used for the Marche M6 securitisation, which had a structure based on swaps and mirror back-to-back swaps, with the Parent having taken over as the counterparty for the latter.
For the Mecenate 2007 transaction, the securitisation was backed by swap contracts with an outside counterparty, but no back-to-back -up swap contracts existed between that counterparty and the originator, as occurred on the other hand in the approach described above.
On the other hand, the last two securitisations created by the UBI Group in 2016, UBI SPV Lease 2016 and UBI SPV Group 2016, were structured without the use of swaps. This method of structuring the securitisations was possible because of the lower ratings assigned at the time of issue (A1 for Moody's and A(low) for DBRS for both of them), compared with AAA ratings required in the past for eligibility for refinancing with the European Central Bank, since the eligibility criteria had been lowered by the ECB itself.

With the update of the 2018 Risk Appetite Framework, the management of securitisation risk has been added as a specific section in the "Policy on Residual credit risk". In this respect see Part E - Section 2 – Credit Risk in these Notes to the financial statements.

Conventional securitisations: details of the individual transactions

- *Marche Mutui 2 securitisations*

The Marche Mutui 2 securitisation was created in October 2006, with a portfolio of performing loans as the underlying, originated from regulated mortgages, backed by first mortgage agreements, for an amount of €631.4 million. This securitisation had been structured by Banca delle Marche for the purpose of broadening the range of its funding with respect to that provided by the conventional issue of both domestic and international bonds.
In exchange for the transfer of the loan portfolio to the SPE Marche Mutui 2 Srl, the SPE issued 5 tranches of notes for a total amount of €631.4 million: two senior notes (classes A1 and A2) and two mezzanine notes (classes B and C), listed on the Irish Stock Exchange, assigned a Moody's and a Standard & Poor's rating, subscribed by institutional investors, and one junior note (class D), subscribed by the originator.
In addition, in order to establish a cash reserve to service the securitisation, the originator granted the SPE a subordinated loan of €8.2 million.

As a result of the progressive amortisation during the year, the portfolio of mortgages transferred as collateral (which continued to be recognised under assets transferred and not derecognised in the originator's financial statements, in accordance with the applicable accounting standards) decreased progressively during the year, as a result of amortisation of the loans, until it fell below the contractually established limits for the exercise of the clean-up call clause[20].
As a result, it was possible to close the securitisation down early in the second quarter of 2019: on 29th April 2019, with effect for operating and accounting purposes on 15th April 2019, UBI Banca completed the repurchase of the portfolio as the originator; consequently, the swap contracts backing the securitisation and the related back-to-back swaps were closed

20 The option could be exercised once the securitised portfolio had reached an amount less than 10% of the original portfolio.

down and on the subsequent payment date of 28th May 2019, Marche Mutui 2 Srl carried out the following, on the basis of the payment priorities for the securitisation:
- full redemption of the outstanding senior and mezzanine notes;
- payment of the excess spread and full redemption of the junior notes.
- repayment of the subordinated loan, within the limits of the funds available[21].

The table that follows reports the situation for the notes as at 31st December 2019:

Marche Mutui 2 Srl	ISIN Number	Nominal amount when issued *(thousands of euro)*	Amount redeemed as at 31/12/2019 *(thousands of euro)*	Remaining nominal amount as at 31/12/2019 *(thousands of euro)*	% amortised
Class A1	IT0004124944	88,400	88,400	-	100.00%
Class A2	IT0004124977	511,450	511,450	-	100.00%
Class B	IT0004125008	12,000	12,000	-	100.00%
Class C	IT0004125024	15,800	15,800	-	100.00%
Class D	IT0004125065	3,786	3,786	-	100.00%
TOTAL		**631,436**	**631,436**		

The role of "servicer" for the securitised portfolios performed by Banca delle Marche, is now carried out by the Parent, UBI Banca.
The fees paid to UBI Banca for servicing activities carried out in 2019 up to the close down of the securitisation amounted to approximately €14 thousand. The total amounts received for the servicing for the period January – April 2019 was €3.4 million.

▪ *Marche M6 Securitisation*

The Marche M6 securitisation was performed by Banca delle Marche in June 2013 on a portfolio of performing loans consisting of residential mortgages.
The securitisation was therefore carried out according to the following scheme:
- the transfer without recourse of loans to the special purpose entity Marche M6 Srl amounting to €2,128.7 million;
- financing of the operation by the issue of four classes of notes: three senior, classes A1, A2 and A3 and one junior, class J.

The securitisation was initially structured in order to acquire securities eligible for refinancing with central institutions. Consequently, the entire issuance was subscribed by the originator bank. The senior classes had been used initially by Banca delle Marche as securities eligible for principal refinancing operations with the European Central Bank and/or repurchase agreement transactions with institutional counterparties. In June 2015 the A1 and A2 classes were sold in the market while the class A3 and the subordinated J classes remained in the originator's portfolio and are still held by UBI Banca.

The senior notes have been assigned ratings by the agencies Fitch and DBRS. The table below reports the position for the notes as at 31st December 2019 and the relative rating assigned in force at that date.

21 As a result of the accounting treatment for the securitisation, in accordance with the provisions on non-derecognition in the international accounting standards, the partial repayment of the subordinated loan does not give rise to the recognition of accounting losses.

Marche M6 Srl	ISIN Number	Nominal amount when issued *(thousands of euro)*	Amount redeemed as at 31/12/2019 *(thousands of euro)*	Remaining nominal amount as at 31/12/2019 *(thousands of euro)*	% amortised	Fitch Ratings	DBRS Ratings
Class A1	IT0004941271	966,000	966,000	-	100.00%		
Class A2	IT0004941297	300,000	300,000	-	100.00%		
Class A3	IT0004941305	434,500	11,638	422,862	2.68%	AA	AAA
Class j	IT0004940992	496,566	-	496,566	0.00%	n.a.	n.a
Total		**2,197,066**	**1,277,638**	**919,428**	**58.15%**		

The class A1 was redeemed in previous years, while the class A2 continued to be amortised during 2019 and was fully redeemed on the last payment date of 2019. As a result, as at 31st December 2019, the Marche M6 securitisation no longer qualified as a market securitisation and was once again treated as a "self-retained securitisation". The A3 senior note held is also used as an eligible security for this securitisation.

For the purposes of full disclosure, we also report that the initial amount of the reserve indicated above gradually decreased as a result of the amortisation of the notes and the portfolio, from an initial amount of €68 million to €34 million at 31st December.

As at the reporting date, the securitised portfolio amounted to €959.6 million (remaining principal debt). For this securitisation too, the securitised assets remained recognised on the balance sheets of the originators as assets transferred not derecognised, in compliance with the international accounting standards in force. Because the securitisation qualified as a "self-retained securitisation" as at 31st December 2019, the related liabilities associated with assets transferred and not derecognised were no longer recognised in the financial statements as at that date. However, the related income generated by the securitisation during the year as a market securitisation continued to be recorded under item 20 of the income statement. For further information, reference is made to the specific sub-sections in these notes to the financial statements.

Because this securitisation was classified as a "self-retained securitisation" as at the reporting date, the quantitative information, required by the applicable regulations, has not been entered in the related sections of the notes to the financial statements. However, for the purposes of full disclosure, the tables, with the distribution of the securitised portfolio by the quality of the loans as at 31st December 2019 on the basis of the classification in the balance sheet of the originator (in terms of the net carrying amount) and the reporting classification of the transaction (in terms of the remaining principal debt "customer view"), are provided below.

TYPE OF LOAN *(Classification for the purposes of the transaction)*	Remaining principal debt as at 31/12/2019 *(thousands of euro)*
Performing loans	902,470
Loans in arrears	5,092
COLLATERAL PORTFOLIO	**907,562**
Defaulted loans	52,017
TOTAL	**959,579**

TYPE OF LOAN *(Balance sheet classification)*	Carrying amount as at 31/12/2019 *(thousands of euro)*
Performing exposures	777,606
Performing past-due exposures	132,372
Non-performing past-due exposures	169
Unlikely-to-pay exposures	19,242
Bad loans	9,533
TOTAL assets transferred to Marche Mutui 6	**938,922**
of which item 40 "Financial assets at amortised cost"	*938,886*
of which item 20c "Financial assets mandatorily at fair value"	*36*

In this case too, the role of “servicer” for the securitised portfolios had been performed by Banca delle Marche and is now carried out by the Parent, UBI Banca.

The fees due to UBI Banca for servicing activities carried out in 2019, amounted to €638 thousand. Total payments received as part of servicing activity for 2019, amounted to €141.5 million of which approximately €16 million received following repurchase transactions designed to improve management and recovery of the portfolios transferred[22].

▪ *Mecenate 2007 Securitisation*

Mecenate Srl (“Mecenate”), is the special purpose entity pursuant to Law No. 130/199 with which Banca Etruria carried out four securitisations of performing residential mortgages, of which the Mecenate 2007 securitisation remained outstanding in 2019.
This securitisation, structured in May 2007, was implemented to optimise the management of the loan portfolio and to diversify sources of funding. Banca Etruria transferred a portfolio en bloc and without recourse to Mecenate consisting of loans and regulated mortgage loans, granted to private individual customers and classified as performing, for a total amount of €633.1 million.[23] To finance the purchase, Mecenate issued notes for a total amount of approximately €633 million, of which three classes of rated senior notes (classes A, B and C), for a total of €630.1 million, and a junior note.

The senior notes were listed on the Dublin stock exchange and were subscribed upon issue by institutional investors. The Class D notes, which were unrated, were subscribed by the originator. In subsequent years, the originator progressively repurchased a portion of the senior and mezzanine notes placed on the market. The table below shows the status of the Mecenate notes and the amount held in UBI Banca’s portfolio as at 1st January 2019:

22 With regard to servicing activity, in specific situations and in order to make management and recovery of transferred portfolios more effective, the originator is permitted to repurchase single securitised assets.
23 This amount of €633.1 million does not include interest accruing on the loans transferred, but not yet due as at the transfer date. That portion of the interest amounting to €5.7 million was financed by the SPE by deferral of the payment of the relative amount to the originator in accordance with the provisions of the transfer contract and with the payment priorities of the securitisation set contractually (see the information given in the previous section on financial support).

MECENATE SERIES 2007	ISIN Number	Remaining nominal amount as at 01/01/2019 *(thousands of euro)*	Notes held by investors as at 01/01/2019 *thousands of euro)*	Notes held by UBI Banca as at 01/01/2019 *(thousands of euro)*	% UBI ownership
A. SENIOR	IT0004224116	-	-	-	-
B. MEZZANINE	IT0004224124	9,863	6,019	3,844	38.97%
C. MEZZANINE	IT0004224132	39,750	17,150	22,600	56.86%
D. JUNIOR	IT0004224173	1,892	-	1,892	100.00%
TOTAL		**51,505**	**23,169**	**28,336**	**55.02%**

The portfolio of mortgages transferred as collateral (which continued to be recognised under assets transferred and not derecognised in the originator's financial statements, in accordance with the applicable accounting standards), decreased progressively during the year, as a result of amortisation of the loans, until it fell below the contractually established limit for the exercise of the clean-up call clause[24].
As a result, the securitisation was closed down early in the second half of 2019: on 27th September 2019, with effect for operating and accounting purposes on 1st September2019, UBI Banca, as the originator, completed the repurchase of the portfolio and on the subsequent payment date of 21st October 2019, Mecenate Srl carried out the following, on the basis of the payment priorities for the securitisation:

- full redemption of the outstanding Mecenate 2007 - Senior and mezzanine class notes;
- payment of the remaining amounts due to the originator as a portion of the deferred transfer price[25];
- full redemption of the junior notes;
- payment of the excess spread.

The table that follows reports the situation for the notes as at 31st December 2019:

MECENATE SERIES 2007	ISIN Number	Nominal amount when issued - 11/05/2007 *(thousands of euro)*	Amount redeemed as at 21/10/2019 (operation closed down) *(thousands of euro)*	Remaining nominal amount as at 31/12/2019 *(thousands of euro)*	% redeemed
A. SENIOR	IT0004224116	577,850	577,850	-	100.00%
B. MEZZANINE	IT0004224124	13,600	13,600	-	100.00%
C. MEZZANINE	IT0004224132	39,750	39,750	-	100.00%
D. JUNIOR	IT0004224173	1,892	1,892	-	100.00%
TOTAL		**633,092**	**633,092**	-	**100.00%**

For the purposes of full disclosure, we remind you that, to support the securitisation, the Bank had granted Mecenate a subordinated loan of approximately €15 million of which €50 thousand was used to create a specific expense fund and the remaining €14.95 million to contribute towards the formation of a cash reserve.
This subordinated loan was progressively amortised, in accordance with the payment priorities for the securitisation and was fully repaid on the payment date of 20th April 2018.

Furthermore, in compliance with requests from the rating agencies, in order to cover commingling risks for the securitisation, in 2010 Banca Etruria made a deposit (a "commingling reserve") for an initial amount of €9.2 million. That reserve was subject to quarterly adjustment on the basis of the average amount of the sums received by the Mecenate 2007 portfolio, in relation to the repayments on the securitised mortgages. The amount remaining as at the date of close down of the securitisation, of €4.4 million, was repaid to UBI Banca.

24 The option could be exercised once the securitised portfolio had reached an amount less than 10% of the original portfolio.
25 See the information given in the previous section on financial support.

UBI Banca also performed the role of servicer for the securitisation under a mandate for management, administration and cash receipt services received from the SPE. The fees due to UBI Banca for servicing activities carried out in 2019, amounted to approximately €24 thousand. Total payments received as part of servicing activity for 2019 up to the close down of the securitisation amounted to approximately €8.9 million.

Bad loan securitisations backed by the Italian guarantee scheme "GACS"

▪ *Iseo SPV Srl securitisations*

In the fourth quarter of 2019, UBI Banca completed a bad-loan securitisation backed by government guarantee in accordance with Italian law No. 18 of 14th February 2016, as amended, (GACS) aimed at deconsolidating UBI Banca's bad loans for a total gross book value (GBV)[26] of €858 million and a gross carrying amount, as at the transfer date, of €826 million[27]. The portfolio is made up of bad loans mainly arising from secured mortgage loans and related unsecured positions. The securitisation was structured to achieve a significant risk transfer (SRT) of the credit risk associated with the securitised loans in accordance with Articles 243 et seq. of Regulation (EU) No. 575/2013 (the Capital Requirements Regulation, or "CRR") and improve related capital targets in terms of reducing the ratios of gross NPLs to gross lending and net NPLs to net lending.

The tables below report the distribution of the portfolio transferred by UBI Banca by type of loans and receivables transferred, geographical distribution and economic sector of the counterparties[28].

Distribution of assets transferred by type of financing

ISEO SPV Srl Securitisation	***UBI Banca Portfolio***
mortgages	99.13%
unsecured loans	0.36%
loans in currency	0.03%
pooled financing	0.00%
current account overdrafts	0.43%
portfolio and other advances	0.03%
other transactions	0.02%
Total	**100.00%**

Distribution of assets transferred by geographical location

ISEO SPV Srl Securitisation	***UBI Banca Portfolio***
North	52.86%
Central	16.69%
South and Islands	30.14%
Other countries	0.31%
Total	100.00%

Distribution of assets transferred by economic sector

ISEO SPV Srl Securitisation	***UBI Banca Portfolio***
Financial companies	0.00%
Non-financial companies	0.00%
Other	100.00%
Total	**100.00%**

26 Gross book value (GBV) is defined as the value of the rights, i.e. the carrying amount of the gross exposure plus the amount of losses recognised and interest on arrears accrued as at 31st March 2019 (i.e. the date the operation took economic effect).
27 Figures as at 4th December 2019, the effective date of the transfer.
28 As a percentage of GBV.

The operation was structured through a special-purpose entity (SPE) specifically established for the securitisation, Iseo SPV Srl ("SPV"), in which the UBI Banca Group does not have an interest, and was completed according to the process described below:

- on 4th December 2019, with an effective date for operating purposes of 31st March 2019, UBI Banca completed the without-recourse transfer of the bad loan portfolio to the SPE; the purchase price of the loans, of around €363.97 million, was financed by the SPE by the subsequent issue of notes.

The table below provides the gross book value, the gross carrying amount and the net carrying amount of the loans transferred, and the related loss on disposal[29] (in thousands of euro):

Originator Bank	Gross Book Value *(figures as at 31/3/19)*	Gross carrying amount *(figures as at 4/12/19)*	Impairment losses *(figures as at 30/11/19)*	Net carrying amount *(on transfer)*	Sales price	Loss on sale
UBI	857,577	826,348	460,410	365,937	363,969	(1,969)

- the SPE issued the notes on 16th December 2019. The issue was structured in three tranches: Junior, Mezzanine and Senior. The senior notes were given a rating of BBBsf by Scope Ratings GmbH and of BBB (sf) by DBRS Ratings Ltd. The junior and mezzanine notes were unrated. The table below shows the main characteristics of the securitised notes issued (in millions of euro):

	Type of Notes			Total Notes
Class	***Senior***	***Mezzanine***	***Junior***	
Scope rating	BBBsf	n.a.	n.a.	
DBRS rating	BBB(sf)			
Interest rate	Euribor 6M + 0.5%	Euribor 6M + 6.0%	Variable Return	
Notional issued	**335**	**25**	**13.5**	**373.5**

The notes issued by the SPE were fully subscribed by UBI Banca. For the sake of full disclosure, it should be noted that the subscription of the junior notes by UBI Banca was settled partially in cash in order to provide the SPE with the liquidity needed to establish the recovery-cost accounts and to pay the cap on the derivative contract, as described below.

- on 19th December 2019, UBI Banca completed the disposal of 95% of the mezzanine and junior notes to market investors from outside the Group and subsequently on 20th December 2019 the disposal of 95% of the junior notes. In order to fulfil the retention obligation of Art. 405, paragraph 1 of Regulation (EU) 575/2013 (CRR) and related legislation, UBI Banca decided to maintain a net economic interest of 5% of the nominal value of each junior and mezzanine tranche, as well as to keep 100% of the senior tranche;
- the formal procedure for the application for the GACS guarantee on senior notes was then initiated.

As a result of settlement of the transfer of 95% of the notes, completed on 20th December 2019 as stated above, as of that date the conditions were met for the derecognition of the assets

29 The loss on disposal, in the transactions listed, has been calculated in accordance with the Bank of Italy Communication of 30 October 2018, based on which the adjustments recorded during the year, before the transfer, are also included in the impairment losses.

transferred in accordance with applicable accounting standards, given that the significant transfer of the risks and benefits of the securitised portfolios was achieved.

Therefore, we then:

- derecognised the loans transferred from the separate and consolidated accounts of Unione di Banche Italiane Spa;

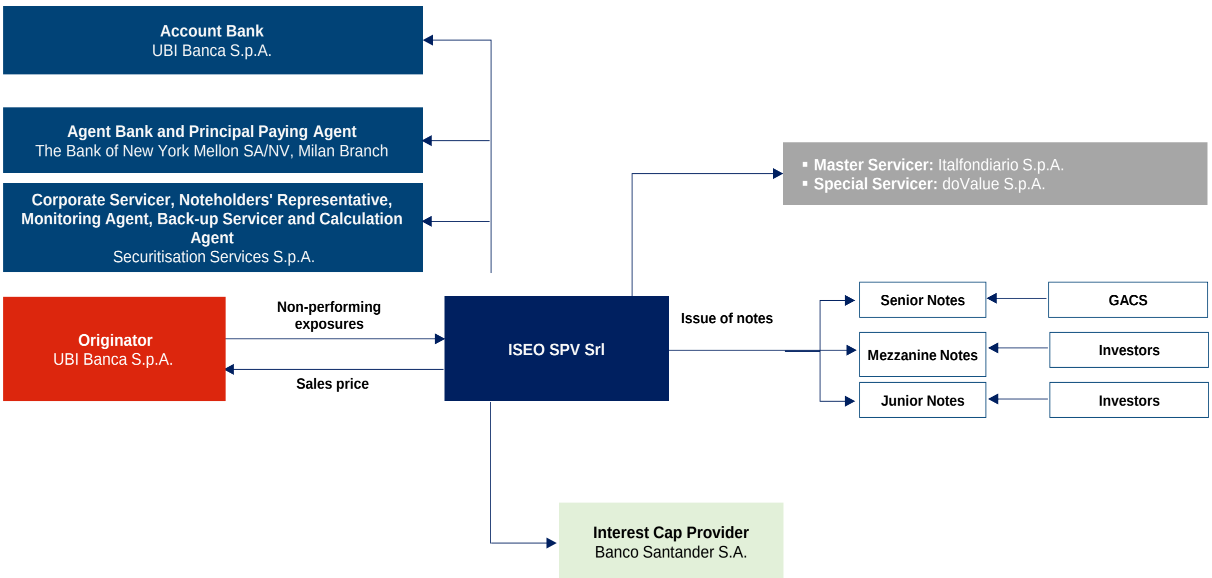
- recognised, in accordance with IFRS 9, the notes not transferred under "Financial assets measured at amortised cost" for the entire senior tranche in the amount of €335 million, while the residual portion of the mezzanine and junior subordinated tranches have been recognised as "Financial assets mandatorily measured at fair value through profit or loss" for a total of €440 thousand. The sale of the notes and subsequent recognition of those maintained by UBI Banca resulted in a loss of €29.7 million.

At the same time, we recognised the loss resulting from the sale through profit or loss, recognised within the item "Profits (losses) from the disposal or repurchase of financial assets measured at amortised cost" in the amount of €34 million resulting from the transfer of the loans and subsequent sale of the subordinated tranches, as described above, and taking account of the other costs directly attributable to the operation, in the amount of approximately €2.3 million.

The main information concerning the structure of the operation is provided below, along with an indication of the main parties involved.

1. Flow chart of the securitisation operation

The following flow chart shows how the operation was structured.



2. Parties involved in the operation

In order to manage all the activities necessary to the proper functioning of the operation, the securitisation involved a number of parties external to the Group, as follows:

- Italfondiario Spa will act as the master servicer for the securitisation;
- doValue Spa, as the servicer and special servicer, will be tasked with managing all the recovery activities for the NPLs transferred, starting from the date of transfer of the assets (4th December 2019);
- Securitisation Services Spa will act as the corporate servicer, calculation agent, back-up servicer, representative of the noteholders, and monitoring agent;
- Bank of New York Mellon Sa/Na, Milan branch: this has been appointed for the activities typical of the agent bank and principal paying agent.

In accordance with GACS legislation, the UBI Banca Group does not and will not have any equity interest or any other relationship in the entities specified above that could equate to forms of control, joint control, or other significant influence (as defined by applicable legislation) over these parties by any entities of the UBI Banca Group.

As such, any potential relations with these parties are solely of a commercial nature and conducted at arm's length in relation to services provided to the UBI Banca Group, such as those of other similar securitisations, in accordance with prevailing Italian Law 130/1999. In this regard, as the account bank, UBI Banca will provide all ordinary banking services to the SPE by opening accounts dedicated to the management of the liquidity resulting from the collections and from the payment of services and of the expenses incurred for the recovery efforts.

Within the context of the operation, the originator UBI Banca has also granted the transferee a limited recourse loan totalling approximately €13.85 million in order to establish a reserve of cash available to the SPE to be used as a portion of the funds available to make payments of the amounts due as interest in relation to the senior notes, based on the applicable order of payments. Unlike what is generally done for conventional securitisations, for this operation the amounts payable by the SPV to UBI as repayment of the limited recourse loan are to have priority over repayment of the principal of the senior tranche (and of the other subordinated tranches) based on the order of priority established in the "payment chain" in accordance with the provisions of Art. 7 of Law Decree no. 18 of 14th February 2016 (GACS) and with the rules of the operation's notes. As a result, UBI Banca is not exposed to risks related to the portfolio transferred even with regard to the sums disbursed for the limited recourse loan.

Finally, it should be noted that the agreement for the transfer of the loans to the SPE establishes no commitment for the originator banks to repurchase the loans, nor are there call options in their favour on the loans transferred[30]. The operation also does not envisage any forms of credit enhancement by the originator banks, as there are no guarantees of over-collateralisation[31] nor any types of contracts, insurance policies, or other guarantees given by the originators on the mezzanine or junior tranches.

For the sake of full disclosure, it should be noted that the SPE has entered into a cap derivative contract with Banco Santander aimed at hedging the risk of an increase in interest rates. In exchange for payment of a premium by the SPE, this contract calls for Banco Santander to make periodic payments, based on a predetermined notional, of the positive difference between (a) the base rate (6M Euribor) payable on the notes up to maximum strike-sell levels that increase over time and (b) a predetermined strike-buy level.

30 There are special cases in which – in specific situations and for the purpose of making management and recovery of the portfolios more effective – the originators are allowed to repurchase individual securitised loans.

31 Over-collateralisation occurs when the aggregate value of the assets transferred exceeds the price paid by the SPE or the value of the notes sold on the market to third parties.

The SPV made a lump-sum payment for the cost of the cap (€3.4 million approx.) on the issue date of the notes using funds resulting from UBI's subscription of the junior notes[32].

With regard to the use of derivatives in this operation, it should be also be noted that no entity of the UBI Banca Group is a direct or indirect counterparty in back-to-back derivative instruments aimed at reducing a portion of the risks associated with hedging interest rates by the originator bank.

- *Maior SPV Srl securitisation*

In line with the Group's NPL strategy, the UBI Banca Group also completed a securitisation in 2018 with "GACS" government guarantees (Decree Law No. 18 of 14 February 2016 - "GACS"), aimed at deconsolidating loans of the Group classified as bad loans. The securitisation involved a loan portfolio with a total gross book value (GBV)[33] of 2.7 billion and a gross carrying amount of €1.6 billion[34], €4 million of which (in GBV and gross carrying amount) transferred by the subsidiary IW Bank, while the remainder of the portfolio was transferred entirely by UBI Banca.

The bad loans were transferred to a special purpose entity (SPE), Maior SPV Srl, specifically established for the securitisation, in which the UBI Banca Group does not have any holdings.

In this securitisation – whose structure was similar to the Iseo Srl securitisation completed in 2019 and described in the section above – the SPE, in exchange for the transfer of the loans, issued three series of securitised notes: senior (rated by Scope Ratings GmbH and DBRS Ratings Ltd, at BBBsf and BBB (low)(sf) respectively), mezzanine and junior. The Parent, UBI Banca, initially subscribed for the entire issue and then sold 95% of the mezzanine and junior tranches, retaining the entire senior issue backed by the government guarantees (GACS)[35], in addition to 5% of the remaining tranches, held in compliance with the retention requirement laid down by the applicable regulations.

The table below shows the main characteristics of the MAIOR Srl notes held by UBI Banca as at 31st December 2019 (in thousands of euro):

Tranche	Notional issued	Interest rate	Rating		Quota Retained	MAIOR notes held in portfolio
			Scope rating	DBRS rating	%	*(Remaining nominal amount)*
Senior	628,500	Euribor 6M + 0,5%	BBB sf	BBB(low)(sf)	100	524,644
Mezzanine	60,000	Euribor 6M + 6,0%	n.d.	n.d.	5	3,000
Junior	26,900	Variable Return	n.d.	n.d.	5	1,345
Total	**715,400**					**528,989**

Lastly, we remind you that, also for the 2018 GACS securitisation, the originator UBI Banca had granted the SPE a limited recourse loan totalling around €25.1 million in order to establish a cash reserve. The amount of the loan was unchanged as at 31st December 2019.

32 A cap is an options-based financial derivative instrument. In exchange for payment of a premium calculated as a percentage of the underlying notional, the buyer receives the right to payment, in periods in which the Euribor rate is greater than a given strike price (the "cap"), for the difference between the Euribor rate and this strike price. Nothing is due to the buyer of the cap in periods in which the Euribor rate is lower than the strike rate.
33 Gross book value (GBV) as at 31st December 2017 (i.e. the date of identification of the loans).
34 Figure as at 1st January 2018, the effective date of the transaction for operating purposes.
35 The senior notes were recognised under "Financial assets measured at amortised cost" and the mezzanine and junior notes under "Financial assets mandatorily measured at fair value through profit or loss"

Self-retained securitisations

Securitisations with underlying portfolios originated by UBI Banca and companies in the UBI Banca Group are not reported in this section, because all the securitised notes were fully subscribed by each originator at the time of issue. As allowed by regulations the relative sections of the notes to the financial statements have therefore not been compiled. For full information the main characteristics of the transactions existing at the time of preparing these notes have nevertheless been reported.

▪ *24-7 Finance Securitisation*

The securitisation 24-7 Finance Srl was performed in 2008 with the underlying assets held by B@anca 24-7 Spa, a company which, as is known, was merged into UBI Banca in 2012.
The assets types which were securitised by transfer to a single special purpose entity, 24-7 Finance srl[36], consisted of three different portfolios:

1) mortgages: performing loans resulting from mortgages granted to private individuals resident in Italy, secured by prime grade mortgages on residential properties located in Italy all fully built;
2) salary backed loans: performing loans resulting from salary backed loans to private individuals resident in Italy, secured by a "deducted for non-payment" clause and by a loss of employment insurance policy;
3) consumer loans: performing loans resulting from personal loans and dedicated loans to private individuals resident in Italy.

Three different issuances of securitised notes were structured by the special purpose entity 24-7 Finance Srl on those assets.
The securitisation for salary backed loans was closed down in advance in 2011.
Similarly the securitisation transaction with consumer loans for the underlying portfolio was also closed down in advance in 2012.
Therefore as at 31st December 2019 only the mortgages securitisation was still in existence for which the portfolio amounted on that date to €749 million (remaining principal debt). As already reported, in compliance with the international accounting standards in force, the securitised assets remained recognised on the balance sheets of the originators[37].

The tables below give the distribution of the securitised portfolio by the quality of the loans as at 31st December 2019 on the basis of the classification in the balance sheet of the originator (in terms of the net carrying amount) and the reporting classification of the transaction (in terms of the remaining principal debt "customer view").

TYPE OF LOAN *(Classification for the purposes of the transaction)*	**Remaining principal debt as at 31/12/2019** *(thousands of euro)*
Performing loans	656,333
Delinquent loans	28,220
COLLATERAL PORTFOLIO	***684,553***
Defaulted loans	64,570
TOTAL	***749,123***

TYPE OF LOAN *(Balance sheet classification)*	**Carrying amount as at 31/12/2019** *(thousands of euro)*
Performing exposures	646,356
Performing past-due exposures	23,128
Non-performing past-due exposures	3,993
Unlikely-to-pay exposures	50,189
Bad loans	10,798
TOTAL assets transferred to 24-7 FINANCE	**734,464**

36 The company is subject to full consolidation by the Parent, UBI Banca, according to the accounting standards in force.
37 As at the reporting date of this financial report, the assets transferred to 24-7 Finance were recognised in their entirety within asset item "Financial assets measured at amortised cost" in the balance sheet of UBI Banca.

We report that in September 2019, the originator, UBI Banca, repurchased bad loans present in the securitised portfolio amounting to approximately €103.4 million of remaining debt. UBI Banca subsequently disposed of the positions it had repurchased as part of the Iseo securitisation backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these notes to the financial statements for details.
The characteristics of the notes issued were as follows:

- class A notes (senior notes): nominal amount €2.279.250.000 at floating rate, initially assigned a rating of Aaa by Moody's; in order to comply with eligibility requirements a second rating was added in 2011 by the DBRS which initially stood at A (high); the current rating level is Aa3 for Moody's and A for DBRS;
- class B notes (junior notes): nominal amount €225,416,196, maturity 2055, unrated and with a yield equal to the additional return on the underlying portfolio.

The securitised notes are wholly owned by UBI Banca which uses the senior tranches as collateral eligible for the refinancing operations with central institutions.

The amortisation of the class A notes began from February 2010. The table below reports total amortisation and the remaining value of the notes as at 31st December 2019:

24/7 FINANCE SRL	**ISIN Number**	**Nominal amount when issued** *(thousands of euro)*	**Amount redeemed as at 31/12/2019** *(thousands of euro)*	**Remaining nominal amount as at 31/12/2019** *(thousands of euro)*	**% redeemed**
Class A	IT0004376437	2,279,250	1,876,642	402,608	82.3%
Class B	IT0004376445	225,416	-	225,416	0.0%
Total		**2,504,666**	**1,876,642**	**628,024**	**74.9%**

The roles of cash manager, calculation agent and paying agent for the securitisation are performed by The Bank of New York Mellon which also acts as the account bank. In 2017 UBI Banca joined The Bank of New York Mellon in the roles of "Additional Transaction Bank" and "Additional Cash Manager", as depositary bank for the liquidity generated by the portfolio.
With regard to the securitisation, in addition to the role of originator, Banca 24-7 also functioned as the servicer for the transaction, a role that is now carried out by UBI Banca following the merger of the two entities.
The fee due to UBI Banca for servicing activities carried out in 2019 totalled €326 thousand, while total payments received as part of servicing activity amounted to €152 million for the year 2019.

For full information we report that Banca 24-7 Finance also filled the role of subordinated loan provider, having granted a subordinated loan designed to create an initial cash reserve to meet possible shortages of liquidity for the operation. At the time of the merger into UBI Banca in 2012, a subordinated loan of approximately €24.4 million was outstanding, which was subsequently increased in 2013 by a further €73 million.
The financial support provided by UBI Banca to the securitisation, given that no repayments of the loan had been made since 2012, amounted to €97.6 million.

▪ *UBI SPV Lease 2016 Securitisation*

This securitisation, with lease financing disbursed by UBI Leasing Spa as the underlying, was structured in 2016 for the purpose of generating notes eligible for refinancing with central banks.
A new SPE[38], named UBI SPV Lease 2016 Srl, was formed to which the performing receivables and the relative lease contracts were transferred amounting to €3,065 billion (in terms of principal receivables). The transfer was concluded on 23rd June 2016 with effect for accounting and operating purposes backdated to 31st May.

38 The company is subject to full line-by-line consolidation by the Parent, UBI Banca, according to the accounting standards in force.

As at 31st December 2019 the securitised portfolio, which in this case too remains recognised among the assets of the originator, amounted to €2.95 billion of remaining principal debt.
A description is given below of the composition of the portfolio transferred to UBI SPV Lease 2016, on the basis of the classification in the balance sheet of the originator (in terms of the net book amount)[39] and in terms of the remaining principal receivables, according to the classification adopted in the transaction:

TYPE OF LOAN *(Classification for the purposes of the transaction)*	**Remaining principal debt as at 31/12/2019** *(thousands of euro)*
Performing Loans	2,862,116
Loans in arrears	42,978
COLLATERAL PORTFOLIO	**2,905,094**
Defaulted loans	43,053
TOTAL UBI SPV LEASE 2016 PORTFOLIO	**2,948,147**

TYPE OF LOAN *(Balance sheet classification)*	**Carrying amount as at 31/12/2019** *(thousands of euro)*
Performing loans	2,834,371
Doubtful loans	68,961
of which:	
Non-performing past-due exposures	*6,013*
Unlikely-to-pay exposures	*48,906*
Bad loans	*14,042*
Total assets transferred from UBI Leasing to UBI SPV LEASE 2016	**2,903,332**

At the time when the financing was transferred a servicing contract was also signed by which UBI Banca, along the same lines as the model described above, filled the role of servicer and UBI Leasing that of sub-servicer for the management and collection of payments relating to the securitised financing, inclusive of positions classified as bad loan.

The fees due to UBI Banca for servicing activity carried out in 2019 amounted to €113 thousand, while the total payments received by the servicer and sub-servicers for the activities for which they are responsible amounted to €639.2 million for 2019.
UBI Banca, in its capacity as the Parent, also fills the role of cash manager, Italian account bank and calculation agent while the role of paying agent and payment account bank is carried out by BNP Paribas Securities Services. Furthermore, taking a prudential approach in order to comply with the eligibility requirements even under adverse market stress scenario conditions, a backup servicer facilitator has been appointed. This function is carried out by the company Zenith Service Spa, which also fills the role of noteholder representative for the operation.

The notes were issued on 28th July 2016. The characteristics of the securities issued are as follows:

- class A notes (senior tranches): nominal amount €2,100,000,000, at floating rate, maturity in 2050, assigned an A1 rating by Moody’s and A (low) by DBRS;
- class B notes (junior tranches): nominal amount €1,000,900,000, maturity 2050, unrated and with a yield equal to the additional return on the transaction.

The subscription of the junior notes also made it possible to form, as part of the securitisation, a cash reserve of €31.5 million, still fully available at the reporting date of these notes to the financial statements.

39 As at the reporting date of this financial report, the assets transferred to UBI SPV Lease 2016 were recognised in their entirety within asset item “Financial assets measured at amortised cost” in the balance sheet.

Amortisation of the notes has not yet begun and therefore the situation of these as at 31st December 2019 is as follows:

UBI SPV LEASE 2016	ISIN Number	Nominal amount when issued *(thousands of euro)*	Amount redeemed as at 31/12/2019 *(thousands of euro)*	Remaining nominal amount as at 31/12/2019 *(thousands of euro)*	% redeemed
Class A	IT0005204463	2,100,000	-	2,100,000	0.0%
Class B	IT0005204471	1,000,900	-	1,000,900	0.0%
Total	**0.00**	**3,100,900**	-	**3,100,900**	**0.0%**

The UBI Lease 2016 securitisation is a "revolving" operation. The "revolving" was initially set to last at the latest until November 2019, during which the originator, UBI Leasing Spa, was able to transfer additional receivables to the special purpose entity, which would finance its purchase using the amounts received from the portfolio securitised previously.
The first "revolving" transfer was completed in the first quarter of 2017 and involved a portfolio totalling €260 million (in terms of remaining principal debt). A second "revolving" transfer was completed in July 2017 for a total of €223 million (in terms of remaining principal debt). In 2018, three revolving transfers were completed respectively in January, for €187 million, in April, for €179.4 million, and in October, for €266.8 million, of remaining principal debt.
In 2019, two further transfers were completed, the first on 26th April 2019 (with effect for operating purposes on 1st April 2019), involving a portfolio of €302.2 million (in terms of remaining principal debt), and the second for an amount of €280.3 million, completed on 22nd October 2019 (with effect for operating purposes on 1st October 2019).
In addition, in 2019, contractual changes were made to extend the revolving period, which has now been extended to August 2021, when amortisation of the senior note is due to begin.

- *UBI SPV GROUP 2016 Securitisation*

The structuring of a new securitisation was also launched in the second quarter of 2016 with residential mortgages classified as performing as the underlying. This is also designed to issue notes eligible for refinancing with central banks, along the same lines as the other securitisations currently in existence in the UBI Banca Group, which are described above.

This transaction, named UBI SPV Group 2016, is a multi-originator securitisation in which the following participated as transferors: the Parent UBI Banca and the six network banks of the Group (subsequently merged into UBI Banca), Banco di Brescia, Banca Popolare di Bergamo, Banca Popolare di Ancona, Banca CARIME, Banca Regionale Europea and Banca Popolare Commercio e Industria. The transferee company is a new special purpose entity, UBI SPV Group 2016 Srl, that was specially formed[40].

The operation was concluded in two stages as follows:

1) the transfer of mortgages to the special purpose entity UBI SPV Group 2016 S.r.l. by the originators, which took place on 30th June 2016 (but with effect for operating and accounting purposes backdated to 13th June), for a total amount of approximately €2.7 billion.
   In accordance with the accounting standards currently in force, that portfolio remained recognised among the assets of each of the transferor banks;

40 The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force.

2) the issue of notes by UBI SPV Group 2016 Srl, concluded on 11th August 2016 and the subscription at the same time of those notes by each originator, in proportion to the size of the relative portfolio transferred.

Details of the notes subscribed and the relative characteristics are as follows:

- class A notes (senior tranches): nominal amount €2,085,600,000, at floating rate, maturity in 2070, assigned on issuance an A1 rating by Moody's and A (low) by DBRS, subscribed on a pro rata basis by all the originator banks participating in the securitisation. The class A notes subscribed by the network banks were then made available to the Parent by means of repurchase operations for the purpose of being used in refinancing operations with central banks. Following the merger of the network banks into UBI Banca, all the portions of the class A notes are now held directly by UBI Banca;
- class B notes (junior tranches) with maturity in 2070, unrated and with a yield equal to the additional return on the transaction, distributed among the seven originator banks as follows:
  - class B1 subscribed by UBI Banca for €113,800,000;
  - class B2 subscribed by Banca Popolare di Ancona for €62,700,000 nominal;
  - class B3 subscribed by Banca Popolare Commercio e Industria for €133,900,000 nominal;
  - class B4 subscribed by Banco di Brescia for €95,400,000 nominal;
  - class B5 subscribed by Banca Popolare di Bergamo for €244,400,000 nominal;
  - class B6 subscribed by Banca CARIME for €51,000,000 nominal;
  - class B7 subscribed by Banca Regionale Europea for €59,100,000 nominal.

  Following the merger of all the network banks into UBI Banca, the B2 and B7 notes were unified within the B1 class, which as at 31st December 2019 amounted to €760.3 million and were held entirely by UBI Banca.

Subscription of the junior notes by the originators also made it possible to form a cash reserve totalling €83.4 million. This sum has not yet been drawn on and is fully available to the securitisation at the reporting date of these notes to the financial statements.

As already mentioned previously, we report that, as part of actions taken to strengthen the structure and life of the securitisation, on 25th January 2019 the cash reserve was increased for a total of €130.3 million in accordance with the contracts. The increase of a further €46.9 million was financed by the grant of a subordinated loan by the originator, UBI Banca.

The table below reports the situation for the notes issued as at 31st December 2019:

UBI SPV GROUP 2016 SRL	SUBSCRIBED BY	ISIN Number	Nominal amount when issued *(thousands of euro)*	Amount redeemed as at 31/12/2019 *(thousands of euro)*	Remaining nominal amount as at 31/12/2019 *(thousands of euro)*	% redeemed
Class A	Originator pro quota	IT0005209967	2,085,600	-	2,085,600	0.0%
Class B1	UBI	IT0005209983	760,300	-	760,300	0.0%
TOTAL			**2,845,900**	**-**	**2,845,900**	**0.0%**

As at 31st December 2019, the rating assigned to the class A notes had reached "A3" for Moody's, whereas the rating assigned by DBRS remained unchanged at "A(low)".
At the time when the mortgages were transferred, a general servicing and the sub-servicing contracts were also signed by which UBI Banca, in its capacity as the Parent, fills the master servicer role, while activity for the collection of payments and the management of relations with customers was delegated to the various originators in their capacities as sub-servicers for the respective portfolios transferred. Following the merger of all the network banks, completed in February 2017, the fees for sub-servicing activities were paid entirely to UBI Banca in its capacity as servicer.

The total fees earned by UBI Banca for servicing activity in 2019, amounted to approximately €914 thousand, while for that of master servicer activity and also for credit recovery activities for "bad loan" exposures the total was €226 thousand.
The total payments received with regard to servicing activity for 2019 amounted to €273.7 million.

At the time when the notes were issued, the remaining contracts for the securitisation were also concluded, on the basis of which UBI Banca in its capacity as Parent fills the role of Italian account bank and calculation agent, while the role of paying agent is filled by The Bank of New York Mellon. Also for this operation, in order to comply with eligibility requirements even under adverse market stress scenario conditions, the company Zenith Service S.p.A. has been assigned the role of backup service facilitator. For full information we report that Zenith Service Spa also fills the role of noteholder representative.

The UBI SPV Group 2016 securitisation is a "revolving" operation. A maximum period of 36 months following the issue date of the notes has been set during which the originator may transfer additional loans to the special purpose entity. The special purpose entity will purchase those loans and finance the purchase from the amounts received generated by the portfolio securitised previously.
A revolving transfer amounting to €380 million of remaining principal debt was completed in 2018 and a second revolving transfer was completed in March 2019 involving loans with a remaining principal debt of €758 million. For the purposes of full disclosure, we report that the contractual revolving period has been extended until August 2022 and the amortisation is due to commence on the next payment date, which is in October 2022.

On the other hand in the first quarter of 2017 non-performing exposures were repurchased regarding loans classified as bad loans, unlikely-to-pay or in arrears for a total of €44.3 million of the remaining principal debt.
A repurchase of performing loans was completed in January 2019 (with an effective date for operating purposes of 21st January 2019), involving loans eligible for the covered bond programmes totalling €638.6 million of remaining principal debt.
In September 2019, a repurchase was completed of non-performing loans, classified as bad loans and destined to be included portfolio of the "Iseo" (GACS) securitisation[41]. The repurchase involved bad loans amounting to €11.9 million (in terms of remaining principal debt).
For the purposes of full disclosure, we report that a further repurchase was completed in January 2020 of performing loans eligible for the covered bond programmes for an amount of €416.2 million (remaining principal debt).

With account taken of the securitisations described above and of the natural amortisation of the loans, the total portfolio transferred amounted to €2.37 billion of remaining principal debt as at 31st December 2019.

41 See the specific section above "Securitisations backed by government guarantees (GACS)".

The table below reports, as at 31st December 2019, the composition of the total portfolio transferred to UBI SPV Group 2016, by type of credit quality on the basis of the reporting classification of the securitisation (in terms of the remaining principal debt):

TYPE OF LOAN *(Classification for the purposes of the transaction)*	**Remaining principal debt as at 31/12/2019** *(thousands of euro)*	***OF WHICH UBI BANCA***
Performing loans	2,321,958	*2,321,958*
Loans in arrears	7,198	*7,198*
Collateral Portfolio	**2,329,156**	**2,329,156**
Defaulted loans	45,030	*45,030*
Total UBI SPV Group 2016 portfolio	**2,374,186**	**2,374,186**

The table below, on the other hand, shows the distribution of the portfolio transferred according to the amount recognised under the asset item "40. Financial assets measured and amortised cost" separately by credit quality on the basis of the classification in the accounts of the originator:

TYPE OF LOAN *(Balance sheet classification)*	**Amount as at 31/12/2019** *(thousands of euro)*
Performing exposures	2,227,907
Performing past-due exposures	103,763
Non-performing past-due exposures	3,846
Unlikely-to-pay exposures	29,856
Bad loans	5,753
TOTAL UBI SPV Group 2016 securitised portfolio	**2,371,125**

Synthetic securitisations

The main purpose of a synthetic securitisation is to create value and optimise the use of capital by freeing up regulatory and economic capital as a consequence of reducing the level of credit risk in the underlying portfolio ("significant risk transfer").
Generally a synthetic securitisation involves the purchase of protection for the credit risk underlying a loan portfolio for which the originator retains full ownership by signing guarantee contracts.
Synthetic securitisations are therefore designed to transfer credit risk from the originator to an external counterparty. The transfer does not involve the derecognition of the assets and therefore the assets are maintained on the balance sheet of the originator.
The legislation applicable to these transactions is Regulation EU 575/2013 (Capital Requirements Regulation, "CRR"). Article 245 of this regulation lays down the conditions on the basis of which the significant risk transfer (SRT) criterion is satisfied, which is to say the transfer of significant risk to third parties by means of either collateralised or unsecured credit protection. More specifically, the SRT must be constantly monitored even during the life of the transaction in order to verify that the criteria set by the regulations are met.
Again in compliance with the regulations (article 405 of CRR), the originator must retain a portion of the net economic interest amounting to at least 5% of the nominal amount of the securitised portfolio. This means, in the structure of the securitisations chosen by the Group, that at least 5% of each securitised loan is considered unsecured (vertical slice or vertical retention).
The structure of the securitisation is based on tranching (normally Junior-J, Mezzanine-M, Senior-S) according to the risk of the portfolio.

In 2019 the UBI Banca Group carried out a synthetic securitisation concluded in November 2019 named “UBI2019 – RegCap-3”. This new securitisation is in addition to three outstanding securitisations, of which two carried out in 2017 and one in 2018, under a multi-year synthetic securitisation plan designed to optimise capital and create value.

Reference is made to the information provided in the sub-sections that follows for details of the single securitisations.

▪ *UBI2017 - SME FEI Securitisation*

The "UBI2017 - SME FEI" securitisation implemented in 2017 consists of a portfolio of medium to long-term loans to performing counterparties consisting of SMEs (over 80%) and small mid cap companies, mainly located in southern Italy.
This securitisation is the result of a positive evaluation made by the Group in 2017 of adhering to "SME Initiative Italy". The tender documents were published on 21st October 2016 by the European Investment Fund (EIF). The EIF initiative is very innovative with a specific focus on southern Italy and it is financed with structural funds, European resources, national resources and resources of the EIB Group to cover the junior and mezzanine risk of the securitised portfolio at competitive pricing conditions.
The securitisation involves the grant by the UBI Banca Group within the following three-year period of a portfolio of loans that are in addition to those covered under subsidised conditions reserved to SMEs located in southern Italy at the same time as the risk is covered on the securitised portfolios.
Three tranches of guarantees have been issued for this securitisation: a senior tranche subscribed by UBI Banca, a mezzanine tranche divided into three sub tranches and a junior tranche. As stated the mezzanine and junior tranches have been subscribed by the EIF.

▪ *UBI2017 - RegCap-1 Securitisation*

The “UBI2017 - RegCap-1” securitisation, also implemented at the end of 2017, is the first market securitisation carried out by the Group.
The underlying portfolio is composed of medium to long-term loans granted to performing counterparties consisting of corporates and corporate SMEs located mainly in northern Italy.
Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed by a market counterparty.
As opposed to the preceding securitisation, this transaction is funded and it involves the deposit by the subscriber of the junior tranche of the entire amount of the guarantee.

▪ *UBI2018 - RegCap-2 Securitisation*

The “UBI2018 - RegCap-2” securitisation, implemented at the end of 2018, is the second market securitisation carried out by the Group.
The underlying portfolio is composed of medium to long-term loans granted to performing counterparties consisting of corporates, corporate SMEs and retail SMEs located mainly in northern Italy.
Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed by a market counterparty.
In line with the 2017 market securitisation, this too is a funded transaction and involves the deposit by the subscriber of the junior tranche of the entire amount of the guarantee.

▪ *UBI2019 - RegCap-3 securitisation*

The “UBI2019 - RegCap-3” securitisation, carried out at the end of 2019, is the third market securitisation carried out by the Group.
The underlying portfolio is composed of medium to long-term loans granted to performing counterparties consisting of corporates and corporate SMEs located mainly in northern Italy.
Two tranches of guarantees have been issued for this securitisation: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed pro rata by two market counterparties.
In line with the previous market securitisations, this too is a funded transaction and involves the deposit by the two subscribers of the junior tranche of the entire amount of the guarantee, each for the portion attributable to them.

A table is given below which, for both the new 2019 transaction and those of previous years, describes the main qualitative and quantitative characteristics to which reference may be made for further details.

Name of Securitisation	UBI2017 - SME FEI				
Type of transaction	synthetic securitisation				
Originator	UBI Banca Spa				
Depository Bank	n.a.				
Servicer	UBI BANCA Spa				
Calculation Agent	UBI BANCA Spa				
Guarantee Provider	European Investment Fund "EIF"				
Objectives of the transaction	to hedge credit risk				
Type of assets securitised	loans to SMEs and corporate clients				
Quality of the securitised assets	performing				
Closing date	18/12/2017				
Nominal amount of the portfolio	1,122,607,166				
Percentage of the economic interest retained (retention)	50%				
Portfolio Guaranteed	561,303,583				
Guarantees issued by third parties	personal unfunded guarantee				
Early termination clauses	Regulatory Event, Time Call, Clean-Up Call, Tax Event				
Time Call	30/09/2020				
Rating agencies	none (*)				
Tranching amount and conditions:					
- type	SENIOR	UPPER MEZZANINE	MIDDLE MEZZANINE	LOW MEZZANINE	JUNIOR
- legal maturity	n.a.	Dec-32			
- Amount at closing date	524,257,547	2,806,518	561,304	16,839,107	16,839,107
- % of Guaranteed Portfolio	93.40%	0.50%	0.10%	3%	3%
- Subscriber	UBI BANCA Spa	Guarantee Provider			
- Guarantee Amount	not guaranteed	37,046,036			
Breakdown of securitised portfolio by geographical area:					
- North Italy	39.39%				
- Central	9%				
- South and Islands	51.61%				
Breakdown of securitised portfolio by type of customer:					
- Corporate	19.00%				
- SME Corporate	81.00%				
- SME Retail					

Name of Securitisation	**UBI2017 - RegCap-1**		**UBI2018 - RegCap-2**		**UBI2019 - RegCap-3**	
Type of transaction	synthetic securitisation		synthetic securitisation		synthetic securitisation	
Originator	UBI BANCA Spa		UBI BANCA Spa		UBI BANCA Spa	
Depository Bank	UBI BANCA Spa		UBI BANCA Spa		UBI BANCA Spa	
Servicer	UBI BANCA Spa		UBI BANCA Spa		UBI BANCA Spa	
Calculation Agent	UBI BANCA Spa		UBI BANCA Spa		UBI BANCA Spa	
Guarantee Provider	Protection seller		Protection seller		Protection sellers	
Objectives of the transaction	to hedge credit risk		to hedge credit risk		to hedge credit risk	
Type of assets securitised	loans to SMEs and corporate clients		loans to SMEs and corporate clients		loans to SMEs and corporate clients	
Quality of the securitised assets	performing		performing		performing	
Closing date	18/12/2017		21/11/2018		26/11/2019	
Nominal amount of the portfolio	1,996,773,687		2,240,867,368		2,270,658,285	
Percentage of the economic interest retained (retention)	5%		5%		5%	
Portfolio Guaranteed	1,896,935,002		2,128,823,998		2,157,125,371	
Guarantees issued by third parties	guarantee in the form of a pledge on a term deposit		guarantee in the form of a pledge on a term deposit		guarantee in the form of a pledge on a term deposit	
Early termination clauses	Regulatory Event, Time Call, Clean-Up Call, Tax Event		Regulatory Event, Time Call, Clean-Up Call, Tax Event		Regulatory Event, Time Call, Clean-Up Call, Tax Event	
Time Call	30/06/2020		31/03/2022		30/06/2023	
Rating agencies	none (*)		none (*)		none (*)	
Tranching amount and conditions:						
- type	SENIOR	JUNIOR	SENIOR	JUNIOR	SENIOR	JUNIOR
- legal maturity	n.a.	Dec-37	n.a.	Dec-40	n.a.	Dec-40
- Amount at closing date	1,794,435,002	102,500,000	2,028,823,998	100,000,000	2,047,125,371	110,000,000
- % of Guaranteed Portfolio	94.60%	5.40%	95.30%	4.70%	94.90%	5.10%
- Subscriber	UBI BANCA Spa	Guarantee Provider	UBI BANCA Spa	Guarantee Provider	UBI BANCA Spa	Guarantee Providers
- Guarantee Amount	not guaranteed	102.500.000	not guaranteed	100,000,000	not guaranteed	110,000,000
Breakdown of securitised portfolio by geographical area:						
- North Italy	77.43%		74.64%		59.68%	
- Central	17.00%		17.87%		27.27%	
- South and Islands	5.57%		7.49%		13.05%	
Breakdown of securitised portfolio by type of customer:						
- Corporate	59.88%		58.79%		40.84%	
- SME Corporate	40.12%		33.88%		59.16%	
- SME Retail			7.33%			

(*) In the absence of an external rating, the CRR (Art. 259) states that the calculation of the capital requirements for the various tranches of the retained securitisations should be carried out using the "Supervisory Formula Approach - SFA"

Internal risk measurement and monitoring systems connected with securitisation transactions including measurement, for those transactions originated by the Group, where risks were transferred to third parties. Illustration of the organisational structure for managing securitisation transactions including systems for reporting to senior management or to a similar body.

To complete the information given in the preceding pages, we report in relation to the organisational aspects and to internal control systems, that the UBI Banca Group has made a positive assessment of the structuring of the synthetic securitisations described above as initiatives to optimise capital and create value.
As already occurred in prior years, again for the new securitisation carried out the end of 2019, the preparatory activities carried out by the competent units in the Group allowed the feasibility, the economic advantages and the expected benefits in terms of capital to be assessed.

The main organisational units responsible for managing the securitisations are the units under the Chief Financial Officer (CFO) and under the Chief Risk Officer (CRO). The roles and the responsibilities relating to the implementation of the various steps involved in structuring activity and those involved in ongoing monitoring and management of the securitisations have been defined in those units, also as a result of the adoption of special internal regulations[42].

The significant risk transfer (SRT) must be constantly monitored during the life of the transaction in order to verify that the criteria set by the CRR Regulation on the effective transfer of credit risk are satisfied.
Each securitisation will also be monitored by the competent units with regard to the economic advantages for the Bank. Senior Management will be informed if difficulties or significant changes with respect to forecasts are encountered. It is underlined in this respect that the contracts contain early close-down clauses ("time calls" and "clean up calls") and early termination clauses (which may be applied in the event of significant changes in the regulatory and/or legislative framework).

Securitisations: accounting policies

The loans subject to synthetic securitisation are not derecognised assets and therefore they remain recognised in the balance sheet of the originator bank which maintains full ownership. The premium paid by the Bank to the investor for the protection of credit risk is recognised within fee and commission expense in the income statement. The enforcement of the financial guarantee received from the investor if the conditions laid down in the contracts manifest (i.e. a "Credit Event"), will contribute to the recognition of impairment losses or reversals of them on the securitised loans.

42 Circular No. 384 of 2018 and Synthetic Securitisation Regulation of 12/4/2019.

Quantitative information

C.1 Prudential consolidation – Exposures resulting from the principal "own" securitisation transactions by type of securitised assets and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures						Financial guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. Subject to full derecognition	**858,636**	**(759)**	**1,593**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,714**	**(210)**	**-**	**-**	**-**	**-**
A.1 Major - "GACS 2018" securitisation	524,789	(186)	1,151	-	-	-	-	-	-	-	-	-	24,949	(297)	-	-	-	-
– Bad loans	524,789	(186)	1,151	-	-	-	-	-	-	-	-	-	24,949	(297)	-	-	-	-
A.1 Major - "GACS 2019" securitisation	333,847	(573)	442	-	1	-	-	-	-	-	-	-	13,765	87	-	-	-	-
– Bad loans	333,847	(573)	442	-	1	-	-	-	-	-	-	-	13,765	87	-	-	-	-
B. Subject to partial derecognition	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**4,068,658**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Synthetic securitisation - Transaction UBI2017 - FEI	205,401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to SMEs	205,401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.2 Synthetic securitisation - Transaction UBI2017 - RegCap 1	561,371	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to Corporates and SME Corporates	561,371	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Synthetic securitisation - Transaction UBI2018 - RegCap 2	1,362,261	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to Corporates and SME Corporates	1,362,261	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4 Synthetic securitisation - Transaction UBI2019 - RegCap 3	1,939,625	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loans to Corporates and SME Corporates	1,939,625	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The table above shows the amount of retained risk (line items C.1, C.2, C.3 and C.4) for the synthetic securitisations structured.

C.2 Prudential consolidation – Exposures resulting from the principal "third party" securitisation transactions by type of securitised assets and by type of exposure

No items of this type exist for the UBI Banca Group.

C.3 Prudential consolidation – Interests held in securitisation special purpose entities

No items of this type exist for the UBI Banca Group.

C.4 Prudential consolidation - Interests held in securitisation special purpose entities not included in the consolidation

No items of this type exist for the UBI Banca Group.

C.5 Prudential consolidation – own securitisations: 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)		Loan repayments received during the year		Percentage of securities redeemed (end of period figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
UBI Banca Spa	Mecenate 2007 - Mecenate Srl	-	-	4,941	59,260	2.84%	97.16%	0.00%	100.00%	0.00%	100.00%

The amounts shown relate to the sums collected as part of servicing activity and do not include the amounts received by the SPE for the return of loans to the originator when the whole portfolio was repurchased (preliminary unwinding of the operation and full redemption of the notes). The operation was closed down as at 31st December 2019.

C.6 Prudential consolidation - Consolidated securitisation special purpose entities

No items of this type exist for the UBI Banca Group.

D. Transfers

A. Financial assets transferred and not fully derecognised

Quantitative information

D.1. Prudential consolidation – Fully recognised transferred financial assets and associated financial liabilities: carrying amounts

	Fully recognised transferred financial assets				Associated financial liabilities		
	Carrying amount	of which: securitised	of which: subject to sale and repurchase contract	of which non-performing	Carrying amount	of which: securitised	of which: subject to sale and repurchase contract
A. Financial assets held for trading	-	-	-	**X**	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Financing	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Financing	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**2,120,334**	-	**2,120,334**	-	**2,118,117**	-	**2,118,117**
1. Debt securities	2,120,334	-	2,120,334	-	2,118,117	-	2,118,117
2. Equity securities	-	-	-	-	-	-	-
3. Financing	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,086,652**	-	**1,086,652**	-	**1,048,913**	-	**1,048,913**
1. Debt securities	1,086,652	-	1,086,652	-	1,048,913	-	1,048,913
2. Financing	-	-	-	-	-	-	-
Total 31.12.2019	**3,206,986**	**-**	**3,206,986**	**-**	**3,167,030**	**-**	**3,167,030**
Total 31.12.2018	**3,795,028**	**1,186,924**	**2,608,104**	**37,054**	**2,727,560**	**227,929**	**2,499,631**

D.2. Prudential consolidation – Partially recognised transferred financial assets and associated financial liabilities: carrying amounts

No items of this type exist for the UBI Banca Group.

D.3. Prudential consolidation – Transfers with liabilities backed exclusively by the assets transferred and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31.12.2019	31.12.2018
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Financing	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**72**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Financing	-	-	-	72
C. Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Financing	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**2,120,334**	-	**2,120,334**	**2,172,558**
1. Debt securities	2,120,334	-	2,120,334	2,172,558
2. Equity securities	-	-	-	-
3. Financing	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**1,043,635**	-	**1,043,635**	**1,643,557**
1. Debt securities	1,043,635	-	1,043,635	428,285
2. Financing	-	-	-	1,215,272
Total financial assets	**3,163,969**	-	**3,163,969**	**3,163,969**
Total associated financial liabilities	**3,167,030**	-	**X**	**X**
Net amount 31.12.2019	**(3,061)**	-	**3,163,969**	**X**
Net amount 31.12.2018	**1,088,627**	-	**X**	**1,088,627**

B. Financial assets transferred and fully derecognised with recognition of the continuous involvement

There are no financial assets transferred and fully derecognised with recognition of the continuous involvement to report.

C. Prudential consolidation - Financial assets transferred and not fully derecognised

Transfers of unlikely-to-pay exposures to investment funds

This section provides general information on the transfers of unlikely-to-pay exposures loans to closed-end investment funds, carried out in 2019 by the UBI Banca Group, in exchange for shares of those funds as consideration for the transfers.

Qualitative information

Common characteristics of the transactions: structure and parties involved

These transactions were multi-originator transactions involving several Italian banks, as originators, which all held unlikely-to-pay exposures due from companies/groups, operating in Italy, identified for each transaction by the specific closed-end investment fund (the "Fund as the targets for the investment transaction (the "Target Companies").
None of the companies in the UBI Banca Group performed the role of "Sponsor" in any of the transactions carried out, nor did they assume roles in those transactions that involved the ordinary management of the positions transferred. The Funds are managed by specific asset management companies that are not subject to control by the UBI Banca Group.
These transactions involved the transfer without recourse of assets to the Funds, which were settled by offset against the debt due from the originators, to the Funds, resulting from subscription of the units issued by the Funds. An exception to this was the "Cuvée" transaction, already described in the section "Significant events in 2019" of the "Consolidated Management Report", details of which are provided in the discussion of the individual transactions carried out during the year.

The exposures transferred consist of various loans arising from various types of financing and profit-sharing equity instruments. The identification of the Target Companies of each Investment Fund depends on the type of Fund, and is based on specific size-related parameters (e.g. turnover, characteristics of the underlying real estate assets, etc.) and financial parameters (financial leverage, structure of sources of financing, etc.).

The Funds have a medium/long-term investment horizon, related to the product sector of the Target Companies and the residual maturity of the loans purchased.
The objective of all the Funds is to maximise the recovery of the loans purchased through their active management, which, for example, may include the Fund taking over control of the "Target Companies" (also through minority stakes and relevant governance mechanisms), the injection of new financial resources to support recovery plans, and value generation through extraordinary operations.

Objectives, strategies and processes underlying the transactions

The transfers of loans to investment funds are part of the broader long-term strategy adopted by the UBI Banca Group for the reduction of non-performing loans (NPLs). For certain kinds of loans, which usually have a high average vintage in UTP status, these types of transactions are generally more effective instruments than the internal management of non-performing exposures, mainly due to the following characteristics:

- the loans transferred are usually due from counterparties whose company restructuring plans have not achieved the expected results, or require significant new financing to execute those plans, and for which the restructuring generally requires measures that are not merely financial in nature (e.g. change in governance and management, M&A operations, review of strategic positioning, etc.) that the Fund, unlike creditor banks, can best direct and manage, when it assumes the status of main creditor;
- the management teams of the purchasing Funds are composed of professionals with specific expertise in the product sectors of the Target Companies. In addition, the investments by the Funds in the different companies are often made on the basis of industry sector and/or aggregation, which enables the purchased companies to optimise cost centres and distribution networks and, more generally, allows for greater synergies with respect to the possibilities available to the individual Target Companies;
- lastly, the Funds the UBI Banca Group works with adopt a "non-aggressive" approach to the debtors and removal of ownership from the management bodies is normally only pursued as a last resort.

Illustration of the organisational structure for managing securitisation transactions including systems for reporting to senior management or to a similar body.

At the level of the Parent, UBI Banca, the main organisational units involved in the structuring of this type of transaction are the units reporting to the Chief Lending Officer, which have been assigned the roles and tasks relating to the performance of the various activities necessary for the completion of each transaction and for the monitoring and reporting to the senior management and the governing bodies. They also provide support to the Chief Financial Officer and the Chief Risk Officer for the assessment of the accounting aspects of the transfers and the impact on capital, as well as compliance of the Fund's contractual documentation and rules with the internal policies, and for the issuance of the required internal opinions.
Further information on the Group activities concerning transfers of loans to Investment Funds is provided in the Management Report.

List of transfers carried out in 2019, broken down by originator company, transaction and credit quality

A summary table and a summary description of the transfers of UTP exposures to Funds carried out by the UBI Banca Group in 2019 are provided below[43].

[43] The profit or loss on disposal, in the transactions listed, has been calculated in accordance with the Bank of Italy Communication of 30th October 2018, based on which the adjustments recorded during the year, before the transfer, are also included in the impairment losses.

	UBI Group companies participating	Transaction name and date	Investment fund/Tranche	Type of assets	Asset status	Type of asset/fund	Fund management company of fund	Assets transferred - *Gross amount when transferred* (*)	Assets transferred *Impairment loss when transferred* (*)	Assets transferred *Net amount when transferred*	Shares of fund received *Value when transferred*	Profits/ losses realised
a)	**UBI Banca / UBI Leasing**	**Dea Capital - 02/2019**	**Fondo Idea CCR II**		**UTP**	**Business**	**Dea Capital Alt. Funds SGR**	**54,955**	**25,653**	**29,302**	**31,581**	**2,279**
a1)	*UBI Banca*	*Dea Capital - 02/2019*	*Fondo Idea CCR II*	*Equity instruments*	*UTP*	*Business*	*Dea Capital Alt. Funds SGR*	*209*	*74*	*135*	*135*	*-*
a1)	*UBI Leasing*	*Dea Capital - 02/2019*	*Fondo Idea CCR II*	*Equity instruments*	*UTP*	*Business*	*Dea Capital Alt. Funds SGR*	*5,205*	*2,321*	*2,884*	*3,365*	*481*
a2)	*UBI Banca*	*Dea Capital - 06/2019*	*Fondo Idea CCR II*	*Loans*	*UTP*	*Business*	*Dea Capital Alt. Funds SGR*	*35,993*	*16,974*	*19,019*	*20,335*	*1,316*
a3)	*UBI Banca*	*Dea Capital - 12/2019*	*Idea CCR II*	*Loans*	*UTP*	*Business*	*Dea Capital Alt. Funds SGR*	*13,548*	*6,284*	*7,264*	*7,746*	*482*
b)	**UBI Banca**	**Clessidra 09/2019**	**Fondo CRF Clessidra**	**Loans**	**UTP**	*Business*	**Clessidra SGR**	**16,622**	**5,160**	**11,462**	**11,365**	**-97**
c)	**UBI Banca**	**Project "Cuvée" - 12/2019**	**Back2Bonis**	**Loans**	**UTP**	**Property**	**AMCO / Prelios SGR**	**122,532**	**61,977**	**60,555**	**61,667**	**1,112**
	Total UBI Banca							**188,904**	**90,469**	**98,435**	**101,248**	**2,813**
	Total UBI Leasing							**5,205**	**2,321**	**2,884**	**3,365**	**481**
	Total UBI Group							**194,109**	**92,790**	**101,319**	**104,613**	**3,294**

Notes: (*) For the assets consisting of profit-sharing equity instruments, the gross value shown is the book value assigned to the profit-sharing equity instruments at the time of their acquisition in 2016, and the impairment losses include the write-downs made to the instruments after their initial recognition and before their transfer in February 2019.
For the assets consisting of loans, the gross value shown is the gross book value at the time prior to the transfer of the assets, and the impairment losses include all the write-downs made on these loans in previous years and in 2019 prior to their transfer to the Fund.

a) "Dea Capital transaction": the transfers carried out in 2019 follow on from similar transactions in 2017 and 2018 with the IDeA Corporate Credit Recovery II Fund (Idea CCR II), managed by Dea Capital Alternative Funds SGR. The following transactions were carried out during the year:

a1) February 2019 Disposal: transfer, to the Idea CCR II Fund - Loans Sub-Fund, of profit-sharing equity instruments issued by a single counterparty for an amount of approximately €3 million (net book value on disposal), of which €2.9 million held by UBI Leasing and the remainder by UBI Banca. The Fund allocated shares worth €3.5 million as consideration for the transfer (€3.4 million for UBI Leasing and the remainder for UBI Banca), which generated a profit on disposal of €481 thousand, for UBI Leasing;

a2) June 2019 Disposal: transfer, to the Idea CCR II Fund - Loans Sub-Fund, of loans relating to four counterparties, held entirely by UBI Banca, for an amount of around €19 million (net book value on disposal), in exchange for shares in the Fund worth €20.3 million as consideration, generating a profit on disposal of approximately €1.3 million;

a3) December 2019 Disposal: transfer, by UBI Banca to the Idea CCR II Fund - Loans Sub-Fund, of loans relating to ten counterparties for an amount of around €7.3 million (net book value on disposal), in exchange for new shares in the Fund worth a total of €7.7 million, generating a profit on disposal of €482 thousand;

b) "Clessidra Transaction": transfer, in September, to the CRF Clessidra Fund, managed by Clessidra SGR, of loans relating to five counterparties, held entirely by UBI Banca, for an amount of around €11.5 million (net book value on disposal). The consideration received, equal to €11.4 million in shares of the Fund, resulted in a net loss on disposal of €97 thousand;

c) "Cuvée Transaction": as already stated, this transaction had a more complex structure, due to the presence of a special purpose entity for the securitisation in addition to the investment fund. The main characteristics, of relevance to the UBI Banca Group, which participated as an originator bank, were as follows:

- the transaction concerns a portfolio of small and medium sized real estate loans classified as UTP and involves several transfer phases: the phase completed in

December 2019, which UBI Banca took part in, is the first phase, referred to as "Wave 1";

- the transaction involved the preliminary transfer of the real estate loans to the SPE Ampre Srl, which financed the purchase by issuing securitised notes, subscribed by the "Back2Bonis" Investment Fund; at the same time the originators transferred the receivable owed to them by the SPE to the Fund. The Fund then settled its debt with the originators, by assigning shares issued for the same amount, and offset the receivable from the SPE (purchased from the originator banks) against the debt (of the same amount) assumed when it subscribed for the securitised notes;
- in the transaction, AMCO - Asset Management Company Spa acts as the master and special servicer for the securitisation and the Prelios Group as the real estate partner and (through Prelios SGR) as the manager of the Fund.

UBI Banca transferred loans belonging to 12 counterparties for a total amount of €60.6 million (book value on disposal) and received shares of the "Back2Bonis" Fund worth €61.7 million as consideration, resulting in a total profit on disposal of €1.1 million.

The Fund shares received in the above transactions have been recognised under "Financial assets measured at fair value through profit or loss - Financial assets mandatorily measured at fair value". For more information on the methods used to estimate the fair value of these shares see the details provided in section "A.4 - Information on fair value" of the Notes to the Consolidated Financial Statements.

Quantitative information

The tables below show the distribution of the portfolio transferred by type of loans and receivables transferred, geographical distribution and economic sector of the counterparties both overall and for each originator group company involved[44].

Breakdown of assets transferred by originator bank and securitisation (gross amount of the transfer)

Originator Company	**Total assets transferred** *(Gross amount when transferred)*	***Dea Capital - 02/2019***	***Dea Capital - 06/2019***	***Dea Capital - 12/2019***	***Clessidra 09/2019***	***Project "Cuvée" - 12/2019***
UBI BANCA	188,904	209	35,993	13,548	16,622	122,532
UBI LEASING	5,205	5,205	-	-	-	-
TOTAL UBI GROUP	**194,109**	**5,414**	**35,993**	**13,548**	**16,622**	**122,532**

44 As a percentage of the gross book value on disposal.

Percentage distribution of assets transferred by type of financing

UBI BANCA	Total	*Dea Capital - 02/2019*	*Dea Capital - 06/2019*	*Dea Capital - 12/2019*	*Clessidra 09/2019*	*Project "Cuvée" - 12/2019*
mortgages	51.84%	0.00%	2.07%	24.11%	72.72%	66.78%
unsecured loans	11.18%	0.00%	32.35%	61.26%	7.06%	0.00%
loans in currency	0.31%	0.00%	0.00%	0.00%	3.58%	0.00%
secured current account overdrafts	15.42%	0.00%	0.00%	0.00%	0.00%	23.77%
current account overdrafts	13.75%	0.00%	50.37%	3.75%	8.54%	4.83%
portfolio and other advances	2.51%	0.00%	9.45%	0.00%	8.11%	0.00%
pooled financing	3.00%	0.00%	0.00%	0.00%	0.00%	4.62%
profit sharing equity instruments	0.11%	100.00%	0.00%	0.00%	0.00%	0.00%
other transactions	1.88%	0.00%	5.76%	10.87%	0.00%	0.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

UBI LEASING	Total	*Dea Capital - 02/2019*
mortgages	0.00%	0.00%
unsecured loans	0.00%	0.00%
loans in currency	0.00%	0.00%
secured current account overdrafts	0.00%	0.00%
current account overdrafts	0.00%	0.00%
portfolio and other advances	0.00%	0.00%
pooled financing	0.00%	0.00%
profit sharing equity instruments	100.00%	100.00%
other transactions	0.00%	0.00%
Total	**100.00%**	**100.00%**

Percentage distribution of assets transferred by geographical location

UBI BANCA	Total	*Dea Capital - 02/2019*	*Dea Capital - 06/2019*	*Dea Capital - 12/2019*	*Clessidra 09/2019*	*Project "Cuvée" - 12/2019*
North	65.90%	100.00%	5.20%	24.76%	100.00%	83.59%
Central	25.69%	0.00%	81.68%	75.24%	0.00%	7.29%
South and Islands	8.41%	0.00%	13.12%	0.00%	0.00%	9.12%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

UBI LEASING	Total	*Dea Capital - 02/2019*
North	100.00%	100.00%
Central	0.00%	0.00%
South and Islands	0.00%	0.00%
Total	**100.00%**	**100.00%**

Percentage distribution of assets transferred by economic sector

UBI BANCA	Total	Dea Capital - 02/2019	Dea Capital - 06/2019	Dea Capital - 12/2019	Clessidra 09/2019	Project "Cuvée" - 12/2019
Financial companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Non-financial companies	99.31%	100.00%	100.00%	90.38%	100.00%	100.00%
Other	0.69%	0.00%	0.00%	9.62%	0.00%	0.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

UBI LEASING	Total	Dea Capital - 02/2019
Financial companies	0.00%	0.00%
Non-financial companies	100.00%	100.00%
Other	0.00%	0.00%
Total	**100.00%**	**100.00%**

D.4 Prudential consolidation – covered bond operations

Covered bond programme for €15 billion – "Residential Programme"

▪ *The objectives*

In 2008 the Management Board of UBI Banca passed a resolution to proceed to implement a structured programme for the issuance of covered bonds designed to produce benefits in terms of funding while containing the cost at the same time.
In detail, the Management Board performed the following:

- it identified the objectives of the programme;
- it identified the basic structure of an operation to issue covered bonds in the light of the legislation and explained and examined the main elements, including the portfolio of loans, the criteria for selecting them, the structure of the financial transaction and the relative tests;
- it assessed and approved the impacts and the necessary relative adjustments of an organisational, IT and accounting nature. These changes were performed to ensure proper risk management by the Parent and also by the single banks participating. Account was also taken, in drawing up the procedures, of the requirements set by regulations issued by the Bank of Italy;
- assessed the risks connected with the operation to issue covered bonds;
- it assessed the organisational and operating structure of the special purpose entity concerned in order to ensure that the contracts involved in the operation contained clauses that would guarantee the proper and efficient performance of the functions of the special purpose entity itself;
- it assessed the legal aspects through an in-depth examination of the parties and contract documents used, with particular attention paid to the nature of the guarantees given by the special purpose entity and the relations between the issuing bank, the originator banks and the special purpose entity.

The primary objective of the programme is to allow the UBI Banca Group to facilitate medium to long-term funding both in terms of lengthening the maturities and containing the cost paid. The issue of covered bonds does in fact allow the following:
- the acquisition of funding at more competitive costs than funding acquired using alternative medium to long-term instruments, such as the EMTN programmes or securitisation transactions;
- access to specialist investors who currently do not invest in the funding instruments used and which may be used by the UBI Banca Group.

▪ *The structure*

The basic structure of the operation to issue covered bonds involved the performance of the following activities:

- one bank (the originator) transfers a set of assets with determined characteristics to a special purpose entity to form a separate set of assets termed a "cover pool". However, in compliance with international accounting standards in force, those assets are not derecognised from the financial statements of the originator bank;
- the originator bank (acting here as a financing bank) grants a subordinated loan to the special purpose entity designed to fund the purchase of the assets by the entity;
- the bank (the issuing bank) issues covered bonds backed by a primary, unconditional and irrevocable guarantee given by the special purpose entity to the sole benefit of the holders of the covered bonds and any hedging counterparties involved in the transaction. The guarantee is backed by all the assets transferred to the special purpose entity and which form part of the cover pool.

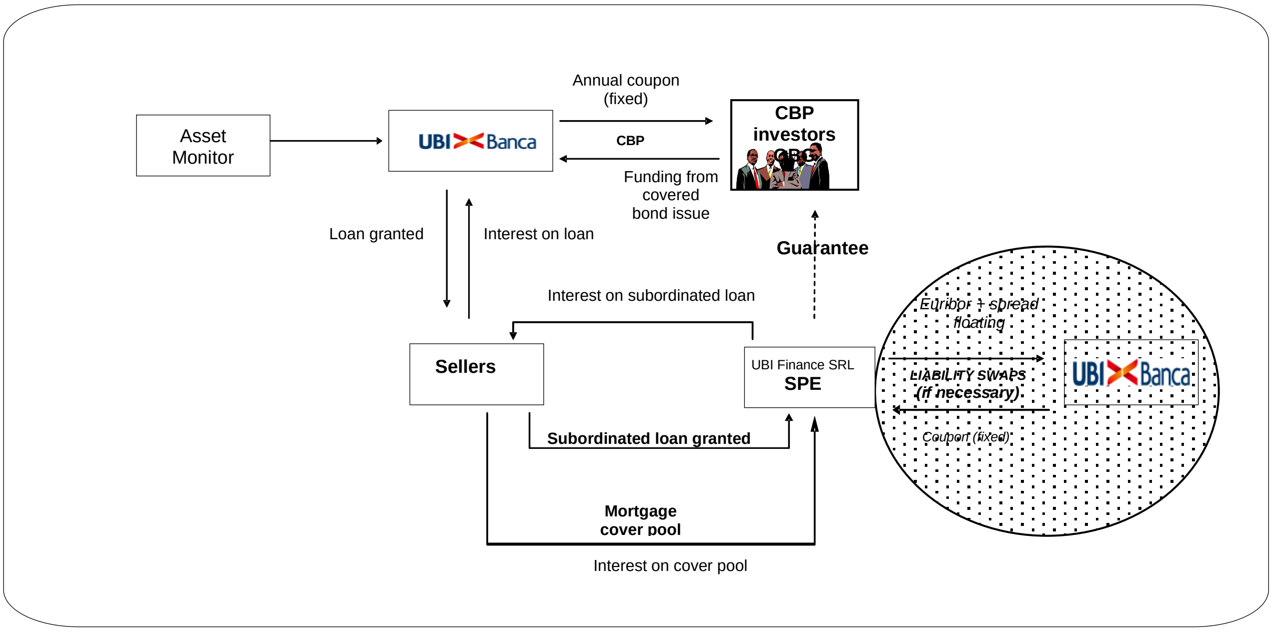
In the context of the procedures described above, the UBI Banca Group launched a covered bond programme (hereinafter the "CBP") with a ceiling on issuances of €10 billion which was increased in 2014 to €15 billion. The structure that was adopted also allows the transfer of the portfolios which constitute the segregated assets of the special purpose entity from more than one originator bank.

To achieve this, a special purpose entity, UBI Finance Srl was formed, in accordance with Law No. 130/1999, 60% held by UBI Banca[45], which as the guarantor of the issue performed by UBI Banca acquired a portfolio of residential mortgages[46] transferred to it from network banks of the Group, which participated in the programme both as originator banks and as financing banks. These were added to in 2013 with UBI Banca as an originator and financing bank, which as the Parent, also fills the role of master servicer, calculation agent and cash manager for the operation.
UBI Banca then delegated responsibility for servicing activity, consisting of collecting payments and managing relations with customers for the portfolio transferred by each originator (except for positions reclassified as bad loans, handled by the Problem Loans and Credit Recovery Area of the Parent), to the originator banks as sub-servicers.

Furthermore, in May 2018 UBI Banca took the place of The Bank of New York Mellon in the role of Account Bank for the operation. The Bank of New York Mellon, London Branch, now fills the role of Back-up Account Bank and The Bank of New York Mellon SA/NV, Milan Branch, that of Paying Agent, while the representative of the bondholders is BNY Mellon Corporate Trustee Services Limited.
The role of Asset Monitor, explicitly required by regulations for this type of transaction, is carried out by BDO Italia Spa.
This €15 billion programme is also assigned ratings by two agencies: Moody's, used since the first issuance under the programme, and DBRS, which replaced Fitch in the last quarter of 2015.

A summary of the main features of the structure of UBI Banca's covered bond programme is given below.

45 The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force.
46 The main criteria for identifying the mortgages transferred to the cover pool by the originator banks are as follows:
- performing residential mortgages for which the remaining debt does not exceed 80% of the value of the mortgaged property in accordance with the provisions of the MEF decree;
- backed by a first mortgage;
- not subsidised;
disbursed to natural persons or accounts jointly held by natural persons (excluding natural persons who are or were on the grant date employees of companies belonging to the banking group).



A). Covered bonds. UBI Banca issues covered bonds under the programme.

B). *Bond Loan.* In order to allow the funding acquired on institutional markets from the issue of covered bonds to flow back to the originator banks, these banks may issue bonds and the right to require subscription of them by UBI Banca, within the limits of their quota of participation in the programme. These bonds shall have the same maturity as the covered bonds and a yield established on the basis of the Bank's funding policies.

C). *Subordinated Loan.* In order to fund the purchase of mortgages by the special purpose entity, the originator banks grant subordinated loans to it. The yield on these loans is calculated as a "premium" or "extra spread" equal to the amount of the interest received, which remains in the accounts of the special purpose entities once priority amounts in the chain of payments have been deducted, relating to items such as the expenses incurred by the entity, payments to swap counterparties (where present) and allocations to the "reserve account".

D). Swaps to hedge interest rate risk. If the covered bonds are issued at a fixed rate, UBI Banca may hedge the interest rate risk by entering into swap contracts with market counterparties, thereby transforming the exposure to a variable rate. These swaps lie outside the perimeter of the covered bond programme and the decision to use them if made is made with a view to interest rate risk management as part of the Parent's ALM.

E). *Asset and liability swaps.* To complete the information we mention that the programme was initially backed by asset swap and liability swap contracts. The former were cancelled in 2013, while the latter were cancelled in December 2017.

F). Current accounts. The programme involves a complex system of current accounts to pay and receive the cash flows involved in the operation. In this respect, a series of accounts were opened in the name of the special purpose entity for each originator bank. By virtue of this, the current accounts currently open are as follows:

- <u>*Transitory account*</u> at UBI Banca linked to each originator bank into which sums received are paid daily consisting of interest and principal on the portfolios of each originator, and, where applicable, other assets transferred to the special purpose entity under the programme (e.g. eligible assets and top-up assets);

- *Interest collection account* at UBI Banca Spa linked to each originator bank into which all interest paid into the transitory accounts are paid on a daily basis and also all amounts paid to the special purpose entity by the counterparties of the swap contracts, where present;

- *Principal Collection Account at UBI Banca* linked to each originator bank, into which all the principal repayment amounts paid into the transitory account are paid on a daily basis;

- *a Reserve Fund Account* at UBI Banca, into which interest accruing on the covered bonds issued is set aside monthly in order to guarantee the payment of current coupons;

- *an Expense Account*, into which the amounts required to meet the expenses of the special purposes entity are paid, drawn from interest accounts, in proportion to the quota of participation in the programme of each originator bank.

▪ *Effectiveness tests*

"Effectiveness tests" are performed monthly on the whole cover pool and separately on the portfolios transferred by each originator, in order to determine the financial integrity of each bank's portfolio. As required by the regulations, because it is a multi-originator programme, with cross-collateralisation of the originator banks' portfolios, the only valid test for investors is that performed on the whole cover pool, while the tests performed on the individual portfolios are used to determine the integrity of each originator's portfolio for the purposes of cross-collateralisation between the different originator banks.
In detail:

- the nominal value test verifies whether the nominal value of the loans in the transferred portfolio is greater than the nominal value of the covered bonds issued. In order to ensure an adequate degree of over collateralisation in the portfolio, while the covered bonds are considered at their nominal value, the loans in the portfolio are weighted on the basis of the relative collateral backing them and the total amount is further reduced by an asset percentage; The calculation of the nominal value test may also take account, according to the situation, of potential additional risks, such as for example "set-off" risk or "commingling risk"[47];
- the Net Present Value Test verifies whether the present value of the loans remaining in the portfolio is greater than the present value of the covered bonds issued[48];
- the Interest Cover Test verifies over a twelve month time frame whether the interest received and held in accounts and the cash flows from interest to be received net of the entity's expense is greater than the interest to be paid to the holders of the covered bonds;
- *the Amortisation test (a similar logic to that of the nominal value test, but only performed if UBI Banca is downgraded by rating agencies or if one of the specified default events occurs);*
- the Top-up Assets Test verifies whether, before UBI Banca defaults, the total amount of additional assets and liquidity is not 15% greater than the nominal value of the loans remaining in the portfolio transferred, in compliance with the Ministry of the Economy and Finance and Bank of Italy instructions.

If all the tests[49] are passed simultaneously then the special purpose entity may proceed to pay all the parties involved in the programme, including the originator banks as the lenders of the subordinated loan, in the order of priority indicated in the "payment chain".

47 The calculation of commingling risk may be requested in determined situations on the basis of the methodologies applied by the rating agencies that assess the programme. It is a type of risk related to the account bank role filled by the Parent and represents the risk that if a downgrade which resulted in the transfer of the SPE's current accounts from the UBI Group to a third-party company, the immediate transfer to the new accounts of sums received by the servicer might not occur. At present, commingling risk together with the set-off risk already mentioned are not included in the calculation of the nominal value test required contractually, but they are considered in specific tests (e.g. asset coverage test) calculated for the purpose of rating agencies' assessments.

48 For full information we report that the competent units at UBI Banca carry out a further internal test on at least a half-yearly basis, designed to verify that the interest due on the cover pool is sufficient to cover the senior expenses and the payment of interest on the bonds outstanding from the relative calculation date until the most distant legal maturity date of the bond.

However, if the results of the tests are negative, then the contract states that the UBI Banca Group must increase the collateral of the portfolio by transferring suitable assets to it and that is "top up" with extra assets. In order to ensure greater efficiency in the process of topping up assets in cover pools, steps were taken in 2017 to set rules by contract within the programme to make it possible to also transfer, from among suitable assets, securities issued by public authorities or backed by them held in the portfolios of the originators, which meet the eligibility requirements set by the applicable regulations[50]. Failure to pass the tests, once the time limit allowed for the Group to add assets has passed, results in an "issuer event of default" with a consequent enforcement of the guarantee issued by UBI Finance. In this event the originator banks would only receive the repayments of the subordinated loans granted after the redemption of the covered bonds by the special purpose entity and within the limits of the remaining funds.
In accordance with the relative regulations, on a quarterly basis the asset monitor checks the accuracy and precision of the calculations carried out by the calculation agent, UBI Banca, in order to carry out the effectiveness tests.

▪ *Organisational action and control procedures*

Summary information is given below on the new organisational structure and operational processes for the covered bond programme approved in 2013. This information was prepared on the basis of that contained in the Programme Report submitted to the Management Board on 15/1/2013 and in the subsequent annual dates, as well as on the basis of instructions contained in internal Group regulations[51].

The organisational system currently adopted in the UBI Banca Group for the structuring and management of covered bond programmes is the result of a general organisation revision carried out in 2013, following the development of management and issuance processes experimented with in the first years of the life of the programme and refinements made in subsequent years.

A distinction is in fact made in that system between two main areas of activity, which are accompanied by the necessary monitoring activities:

1) the first area concerns the activity needed to set up an initial programme, carried out once only in the period preparatory to the issuance of bonds, which can be described briefly as follows: proposals for the structuring of a new programme are assessed by the competent internal committees of UBI Banca and the underlying general policies are approved by the Board of Directors. This is followed by the identification of external parties who must assist the Parent in the structuring and issuance of the programme (legal firms, arrangers, asset monitors, rating agencies). The assets which will form part of the portfolio are then defined together with the contracts relating to the operation for units internal and external to the Bank. Subsequently, the following is carried out with:
    - the formation of the special purpose entity;
    - technical and organisational activities needed to transfer assets to the entity and segregate the assets of the cover pool appropriately;
    - the assignment of a rating to the programme, inclusive of the site visit by the rating agency;
    - the presentation of a Programme Report[52] and a Programme Compliance Report.
2) the second area, on the other hand, regards recurring activities for the management, issuance, monitoring and control of the programme, which are organised in macro-processes described as follows:

49 The calculation of the first three tests mentioned above is consistent with the requirements contained in supervisory regulations (Bank of Italy Circular No. 285/2013) on the question of the partial weighting of collateral positions which should exceed the loan to value ratio set (80% for residential mortgages and 60% for commercial mortgages). See below Property Risk guarantees.

50 The covered bond programmes do in fact allow for the transfer, amongst other things, of (i) loans granted to specific government institutions or loans guaranteed by them, valid for the purposes of mitigating credit risk ("Loans to Public Institutions") and (ii) securities issued or backed by public institutions ("Securities issued by Public Institutions").

51 More specifically, Group Circular No. 415/2013 "Revision of processes relating to the First Covered Bond Programme" existing as at the reporting date of these financial statements, the Regulation "Collateral Management (to support Group liquidity)" and the "Treasury and Institutional Funding Regulation" which, amongst other things, regulates roles and responsibilities in the structuring of management of securitisation and covered bond operations. Both sets of regulations were updated in 2019.

52 The Programme Report is only updated subsequently if substantial changes are made to the programme (e.g. increase in the ceiling on issuances, swap cancellations, etc).

A. *annual planning:* a plan for the issuance of covered bonds to be carried out during the year is drawn up by the competent units at UBI Banca as part of a more general definition of the procedures to cover liquidity requirements on the basis of strategic policies and in accordance with the growth and risk objectives set by the competent corporate bodies. The annual planning of issuances is accompanied by an annual analysis stage designed to set the amount of the collateral that the Group must be able to post in the future in order to back existing and planned future issuances ("Sustainability Analysis"). After internal committees have carried out verifications, the Board of Directors of the Parent is then called upon, annually, to resolve ("Framework Resolution") upon:
   - transfers of new mortgages by originator banks participating in the programme and possible repurchases;
   - new covered bond issuances.

B. *periodic transfers of assets to the special purpose entity.* Portfolios of assets to be transferred are identified in detail on the basis of the guidelines defined in the previous point. With the support of legal firms and arrangers – where necessary – the competent units at the Parent prepare the contracts, carry out prior controls and proceed to comply with the technical requirements needed for the segregation and proper management of the portfolios by the servicers and sub-servicers. The originator banks also top up the subordinated financing as necessary in relation to the amount of the new portfolios transferred;

C. *issuance of new covered bonds:* as part of the issuance planned in accordance with the previous points, the competent units of UBI Banca decide on the characteristics of the issuance and, for public issuances, form a syndicate of dealer banks to participate in the issue. The issuance then commences with the acquisition of orders from institutional investors, which concludes with the official announcement of quantities and issue prices. This is followed by the preparation of the legal documentation with the support of legal advisors and arrangers and it will be signed by the parties involved before the value date of the issuance;

D. *ongoing management of the issuance programme:* this general process governs the activities needed for the daily management of the portfolios transferred to the SPE, the settlement of the cash flows, implementation of the controls required by regulations and the preparation of compulsory disclosures and other reports to markets[53]. The main sub-processes, carried out by the competent units of the Parent (which acts as the master servicer, calculation agent, cash manager and account bank for the programme) or of the network banks (as sub-servicers), are as follows:
   - daily settlement of cash flows from the cover pool;
   - monthly performance of effectiveness tests and monitoring of compliance with the maximum ratio of covered bonds issued to assets transferred to the cover pool;
   - calculation of the sequence of monthly payments and liquidity management;
   - preparation of periodic reports to the various counterparties, investors and rating agencies (in compliance with disclosure and control requirements requested by supervisory regulations for the prudential treatment of the CBPs);
   - settlement of coupons on outstanding issues (on an annual or interim basis depending on the issue);
   - determination (half yearly) of the controls set by regulations to monitor requirements to ensure the quality and integrity of the cover assets transferred and assessment of any need to repurchase assets no longer eligible.

Internal Group rules and regulations specify the persons involved in the individual activities and the processes outlined above in detail.

53 In this respect, as already reported recent amendments to supervisory regulations (Bank of Italy Circular No. 285/2013 already mentioned) extended control duties not only to include the competent internal risk control units of the issuer but also to the asset monitor for controls of the completeness, accuracy and appropriateness of the information made available to investors and also to ensure compliance with the loan to value ratio limits at the time of transfer and when property values are updated (see Property Guarantee Risks below).

▪ *The risks connected with the operation*

In 2012 and 2013 the Bank revised its analysis of the risks identified with the programme when it was approved in June 2008 and it prepared a new map of those risks. Subsequently, on an annual basis, the Bank reviewed and updated the risk analysis in consideration, amongst other things, of regulatory developments in this area. The risks identified, listed below, are derived from the current regulatory framework (EU and Italian) and they are based on the current methodologies used by rating agencies.

The different types of risk are attributable to the following general categories:

1. UBI Banca downgrade risk: this includes the risk relating to the account bank activities performed by UBI Banca and the risk relating to swap contracts to which UBI Banca is a counterparty (if these exist), because in both cases a downgrade could result in UBI Banca losing its status as an "eligible" counterparty in the roles just mentioned. More specifically, with regard to the account bank role, if a downgrade involved the transfer of the SPE's current accounts to a third-party company, the failure to immediately transfer sums received onto those accounts would represent a "commingling risk", account of which is taken, according to that which is indicated in the ratings assigned by agencies and, under certain conditions, when calculations for regulatory tests are carried out[54].

2. Risk relating to the underlying mortgages (collateral): the issuance of covered bonds bases its rating on the credit enhancement provided by the portfolio of mortgages transferred to back the special purpose entity. The criteria used by the rating agencies require the amount of the mortgage portfolio that provides the guarantee to be maintained at levels higher than the value of the bonds issued (known as over-collateralisation). The level of over collateralisation may be affected, amongst other things, by the possible deterioration in the quality of the underlying loans, by amortisation that is faster than was expected when the securitisation was structured ("prepayment risk") and by the ability of the originators to transfer the necessary quantity of new assets of similar quality to replace the amortised quota of the portfolio ("substitution risk"). A decrease in the level of over-collateralization would lead primarily to a downgrade of the operation and, in the most serious cases, to a default of the issuer, if the minimum level provided for in the contracts were not guaranteed and/or the regulatory tests were not passed. Various mechanisms are provided within the programme to address these risk. They include the following: a nominal value test and various degrees of over-collateralization, designed to ensure that the special purpose entity is able to fully guarantee the covered bonds issued even in the event of some defaults on the underlying assets; the ability to inject liquidity in order to guarantee the issues (within the limits of 15% of the total amount of the assets held by the special purpose entity); the ability to also insert assets in the portfolio that are not mortgages, such as securities issued or backed by government entities. Finally, with regard to redemption by the special purpose entity (or by UBI Banca in the event of its default) the maturity of the covered bonds may be extended by one year (termed a "soft bullet maturity").
   In any event, the units responsible at UBI Banca periodically verify the adequate availability of mortgages among the assets of Group banks in order to ensure the necessary over collateralisation for covered bonds already issued and for those to be issued in the coming year.

3. Risks connected with continuous management of the programme: the programme involves various third parties (asset monitors, bank account providers, trustees, possible swaps providers), for each of which there is a risk of default. Counterparty replacement rules have been put in place to limit that risk if determined events occur.
   The programme also requires continuous management of matters which include servicing activities, investment activities, the management of possible swap contracts,

54 See the sub-section above entitled "Effectiveness tests".

the calculation of regulatory tests and the production of reports. The adoption of the organisational model reported in the preceding pages led to a further improvement in the management of processes and the related operating risks. This increased the oversight and control points as a result of a more detailed official assignment of responsibilities to the competent units of the Parent.

4. Legal risks: due to the particular multi-originator structure of the UBI Banca programme, the include the risk of cross-collateralisation. The participation of a number of originator banks in the programme mean that all the transferor banks are subordinated creditors on an equal basis of the special purpose entity and above all, they assume the obligation to restore the portfolio to the levels specified by the tests if these are failed, even if the failure is not caused by the assets for which they are responsible. To mitigate that risk, the contract documents state that if the transferor bank required to top up assets does not meet that obligation, in the first instance the Parent will be required to top up the cover pool in its place until the required level of over-collateralization is reached, while the transferor banks)at the moment therefore only IW Bank) will only be required to top up the cover pool if the Parent fails to do so.

In order to take account, amongst other things, of regulatory developments that had occurred, when the 2015 Programme Report was drawn up two further risk categories were formally introduced as follows:

5. Tax Risks: tax impacts on the transfer of assets: the law which introduced covered bonds (Law No. 130/1999, Art. 7 *bis*) stated that transfers of assets to special purpose entities are considered as not taking place from a tax viewpoint where, amongst other things, the purchase price and the last amount recognised for the transferred assets in the financial statements of the transferor bank are identical. Since transfers of assets generally take place at a time subsequent to the reporting date of the last approved financial statements of the transferor banks, the prevalent interpretation adopted was that in order to determine the transfer price, reference has to be made to the carrying amount, reduced by the capital repayments received in the meantime and increased by the interest accruing as at the date of transfer in order to take account of the natural financial changes in the assets transferred [55]. Furthermore, as already reported, following the formation of the UBI VAT Group, as of 1st January 2019 special purpose entities that fill the role of guarantor in the UBI Banca Group's covered bond operations[56] are compelled to join that VAT Group. It is therefore necessary to apply provisions regarding several and joint liability required by group VAT regulations (Art. 70 *bis* and following of Presidential Decree No. 633/1972) as well as the limits and conditions set by Revenue Agency Revolution No. 487 of 15/11/2019.

6. Real Estate Property Guarantee Risk: in accordance with legislation and regulations the bank updates the values of the properties that back the assets transferred on a half yearly basis. The risk in question lies in the possible decrease in the value of the guarantees which can lead to total or partial exclusion of the loan from the calculation of tests. The updated value of the guarantees is in fact used to calculate the current loan to value ratio (the remaining debt as a ratio of the current value of the guarantee) and if that indicator is greater than the 80% limit, then the part of the loan above that limit cannot be used in the calculation of the tests. Furthermore, if the ratio of the updated value of the guarantee to that of the most recent property appraisal is lower than 70%, and at the same time the current loan to value ratio is higher than 100%, the loan must be totally excluded from the calculation tests unless a new appraisal is carried out within three months. In this respect we also report that in addition to the periodic controls carried out in accordance with regulations by the asset monitor, Risk Control Units in the UBI Banca Group check the loan to value ratios monthly and organisational processes result in prompt reporting of problem situations to the competent units for the necessary corrective action to be taken.

55 See Supervisory Regulations for Banks – Circular No. 285/2013 – Part Three – Chapter 3.
56 In addition to the company UBI Finance Srl, the guarantor of the programme in question, this also includes company UBI Finance CB2, the guarantor in the retained programme, to which reference is made in the specific sub-section.

▪ *History of the UBI Banca Residential Covered Bond Programme*

In the context of the procedures described above, the UBI Banca Group launched a ten-billion euro programme for the issue of covered bonds in July 2008, with the first transfers of mortgages performed by two banks in the Group, Banco di Brescia and Banca Regionale Europea, for a total amount, as at that time, of approximately €2 billion. Subsequently, in the years 2008 – 2010, all the Group's network banks joined the programme progressively transferring portions of their assets. Further transfers of assets were then concluded in each of the following years.
More specifically, with regard to the financial year 2019, we report that on 30th April 2019, with effect for accounting and operating purposes from the following 1st May, a new transfer of assets was concluded for a total of €2.4 billion, all relating to UBI Banca.
We also report that in August 2019, a repurchase of bad loans was carried out by UBI Banca in its capacity as the originator, which involved 2,241 positions for €246.5 million (in terms of the remaining principal debt). The positions repurchased by the originator were subsequently transferred by them to the Iseo securitisation, backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these notes to the financial statements for details.

The tables below give details of the amounts transferred and of those returned in 2019.

TRANSFERS OF ASSETS TO UBI FINANCE – 2019 *(figures in thousands of euro)*	**TOTAL TRANSFERRED**	***ORIGINATED BY UBI BANCA***	***ORIGINATED BY IW BANK***
transferred on 01/05/2019	*2,433,244*	*2,433,244*	-
total transfers 2019	**2,433,244**	**2,433,244**	-

RETURN OF ASSETS TO ORIGINATOR BANKS – 2019 *(figures in thousands of euro)*	**TOTAL RETURNS**	***ORIGINATED BY UBI BANCA***	***ORIGINATED BY IW BANK***
returned on 12/08/2019	*246,538*	*246,538*	-
Total returns in 2019	**246,538**	**246,538**	**-**

As at 31st December 2019 the cover pool of mortgages for the issues, which for accounting purposes is recognised within the assets of each originator bank, amounted to a total of €15.8 billion in terms of the remaining principal debt.

The table below gives the distribution of the portfolio (remaining principal debt) by class of credit quality as at 31st December 2019, according to the classification used in the documentation for the CBP:

TYPE OF LOAN - figures as at 31/12/2019 *(Remaining principal debt - in thousands of euro)*	**TOTAL PORTFOLIO**	***ORIGINATED BY UBI BANCA***	***ORIGINATED BY IW BANK***
Performing loans	14,588,012	*14,474,275*	*113,737*
Loans in arrears	816,843	*806,744*	*10,099*
Collateral Portfolio	**15,404,855**	**15,281,019**	**123,836**
Defaulted loans	409,660	*399,951*	*9,709*
Total UBI Finance portfolio	**15,814,515**	**15,680,970**	**133,545**

In 2019 this portfolio generated total payments received of approximately €2.3 billion, distributed as follows between UBI Banca and IW Bank:

PAYMENTS RECEIVED *(figures in thousands of euro)*	**TOTAL PORTFOLIO**	***ORIGINATED BY UBI BANCA***	***ORIGINATED BY IW BANK***
payments received in 2019	2,338,178	*2,316,474*	*21,704*

Within the ceiling on the issues set under the programme, which as already mentioned was raised from an initial €10 billion to €15 billion, UBI Banca has issued covered bonds for a total of €13.56 billion (bonds in issue as at 31st December 2019), which include the last bond issued in December 2019 for €1 billion. The table below gives details of the individual issues:

Number in order (*)	***ISIN Number***	***Name***	***Issue date***	***Expiration date***	***Principal (**)*** *(figures in whole euro)*	***Market***
3	IT0004599491	UBI BANCA TV CB due 30/04/2022	30/04/2010	30/04/2022	56,818,188	Private - EIB
6	IT0004682305	UBI BANCA 5.250% CB due 28/01/2021	28/01/2011	28/01/2021	1,000,000,000	Institutional investors
12	IT0004966195	UBI BANCA 3.125% CB due 14/10/2020	14/10/2013	14/10/2020	1,500,000,000	Institutional investors
14	IT0004992878	UBI BANCA 3.125% CB due 05/02/2024	05/02/2014	05/02/2024	1,000,000,000	Institutional investors
17	IT0005067076	UBI BANCA 1.25% CB due 07/02/2025	07/11/2014	07/02/2025	1,000,000,000	Institutional investors
18	IT0005140030	UBI BANCA 1% CB due 27/01/2023	27/10/2015	27/01/2023	1,250,000,000	Institutional investors
19	IT0005155673	UBI BANCA TV CB due 14/12/2022	14/12/2015	14/12/2022	500,000,000	Retained
22	IT0005215147	UBI BANCA 0.375% CB due 14/09/2026	14/09/2016	14/09/2026	1,000,000,000	Institutional investors
23	IT0005283491	UBI BANCA 1.125% CB due 04/10/2027	04/10/2017	04/10/2027	1,250,000,000	Institutional investors
24	IT0005320673	UBI BANCA 0.50% CB due 15/07/2024	15/01/2018	15/07/2024	750,000,000	Institutional investors
25	IT0005320665	UBI BANCA 1.25% CB due 15/01/2030	15/01/2018	15/01/2030	500,000,000	Institutional investors
26	IT0005325151	UBI BANCA 1.780% CB due 23/02/2033	23/02/2018	23/02/2033	90,000,000	Institutional investors
27	IT0005325334	UBI BANCA 1.750% CB due 25/02/2033	26/02/2018	25/02/2033	160,000,000	Institutional investors
28	IT0005347973	UBI BANCA TV CB due 16/10/2028	16/10/2018	16/10/2028	700,000,000	Retained
29	IT0005355539	UBI BANCA TV CB due 10/12/2022	10/12/2018	10/12/2022	800,000,000	Retained
30	IT0005355547	UBI BANCA TV CB due 11/12/2023	10/12/2018	11/12/2023	500,000,000	Retained
31	IT0005364663	UBI BANCA TV CB due 25/09/2025	25/02/2019	25/09/2025	500,000,000	Institutional investors
32	IT0005393936	UBI BANCA 1% CB due 05/12/2029	05/12/2019	05/12/2029	1,000,000,000	Retained
				Total issues outstanding as at 31/12/2019	**13,556,818,188**	

Notes: (*) Only issues outstanding at the reporting date are shown. The issues which as at that date had been extinguished, are not therefore shown in the table.
(**) For bonds subject to amortisation, the remaining nominal value is given as at the reporting date.

As at 31st December 2019, all the bonds listed above had received an Aa3 rating from Moody's and AA from DBRS.

▪ *Relations with the special purpose entity UBI Finance*

As already reported above, in compliance with IFRS international accounting standards the accounting treatment employed requires non-derecognition of the loans transferred to the special purpose entity in the balance sheets of the originator banks. Similarly, the income statement and valuation entries relating to the loans transferred but not derecognised continued to appear in the specific items of expense and income in the income statement as if the transfer operation had not been carried out.

Consistent with that accounting treatment, other asset and liability and income statement items relating to the bank and the special purpose entity are stated as balancing entries in the "residual" items of the balance sheet and income statement ("Other assets" in the balance sheet and "Other operating income/expense" in the income statement) and the relative balance is shown among the net asset/liability and expense/income items of the bank in relation to the special purpose entity in addition to those already recognised in relation to the loans transferred but not derecognised stated in a separate item.

Reference may be made to the relative sections of the notes on financial statements for the amounts of the items mentioned above, recognised within other assets and other operating income/expense. In compliance with regulations the pages that follow report detailed information on the main stakes held by the bank in the special purpose entity UBI Finance in relation to the €15 billion covered bond programme.

Assets transferred – carrying amount

The table below shows the amount for the securitised portfolio transferred to UBI Finance by the originator banks, according to the amount shown under the relevant asset items in the balance sheet. The classification follows the distribution of the transferred portfolio on the basis of the balance sheet classification of each originator.

TYPE OF LOAN **Carrying amount as at 31/12/2019** *(thousands of euro)*	**TOTAL**	**UBI BANCA**	**IW BANK**
Performing exposures	14,594,536	14,479,361	115,175
Performing past-due exposures	810,911	800,612	10,299
Non-performing past-due exposures	27,046	26,618	428
Unlikely-to-pay exposures	252,320	248,411	3,909
Bad loans	58,578	56,521	2,057
TOTAL assets transferred to UBI Finance	**15,743,391**	**15,611,523**	**131,868**
of which Item 40 "Financial assets at amortised cost"	*15,743,308*	*15,611,440*	*131,868*
of which item 20c "Financial assets mandatorily at fair value"	*83*	*83*	-

See the preceding sub-sections for the amount of the assets transferred during the year.

▪ *Subordinated Loan*

As already indicated earlier, at the time of each transfer of assets, each transferor bank, in its capacity as a financing bank, grants to the special purpose entity, a portion of the subordinated loan designed to finance the payment by the SPE itself of the purchase price of the assets transferred in its capacity as originator bank.

The table below shows the amounts of the loans granted by the originator banks to UBI Finance against the transfers for the year 2019:

Subordinated loans granted in 2019 *(figures in thousands of euro)*	TOTAL TRANSFERRED	ORIGINATED BY UBI BANCA	ORIGINATED BY IW BANK
Loan granted for transfer on 01/05/2019	**2,420,021**	**2,420,021**	-

The total amount of the subordinated loans granted as at 31st December 2019 by each originator to UBI Finance was €16.5 billion (in terms of the remaining principal debt):

Amount of subordinated loans as at 31/12/2019 *(figures in thousands of euro)*	TOTAL	*GRANTED BY UBI BANCA*	*GRANTED BY IW BANK*
Remaining principal debt	**16,512,267**	***16,368,306***	***143,961***

The carrying amount of the subordinated loans as at 31st December 2019 forms part of the net balance of the amounts recognised within item “Other assets” in the balance sheet, and represents the maximum exposure to loss resulting from participation by the banks (originators and financers) in the covered bond programme in the event that the guarantee given by the special purpose entity and the cash flows from the portfolios transferred as collateral were used to the reimburse investors and would not therefore be available, wholly or in part, to return the subordinated loans to the originators. The ability to repay that loan depends on the receipt of repayments on the loans in the segregated portfolio transferred to the special purpose entity by each bank. Consistent with the accounting treatment adopted, in the balance sheets of the originator banks, the underlying portfolio was measured directly and recognised under a separate asset item in the balance sheet, as indicated above.
In consideration of the performance of repayments by the issuer UBI Banca, no risk in this respect currently exists.

The interest for 2019 on those subordinated loans totalled €289.2 million, while the amount of the loans repaid in the year, drawn from the principal repayments available to the special purpose entity was €1.98 billion.
The following tables show the aforementioned sums by lending bank:

Subordinated loans - interest paid and accrued in 2019 *(figures in thousands of euro)*	TOTAL	*GRANTED BY UBI BANCA*	*GRANTED BY IW BANK*
total interest in 2019	**289,211**	***286,639***	***2,572***

Subordinated loans - sums repaid in 2019 *(figures in thousands of euro)*	TOTAL	*GRANTED BY UBI BANCA*	*GRANTED BY IW BANK*
total repayments in 2019	**1,983,500**	***1,962,000***	***21,500***

Servicing activities – Sub-servicing

The Parent received fees totalling €7.15 million from the special purpose entity UBI Finance for servicing activities performed in 2019 relating to the management of payments received and relations with customers with regard to the portfolio transferred and the management of accounts classified as bad loans, while fees received in its capacity as master servicer and calculation agent amounted to €755 thousand.
At the same time IW Bank received fees totalling €54 thousand from the special purpose entity UBI Finance for sub-servicing activities performed in 2019 relating to the management of payments received and relations with customers with regard to the portfolios transferred.

- *Five-billion euro covered bond programme – "Retained programme"*

In the first half of 2012, a new covered bond programme was structured, with the aim of using the assets present in the UBI Banca Group's balance sheet not yet used for securitisations and for the residential programme, for the issue of new bonds to be retained, and that is to be subscribed by UBI Banca itself, which will be used as collateral for posting with the European Central Bank in order to strengthen the pool of assets eligible for refinancing available to the Group.

To achieve this, a specific new special purpose entity, named UBI Finance CB2 Srl was formed, in which UBI Banca[57] also holds a 60% stake, to function as the guarantor of the issues of the new series of covered bonds. Mainly commercial mortgages and, in addition, residential mortgages eligible according to national legislation and regulations, but not covered by the rating agency methodologies for the first programme, are transferred by Group banks to UBI Finance CB2 Srl[58]. In fact, as opposed to the residential programme, the retained programme was initially structured without assessment by the rating agencies and therefore it benefited only from the senior rating of the Parent UBI Banca.
At the end of 2013 the agency Fitch also assigned a rating to the five-billion euro programme. The rating assigned was BBB+.
In 2015 the agency Fitch was replaced by the agency DBRS, which assigned a rating of "A (low)", which was then raised in 2016 to "A".
UBI Banca will be able to issue covered bonds under that programme for a total amount, from time to time, of not greater than €5 billion.

Again, for this second programme, the Management Board has:
- identified the objectives of the programme and of the first issuance;
- identified the basic structure of the operation, examining the initial loan portfolio and the criteria used to select it as well as the financial structure of the transaction and the tests;
- assessed and approved the impacts and the organisational, IT and accounting changes that would be required, considering that those actions had already been carried out to ensure proper risk management for the first programme;
- assessed the risks connected with the operation to issue covered bonds;
- assessed the organisational and operating structure of the special purpose entity;
- assessed the legal aspects of the programme.

Reference is made to what has already been reported above concerning the residential programme for that which regards the structural, organisational and risk aspects of the

57 The company is consolidated by UBI Banca in the Consolidated Annual Report for the Group, according to the accounting standards in force.
58 The main criteria for identifying the mortgages transferred to UBI Finance CB2 by the originator banks to back the securitisation are as follows:
- performing mortgages for which the remaining debt does not exceed 60% of the value of the mortgaged commercial property and/or 80% of the value of the mortgaged residential property, in accordance with the provisions of the MEF decree;
- backed by a first mortgage;
- granted to a natural person (including natural persons who are or were, on the date of the grant, employees of companies belonging to the banking Group), or to a legal entity (but not public sector entities, local authorities and central government administrations and central banks), or granted jointly to more than one natural person or legal entity;
- not subsidised.

operation[59], while here we report only those points where the five-billion euro programme differs from that which has already been reported:

A. *Liability swaps:* at present no fixed rate issuances have been made and therefore liability swap contracts have never been entered into between the special purpose entity and third party counterparties;

B. *Current Accounts:* interest and principal collection accounts for the second programme were initially opened with UBI Banca International, but they were transferred in August 2015 to BNP Paribas Securities Services – London Branch. As for the first programme, in June 2018 UBI Banca took over the role of account bank for the securitisation in place of BNP Paribas Securities Services.

C. *the liquidity generated by the programme:* in consideration of the type of operation performed by the Group with the retained programme, designed to increase the quantity of assets available for refinancing operations with the Eurosystem, no issuance of bonds has been put in place, in this case, to channel funds back to the originator banks.

▪ *History of the UBI Banca Retained Covered Bond Programme*

The initial cover pool to back the issues of the retained programme was transferred in two tranches in the first half of 2012 and it consisted of assets totalling €3 billion. The following banks transferred assets: Banca Regionale Europea, Banca Popolare di Ancona, Banca Popolare Commercio e Industria, Banca di Valle Camonica Banca Popolare di Bergamo, Banco di Brescia, Banco di San Giorgio (which was then merged into Banca Regionale Europea) and Banca Carime, while UBI Banca and IW Bank made the first transfer of assets in December 2015.
A new transfer of portfolios took place in 2019, concluded at the end of May (with effect for accounting purposes from 1st June). That transfer involved assets totalling €674.8 million, transferred exclusively by UBI Banca.
Furthermore, two repurchases of loans were carried out in the second half of 2019. The first, in August, regarded 39 bad loans for a total of €7.5 million and the second regarded three non-performing, unlikely-to-pay exposures in December for a total of €1.04 million. The portfolio transferred by IW Bank was not involved in these two operations. As already carried out for the Residential Programme, the bad loan positions repurchased were subsequently transferred by UBI Banca as part of the Iseo securitisation backed by a GACS guarantee (government bad loan securitisation guarantee) for which reference is made to a special section of these Notes to the Financial Statements for details.

The tables below give details of the amounts transferred and of those repurchased in 2019.

TRANSFERS OF ASSETS TO UBI Finance CB2 – 2019 *(figures in thousands of euro)*	**TOTAL TRANSFERRED**	***ORIGINATED BY UBI BANCA***	***ORIGINATED BY IW BANK***
transferred on 01/06/2019	*674,798*	*674,798*	-
total transfers 2019	**674,798**	**674,798**	-

59 For full information we report that the loan to value ratio limit for the eligibility of the guarantees is 60% for commercial mortgages.

RETURN OF ASSETS TO ORIGINATOR BANKS – 2019 *(figures in thousands of euro)*	TOTAL RETURNS	*ORIGINATED BY UBI BANCA*	*ORIGINATED BY IW BANK*
returned on 12/08/2019	*7,533*	*7,533*	-
returned on 06/12/2019	*1,036*	*1,036*	-
Total returns in 2019	**8,569**	**8,569**	-

The total portfolio transferred, which as already was the case for the first programme, continued to be recognised among the assets of the balance sheets of the originator banks, totalled €2.8 billion as at 31st December 2019.
The table below gives the distribution of the portfolio (remaining principal debt) for each originator bank and the total by class of credit quality as at 31st December 2019.

TYPE OF LOAN - figures as at 31/12/2019 (Remaining principal debt - in thousands of euro)	TOTAL PORTFOLIO	*ORIGINATED BY UBI BANCA*	*ORIGINATED BY IW BANK*
Performing loans	2,368,547	*2,354,072*	*14,475*
Loans in arrears	139,990	*139,972*	*18*
Collateral Portfolio	**2,508,537**	**2,494,044**	**14,493**
Defaulted loans	296,192	*296,192*	-
Total UBI Finance CB2 portfolio	**2,804,729**	**2,790,236**	**14,493**

Also for the portfolio transferred to UBI Finance CB2, the master servicer, UBI Banca, delegated responsibility for servicing activity to the originator banks as sub-servicers. This consisted of collecting payments and managing relations with customers for the portfolio transferred by each originator except for loans from UBI Banca's own portfolio and positions reclassified as bad loans (previously termed "non-performing"), handled by the Credit Recovery Area of the Parent.

In 2019, this portfolio generated total payments received of approximately €485.2 million, distributed as follows between UBI Banca and IW Bank:

PAYMENTS RECEIVED *(figures in thousands of euro)*	TOTAL PORTFOLIO	*ORIGINATED BY UBI BANCA*	*ORIGINATED BY IW BANK*
payments received in 2019	**485,234**	***482,703***	***2,531***

UBI Banca has issued covered bonds for a total of €2.15 billion within the ceiling on the issues set under the programme, (remaining nominal amount as at 31st December 2019), which include the last bond issued in December 2019 for €400 million. No public issuances have been made to date and therefore all the issues outstanding at present are self-retained held in portfolio by UBI Banca.

Details are given below of the individual issues:

Number in order (*)	ISIN Number	Name	Issue date	Expiration date	Principal (**) (figures in whole euro)	Market
2	IT0004864663	UBI BANCA TV CB2 due 29/10/2022	29/10/2012	29/10/2022	300,000,000	Retained
4	IT0005122418	UBI BANCA TV CB2 due 14/07/2021	14/07/2015	14/07/2021	650,000,000	Retained
5	IT0005202400	UBI BANCA TV CB2 due 24/06/2022	24/06/2016	24/06/2022	300,000,000	Retained
6	IT0005318560	UBI BANCA TV CB2 due 21/12/2023	21/12/2017	21/12/2023	300,000,000	Retained
7	IT0005355554	UBI BANCA TV CB2 due 10/12/2024	10/12/2018	10/12/2024	200,000,000	Retained
8	IT0005393944	UBI BANCA TV CB2 due 05/12/2025	05/12/2019	05/12/2025	400,000,000	Retained
Total issues outstanding as at 31/12/2019					**2,150,000,000**	

Notes: (*) Only issues outstanding at the reporting date are shown. The issues which as at that date had been extinguished, are not therefore shown in the table.
(**) For bonds subject to amortisation, the remaining nominal value is given as at the reporting date.

As at 31st December 2019, all the bonds listed above had received an A rating from DBRS.

▪ *Relations with the special purpose entity UBI Finance CB2*

As occurred for the first covered bond programme, this section has been prepared, insofar as the information has not already been given in the previous sub-sections, in relation to the special purpose entity UBI Finance CB2 Srl.

Assets transferred – carrying amount

The table below shows the amount for the securitised portfolio transferred by the originator banks to the special purpose entity UBI Finance CB2, according to the amount shown under a separate item in the relevant asset items in the balance sheets of each originator. The classification follows the distribution of the transferred portfolio on the basis of the balance sheet classification of the originator.

TYPE OF LOAN Carrying amount as at 31/12/2019 (thousands of euro)	TOTAL	UBI BANCA	IW BANK
Performing exposures	2,362,406	2,347,927	14,479
Performing past-due exposures	137,723	137,705	18
Non-performing past-due exposures	3,744	3,744	-
Unlikely-to-pay exposures	116,199	116,199	-
Bad loans	109,481	109,481	-
TOTAL assets transferred to UBI Finance CB2	**2,729,553**	**2,715,056**	**14,497**
of which item 40 "Financial assets at amortised cost"	*2,728,835*	*2,714,338*	*14,497*
of which item 20c "Financial assets mandatorily at fair value"	*718*	*718*	-

See above for the amount of the assets transferred during the year.

▪ *Subordinated Loan*

The table below shows the amounts of the loans granted by the originator banks to UBI Finance CB2 against the transfers for the year 2019:

Subordinated loans granted in 2019 *(figures in thousands of euro)*	**TOTAL TRANSFERRED**	**ORIGINATED BY UBI BANCA**	**ORIGINATED BY IW BANK**
transferred on 01/06/2019	668,989	668,989	-
total loans granted in 2019	**668,989**	**668,989**	**-**

The total amount of the subordinated loans granted as at 31st December 2019 by each originator to UBI Finance CB2 was €2.89 million (in terms of the remaining principal debt):

Amount of subordinated loans as at 31/12/2019 *(figures in thousands of euro)*	**TOTAL**	***GRANTED BY UBI BANCA***	***GRANTED BY IW BANK***
Remaining principal debt	**2,894,628**	***2,878,896***	***15,732***

As for the €15 billion programme, the carrying amount of the subordinated loans as at 31st December 2019 forms part of the net balance of the amounts recognised within item "Other assets" in the balance sheet, and represents the maximum exposure to loss resulting from participation by the banks (originators and financers) in the covered bond programme in the event that the guarantee given by the special purpose entity and the cash flows from the portfolios transferred as collateral were used to the reimburse investors and would not therefore be available, wholly or in part, to return the subordinated loans to the originators. The ability to repay that loan depends on the receipt of repayments on the loans in the segregated portfolio transferred to the special purpose entity by each bank. Consistent with the accounting treatment adopted, in the balance sheets of the originator banks, the underlying portfolio was measured directly and recognised under a separate asset item in the balance sheet, as indicated above.
For the "retained" programme also, in consideration of the performance of repayments by the issuer UBI Banca, no risk in this respect currently exists.

The interest for 2019 on those subordinated loans totalled €40.25 million for all the Group banks participating in the programme, while the amount of the loans repaid in the year drawn from the capital repayments available to the special purpose entity totalled €496.5 million.
The following tables show the aforementioned sums by single originator bank:

Subordinated loans - interest paid and accrued in 2019 *(figures in thousands of euro)*	**TOTAL**	***GRANTED BY UBI BANCA***	***GRANTED BY IW BANK***
total interest in 2019	**40,253**	***40,067***	***186***

Subordinated loans - sums repaid in 2019 *(figures in thousands of euro)*	**TOTALE**	***GRANTED BY UBI BANCA***	***GRANTED BY IW BANK***
total repayments in 2019	**496,500**	***493,500***	***3,000***

▪ *Servicing activities – Sub-servicing*

The Parent received fees totalling €1.53 million from the special purpose entity UBI Finance CB2 for servicing activities performed in 2019 relating to the management of payments received and relations with customers with regard to the portfolio transferred and the management of accounts classified as bad loans, while fees received in its capacity as master servicer and calculation agent amounted to €543 thousand. At the same time IW Bank received fees totalling €6 thousand from the special purpose entity UBI Finance CB2 for sub-servicing activities performed in 2019 relating to the management of payments received and relations with customers with regard to the portfolios transferred.

1.2. MARKET RISK

1.2.1 Interest rate risk and price risk - supervisory trading book

Qualitative information

A. General aspects

The considerations that follow relate exclusively to the "trading book", as defined by supervisory regulations. Transactions designed to affect sensitivity at Group level and equity investments in other companies classified as for trading according to the accounting standards.

B. Processes for the management and methods of measurement of interest rate risk and price risk

The guidelines for the assumption and monitoring of financial risk in the UBI Banca Group are defined in the Policy to Manage Financial Risks of the UBI Banca Group and in the relative documents to implement it (Regulation and Document setting operational limits) with particular reference to market risk on the trading book and to interest rate, currency and liquidity risks on the banking book.
More specifically the policy defines the capital allocated (maximum acceptable loss) to trading book activities and it sets an early warning threshold on the expected shortfall.

Within the trading book, the monitoring of the consistency of the risk profiles of Group portfolios with respect to risk-return objectives is based on a system of limits which involves the combined use of various indicators. In particular, the following are defined:

- maximum acceptable loss limit;
- VaR limit;
- possible limits on the type of financial instruments permitted;
- possible limits on composition.

Consistent with the limits set by the Policy, the document setting operational limits defines operational limits for the trading book of the UBI Banca Group in 2019, both at general level and for counterparties and single portfolios.
The main operational limits for 2019 are as follows:

• UBI Banca Group trading book capital allocated	€30 million
• early warning threshold on UBI Banca Group trading book capital allocated	€25 million
• early warning threshold on UBI Banca Group trading book 1-day expected shortfall (ES)	€5 million

Observance of the limits set for each portfolio is monitored daily.

The summary measurement used to assess the exposure of the UBI Banca to financial risks is the expected shortfall (ES). It is a statistical measurement used to estimate the loss that might occur following adverse changes in risk factors.
The ES of the UBI Banca Group is measured using a confidence interval of 99% and a holding period of one day. This value is defined in terms of limits consistent with the time horizon for the possible disinvestment of the portfolios. The ES is the daily loss threshold that exceeds the VaR. The latter in turn gives the "threshold" of the daily loss which, on the basis of probability hypotheses could only be exceeded in 1% of cases.
The method used for calculating the ES is that of historical simulation. With this approach the portfolio is revalued by applying all the changes in risk factors recorded in the two previous years (500 observations). The values thus obtained are compared with the present value of the portfolio to give a hypothetical series of gains or losses. The ES corresponds to the average of 1% of the worst results (confidence interval of 99%) of those obtained.

The Group employs a stress testing programme to identify events or factors which could have a significant effect on positions to supplement the risk indicators obtained from the use of the ES.
Stress tests are by nature both quantitative and qualitative and they consider not just market risks but also the effects on liquidity generated by market turbulence. They are based on both specially created theoretical shocks and market shocks actually observed in a predetermined historical period.

The predictive power of the model adopted for risk measurement is currently monitored using daily backtesting analysis, which uses an actual P&L calculated by the front office systems of the Group.
Retrospective tests consider changes in the value of the portfolio resulting from the front office systems of the Group, determined on day t with respect to positions present at t-1. The actual P&L is generated from all the transactions opposite in sign to the initial position for a total amount less than or equal to the total of the position t-1 without considering transactions of the same sign as the initial position that may have arisen during the day.

The risk of losses caused by unfavourable changes in the price of traded financial instruments due to factors related to the issuer can be the result of daily trading activity (idiosyncratic risk) or of a sudden change in price with respect to general market trends (event risk, such as the risk of default by the issuer caused by a change in the market's expectation that an issuer itself will default).
The UBI model for monitoring specific risk for debt securities is capable of detecting the first of the two components (idiosyncratic risk) because it considers spread curves by economic sector and rating as risk factors.

Total risk on equity instruments (and UCITS) is measured by considering single shares as risk factors and it includes both the generic risk component (i.e. the risk of losses caused by unfavourable trends in the prices of the financial instruments traded in general) and a specific component relating to the situation of the issuer.

Quantitative information

1.1 Supervisory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives: Euro

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	**111**	**2**	**11**	**-**	**3**	**7**	**234**	-
1.1 Debt securities	111	2	11	-	3	7	234	-
- with early redemption option	-	1	-	-	-	-	-	-
- other	111	1	11	-	3	7	234	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	(188,421)	629,302	320,868	599,900	254,187	(122,740)	(39,044)	-
3.1 With underlying security	-	(613)	188	16	407	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other	-	(613)	188	16	407	-	-	-
+ Long positions	-	40,450	3,909	16	407	-	-	-
+ Short positions	-	41,063	3,721	-	-	-	-	-
3.2 Without underlying security	(188,421)	629,915	320,680	599,884	253,780	(122,740)	(39,044)	-
- Options	-	146,476	123,671	(8,781)	(130,041)	(118,987)	(8,436)	-
+ Long positions	-	340,049	220,255	113,990	100,365	49,416	21,217	-
+ Short positions	-	193,573	96,584	122,771	230,406	168,403	29,653	-
- Other derivatives	(188,421)	483,439	197,009	608,665	383,821	(3,753)	(30,608)	-
+ Long positions	76,467	9,803,141	4,071,638	2,346,918	8,337,089	2,533,305	446,890	-
+ Short positions	264,888	9,319,702	3,874,629	1,738,253	7,953,268	2,537,058	477,498	-

1.2 Supervisory trading portfolio: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – other currencies

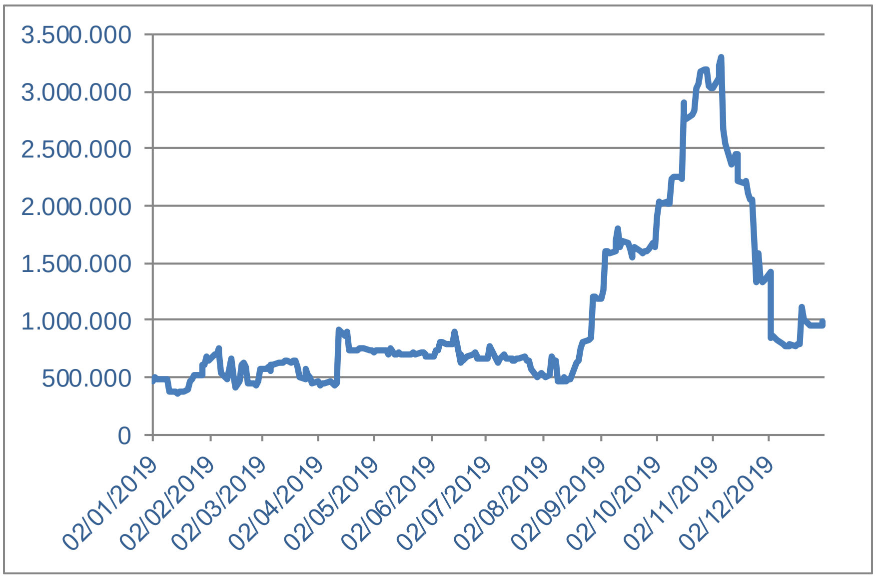
Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	2	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(1,363,648)**	**(41,376)**	**(80,327)**	**120,072**	**614**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
+ Long positions	1,826	25,739	-	-	-	-	-	-
+ Short positions	1,826	25,739	-	-	-	-	-	-
3.2 Without underlying security	-	(1,363,648)	(41,376)	(80,327)	120,072	614	-	-
- Options	-	14,867	(15,751)	403	(5,142)	-	-	-
+ Long positions	-	90,016	77,226	113,236	25,277	-	-	-
+ Short positions	-	75,149	92,977	112,833	30,419	-	-	-
- Other derivatives	-	(1,378,515)	(25,625)	(80,730)	125,214	614	-	-
+ Long positions	-	715,665	111,789	75,193	153,002	614	-	-
+ Short positions	-	2,094,180	137,414	155,923	27,788	-	-	-

2. Supervisory trading portfolio: distribution of exposures in equities and share indices by the principal markets in which they are listed

Type of operation/Where listed	Listed			Unlisted
	Italy	Germany	Other	
A. Equity securities	**4,892**	**4**	**1**	**2**
- long positions	4,892	4	1	2
- short positions	-	-	-	-
B. Trades in equity instruments not yet settled	**11**	**-**	**-**	-
- long positions	11	-	-	-
- short positions	-	-	-	-
C. Other derivatives on equity securities	**-**	**-**	**-**	**1**
- long positions	-	-	-	1
- short positions	-	-	-	-
D. Derivatives on share indices	**-**	**-**	**8,203**	**(89,224)**
- long positions	-	-	12,983	-
- short positions	-	-	4,780	89,224

3. Supervisory trading portfolio: internal models and other methods of sensitivity analysis

The graph below shows the changes in expected shortfall that occurred in 2019 for the UBI Banca Group trading portfolios.



Changes in the trend shown in the chart were related to movements in the portfolio since no exogenous shocks were recorded.

The expected shortfall by risk factor calculated on the entire trading book of the UBI Banca Group as at 31st December 2019 is reported below.

Trading book	31.12.2019	Average	Minimum	Maximum	30.06.2019	31.12.2018
Currency risk	123,843	73,129	10,312	221,630	85,191	91,382
Interest rate risk	450,632	570,984	247,416	1,577,237	556,477	426,279
Equity risk	306,102	490,089	147,942	1,722,687	161,718	150,509
Credit risk	860,703	436,219	7,926	1,812,072	13,352	317,561
Volatility risk	212,698	120,794	49,645	237,503	93,727	78,844
Diversification effect (1)	(961,254)	-	-	-	(249,065)	(553,564)
Total (2)	**992,724**	**1,033,897**	**363,310**	**3,312,650**	**661,400**	**511,011**

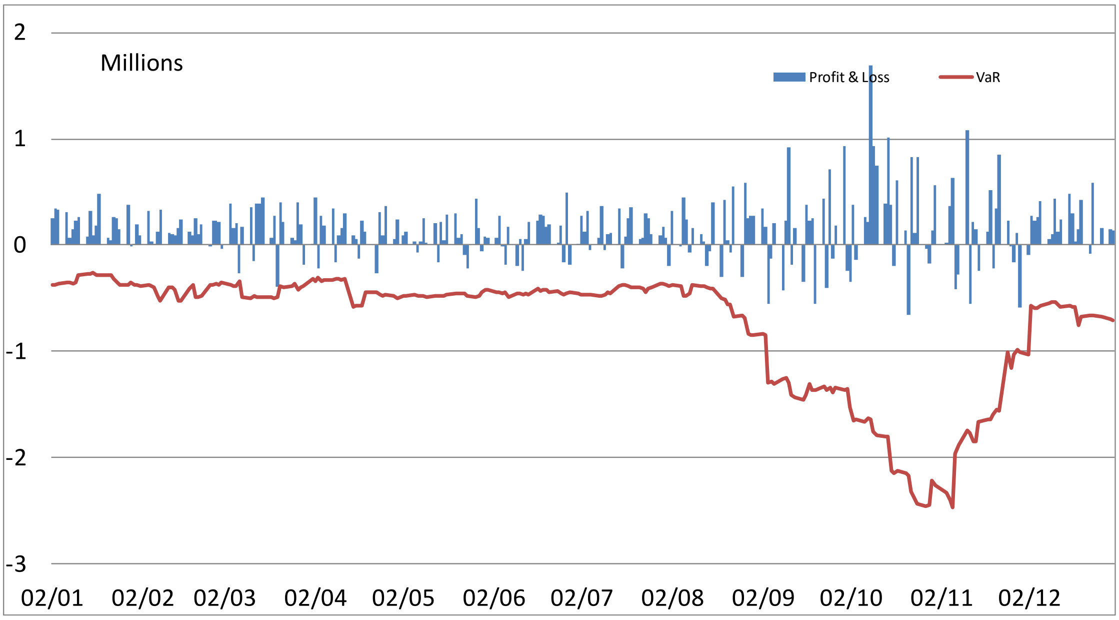
(1) The diversification effect is due to the imperfect correlation between the different risk factors present in the Group's portfolio.
(2) The maximum ES was recorded on 6th November, the minimum ES on 15th January.

Backtesting analyses

Backtesting analysis is designed to test the predictive power of the VaR model adopted. It uses an actual profit and loss calculated on the basis of returns on positions in the portfolio on the previous day.

The backtesting analysis for the trading book of the UBI Banca Group is given below for 2019.

Gruppo UBI Banca *Trading Book*: Backtesting 2019



Actual backtesting analysis of the supervisory portfolios of the Group found no days when the P&L was worse than the ES calculated by the risk management system.

Theoretical stress tests

The Group has a stress testing programme designed to analyse the reaction of portfolios to risk factor shocks with the objective of verifying the ability of the regulatory capital to absorb very large potential losses and to identify possible measures needed to reduce risks and conserve the capital itself.
Stress tests based on theoretical shocks consist of specially created extreme shifts in interest rate (short, medium and long term), credit spread, exchange rate, equity price and volatility curves. A brief description of the most significant stress tests is given below.

- *Bull/Bear Steepening:* a shock on the yield curve where the decrease/increase in short term interest rates is greater/smaller than that for long term rates.
- *Bull/Bear Flattening:* a shock on the yield curve where the decrease/increase in short term interest rates is smaller/greater than that for long term rates.
- *Credit Spread Shock:* a widening in the credit spread of 100 basis point for corporate and government securities with a rating of less than AAA.
- *Flight to quality:* this simulates a shift from investment in high risk to low risk assets. The shock applied is a decrease of 100bp in the interest rates for AAA government securities, an increase of 100bp in the credit spread on other government securities, an increase of 100 bp in the credit spread on corporate and banking securities and a depreciation in equity instruments of 10%.

The table below gives the results of the theoretical stress tests performed on the portfolios of the UBI Banca Group.

The effect of theoretical shocks on the trading book and banking book of the UBI Group

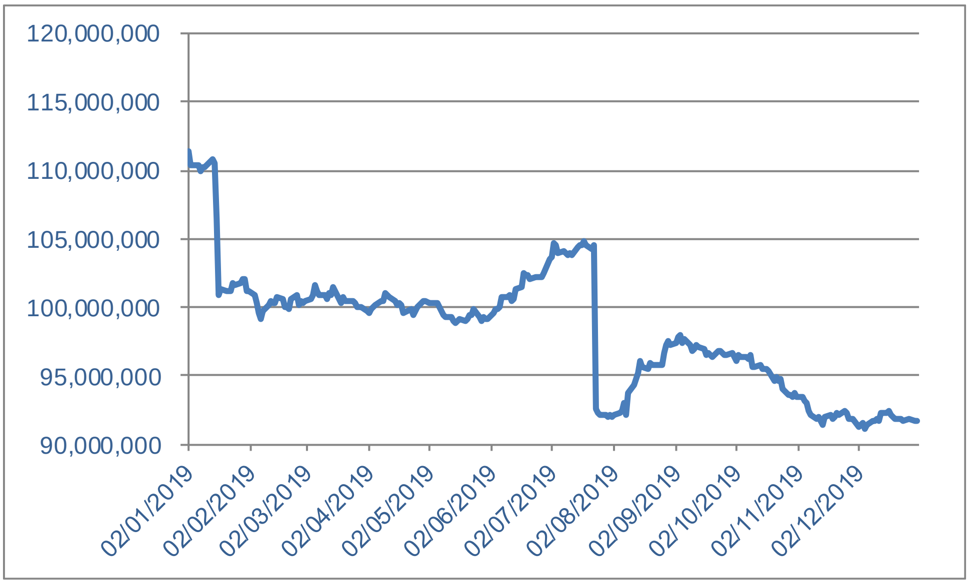
Data as at 31st December 2019 in whole euro		**UBI BANCA GROUP Supervisory Trading Book 31st December 2019** Change in NAV		**UBI BANCA GROUP Banking Book 31st December 2019** Change in NAV		**TOTAL UBI BANCA GROUP 31st December 2019** Change in NAV	
Risk Factors Shock	**IR Shock +1bp**	**96,896**	**-0.16%**	**(1,077,300)**	**-0.01%**	**(980,404)**	**-0.01%**
Risk Factors Shock	**IR Shock -1bp**	**(93,959)**	**0.16%**	**1,077,935**	**0.01%**	**983,976**	**0.01%**
Risk Factors Shock	**IR Bear Steepening**	**17,826**	**-0.03%**	**(47,635,404)**	**-0.48%**	**(47,617,577)**	**-0.48%**
Risk Factors Shock	**IR Bull steepening**	**(848,620)**	**1.40%**	**24,006,828**	**0.24%**	**23,158,208**	**0.23%**
Risk Factors Shock	**IR Bear Flattening**	**1,201,508**	**-1.99%**	**(22,538,578)**	**-0.23%**	**(21,337,070)**	**-0.22%**
Risk Factors Shock	**IR Bull Flattening**	**678,653**	**-1.12%**	**50,514,536**	**0.51%**	**51,193,189**	**0.52%**
Risk Factors Shock	**Equity -10%**	**(1,340,323)**	**2.21%**	**(4,796,273)**	**-0.05%**	**(6,136,596)**	**-0.06%**
Risk Factors Shock	**Credit Spread**	**(45,490)**	**0.08%**	**(5,371,420)**	**-0.05%**	**(5,416,910)**	**-0.05%**
Flight to quality scenario		**(4,058,933)**	**6.71%**	**(431,979,466)**	**-4.35%**	**(436,038,399)**	**-4.42%**

The analysis shows a heightened sensitivity of the UBI Banca Group's portfolios to credit spread shocks (consistent with the presence of Italian government securities) and to interest rate shocks (consistent with the presence of bonds and interest rate derivatives within the Group's portfolios).

The limits set for the trading book are also used for the portfolios in the banking book, which contain assets classified for IFRS 9 purposes as HTC&S and "other". The main operational limits for the banking book of the UBI Group decided for 2019, including the reallocations and the new limits set in the second half of the year, are given below.

- UBI Banca Group banking book capital allocated €810 million
- early warning threshold on UBI Banca Group banking book capital allocated €752 million
- early warning threshold on UBI Banca Group banking book 1-day expected shortfall (ES) €115 million

The graph below shows the changes in expected shortfall that occurred in 2019 for the UBI Banca Group banking portfolios.



The market ES does not include the ES on securities classified in the accounts as hold to collect.

Changes in the trend shown in the chart were related to movements in the portfolio and to exogenous shocks that occurred in the year (widening of the spread on Italian government securities).

The expected shortfall by risk factor calculated on the entire banking book of the UBI Banca Group as at 31st December 2019 is reported below.

Banking book	31.12.2019	Average	Minimum	Maximum	30.6.2019	31.12.2018
Currency risk	14,902	75,792	110	305,946	59,094	55,990
Interest rate risk	8,153,105	6,611,442	3,705,609	9,012,318	6,620,900	3,869,040
Equity risk	92,835,643	98,356,401	91,252,176	110,893,002	101,684,853	734,585
Credit risk	627,231	593,930	562,102	744,543	573,921	110,707,095
Volatility risk	-	-	-	-	-	-
Diversification effect (1)	(9,970,679)	-	-	-	(6,493,024)	(4,110,224)
Total (2)	**91,660,202**	**98,354,084**	**91,189,500**	**111,429,136**	**102,445,744**	**111,256,486**

(1) The diversification effect is due to the imperfect correlation between the different risk factors present in the Group's portfolio.
(2) The maximum ES was recorded on 2nd January, the minimum ES on 5th December.

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management procedures and methods of measurement of interest rate risk and price risk

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

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

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

Measurement, monitoring and reporting of interest rate risk exposure is performed at consolidated and individual level by the Capital & Liquidity Risk Management Area of the Parent, which performs the following on a monthly basis:

- a sensitivity analysis designed to measure changes in the value of assets on the basis of parallel shocks on interest rate levels for all the time buckets of the curve;
- a simulation of the impact on net interest income for the current year by means of a static gap analysis (i.e. assuming that the positions remain constant during the period), considering the effect of elasticity on demand deposits.

On the basis of the periodic reports produced, the ALM service of the Parent Bank takes appropriate action to prevent the limits and early warning thresholds from being exceeded.

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

Sensitivity analysis of economic value includes an estimate of the impacts resulting from the early repayment of mortgages and long-term loans, regardless of whether early repayment options are contained in the contracts.

This is accompanied by an estimate of the change in net interest income. The analysis of the impact on net interest income is over a time horizon of twelve months, with account taken of both the variation in the profit on demand items (inclusive of viscosity phenomena) and that variation for items held to maturity. This analysis also includes an estimate of the impact of reinvesting/refinancing maturing interest flows.

The 2019 “Policy to Manage the Financial Risks of the UBI Banca Group” defines a system of early warning thresholds on exposure to interest rate risk based on indicators measured in various scenarios of changes in the yield curves, both deterministic and historical, and parallel and non-parallel, assuming rises and falls in interest rates. More specifically, a limit of €120 million is set on sensitivity and an early warning threshold of €180 million is set on changes in net interest income. The amounts to compare with the early warning thresholds are the absolute figure for the greater negative exposure in terms of sensitivity and the absolute figure for the greater negative exposure in terms of the change in the profit margin resulting from the application of interest rate scenarios. A negative interest constraint of -75 bps has been set for downward interest rate shift scenarios.

In addition to the scenarios listed above, the economic value sensitivity is also calculated on the basis of regulatory scenarios of a parallel shock on the yield curve of +/-200 bps and of the regulatory scenarios proposed by EBA guidance issued on interest-rate risk[60].

At individual company level the 2019 “Policy to Manage Financial Risks of the UBI Banca Group” sets an early warning threshold of 10% of total individual own funds for the sensitivity of term and sight items represented by the behaviour model. The amount to compare with the

[60] EBA GL/2018/02, Guidelines on the management of interest rate risk arising from non-trading book activities.

early warning threshold is the absolute figure for the negative sensitivity resulting from the application of the two different interest rate scenarios (parallel shock of +/-100 bps of the yield curve). A negative interest constraint of -75 bps has been set for the downward interest rate shift scenario.
Furthermore, a limit on the total exposure is also set for individual legal entities measured in the scenarios defined by the supervisory regulations in force from time-to-time.
Compliance with individual limits is pursued by Group member companies by means of hedging derivative contracts entered into with the Parent. UBI Banca may then close the position with counterparties outside the Group, acting in accordance with strategic policies and within the consolidated limits set by the governing bodies.

B. Fair value hedging

In order to reduce exposure to adverse changes in fair value (fair value hedges) due to interest rate risk, hedges had been taken out as at 31st December 2019 in the UBI Banca Group using financial derivative instruments. In detail outstanding hedges were as follows:

- specific hedges on fixed rate HTC&S and HTC securities amounting to approximately €8.8 billion notional;
- specific hedges on fixed rate loans amounting to approximately €0.12 billion notional;
- macro-hedges on fixed interest rate loans amounting to approximately €6.38 billion notional;
- macro hedges on financing of the multimix/prefix type (this type of financing sets a cap on the rate paid by the customer) amounting to approximately €1.01 billion notional;
- macro-hedges on fixed interest rate liabilities amounting to approximately €7.71 billion notional.
- specific hedges on bonds amounting to approximately €18.83 billion notional;

The derivative contracts used are of the interest rate swap and cap type.
Activity to test the effectiveness of hedges is performed by the Capital & Liquidity Risk Management Area of the Parent. Tests for effectiveness are performed, in compliance with international accounting standards, prospectively on inception of a hedge followed by monthly prospective and retrospective tests.

C. Cash flow hedging

As at 31st December 2019 the Parent had an outstanding cash flow hedge for approximately €26 million nominal.

Quantitative information

1.1 Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities: euro

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	**22,498,057**	**46,032,944**	**4,736,461**	**2,144,205**	**13,210,950**	**12,087,225**	**7,397,931**	**-**
1.1 Debt securities	81,269	1,136,070	98,647	30,732	3,798,271	5,680,665	2,169,671	-
- with early redemption option	5,885	29,316	27,169	27,734	193,707	340,089	-	-
- other	75,384	1,106,754	71,478	2,998	3,604,564	5,340,576	2,169,671	-
1.2 Financing to banks	1,709,254	9,614,183	19,389	19,228	240,544	-	-	-
1.3 Customer finance	20,707,534	35,282,691	4,618,425	2,094,245	9,172,135	6,406,560	5,228,260	-
- current accounts	6,597,108	-	24,655	-	-	221,133	-	-
- other financing	14,110,426	35,282,691	4,593,770	2,094,245	9,172,135	6,185,427	5,228,260	-
- with early redemption option	763,610	30,894,748	3,067,194	1,555,414	6,693,199	3,876,022	4,912,413	-
- other	13,346,816	4,387,943	1,526,576	538,831	2,478,936	2,309,405	315,847	-
2. On-balance sheet liabilities	**70,637,021**	**3,513,997**	**9,230,256**	**2,923,775**	**14,931,128**	**4,294,505**	**1,016,553**	**-**
2.1 Due to customers	69,663,306	1,165,991	168,655	265,343	253,371	62,933	271,588	-
- current accounts	67,130,297	-	-	-	-	-	-	-
- other payables	2,533,009	1,165,991	168,655	265,343	253,371	62,933	271,588	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,533,009	1,165,991	168,655	265,343	253,371	62,933	271,588	-
2.2 Due to banks	735,144	583,271	8,091,036	658	2,721,792	7,411	1,020	-
- current accounts	447,044	-	-	-	-	-	-	-
- other payables	288,100	583,271	8,091,036	658	2,721,792	7,411	1,020	-
2.3 Debt instruments	238,570	1,764,735	970,565	2,657,774	11,955,965	4,224,161	743,945	-
- with early redemption option	59,333	1,350,894	765,891	812,811	139,170	2,369	510	-
- other	179,237	413,841	204,674	1,844,963	11,816,795	4,221,792	743,435	-
2.4 Other liabilities	1	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1	-	-	-	-	-	-	-
3. Financial derivatives	**768,258**	**(23,314,482)**	**2,241,844**	**4,158,453**	**21,451,362**	**(587,304)**	**(4,026,255)**	**-**
3.1 With underlying security	-	-	-	274,803	147,842	218,825	-	-
- Options	-	-	-	274,803	147,842	218,825	-	-
+ Long positions	-	-	-	-	421	-	-	-
+ Short positions	-	-	-	274,803	148,263	218,825	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	768,258	(23,314,482)	2,241,844	3,883,650	21,303,520	(806,129)	(4,026,255)	-
- Options	(106,644)	42,050	(3,754)	19,273	59,887	(248)	(10,564)	-
+ Long positions	100,430	111,628	21,004	25,312	59,891	-	-	-
+ Short positions	207,074	69,578	24,758	6,039	4	248	10,564	-
- Other derivatives	874,902	(23,356,532)	2,245,598	3,864,377	21,243,633	(805,881)	(4,015,691)	-
+ Long positions	874,902	3,269,651	2,280,826	3,936,117	26,925,696	4,760,077	865,416	-
+ Short positions	-	26,626,183	35,228	71,740	5,682,063	5,565,958	4,881,107	-
4. Other off-balance sheet items	**(1,431,609)**	**906,442**	**130,466**	**42,473**	**69,879**	**43,934**	**238,415**	**-**
+ Long positions	3,852,689	906,442	130,466	42,473	69,879	43,934	238,415	-
+ Short positions	5,284,298	-	-	-	-	-	-	-

1.2 Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities: other currencies

Type/Residual maturity	on sight	up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	5 years to 10 years	Over ten years	Indeterminate maturity
1. On-balance sheet assets	**504,708**	**675,391**	**100,152**	**10,326**	**1,790,019**	**819,393**	**81,717**	**-**
1.1 Debt securities	14,008	53,981	22,587	-	1,658,859	788,100	-	-
- with early redemption option	1,690	25,498	22,587	-	67,258	86,948	-	-
- other	12,318	28,483	-	-	1,591,601	701,152	-	-
1.2 Financing to banks	115,534	18,413	1,691	-	-	-	-	-
1.3 Customer finance	375,166	602,997	75,874	10,326	131,160	31,293	81,717	-
- current accounts	9,039	-	-	-	-	-	-	-
- other financing	366,127	602,997	75,874	10,326	131,160	31,293	81,717	-
- with early redemption option	52	1	4	-	-	-	-	-
- other	366,075	602,996	75,870	10,326	131,160	31,293	81,717	-
2. On-balance sheet liabilities	**470,670**	**2,204,438**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	446,917	333	-	-	-	-	-	-
- current accounts	439,670	-	-	-	-	-	-	-
- other payables	7,247	333	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	7,247	333	-	-	-	-	-	-
2.2 Due to banks	23,548	2,204,105	-	-	-	-	-	-
- current accounts	1,887	-	-	-	-	-	-	-
- other payables	21,661	2,204,105	-	-	-	-	-	-
2.3 Debt instruments	205	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	205	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**197,970**	**7,952**	**319,595**	**(281,289)**	**(289,300)**	**-**	**-**
3.1 With underlying security	-	-	-	-	3,115	-	-	-
- Options	-	-	-	-	3,115	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	3,115	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	197,970	7,952	319,595	(284,404)	(289,300)	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	197,970	7,952	319,595	(284,404)	(289,300)	-	-
+ Long positions	-	197,970	32,046	343,689	-	-	-	-
+ Short positions	-	-	24,094	24,094	284,404	289,300	-	-
4. Other off-balance sheet items	**(3,190)**	**3,142**	**47**	**-**	**-**	**-**	**-**	**-**
+ Long positions	61,510	3,142	47	-	-	-	-	-
+ Short positions	64,700	-	-	-	-	-	-	-

2. Banking portfolio: internal models and other methods of sensitivity analysis.

The exposure of the UBI Banca Group to interest rate risk as at 31st December 2019, measured in terms of core sensitivity[61] was approximately -€63.3 million, thereby remaining within the limits set by the Policy to Manage Financial Risks. In detail the sensitivity generated by the Product Companies and by IW Bank was approximately -€13.9 million, while the Parent contributed a total of -€49.4 million.

In compliance with the Policy to Manage Financial Risks, the exposure includes an estimate of the impact of early repayments, modelling of sight items and bad loan positions on the basis of the internal models developed.

With regard to the regulatory scenarios of a parallel shock on the yield curve of +/-200 bps and of the regulatory scenarios proposed by EBA guidance issued on interest rate risk, the exposure is consistent with the limits set by those regulations.

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

UBI Banca Group exposure to interest rate risk as at 31st December 2019, estimated in terms of an impact on net interest income of a reduction in reference interest rates of -100 bp was -€93.5 million, a figure which fell within the limits set by Group policy. The total level of exposure includes an estimate of the impact of early repayments and of the viscosity of demand items.

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.

1.2.3 Currency risk

Qualitative information

A. General aspects, management processes and methods of measuring currency risk

Currency risk is calculated on the basis of mismatches existing between assets and liabilities in foreign currency (spot and forward), relating to each currency other than euro. The main sources of risk are as follows:

- lending and funding in foreign currency with corporate and retail customers;
- holding financial instruments denominated in foreign currency;
- holding units in OICR (collective investment instruments) for which, even if they are denominated in euro, it is not possible to determine the composition in foreign currency of the underlying investments and/or for which the maximum limit on investment in foreign currency is not known and binding;
- dealing in foreign bank notes.

Foreign currency risk in the UBI Banca Group regards banking book exposures originated by the network banks and/or by the product companies – resulting from their commercial activities – and their positions relating to trading in foreign currency.

Trading on foreign exchange markets is performed by the Group treasury function which operates by using instruments such as forward trades, forex swaps, domestic currency swaps and currency options, thereby optimising risks resulting from Group positions in foreign currency.

61 The component relating to the HTC&S portfolio is excluded from the calculation.

Exposure to currency risk is calculated starting from the net foreign currency position using a method based on supervisory regulations. Equity investments and tangible assets are not included in the calculation of the net foreign currency position.

B. Currency risk hedging

Foreign currency risk arising from exposures in the banking book is mitigated by systematically hedging them with funding and lending transactions in the same currency as the original transaction. This activity to contain risk is also performed by the product companies for their own banking book positions. The remaining exposures and trading portfolio exposures are fully and precisely hedged with spot forex positions.

Quantitative information

1. Distribution of assets, liabilities and derivatives by foreign currency in which they are denominated

Items	Currencies					
	US Dollars	UK sterling	Yen	Canadian dollars	Swiss Francs	Other currencies
A. Financial assets	**3,480,910**	**17,862**	**4,779**	**3,153**	**451,668**	**70,617**
A.1 Debt securities	2,537,538	-	-	-	-	-
A.2 Equity securities	47,833	-	-	-	-	2
A.3 Financing to banks	118,373	1,326	2,633	180	1,828	9,836
A.4 Financing to customers	777,166	16,536	2,146	2,973	449,840	60,779
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**50,619**	**5,548**	**695**	**964**	**5,992**	**1,573**
C. Financial liabilities	**2,592,231**	**21,324**	**1,849**	**4,353**	**36,902**	**18,453**
C.1 Due to banks	2,211,872	596	121	2,199	461	12,406
C.2 Due to customers	380,154	20,728	1,728	2,154	36,441	6,047
C.3 Debt securities	205	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**155**	**2**	**-**	**-**	**-**	**223,875**
E. Financial Derivatives	**(916,916)**	**(2,311)**	**2,515**	**499**	**(418,160)**	**(54,375)**
- Options	(22,924)	25,137	990	3,155	294	(12,272)
+ Long positions	111,092	25,221	4,763	3,155	986	2,143
+ Short positions	134,016	84	3,773	-	692	14,415
- Other derivatives	(893,992)	(27,448)	1,525	(2,656)	(418,454)	(42,103)
+ Long positions	672,870	44,582	50,312	3,149	2,827	54,698
+ Short positions	1,566,862	72,030	48,787	5,805	421,281	96,801
Total assets	**4,315,491**	**93,213**	**60,549**	**10,421**	**461,473**	**129,031**
Total liabilities	**4,293,264**	**93,440**	**54,409**	**10,158**	**458,875**	**353,544**
Balance (+/)	**22,227**	**(227)**	**6,140**	**263**	**2,598**	**(224,513)**

2. Internal models and other methods of sensitivity analysis.

Exposure to foreign currency risk was zero as at 31st December 2019.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: end-of-period notional amounts

Underlying assets/type of derivative	Total 31.12.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**16,968,904**	**7,985,779**	**9,131,003**	**67,151**	**19,088,987**	**4,292,715**	**8,673,608**	**96,453**
a) Options	-	6,306,251	2,194,358	2,929	-	2,411,224	2,021,758	-
b) Swaps	16,968,904	1,679,528	6,936,645	-	19,088,987	1,881,491	6,651,850	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	64,222	-	-	-	96,453
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**89,224**	**914,813**	**17,763**	**-**	**101**	**977,439**	**34,289**
a) Options	-	-	914,813	-	-	-	977,439	33,300
b) Swaps	-	89,224	-	-	-	101	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	17,763	-	-	-	989
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**1,910,630**	**1,423,806**	**-**	**-**	**3,297,051**	**2,640,917**	**-**
a) Options	-	56,739	593,235	-	-	84,142	698,731	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	1,853,891	830,571	-	-	3,212,909	1,942,186	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**64,975**	**65,001**	**-**	**-**	**38,085**	**38,219**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**16,968,904**	**10,050,608**	**11,534,623**	**84,914**	**19,088,987**	**7,627,952**	**12,330,183**	**130,742**

A.2 Financial derivatives held for trading: gross positive and negative fair values - by type of product

Type of derivative	Total 31.12.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Positive fair value								
a) Options	-	16,707	93,160	51	-	11,994	85,798	14
b) Interest rate swaps	184,998	28,486	257,372	-	142,933	20,742	239,645	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	3	-	-
e) Forwards	-	16,724	4,023	-	-	31,601	5,617	-
f) Futures	-	-	-	207	-	-	-	598
g) Other	-	1,528	2,050	-	-	2,672	1,014	-
TOTAL	**184,998**	**63,445**	**356,605**	**258**	**142,933**	**67,012**	**332,074**	**612**
2. Negative fair value								
a) Options	-	4,410	3,690	88	-	2,155	5,166	-
b) Interest rate swaps	406,287	213,834	1,591	-	299,102	271,740	326	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	518	-	-	-	-	-	-
e) Forwards	-	9,099	8,459	-	-	15,257	17,656	-
f) Futures	-	-	-	295	-	-	-	124
g) Other	-	1,965	1,448	-	-	900	2,614	-
TOTAL	**406,287**	**229,826**	**15,188**	**383**	**299,102**	**290,052**	**25,762**	**124**

A.3 OTC financial derivatives held for trading: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	659,401	8,471,602
- positive fair value	X	-	12,313	254,085
- negative fair value	X	-	89	2,442
2) Equity securities and share indices				
- notional amount	X	-	562,427	352,386
- positive fair value	X	-	81,327	363
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	128,792	386,948	908,066
- positive fair value	X	-	171	6,296
- negative fair value	X	-	6,350	4,859
4) Commodities				
- notional amount	X	-	-	65,001
- positive fair value	X	-	-	2,050
- negative fair value	X	-	-	1,448
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	16,968,904	6,314,575	1,671,204	-
- positive fair value	184,998	38,050	6,796	-
- negative fair value	406,287	153,016	65,059	-
2) Equity securities and share indices				
- notional amount	-	89,109	115	-
- positive fair value	-	-	-	-
- negative fair value	-	517	1	-
3) Currencies and gold				
- notional amount	-	1,875,079	35,551	-
- positive fair value	-	16,584	488	-
- negative fair value	-	9,057	211	-
4) Commodities				
- notional amount	-	54,081	10,894	-
- positive fair value	-	1,058	469	-
- negative fair value	-	1,433	532	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	Over 5 years	TOTAL
A.1 Financial derivatives on debt securities and interest rates	6,550,238	20,060,461	7,474,987	34,085,686
A.2 Financial derivatives on equity securities and share indices	308,522	351,183	344,332	1,004,037
A.3 Financial derivatives on currencies and gold	3,287,125	47,311	-	3,334,436
A.4 Financial derivatives on commodities	128,726	1,250	-	129,976
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**10,274,611**	**20,460,205**	**7,819,319**	**38,554,135**
Total 31.12.2018	**10,870,237**	**19,763,692**	**8,413,193**	**39,047,122**

B. Credit derivatives

B.1 Credit derivatives held for trading: end of period notional amounts

No items of this type exist in the UBI Banca Group.

B.2 Credit derivatives held for trading: gross positive and negative fair values - by type of product

No items of this type exist in the UBI Banca Group.

B.3 OTC credit derivatives held for trading: notional amounts, gross positive and negative fair values by counterparty

No items of this type exist in the UBI Banca Group.

B.4 Residual maturity of OTC credit derivatives held for trading: notional amounts

No items of this type exist in the UBI Banca Group.

B.5 Credit derivatives connected with the fair value option: annual changes

No items of this type exist in the UBI Banca Group.

1.3.2 Hedge accounting

Qualitative information

Hedging transactions are one of the instruments that the UBI Banca Group uses to manage risk in situations where mismatches exist between lending and funding, which are items that are generally remunerated differently (e.g. fixed-rate/floating rate) and/or may be disbursed/issued in currencies other than the euro.
Hedges are designed to neutralise losses that may be recognised on a determined item (the hedged item) and which are attributable to a specific risk by means of the gains resulting from a different item (hedging instrument) if that specific risk should actually manifest.

The UBI Banca Group has decided to take advantage of the option provided for by IFRS 9 which allows it to continue to apply IAS 39 for the recognition of hedging transactions. Paragraph 86 of IAS 39 allows the following three types of hedging relationships to be designated:

- fair value hedges
- cash flow hedges
- foreign investment hedges

Designation of the type of relationship is performed on its inception on the basis, amongst other things, of the specific objectives of the underlying that is hedged. For accounting purposes fair value hedges (FVH) and cash flow hedges (CFH) have the same impact on profit and loss but with different timing. That difference in timing takes concrete form by anticipating the recognition through profit or loss of gains and losses on the hedged instrument (FVH) or by delaying recognition of gains and losses on the hedging instrument (CFH).

The accounting rules for hedging transactions contain exceptions to standard accounting criteria in order to allow simultaneous recognition of the impacts on profit and loss and on the balance sheet attributable to the hedged instrument and the hedging instrument. These exceptions are permitted by international accounting standards if supported by documentation and only after specific effectiveness tests have been carried out.

A. Fair value hedging

Fair value hedges (FVH) are entered into in order to reduce the Group's exposure to fluctuations in market interest rates.
This activity consists of transforming fixed interest rate positions and/or positions with options on the market parameter into indexed interest rate positions. It is carried out on both asset and liability items by using both specific and macro hedges.

Examples of fair value hedging relationships entered into by the Group are as follows:

- interest rate hedges on a fixed interest rate asset or liability;
- a hedge on a firm commitment to purchase an asset or to incur a liability;
- a hedge against interest rate risk on a portfolio.

The accounting procedures for fair value hedges require that the hedging instrument (the derivative) is measured at fair value with changes recognised through profit or loss. The value of the instrument hedged, which continues to be recognised at amortised cost, is adjusted for changes in fair value on the basis of the risk that is hedged. Each change made to the fair value of the carrying amount of the instrument hedged, relating to the risk that is hedged, is recognised through profit or loss even if the instrument hedged is recognised at fair value through other comprehensive income for which the measurement rules require recognition of the difference in fair value through other comprehensive income.

As specifically concerns firm commitments, these are not normally recognised in the accounts when they are made. Where fair value hedges are applied to these, the change in the fair value of the firm commitment is calculated and it is recognised as either an asset or liability (balance sheet item "Other assets/liabilities") for the life of the hedge. When the firm commitment is settled and the relative asset or liability is then recognised, the amount of the changes in fair value recognised over time as an asset or liability is reversed and included in the initial amount recognised for the asset or liability in the balance sheet with the consequence that it forms part of the initial value at which the asset or liability is recognised.

It should be considered that by its application, measurement of a hedged item results in a value that is neither the exact fair value nor the exact amortised cost because the adjustment of the fair value:

- is calculated only for changes in the value attributable to the risk that is hedged;
- is calculated only during the life of the hedging relationship;
- is limited to the portion of the instrument that is hedged.

In a fair value hedging relationship all the changes in fair value are recognised immediately through profit or loss inclusive of the relative ineffective portions. In fact as a result of the accounting treatment adopted, within the effective range (i.e. from 80% to 125%) all changes in fair value attributable to the risk hedged are recognised through profit or loss, both on the derivative and on the hedged item.

The instruments used to hedge fair value are generally interest rate swaps, unlisted derivatives, on which a fixed interest rate is paid or received (depending on whether the hedge is on an asset or a liability) and the Euribor rate is either received or paid (with maturities of 1, 3 or 6 months).
Other instruments used by the Group as fair value hedges are CAP options, unlisted, which are traded to hedge loans/issues at floating interest rates with a CAP option on the overall interest rate (parameter+spread) paid/received by the customer.

As at 31st December 2019 the UBI Banca Group had numerous existing fair value hedging relationships both of the specific and macro hedge type. Specific hedges were on securities held in portfolio, on some loans granted and bonds issued or currently being placed (hedges on fixed interest rate positions), while macro hedges were mainly on homogenous loan portfolios (hedges on fixed interest rate loans and floating interest rate loans with CAP) and on the core component of sight items.

B. Cash flow hedging

Cash flow hedges (CFH) are entered into in order to stabilise profit and loss and render it immune to changes in the relevant market parameters.
This activity is normally carried out to transform funding and lending from indexed interest rate positions (in order to maintain the relative overall cash flows constant over time) or to mitigate the impacts that assets and liabilities denominated in foreign currency generate on profit and loss as a result of fluctuations in exchange rates.

Examples of cash flow hedging relationships entered into by the Group are as follows:

- hedges on instruments denominated at a floating interest rate by means of an IRS, by means of a CAP or COLLAR;
- hedges on instruments denominated in a foreign currency;
- hedges of highly probable transactions.

The accounting procedures for cash flow hedges require that, for a hedging derivative, it is measured at fair value, with recognition of changes in the effective portion in a special reserve in other comprehensive income (OCI). The ineffective portion is recognised immediately through profit or loss.
More specifically, the gain or loss associated with the hedging derivative which is equal, in absolute amounts, to the change in the fair value of the expected cash flows must be recognised in equity. Any portion of the gain or loss associated with the hedging derivative which is greater, in absolute amount, than the change in the fair value of the expected cash flows must be recognised immediately through profit or loss. If the extra amount is on the side of the hedged instrument then the entire change in fair value recognised for the derivative must be recognised in a reserve in equity (OCI).

The change in the fair value of the hedging instrument, recognised in a special reserve within OCI, is reclassified to profit or loss when the hedged instrument affects profit or loss itself. As a consequence, if the impact of the risk hedged on profit and loss is deferred over time, then the amount recognised in the cash flow hedge reserve remains recognised within other comprehensive income until an impact is generated on the risk hedged.
As concerns the instrument hedged, this continues to be measured according to the procedures used for the category to which it belongs.

For assets and liabilities with indexed interest rates, the instruments used for cash flow hedges are interest rate swaps by which the Euribor (with maturities of 1, 3 or 6 months) is paid or received (depending on whether the hedges are on an asset or liability) and a fixed interest rate is received or paid.

For assets and liabilities denominated in foreign currency, the instruments used to hedge cash flows are currency swaps (DCS or CCS), with which cash flows in foreign currency are exchanged with cash flows in .

As at 31st December 2019, the UBI Group had only one existing cash flow hedge, to hedge exchange rate risk attaching to a loan denominated in foreign currency.

C. Foreign investment hedging

A foreign investment hedging relationship (NIH) consists of hedging a net investment in a foreign operation by using a derivative or a non-derivative instrument as the hedging instrument.

The risk hedged is the exposure in foreign currency that results from a net investment in a foreign operation when the net assets of the foreign operation are recognised in the balance sheet.

The UBI Group had no outstanding net foreign investment hedges as at 31/12/2019.

D. Hedging instruments

Activity to test the effectiveness of hedges is performed by the Capital & Liquidity Risk Management Area of the Parent. Tests for effectiveness are performed, in compliance with international accounting standards, prospectively on inception of a hedge followed by monthly prospective and retrospective tests.

TYPES OF RISK

The UBI Banca Group uses derivatives to manage the following types of risk: interest rate risk and exchange rate risk.

▪ *Interest rate risk*

Interest rate risk is managed by entering into “interest rate swap” (IRS) contracts on the market to hedge fixed interest rate exposures and “CAP options” to hedge similar options sold to customers.
The Group uses “IRSs” to hedge fixed interest rate exposures both on assets (specific hedges of securities and individual loans and macro hedges of loan portfolios) and liabilities (specific hedges of bonds issued and macro hedges of the core component of sight items).
The Group also uses “CAP options” for macro hedges for portfolios of loans at a floating interest rate with CAP.
More specifically, IRS contracts existing as at 31st December 2019 amounted in notional terms and by destination to:

- securities: €8.80 billion;
- loans (specific hedges): €0.12 billion;
- loans (macro-hedges): €6.38 billion;
- bonds: €18.83 billion;
- sight items: €7.71 billion.

CAP options to hedge loans amounted to: €1.01 billion.

▪ *Foreign currency risk*

Foreign currency risk is managed by the UBI Banca Group by entering into “currency swap” contracts (DCS and CCS) on the market to hedge grants or issues denominated in foreign currency. Only one hedge of this type existed as at 31st December 2019: a specific hedge on a loan granted in AED (notional of AED €99 million, equivalent to €24 million).

SOURCES OF INEFFECTIVENESS

Sources of the ineffectiveness of a hedging relationship are attributable to the following:

▪ *Interest rate risk*

- negotiation of the derivative on the basis of non-market parameters;
- notional value appreciably out of alignment with the nominal value of the instrument hedged;
- errors in the estimate of the percentage hedged;
- maturity different from the maturity of the risk hedged;
- amortisation schedule for the notional amount appreciably out of alignment with that recognised on the hedged instrument;
- tenor of the cash flows different from the frequency of the cash flows of the instrument hedged.

Negotiation of a derivative on the basis of non-market parameters may lead to a misalignment between the fair value of the derivative and the fair value adjustment of the instrument hedged. Even though both effectiveness tests and impacts on profit or loss are both determined not by the absolute fair value of the instruments, but only by changes in it over time, the cumulative changes in fair value of the two instruments may diverge appreciably, thereby generating ineffectiveness.
As concerns the notional amount in question and its possible amortisation over time (inclusive of the final maturity), its misalignment with respect to the profile of the instrument hedged may also generate ineffectiveness over time (independently of events which may occur affecting the hedged instrument itself).
Finally with regard to the tenor of the two legs of the derivative, the more the frequency of the cash flows of the derivative coincide with the frequency of the instrument hedged, the greater its effectiveness will be.

▪ *Foreign currency risk*

- negotiation of the derivative on the basis of non-market parameters;
- notional value out of alignment with the nominal value of instrument hedged;
- amortisation schedule for the notional amount appreciably out of alignment with that recognised on the hedged instrument.

For currency risk also, the negotiation a derivative on the basis of non-market parameters may lead to a misalignment between the value of the derivative and that of the instrument hedged.
As concerns the relative notional amount and its possible amortisation over time (inclusive of the final maturity), its misalignment with respect to the profile of the instrument hedged may also generate ineffectiveness over time and also appreciable impacts on profit or loss.

E. Items hedged

Generally the UBI Banca Group tends to hedge all asset and liability balance sheet items, with fixed interest rates or with options (fair value hedges). Additionally it seeks to normalise cash flows generated by loans denominated in foreign currency, converting them into euro (cash flow hedges).

FAIR VALUE HEDGES

The items hedged as part of fair value hedging activity are as follows:

Assets: a total of €16.13 billion of hedges as follows:
- government securities, specific hedges on HTC and HTC&S securities for a total of €8.80 billion nominal;
- specific hedges on fixed interest rate loans amounting to approximately €125 million nominal;

- macro-hedges on the following portfolios:
    - of fixed interest rate loans of approximately €6.35 billion nominal;
    - of loans with a CAP on the total interest rate amounting to approximately €0.85 billion nominal.

Except for hedges on loans with a CAP on the interest rate paid by the customer, the hedge relates to the entire asset for all other types of item.
The interest rate used is an interest rate swap with which the entity pays the cash flows at a fixed interest rate and receives cash flows at an indexed interest rate. The cash flows are calculated on the original notional amount equal to that of the item or a portion of the item hedged.
For the purposes of measuring effectiveness, a comparison is made between changes in the cumulative fair values of the two instruments, with the fair values calculated by discounting the respective cash flows using specially designed curves.
The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.
The main source of ineffectiveness (partial or total) is attributable to the absence of a part of one of the two instruments. More specifically, considering the hedged item, sources of ineffectiveness for hedged loans result from renegotiations from fixed interest to floating interest, extinguishing loans even only partially, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

With regard to hedges on loans with a floating interest rate with a CAP on the interest rate paid by the customer, the hedge is not on the entire instrument but only on the option sold to the client.
The hedging instrument used is a CAP purchased against payment of a rolling premium.
For the purposes of measuring effectiveness, a comparison is made between changes in the cumulative fair values of the two components (CAP and premium). The premium relating to the CAP sold to the customer is extracted from the spread paid by the customer.
The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.
As with fixed interest rate hedges, the main sources of ineffectiveness (partial or total) result from phenomena such as renegotiations, extinguishing loans, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

Liability: a total of €26.40 billion of hedges of which:

- bonds with specific hedges on bonds amounting to approximately €18.69 billion notional;
- sight items with macro hedges on the core components of current accounts amounting to €7.71 billion.

The hedge is on the entire liability for both types of item.
With regard to fixed interest bonds, hedges are generally taken out at the start of the placement, on the basis of the nominal target of the issue and is then adjusted when the issue is settled on the basis of the actual nominal amount placed.

The interest rate used is an interest rate swap with which the entity receives the cash flows at a fixed interest rate and cash flows at an indexed interest rate. The cash flows are calculated on the original notional amount equal to that of the item or a portion of the item hedged.
For the purposes of measuring effectiveness, a comparison is made between cumulative changes in the fair values of the two instruments, with the fair values calculated by discounting the respective cash flows using specially designed curves.
The two changes are used to generate a hedging ratio which measures the effectiveness of the relationship.

The main source of ineffectiveness (partial or total) is attributable to the absence of a part of the hedged instrument.
More specifically, with regard to the securities issued, a partial re-purchase would generate an over hedge and therefore partial ineffectiveness. Similarly, with regard to sight items, any

reduction in the core component of current accounts could have an impact on the effectiveness indicators.

CASH FLOW HEDGES

The items hedged as part of cash flow hedging activity are as follows:

Loans granted in foreign currency: an original total of 111 million of Arab Emirates Dirham (AED) granted in November 2011 with maturity in December 2020 and ongoing amortisation. To date AED 99 million remain (equivalent to approximately €24 million).

The risk hedged is exchange rate risk.
The hedging instrument used is a cross currency swap with which, on a half-yearly basis, the entity exchanges cash flows in AED from the loan with cash flows in EUR with a counterparty external to the Group.
For the purposes of measuring effectiveness, a comparison is made between expected changes (spot and forward exchange rates) in the two instruments, by applying those changes to the respective notional amounts.
The two fair value measurements are used to generate a hedging ratio which measures the effectiveness of the relationship.
The main source of ineffectiveness is attributable to a possible reduction in one of the two notional amounts. More specifically, as described in relation to fair value hedges, the sources of ineffectiveness are attributable, with regard to the hedged item, to phenomena such as renegotiations, extinguishing loans, changes to the amortisation schedules and changes in the creditworthiness of the debtor from performing to default.

Quantitative information

A. Financial derivatives hedges

A.1 Financial derivatives held for hedging: end-of-period notional amounts

Underlying assets/type of derivative	Total 31.12.2019				Total 31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**41,671,650**	**2,799,583**	**-**	**-**	**37,028,777**	**4,869,512**	**-**	**-**
a) Options	-	1,035,240	-	-	-	1,238,142	-	-
b) Swaps	41,671,650	1,764,343	-	-	37,028,777	3,631,370	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**24,094**	**-**	**-**	**-**	**24,821**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	24,094	-	-	-	24,821	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	**41,671,650**	**2,799,583**	**24,094**	**-**	**37,028,777**	**4,869,512**	**24,821**	**-**

A.2 Financial derivatives held for hedging: gross positive and negative fair values - by type of product

Type of derivative	Positive and negative fair value								Change in value used to recognise hedge ineffectiveness	
	Total 31.12.2019				Total 31.12.2018				Total 31.12.2019	Total 31.12.2018
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	610,477	17,610	-	-	349,921	40,425	-	-	-	-
c) Cross currency swaps	-	-	1,099	-	-	-	1,605	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	**610,477**	**17,610**	**1,099**	**-**	**349,921**	**40,425**	**1,605**	**-**	**-**	**-**
2. Negative fair value									-	-
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	934,318	46,201	-	-	300,898	96,022	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
TOTAL	**934,318**	**46,201**	**-**	**-**	**300,898**	**96,022**	**-**	**-**	**-**	**-**

A.3 OTC financial derivatives held for hedging: – notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and share indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	24,094	-	-
- positive fair value	X	1,099	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	41,671,650	2,655,466	144,117	-
- positive fair value	610,477	16,693	917	-
- negative fair value	934,318	44,662	1,539	-
2) Equity securities and share indices				
- notional amount				
- positive fair value				
- negative fair value				
3) Currencies and gold				
- notional amount				
- positive fair value				
- negative fair value				
4) Commodities				
- notional amount				
- positive fair value				
- negative fair value				
5) Other				
- notional amount				
- positive fair value				
- negative fair value				

A.4 Residual maturity of OTC financial derivatives held for hedging: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,052,074	25,051,040	17,368,119	**44,471,233**
A.2 Financial derivatives on equity securities and share indices	-	-	-	**-**
A.3 Financial derivatives on currencies and gold	24,094	-	-	**24,094**
A.4 Financial derivatives on commodities	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 31.12.2019	**2,076,168**	**25,051,040**	**17,368,119**	**44,495,327**
Total 31.12.2018	**8,054,586**	**14,291,197**	**19,577,327**	**41,923,110**

B. Credit derivative hedges

B.1 Credit derivative hedges: end of period notional amounts

No items of this type exist in the UBI Banca Group.

B.2 Hedging credit derivatives: gross positive and negative fair values - by type of product

No items of this type exist in the UBI Banca Group.

B.3 OTC credit derivative hedges: notional amounts, gross positive and negative fair values by counterparty

No items of this type exist in the UBI Banca Group.

B.4 Residual maturity of OTC credit derivative hedges: notional amounts

No items of this type exist in the UBI Banca Group.

C. Non-derivative hedging instruments

C.1 Hedging instruments that are not derivatives: by accounting portfolio and type of hedge

This category does not apply to UBI Banca Group because it has exercised the option allowed on first-time adoption of IFRS 9 to apply the provisions of international accounting standard IAS 39 on hedge accounting.

D. Instruments hedged

D.1 Fair value hedges

This category does not apply to UBI Banca Group because it has exercised the option allowed on first-time adoption of IFRS 9 to apply the provisions of international accounting standard IAS 39 on hedge accounting.

D.2 Cash flow and foreign investment hedges

This category does not apply to UBI Banca Group because it has exercised the option allowed on first-time adoption of IFRS 9 to apply the provisions of international accounting standard IAS 39 on hedge accounting.

E. Effects of hedging operations on equity

E.1. Reconciliation of components of equity

This category does not apply to UBI Banca Group because it has exercised the option allowed on first-time adoption of IFRS 9 to apply the provisions of international accounting standard IAS 39 on hedge accounting.

1.3.3 Other information on derivative instruments (for trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparty

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	58,640,554	8,970,041	2,474,722	8,471,602
- net positive fair value	18,672	13,579	18,941	254,085
- net negative fair value	563,802	157,246	65,668	2,442
2) Equity securities and share indices				
- notional amount	-	89,109	562,542	352,386
- net positive fair value	-	-	81,328	363
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	2,027,965	422,499	908,066
- net positive fair value	-	10,778	374	6,296
- net negative Fair value	-	2,312	6,275	4,859
4) Commodities				
- notional amount	-	54,081	10,894	65,001
- net positive fair value	-	-	-	2,050
- net negative fair value	-	-	-	1,448
5) Other				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B) Credit derivatives				
1) Protection purchase				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Protection sale				
- notional amount	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

Qualitative information

Securitisation and also retained securitisation operations

Details of ordinary securitisations and "self-retained" securitisations are given in section 1, sub-section 1 – Credit risk, sub-section C Securitisations" in these notes to the financial statements. Self-retained securitisations are where the Bank, in its capacity as the originator, subscribes the total debt issued by the special purpose entity at the time of issuance.

A. General aspects, liquidity risk management processes and measurement methods

Liquidity risk is defined in the UBI Banca Group as the risk of the failure to meet payment obligations which can be caused either by an inability to raise funds or by raising them at higher than market costs (funding liquidity risk), or the presence of restrictions on the ability to sell assets (market liquidity risk) with losses incurred on capital account.
Structural liquidity risk is defined as the risk resulting from a mismatch between the sources of funding and lending.
The primary objective of the liquidity risk management system is to enable the Group to meet its payment obligations and to raise additional funding at a minimum cost and without prejudice to potential future income.
The general principles on which liquidity management within the Group is based are as follows:

- the adoption of a centralised management framework for Group Treasury;
- diversification of the sources of funding and limits on exposure to institutional counterparties;
- protection of Group capital in liquidity crisis situations;
- a proper financial balance between assets and liabilities;
- an adequate level of eligible and/or liquid assets, sufficient to meet liquidity requirements even under stress conditions.

The reference framework for the measurement, monitoring and management of exposure to liquidity risk is defined annually as part of the Policy to Manage Financial Risks of the UBI Banca Group and the relative Implementation Regulation and the Document setting operational limits approved by the corporate governance bodies.
From 2017 the contingency funding plan (CFP) was merged into the Group's Recovery Plan, which regulates measures and processes designed to recover its financial situation following a significant deterioration in it.
These documents set out rules for the pursuit and maintenance of an adequate degree of diversification in the sources of funding and a proper structural balance between the sources and uses of funds for Group companies, through the pursuit of co-ordinated and efficient funding and lending policies.

The following are responsible for liquidity risk management:

- the units that report to the Chief Wealth and Welfare Officer (1st level control), which monitor liquidity daily and manage risk on the basis of defined limits;
- the Capital & Liquidity Risk Management Area (2nd level control), responsible for periodically verifying that limits are observed and overall compliance of liquidity risk

management with the “Risk Appetite Framework” defined by the governing bodies of the Bank.

The system for the management of short-term liquidity risk defined by the Policy to Manage Financial Risks of the UBI Banca Group is based on a system of early warning thresholds and limits consistent with the general principles on which liquidity management within the Group is based.

More specifically, liquidity risk is managed by means of the measurement, monitoring and management of the expected liquidity requirement, using a net liquidity balance model of analysis at consolidated level, supplemented with stress tests designed to assess the Group’s ability to withstand crisis scenarios characterised by an increasing level of severity.
The net liquidity balance is obtained from the daily liquidity ladder by comparing expected cash flow projections with counterbalancing capacity over a time horizon of up to three months. The cumulative sum of expected cash flows and of the counterbalancing capacity, for each time bucket, quantifies liquidity risk measured under different stress scenarios. The UBI Banca Group reports that indicator to the Bank of Italy on a weekly basis, following standard procedures set by that supervisory authority. The liquidity position reported to the Bank of Italy also contains the following information:

- the principal maturities, forecast over a time horizon of twelve months, both on the institutional and the retail market, with details according to the type of funding instrument (e.g. bond issues, repurchase agreements, commercial paper);
- details of assets available for refinancing transactions with the central bank and of liquid assets;
- the main lenders on the interbank market (largest ten counterparties);
- details of bonds issued;
- details of securities eligible for refinancing with the ECB resulting from retained securitisations, retained covered bonds and government-backed UBI securities.

The objectives of stress tests are to measure the vulnerability of the Group to exceptional but plausible events and they provide a better assessment of exposure to liquidity risk, the systems for mitigating and monitoring them and the length of the survival period under hypotheses of adverse scenarios. The following risk factors that can alternatively affect the cumulative imbalance of cash inflows and outflows or the liquidity reserve are considered in the definition of stress scenarios:

- *wholesale funding risk:* unavailability of unsecured and secured funding on the wholesale market;
- *retail funding risk:* volatility of sight liabilities relating to ordinary customers and repurchases of own securities;
- *off-balance sheet liquidity risk:* use of margins available on irrevocable credit lines granted;
- *market liquidity risk:* fall in the value of securities which constitute a liquidity reserve and an increase in the margins requested for positions in financial derivative instruments.

Monitoring the level of cover to meet expected liquidity requirements through an adequate reserve of liquidity is accompanied by daily monitoring of exposure on the interbank market.

Liquidity risk is measured and monitored also at the level of intraday risk, which is the risk that may arise from the daily settlement of debit or credit positions on both a net and a gross basis. More specifically, that risk arises mainly from size and timing mismatches between incoming and outgoing payments. With regard to that risk, first level management is accompanied by monitoring of summary indicators based on monitoring tools defined by the Basel Committee[62], observed both in an ordinary and a stressed context.

62 Cf. “Monitoring tools for intraday liquidity management”, Basel Committee, April 2013.

In compliance with supervisory provisions, the system for the management of liquidity risk employed by the Group also involves monitoring sources of funding both at consolidated and individual company level, by using a system of indicators. In this respect specific thresholds are set both for the maximum level of funding from institutional markets, considered more volatile under stress conditions, and the minimum levels of cover for lending activity with funding from ordinary customers or with medium to long-term funding from institutional customers.

Finally, the management of structural balance is performed by using models which measure the degree of stability of liabilities and the degree of liquidity of assets in order to mitigate risk associated with the transformation of maturities within a tolerance threshold considered acceptable by the Group. The model employed by the Group to monitor structural balance incorporates the provisions defined in the process to revise supervisory regulations for liquidity risk with specific reference to medium to long-term indicators[63]. Measurement of the degree of stability of liabilities and the degree of liquidity of assets is based principally on criteria of residual life and on the classification of the counterparties which contribute to the definition of the weightings of assets and liabilities.
Further information on Group activities on the interbank market and on funding is given in the Management Report which may be consulted.

63 Cf. Regulation (EU) 2019/876 of the European Parliament and Council dated 20th May 2019, which amended Regulation (EU) 575/2013.

Quantitative information

1.1 Distribution over time by residual contractual maturity of financial assets and liabilities: euro

Items/ Time brackets	on sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Indeterminate maturity
On-balance sheet assets	**11,603,832**	**1,500,466**	**1,090,201**	**2,326,713**	**4,873,716**	**5,305,988**	**6,293,662**	**30,068,910**	**35,943,340**	**9,703,897**
A.1 Government securities	550	-	-	-	25,206	79,311	121,399	3,125,053	5,992,530	-
A.2 Other debt securities	10,288	210	-	-	2,637	5,783	10,798	680,421	1,732,737	1,836
A.3 Shares of UCITS	294,596	-	-	-	-	-	-	-	-	-
A.4 Financing	11,298,398	1,500,256	1,090,201	2,326,713	4,845,873	5,220,894	6,161,465	26,263,436	28,218,073	9,702,061
- Banks	1,707,661	6,434	2,559	11,333	20,235	19,509	19,351	306,624	-	9,511,521
- Customers	9,590,737	1,493,822	1,087,642	2,315,380	4,825,638	5,201,385	6,142,114	25,956,812	28,218,073	190,540
On-balance sheet liabilities	**70,725,871**	**971,118**	**13,767**	**305,218**	**469,038**	**8,031,052**	**2,704,921**	**16,101,334**	**7,632,232**	**-**
B.1 Deposits and current accounts	69,328,414	158	1,160	73,622	186,552	160,861	153,290	50,585	4,295	-
- Banks	672,197	-	-	4,375	4,375	-	-	-	-	-
- Customers	68,656,217	158	1,160	69,247	182,177	160,861	153,290	50,585	4,295	-
B.2 Debt securities	120,650	2,336	12,586	220,456	206,161	356,358	2,360,287	12,339,369	7,053,379	-
B.3 Other liabilities	1,276,807	968,624	21	11,140	76,325	7,513,833	191,344	3,711,380	574,558	-
Off-balance sheet transactions	**(4,631,636)**	**68,727**	**541,576**	**375,591**	**613,036**	**399,826**	**(11,088)**	**1,915,889**	**1,509,534**	**-**
C.1 Financial derivatives with exchange of principal	-	65,241	379,454	341,750	481,928	69,163	(238,138)	(124,278)	(218,825)	-
- long positions	-	208,318	399,679	801,498	635,881	211,265	214,966	58,384	-	-
- short positions	-	143,077	20,225	459,748	153,953	142,102	453,104	182,662	218,825	-
C. 2 Financial derivatives without exchange of principal	(139,340)	130	5,616	15,726	26,008	10,599	81,236	-	-	-
- long positions	490,651	1,387	9,842	16,765	33,473	28,668	111,957	-	-	-
- short positions	629,991	1,257	4,226	1,039	7,465	18,069	30,721	-	-	-
C. 3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable commitments to disburse funds	(4,509,420)	3,356	156,506	18,070	105,100	319,843	140,819	2,039,124	1,726,602	-
- long positions	10,017,554	3,356	156,506	18,070	105,100	319,843	140,819	2,039,124	1,726,602	-
- short positions	14,526,974	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	17,124	-	-	45	-	221	4,995	1,043	1,757	-
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	-	-	-	-	-	-	-	-	-	-

2. Distribution over time by residual contractual maturity of financial assets and liabilities: other currencies

Items/ Time brackets	on sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Indeterminate maturity
On-balance sheet assets	**202,098**	**70,054**	**119,010**	**151,043**	**167,467**	**99,398**	**85,394**	**1,931,146**	**1,171,030**	**568**
A.1 Government securities	116	-	-	5,341	2,308	12,253	21,806	1,400,119	670,823	-
A.2 Other debt securities	9	37	-	-	953	2,731	5,760	272,321	119,726	-
A.3 Shares of UCITS	37,893	-	-	-	-	-	-	-	-	-
A.4 Financing	164,080	70,017	119,010	145,702	164,206	84,414	57,828	258,706	380,481	568
- Banks	115,606	1,358	3,877	4,989	8,191	1,699	-	-	-	-
- Customers	48,474	68,659	115,133	140,713	156,015	82,715	57,828	258,706	380,481	568
On-balance sheet liabilities	**470,601**	**23,721**	**782,289**	**780,353**	**618,145**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	457,082	5,111	134,197	-	-	-	-	-	-	-
- Banks	17,412	5,111	134,197	-	-	-	-	-	-	-
- Customers	439,670	-	-	-	-	-	-	-	-	-
B.2 Debt securities	205	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	13,314	18,610	648,092	780,353	618,145	-	-	-	-	-
Off-balance sheet transactions	**(61,302)**	**(64,959)**	**(377,597)**	**(342,212)**	**(480,136)**	**(69,444)**	**(34,097)**	**(25,816)**	**60,750**	**-**
C.1 Financial derivatives with exchange of principal	-	(65,609)	(377,629)	(342,303)	(483,159)	(69,177)	(35,157)	(26,271)	(4)	-
- long positions	1,826	138,509	20,194	464,581	143,515	140,818	180,921	34,607	-	-
- short positions	1,826	204,118	397,823	806,884	626,674	209,995	216,078	60,878	4	-
C. 2 Financial derivatives without exchange of principal	1,092	143	32	20	459	(424)	(585)	-	-	-
- long positions	5,855	143	32	20	488	59	572	-	-	-
- short positions	4,763	-	-	-	29	483	1,157	-	-	-
C. 3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable commitments to disburse funds	(64,399)	507	-	71	2,564	47	-	455	60,754	-
- long positions	5,584	507	-	71	2,564	47	-	455	60,754	-
- short positions	69,983	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,005	-	-	-	-	110	1,645	-	-	-
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	-	-	-	-	-	-	-	-	-	-

1.5 OPERATIONAL RISKS

Qualitative information

A. General aspects, operational risk management processes and measurement methods

Operational risk is defined as the risk of incurring losses resulting from inadequate or failed processes, human resources and internal systems or from exogenous events. These risks include for example losses resulting from fraud[64], human error, business disruption, system failure, non-performance of contracts and natural disasters. This definition includes legal risk[65], model risk[66], operational risks that overlap with market risk[67] and operational risks that overlap with credit risk[68]. The definition of operational risk does not include reputational risk[69] and strategic risk[70].

In order to guarantee a risk profile consistent with the risk appetite defined by the Strategic Supervisory Body, the Group has defined an organisational model based on the combination of various components identified according to the role filled and by the responsibility assigned in the organisation chart. The different components are identified centrally at the Parent and locally in the individual legal entities.

The model involves centralisation at the Parent of policy-setting functions and of second and third level internal controls.

Various levels of responsibility have been identified in each legal entity, listed below, assigned on the basis of the operating area:

Operational Risk Officer (ORO): this is the Chief Executive Officer for the Parent. In other legal entities it is the Managing Director, or the General Manager, or an equivalent role in the company depending on their corporate regulations. The Operational Risk Officer is responsible, within his/her legal entity for implementing the entire operational risk management system as defined by Group policy;

Local Operational Risk Support Officer (LORSO): this role is the figure responsible for the unit in charge of risk control (or the equivalent person in the company according to its own internal regulations). Within his/her legal entity, this officer supports the

64 At the stage where facts and responsibilities are investigated presumed frauds must be considered on a par with proven frauds.

65 Defined as the risk of incurring losses and/or additional costs as a result of violations of laws and regulations, legal proceedings or voluntary actions taken to prevent legal risk from arising (the definition of legal risk also includes losses arising from money laundering risks, misconduct events and compliance risks). In compliance with "Guidelines on Common Procedures and Methodologies for SREP", conduct risk is also included as the current or future risk of losses resulting from inappropriate provision of financial services including cases of inadequate conduct (wilful misconduct or negligence). For measurement and monitoring purposes this type of risk is identified under EBA stress testing methodology as falling under the types of events "Customers, products and professional practices" and "Internal fraud". The following are excluded from the definition of legal risk: refunds and/or payments made for business reasons in the absence of infringements of regulations and/or failure to perform contracts and/or non-contractual obligations; all external legal costs incurred for reasons not attributable to operational risk.

66 Defined as the risk of incurring losses and/or additional costs as a result of models used in decision-making processes (e.g. pricing models, models used to measure financial and/or hedging instruments, models use to monitor controls on risk limits, etc.). The definition of model risk does not include losses incurred due to underestimates of capital requirements calculated using internal models submitted to supervisory authorities for approval.

67 Defined as losses and/or additional costs connected with financial transactions including those relating to the management of market risk caused by inadequate and/or failures in processes, operational and or data entry errors, shortcomings in internal control systems, inadequacies of data quality processes, the unavailability of IT systems, unauthorised conduct and negligent and/or gross misconduct of persons and/or by other external events.

68 Defined as financial losses generated when a credit product is sold and/or as part of a credit process caused mainly by an operational risk.

69 Defined as the present or future risk of incurring loss of profits or capital resulting from a negative perception of the image of the Bank/Company by customers, counterparties, shareholders, investors or supervisory authorities.

70 Defined as the risk attaching to errors in decision-making concerning business strategies or bad timing in decisions relating to markets.

Operational Risk Officer in the implementation and co-ordination of the operational risk management system as defined by Group policy. In consideration of its organisational complexity, for the Parent only, this role is divided into two figures:

- Territorial Operational Risk Support (TORS): this role is filled by the Head of the Support and Control Service on the staff of the Head of the Macro Geographical Area, the Head of the Top Private and Commercial Co-ordination Department on the staff of the Head of Top Private Banking and the Head of the Corporate & Investment Banking Support and Control Function on the staff of the Head of Corporate & Investment Banking;
- Central Operational Risk Support (CORS): this role is the manager of the units that report to the Chief Lending Officer, Chief Commercial Officer, Chief of Wealth and Welfare Officer and Chief Operating Officer and the manager of units to which specialist activities are assigned[71];

Risk Champion (RC): this role is assigned to managers of units that report directly to the heads of Macro Geographical Areas and of Top Private Banking and Corporate & Investment Banking and to the managers of departments and managers of units that report directly to Central Operational Risk Support; for other companies to the Managing Director, General Management and Department Managers[72].

The role of Risk Champion is also assigned, even in the absence of a specific organisational unit, to those with responsibility for specialist activities[73].

Risk Champions report directly to Operational Risk Officers (OROs) through the Local Operational Risk Support Officers (LORSOs), Territorial Operational Risk Support (TORS) or Central Operational Risk Support (CORS). They are assigned responsibility for operational supervision of the proper performance of the operational risk management process in relation to the activity for which they are responsible and for co-ordinating the Risk Owners that report to them;

Risk Owner (RO): this role is that of the managers of the units which report hierarchically to a Risk Champion. Their task is to recognise and report loss events, actual and also potential, attributable to operational risk factors which occur in the course of everyday operations;

Accounting Assistant: this role is assigned to specific persons identified within the units responsible for operational accounting activities. Their task is to ensure full and accurate accounting of operational losses;

Insurance Function: this role is assigned to specific persons identified within the units responsible for the management of claims for which insurance cover is provided. Their task is to ensure accurate and full records are kept of insurance compensation and all relative support information.

71 As an example but not limited to this, activities for the management of: prevention and protection at work as defined by the legislation 81/2008; anti-money laundering and anti-terrorism activities; claims; accounting controls as defined by Circular No. 262/2005 (administrative liability); legal and tax proceedings, etc.

72 In consideration of the operational complexity underlying the areas of activity for which these are responsible, in order to facilitate their activity of recording and updating the Loss Data Collection system, Joint General Managers and the Deputy General Managers (where they exist) are excluded from the role of Risk Champion. These receive periodic reports from the Risk Champions that report to them hierarchically.

73 For example but not limited to this, activity for the management of the following: securities brokering; logical and physical security; disaster recovery and business continuity, etc.

The measurement system

The measurement system takes account of internal and external operational loss data, operational context factors and the system of internal controls, in a manner whereby it detects the main determinants of risk (especially those which impact on the distribution tail) and incorporates changes that occur in the risk profile.

Further details on the functioning of the calculation model are given in the sub-section on the capital requirement which may be consulted.

The reporting system

Monitoring of operational risks is carried out by means of a standard reporting system organised on the basis of the same levels of responsibility present in the organisational model. Management reporting activities are carried out in-house by the operational risk control function of the Parent which periodically prepares the following:

- an analysis of changes in operating losses detected by the loss data collection system and of the relative recoveries obtained;
- benchmark analyses with sector-wide data;
- a summary of assessments of exposure to potential risks;
- details of areas of vulnerability identified and the mitigation action undertaken.

As a consequence of the functions attributed by General Corporate Regulations, responsibility for monitoring the risk profile assumed by each company in the Group, its consistency with risk targets and compliance with operational limits lies with the Parent's risk control units. On conclusion of risk profile monitoring, appropriate corrective action is identified which will form part of the annual projects programmed.

Legal risk

The companies in the UBI Banca Group are party to a number of court proceedings originating from the ordinary performance of their business. In order to meet the claims received, the companies have made appropriate provisions on the basis of a reconstruction of the amounts potentially at risk, an assessment of the risk in terms of the degree of "probability" and/or "possibility", as defined in the accounting standard IAS 37, and established legal opinion. Therefore, while it is not possible to predict final outcomes with certainty, it is considered that an unfavourable conclusion of these proceedings, both taken singly or as a whole, would not have a significant effect on the financial and operating position of the UBI Banca Group.

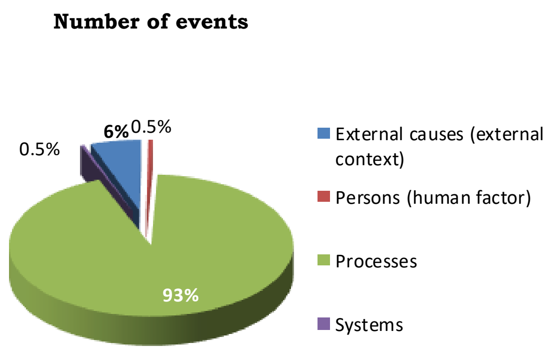
Specific sections of this financial report may be consulted for information on litigation.

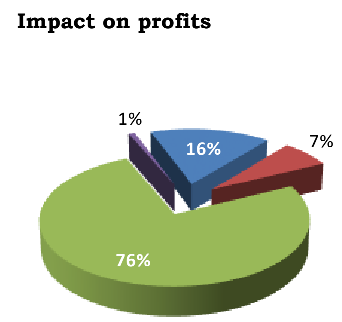
Quantitative information

From 1st January 2015 until 31st December 2019 the main sources of operational risk for the Group were "processes" (93% of frequencies and 76% of the total impacts detected) and "external causes" (6% of frequencies and 16% of the total impacts detected).

The "process" risk driver includes, amongst other things, unintentional errors and incorrect application of regulations. The "external causes" risk driver includes, amongst other things, human actions performed by third parties and not directly under the control of the UBI Banca Group.

Percentage of operational losses by risk driver *(detection 01/01/2015 – 31/12/2019)*



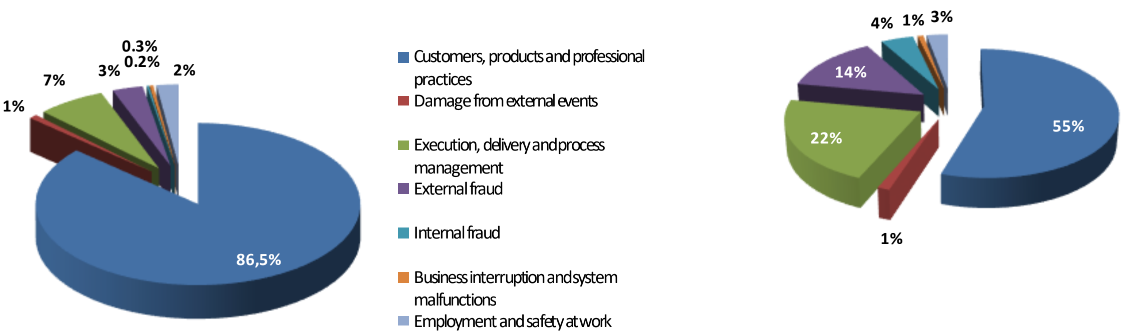


The types of event[74] which recorded the greatest concentration of operational losses during the period examined were "customers, products and professional practices" (86.5% of frequencies and 55% of the total impacts detected), "execution, delivery and process management" (7% of frequencies and 22% of the total impacts detected) and "external fraud" (3% of frequencies and 14% of the total impacts detected).

74 Reference is made to regulatory types of event laid down by EU Regulation 575/2013 as follows:
- internal fraud: losses due to acts of fraud, misappropriation of property, circumvention of the articles of association, laws, regulations or company policies, (excluding discrimination events or diversity events) which involve at least one internal party of the company;
- external fraud: losses due to acts of fraud, misappropriation of property, circumvention of the articles of association, laws regulations or company policies, (excluding discrimination events) carried out by third parties;
- employment and workplace safety: losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims or from diversity/discrimination events;
- customers, products and business practices: losses arising from the failure to meet professional obligations to specific clients (inclusive of fiduciary requirements and requirements to disclose information on investments) or from the nature or design of a product;
- damage from external events: losses arising from damage to, destruction or loss of physical assets, and from human and other losses due to natural disasters or other events;
- business disruption and system failures: losses arising from malfunctions and faults in systems and/or consequent business disruptions;
- execution, delivery and process management: losses arising from failed transaction processing or process management and from relations with trade counterparties and vendors.

Percentage of operational losses by type of event *(detection 01/01/2015 – 31/12/2019)*

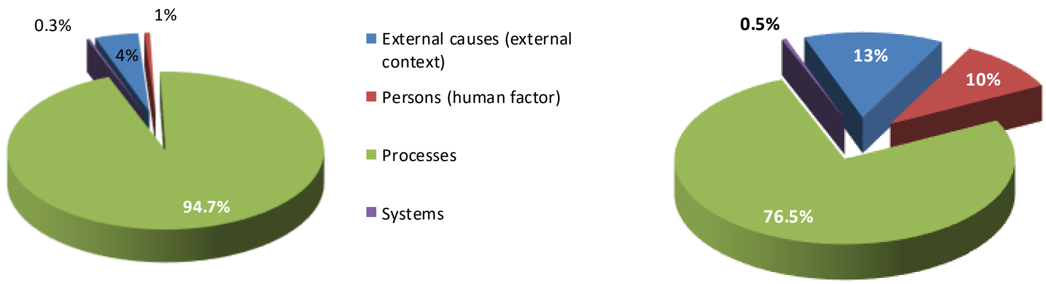
Number of events **Impact on profits**



Operational losses during the last year were again concentrated on the following risk factors: “processes” (94.7% of frequencies and 76.5% of the total impacts detected) and “external causes” (4% of frequencies and 13% of the total impacts detected).

Percentage of operational losses by risk driver *(detection 01/01/2019 – 31/12/2019)*

Number of events **Impact on profits**



Last year operational losses were concentrated mainly in the following types of event: “customers, products and professional practices” (90.1% of frequencies and 68% of the total impacts detected), “execution, delivery and process management” (4.7% of frequencies and 13% of the total impacts detected) and “external fraud” (2.4% of frequencies and 12% of the total impacts detected).

Percentage of operational losses by type of event *(detection 01/01/2019 – 31/12/ 2019)*

Number of events **Impact on profits**

Capital requirement

A provision issued by the Bank of Italy authorised the UBI Banca Group to use the advanced internal model (advanced measurement approach – AMA) in combined use with the standardised approach (TSA) and the basic indicator approach (BIA) from the supervisory report as at 30th June 2012. In 2017 the UBI Banca Group completed the acquisition of Nuova Banca Marche, Nuova Banca Etruria and Nuova CariChieti[75], thereby resulting in a combination of methodologies not envisaged by regulation EU No. 575/2013, which is to say the presence of three different methodologies (BIA, TSA and AMA). The Group therefore agreed with the supervisory authority to update the progressive roll-out of the internal AMA model to include the new areas of activity and procedures for calculating the relative capital requirements up to the completion of the validation process. In view of discussions with the supervisory authority that took place in October and November 2018, and also the low priority attached to the validation of the above-mentioned request by the ECB, the UBI Banca Group considered postponing its request to roll out the internal model to the product companies and the former New Banks, with the first regulatory AMA reporting date in 2021. In detail:

Advanced Measurement Approach (AMA): approach which covers the perimeter of the validated activities of the Parent, UBISS and IW Bank. For these banks, the measurement of operational risk is performed using an extreme value theory (EVT) approach, based on operational losses measured internally (loss data collection – LDC), empirical data acquired from outside the Group (IDOL - "Italian database of operational losses") and potential losses evaluated using self risk assessment (SRA) scenarios. The first two information sources represent the quantitative component of the measurement model and furnish a historical view of the internal risk profile and of the Italian banking sector. On the other hand, the scenario analyses constitute a qualitative and quantitative information component, because they are derived from risk assessments provided as part of the internal self-risk assessment process, where the purpose is to provide a forward looking view of the internal risk profile, operational context factors and the system of internal controls.
The model developed follows the loss distribution approach and it involves estimating severity distributions for each class of risk on two distinct components: a generalised pareto distribution (GPD) for the tail and an empirical distribution for the body. The estimates of severity obtained on the tails are subsequently integrated with risk information evaluated by means of a self risk assessment (SRA) process and with those of the done in the banking sector as a whole ("Italian database of operational losses"). The probabilities of events occurring are described by using Poisson curves. The estimate of capital at risk is calculated

75 Subsequently renamed Banca Adriatica, Banca Tirrenica and Banca Teatina respectively.

to the 99.9th percentile of the annual loss curve resulting from a convolution between the curve of the probabilities of events occurring and the integrated severity curve. The consolidated capital requirement is calculated as the sum of the capital at risk estimated on each risk class. The robustness of the model and of the underlying assumptions is tested by employing a stress testing process, which provides an estimate of the impacts on measurements of expected loss and of VaR when particular stress conditions occur.

Traditional Standardised Approach (TSA): approach employed for the business segments originating from the former Banca Adriatica, the former Banca Tirrenica (merged into the Parent on 23rd October 2017 and 27th November 2017 respectively), the former Etruria Informatica (merged into UBISS on 1st June) and the companies UBI Leasing, UBI Factor, Pramerica and Prestitalia. The capital requirement for the TSA component is calculated as the average over the last three years of the basic indicator, divided into supervisory lines of business, weighted with specific regulatory coefficients defined in the supervisory regulations. As concerns those areas of activity originating from the former Banca Adriatica and the former Banca Tirrenica, because these were merged into the Parent, calculation of the capital requirement is carried out by applying the percentage recorded for each bank for the period ended 31st December 2017[76] to the basic indicator for UBI Banca for the relative year ended 31st December.

Basic Indicator Approach (BIA): approach employed for the business segments originating from former Banca Teatina and for other banking, financial and service companies belonging to the banking group and for the proportionately consolidated banking, financial and service companies. The capital requirement for this component is calculated as the average over the last three years of the significant indicator, weighted with an "alpha" coefficient (15%) defined in the supervisory regulations. As concerns those areas of activity originating from the former Banca Teatina, because this was merged into the Parent, calculation of the capital requirement is carried out by applying the percentage recorded for the bank for the period ended 31st December 2017[77] to the basic indicator for UBI Banca for the relative year ended 31st December.

The risk capital calculated on a consolidated basis for each risk class is allocated to the various legal entities on the basis of a summary indicator determined by the historical and future risk measured and by the amount of the capital requirement calculated using the standardised methodology.

The capital requirement net of expected losses, which were covered by provisions for risks and charges was €322 million, (+12% compared with €288 million in the previous half-year). That increase was mainly attributable to updates and insertions of loss amounts for tail events of the distributions. As a form of risk mitigation, the UBI Banca Group has taken out adequate insurance policies to cover the principal transferable operational risks with due account taken of the requirements of supervisory regulations. The UBI Banca Group has not exercised the option available under the regulations in force to deduct the effects of insurance policies and other risk transfer mechanisms from the capital requirement.

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76 This approximation was made necessary because the last value for the basic indicator calculated for the former Banca Adriatica and the former Banca Tirrenica was updated to 31st December 2017, in consideration of the respective mergers into the Parent carried out in October 2017 and November 2017 and will be applied until the validation process of the roll-out of advanced models (AMA) is completed.

77 This approximation was made necessary because the last value for the basic indicator calculated for the Banca Teatina was updated to 31st December 2017, in consideration of its merger into the Parent carried out in February 2018 and will be applied until the validation process of the roll-out of advanced models (AMA) is completed.

SECTION 3 - Risks for insurance companies

3.1 Insurance risks

Qualitative information

As part of its internal control system, the insurance company BancAssurance Popolari Spa has risk management systems in place that are proportionate to the nature, size and complexity of its business in accordance with the applicable industry regulations and in particular the provisions issued by IVASS (the insurance authority, formerly ISVAP) with Regulation No. 38 of 3rd July 2018.

In 2019 the activities of the risk management function addressed the identification, measurement, monitoring and reporting of the most significant company risks, with the aim of continuously verifying that these are consistent with the target risk appetite.

The risk identification methods, used to determine, classify and assess the most significant risks to which the company is exposed, are set out in specific risk taking, measurement and management policies approved by its Board of Directors, based on an integrated vision of the balance sheet assets and liabilities and the European Solvency II regulations. These policies incorporate the risk management principles and regulations of the Parent, UBI Banca, to the extent applicable.

The risk identification and classification is based on a process in which the governing bodies, the control functions and various risk owners interact with each other across the company, and also involves a qualitative assessment, in addition to qualitative elements. The objective is to consider all factors, both external and internal, that can be used to identify possible sources of current or future risk to which the company may become exposed on the basis of strategic and operational decisions taken.

In terms of risk assessment, in accordance with the provisions of the European Solvency II regulation, the necessary measurements of the solvency capital requirement, calculated using the standard formula model, as well as own funds, have been carried out on a current and forward-looking basis over a period of three years. Specifically, the analysis of the risk profile, which is based on the company strategy, market scenarios and development of the business, is conducted at least annually by means of an own risk and solvency assessment (ORSA) and is monitored through periodic stress tests on the most significant risks. Stress tests are developed consistent with the nature, dimensions and complexity of the risks attaching to the company's activities.

The risk management system also includes the identification of situations that require the triggering of escalation processes, particularly with regard to exceeding the risk appetite or the operating limits, which, according to the size of the breach detected, requires reporting to and the timely involvement of the management bodies and co-ordination with the Parent, UBI Banca, where necessary.

Lastly, the risk reporting system consists of the preparation of specific reports in relation to the information needs of the various recipients. The Risk Management function is responsible for producing this reporting

In addition to the Risk Management function, the Compliance Functions are actively involved in risk management, for compliance risk, and the Actuarial Function, for technical insurance risk.

SECTION 4 - Risks for other companies

No significant risks are reported for the remaining companies included in the consolidation that are not part of the banking Group and are not insurance companies.

PART F – Information on consolidated equity

Section 1 – Consolidated equity[1]

A. Qualitative information

Equity is defined by international financial reporting standards in a residual manner as “what remains of an entity’s assets after all the liabilities have been deducted”. The aggregate (the amounts of which are given in the tables that follow) is used to manage all the risks to which the Group is exposed, as specified below. The policies and processes employed in the management of equity concern the decisions made designed to define the size and optimum combination of the different capital instruments to ensure that the Group’s equity is consistent with the targets set for the Group’s risk appetite, in compliance with supervisory requirements. The following analysis metrics are used from the viewpoint of capital management to cover risks:

- own funds, defined as a measure of regulatory capital – specified in supervisory regulations – to be held to cover capital requirements (Pillar 1 risks);
- Available Financial Resources (AFR), or alternatively total capital, defined as the sum of capital items that the Group considers can be used to cover internal capital and total internal capital requirements for single types of risk[2] (other risks).

Capital adequacy management is designed to govern the current and future capital strength of the Group both by verifying compliance with the supervisory requirements of Pillar 1 and by continuously monitoring the adequacy of the total capital to meet “other risks” (Pillar 2). This activity regards above all an analysis of capital requirements in relation to budget and business plan objectives and it is carried out at both consolidated and single legal entity level. Furthermore, following recent regulatory developments (CRR and CRD), capital adequacy is also measured in relation to the ability of the UBI Bana Group to resist severe shocks generated by hypothetical stress events occurring under particularly adverse conditions. The stress tests are carried out as part of planning processes to support work to formulate budgets and/or business plans, as part of periodic risk monitoring, annually in relation to the ICAAP Report and in the Recovery Plan in response to specific exercises or requests coming from the supervisory authority.

As the Parent of the Group, UBI Banca performs supervision and co-ordination activities for the companies in the Group and, without prejudice to the independence of each of them in terms of their business and articles of association, lays down appropriate policies for them. The Parent assesses capitalisation requirements in both the strict sense and also through the issue of subordinated liabilities by subsidiaries. The Senior Management of the Parent submits proposals to its governing bodies which decide accordingly. The proposals, once approved by the governing bodies of the Parent, are then submitted to the competent bodies of the subsidiaries. In compliance with regulatory constraints and internal objectives, the Parent analyses and co-ordinates capital requirements on the basis of the Budget and/or the

1 Further information on equity is given in the section “Shareholders’ equity and capital adequacy” of the consolidated management report.

2 “Total internal capital” is defined as internal capital required for all significant risks assumed by the UBI Banca Group, including possible internal capital requirements due to considerations of a strategic character. “Internal capital” is defined as risk capital, the capital requirement for a determined risk that the UBI Banca Group considers necessary to cover losses above a given expected level.

Business Plan and the related risk profiles and it acts as a privileged counterparty in gaining access to capital markets applying an integrated approach to optimising capital strength.

The new prudential rules for banks and investment companies contained in EU Regulation 575/2013 (the Capital Requirements Regulation, known as the CRR[3]) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, known as CRD IV[4]), came into force at the beginning of 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations. The regulatory framework is completed with implementation measures contained in technical and implementation regulations ("Regulatory Technical Standard" – RTS and "Implementing Technical Standard" – ITS) adopted by the European Commission on the basis of a proposal by the European supervisory authorities. The CRR came into force directly in member countries, while the provisions of CRD IV were implemented in national regulations by the Bank of Italy on 17th December 2013 with the publication of Circular No. 285 "Regulations for the prudential supervision of banks" (and subsequent amendments and additions), which implemented the new EU regulations, together with Circular No. 286 ("Instructions for compiling supervisory reports for banks and stock brokerage firms") and an update to Circular No. 154 ("Supervisory reporting for credit and financial institutions. Tables for data and instructions for filing reports"). With specific reference to financial intermediaries, the registration on a single register in accordance with Circular No. 288 of 3/4/2015 entitled "Supervisory Regulations for Financial Intermediaries" was completed in 2016. This implemented the application of CRD IV in the national regulatory framework also for operators in the financial sector (pursuant to financial intermediaries Art. 107 or Art. 106 for those subject to consolidated banking supervision).

That framework introduced various changes to the current supervisory regulations as follows: a change in the composition of regulatory capital which privileges ordinary shares and retained earnings (common equity), in order to improve the quality; the adoption of more stringent criteria for the inclusion of other equity instruments in capital (the current innovative equity instruments and callable subordinated liabilities); greater standardisation of items to be deducted (with regard to some categories of deferred tax assets[5] and to significant equity investments in banks and finance and insurance companies); the partial inclusion of non-controlling interests in common equity.

The introduction of Basel 3 rules was subject to a transitional (phased-in) regime, which concluded in 2018 except for rules relating to capital instruments no longer qualifying, for which gradual exclusion from the capital aggregate used for supervisory purposes is scheduled to occur by 2021.

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

3 Subsequently updated with Regulation 876 /2019 ("CRR2") published in the Official Journal on 7th June 2019.
4 Subsequently updated with Directive 2019/878 ("CRD5") published in the Official Journal on 7th June 2019.
5 Deferred tax assets that depend on future profitability and arise from temporary differences (except for those transformed or which may be transformed into tax credits).

B. Quantitative information

Please refer to the information given in Part B of these Notes to the financial statements in Liabilities Section 15 – Equity attributable to the Parent.

B.1 Consolidated equity by type of company

Equity items	Prudential consolidation	Insurance companies	Other corporates	Consolidation eliminations and adjustments	31.12.2019
1. Share capital	4,032,014	61,081	9,244	(1,251,421)	2,850,918
2. Share premiums	3,313,238	-	2	(18,540)	3,294,700
3. Reserves	2,855,560	57,915	2,253	308,664	3,224,392
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(28,111)	-	-	-	(28,111)
a) parent	(28,111)	-	-	-	(28,111)
b) subsidiaries	-	-	-	-	-
6. Valuation reserves:	(98,994)	5,885	-	13,075	(80,034)
- Equity securities designated at fair value through other comprehensive income	(18,153)	-	-	-	(18,153)
- Hedges of equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	154	1,942	-	-	2,096
- Property, plant and equipment	17,450	-	-	12,774	30,224
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	(4)	-	-	-	(4)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Foreign currency differences	(243)	-	-	-	(243)
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(127,283)	-	-	(115)	(127,398)
- Share of fair value reserves of equity accounted investees	-	3,943	-	-	3,943
- Special revaluation laws	29,085	-	-	416	29,501
7. Profit (loss) for the year (+/-) attributable to the shareholders of the Parent and to minority interests	276,419	36,474	(520)	(27,327)	285,046
Total	**10,350,126**	**161,355**	**10,979**	**(975,549)**	**9,546,911**

For greater clarity and comprehension of the amounts relating to consolidated equity by type of company, we have included the following reconciliation between total equity and minority interests and the equity attributable to the Parent.

Reconciliation schedule	**attributable to Shareholders of the Parent**	**attributable to Minority Interests**	**Total**
Share capital	2,843,177	7,741	2,850,918
Share premiums	3,294,604	96	3,294,700
Reserves	3,207,751	16,641	3,224,392
Equity instruments	-	-	-
(Treasury shares)	(28,111)	-	(28,111)
Valuation reserves	(79,938)	(96)	(80,034)
Profit (loss) for the year (+/-) attributable to the Parent and to minority interests	251,198	33,848	285,046
Equity	**9,488,681**	**58,230**	**9,546,911**

B.2 Fair value reserves of financial assets measured at fair value through other comprehensive income: composition

Assets/amounts	Prudential consolidation		Insurance companies		Other corporates		Consolidation eliminations and adjustments		Total 31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	50,751	(50,597)	5,250	(43)	-	-	-	-	56,001	(50,640)
2. Equity securities	1,864	(20,017)	678	-	-	-	-	-	2,542	(20,017)
3. Financing	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2019	**52,615**	**(70,614)**	**5,928**	**(43)**	**-**	**-**	**-**	**-**	**58,543**	**(70,657)**
Total as at 31.12.2018	**5,215**	**(253,695)**	**3,285**	**(2,312)**	**-**	**-**	**-**	**-**	**8,500**	**(256,007)**

B.3 Fair value reserves of financial assets measured at fair value through other comprehensive income: changes in the year

	Debt securities	Equity securities	Financing
1. Opening balances	**(230,924)**	**(16,583)**	**-**
2. Positive changes	**387,098**	**5,247**	**-**
2.1 Increases in fair value	355,425	2,946	-
2.2 Impairment losses for credit risk	2,372	X	-
2.3 Transfer to the income statement of negative reserves from disposal	29,268	X	-
2.4 Transfers to other equity items (equity securities)	-	1,206	-
2.5 Other changes	33	1,095	-
3. Negative changes	**(150,813)**	**(6,139)**	**-**
3.1 Decrease in fair value	(135,070)	(3,436)	-
3.2 Reversals for credit risk	(488)	-	-
2.2 Transfer to income statement of positive reserves: from disposal	(15,255)	X	-
3.4 Transfers to other equity items (equity securities)	-	-	-
3.5 Other changes	-	(2,703)	-
4. Closing balances	**5,361**	**(17,475)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	Annual changes
1. Opening balances	**(110,991)**
2. Positive changes	**97**
Other changes	97
3. Negative changes	**(16,504)**
Other changes	(16,504)
4. Closing balances	**(127,398)**

Section 2 – Own funds and capital ratios for banks

Reference is made to information on own funds and capital adequacy reported in the Pillar 3 disclosures.

Part G – Business combination transactions concerning companies or lines of business

SECTION 1 – BUSINESS COMBINATIONS PERFORMED DURING THE YEAR

No business combinations were recorded in 2019 which led to the acquisition of control within the meaning of IFRS 3. “Under common control” transactions were performed to streamline the corporate ownership structure which had no impact on the consolidated financial statements. These transactions are recognised, in compliance with UBI Banca Group practice for the recognition of these types of transaction, on the basis of the principle of continuity in the amounts and they regarded:

- the merger of the Palazzo della Fonte Consortium into UBI Banca Spa.

Further details are given in section “The scope of consolidation” of the Consolidated Management Report.

SECTION 2 - TRANSACTIONS PERFORMED AFTER THE END OF THE YEAR

No business combinations were performed after the end of the year.

SECTION 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments to report for the UBI Banca Group.

Part H – Transactions with related parties

1. Information on the remuneration of key management personnel

Information is provided in the notes to the separate company financial statements of UBI Banca Spa in Part H – Related-Party Transactions.

2. Information on transactions with related parties

In compliance with IAS 24, information is provided below on balance sheet and income statement transactions between related parties of UBI Banca and Group member companies, as well as those items as a percentage of the total for each item in the consolidated financial statements.

According to IAS 24, a *related party* is a person or entity that is related to the entity that is preparing its financial statements (the "reporting entity").

(a) A person or close family member of that person is related to the reporting entity if that person:

(i) has control or joint control over the reporting entity:

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:

(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) the entity, or any other member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

In compliance with the regulations in force, we report that all transactions carried out by Group member companies with related parties were conducted in observance of correct principles both in substance and form, under conditions analogous to those applied for transactions with independent parties.

More specifically, the Parent and its subsidiary UBI Sistemi e Servizi Scpa provide Group member companies with a series of services, governed by intragroup contracts drawn up in

accordance with the principles of consistency, transparency and uniformity in line with the organisational model of the Group. Under this model, strategic, and management activities are centralised at UBI Banca and technical and operational activities in UBI Sistemi e Servizi Scpa.
The prices agreed for the services provided under the contracts were determined on the basis of market prices or, where appropriate reference parameters could not be found in the marketplace, in accordance with the particular nature of the services provided and also in relation to the service contracts signed by UBISS with its consortium shareholders, on the basis of the costs incurred for the services provided.
The main intragroup contracts existing at the end of the year included those to implement the policy to centralise activities in the governance and business areas of the Parent, which involve the Parent and all the main Group companies, and also contracts to implement the "national tax consolidation" (in accordance with articles 117 to 129 of Presidential Decree No. 917/1986, the consolidated law on income tax) concluded by the Parent. There were also all the intercompany contracts which implement the centralisation in UBI Sistemi e Servizi of support activities for the principal companies in the UBI Banca Group.

We report with regard to transactions between companies in the Group and all of its related parties, that no atypical and/or unusual transactions were performed; furthermore, no transactions of that type were even performed with counterparties that were not related parties.
Atypical and/or unusual transactions, in compliance with Consob Communications No. 98015375 of 27th February 1998 and No. 1025564 of 6th April 2001, are intended to mean all those transactions which, because of their significance/importance, the nature of the counterparties, the content of the transaction (even in relation to ordinary operations), the way in which the transfer price is decided and the timing of the event (close to the end of the financial year) might give rise to doubts concerning: the correctness/completeness of the information in the accounts, a conflict of interests, the security of the company's assets and the rights of minority shareholders.

Further information is given in the "Report on corporate governance and the ownership structure of UBI Banca Spa" (Section 12 – Related and Connected Parties Committee) contained in an attachment to this document.

Principal transactions with related parties in the balance sheet

Figures in thousands of euro	Financial assets designated at fair value through profit or loss			Financial assets designated at fair value through other comprehensive income	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted	Commitments
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets mandatorily measured at fair value		Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued			
Associates	-	-	26,339	-	-	92,802	-	133,487	38,428	-	50	25,750
Senior managers (1)	-	-	-	-	-	3,910	-	11,986	137	-	-	231
Other related parties	-	-	-	-	-	62,873	-	180,737	2,150	-	3,363	30,998
TOTAL	**-**	**-**	**26,339**	**-**	**-**	**159,585**	**-**	**326,210**	**40,715**	**-**	**3,413**	**56,979**

(1) A "senior manager" is defined as "a manager with key management responsibilities of the entity or of its parent, where a manager with key management responsibility is defined as those who have power and responsibility for the planning, management and control of the activities of the entity including its directors"

Percentage of related-party transactions in the consolidated balance sheet

Figures in thousands of euro	Financial assets designated at fair value through profit or loss			Financial assets designated at fair value through other comprehensive income	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted	Commitments
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets mandatorily measured at fair value		Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued			
With related-parties (a)	-	-	26,339	-	-	159,585	-	326,210	40,715	-	3,413	56,979
Total (b)	427,980	10,278	1,320,472	12,221,616	11,921,289	89,815,000	14,367,985	72,577,255	22,849,776	555,296	6,083,941	36,669,464
Percentage (a/b*100)	0.000%	0.000%	1.995%	0.000%	0.000%	0.178%	0.000%	0.449%	0.178%	0.000%	0.056%	0.155%

Principal transactions with related parties in the income statement

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
Associates	(281)	-	192,750	344	1,967	(2,309)
Senior managers (1)	26	-	234	(21,403)	1	(41)
Other related parties	1,382	-	2,887	(489)	22	(1,304)
Total	**1,127**	**-**	**195,871**	**(21,548)**	**1,990**	**(3,654)**

(1) A "senior manager" is defined as "a manager with key management responsibilities of the entity or of its parent, where a manager with key management responsibility is defined as those who have power and responsibility for the planning, management and control of the activities of the entity including its directors"

Percentage of related-party transactions in the consolidated income statement

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
With related-parties (a)	1,127	-	195,871	(21,548)	1,990	(3,654)
Total (b)	1,802,511	8,514	1,665,569	(1,561,333)	283,120	(932,301)
Percentage (a/b*100)	0.063%	0.000%	11.760%	1.380%	0.703%	0.392%

Principal balance sheet items with associate companies subject to significant influence

Figures in thousands of euro	Financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost			Financial liabilities held for trading	Guarantees granted	Commitments
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets mandatorily measured at fair value		Loans and advances to banks	Loans and advances to customers	Due to banks	Due to customers	Debt securities issued			
Aviva Vita Spa	-	-	-	-	-	80,926	-	84,531	38,428	-	-	-
Zhong Ou Fund Management	-	-	-	-	-		-	-	-	-	-	-
Lombarda Vita Spa	-	-	-	-	-	11,203	-	43,303	-	-	-	25,000
Polis Fondi SGR Spa	-	-	26,339	-	-	1	-	1,681	-	-	-	-
SF Consulting Srl	-	-	-	-	-	672	-	3,907	-	-	-	750
Montefeltro Sviluppo	-	-	-	-	-	-	-	65	-	-	50	-
UFI Servizi Srl	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**26,339**	**-**	**-**	**92,802**	**-**	**133,487**	**38,428**	**-**	**50**	**25,750**

Principal income statement items with associate companies subject to significant influence

Figures in thousands of euro	Net interest income	Dividends and similar income	Net fee and commission income	Staff costs	Operating income/expenses	Other administrative expenses
Aviva Vita Spa	(283)	-	128,038	(10)	12	-
Zhong Ou Fund Management	-	-	-	-	-	-
Lombarda Vita Spa	2	-	63,883	-	1,918	(2,309)
Polis Fondi SGR Spa	-	-	1	-		-
SF Consulting Srl	-	-	827	354	37	-
Montefeltro Sviluppo	-	-	1	-	-	-
UFI Servizi Srl	-	-	-	-	-	-
Total	**(281)**	**-**	**192,750**	**344**	**1,967**	**(2,309)**

Part I – Share-based payments

A. Qualitative information

1. Description of payment agreements based on own balance sheet instruments

In implementation of Supervisory Regulations for Banks, since 2011 a Shareholders' Meeting of UBI Banca has approved the payment of a portion of bonuses earned under short- and long-term incentive schemes in the form of financial instruments and more specifically in ordinary shares of UBI Banca, for staff included in the "Identified Staff" perimeter, except for board members.

The incentive schemes described from time to time in the Remuneration Report are subject to trigger conditions ("entry gates") set at Group level defined in the document "UBI Banca Group RAF - Risk appetite - 2018 Risk Appetite Statement". More specifically the indicators identified for 2019 are as follows:
- the Common Equity Tier ("CET 1") 1 Ratio > 10.85%;
- Net Stable Funding Ratio ("NSFR") ≥ 103%;
- Liquidity Coverage ratio ("LCR") ≥ 120%;
- Leverage Ratio ("LR") > 3.75%.

The indicators are verified at the end of the relative measurement period, as at 31/12 of each year for the short-term incentive scheme and at the end of the reference period for long-term incentive schemes, consistent with the "Risk Appetite Framework".

Short-term incentive scheme

The budgeted amount (the "bonus pool") at the service of incentives schemes may be increased, without prejudice to the correct remuneration of capital and liquidity, up to a predetermined maximum, or reduced as far as zero (a "malus"), both at the overall level and at the level of each legal entity, in accordance with pre-established limits on the basis of the performance in relation to the budget approved each year by the Board of Directors, calculated at Group level using RORAC and at the level of the individual legal entity and business you using "normalised net profit adjusted for the 'delta cost' between allocated and absorbed capital[1]". If the available budget allocation is overrun, criteria have been set for the bonuses to be redistributed, down to the level of the budget allocated.

In line with the principles laid down in the legislation and regulations, the structure of the bonus payout for "Identified Staff" involves the following[2]:
- between 50% and 55% of the bonus is converted into ordinary shares of UBI Banca, subject to retention clauses that align the incentives with the Bank's long-term interests;
- between 60% and 40% of the bonus is deferred for five or three years (for the Chief Executive Officer of UBI Banca 60% is deferred for five years from 2015[3]).

1 For the asset management company with a low capital absorption and of insurance companies, the indicator used is normalised net profit.

2 For the 2015 incentive scheme, for those staff belonging to the "Other Identified Staff" the payment rules involve the deferral of 30% of the bonus for two years, excluding the use of the financial instruments.

3 Except for 2017, for which the deferral is three years in consideration of the reduction of the short-term variable component, due to the effect of the start of the new 2017-2019/20 long-term incentive scheme.

As a consequence of the above, the first portion of share-based bonuses would be granted in the second year following the year of the scheme, with the pro-rata grant of the deferred component starting in the following year.

In order to ensure capital and liquidity stability over time, consistent with long-term strategic objectives, the deferred portion is paid on condition that adequate levels of capital stability (Common Equity Tier 1 Ratio) and liquidity stability (Net Stable Funding Ratio) are maintained at the end of the relative period, consistent with the "Risk Appetite Framework" defined in internal policies. The deferred portion of the bonus shall not be paid if these conditions are not met (a "malus").

From 2015, if the bonus earned is below €50,000 gross and if the bonus earned individually is less than 15% of fixed remuneration, the payment is made entirely upfront, 50% being paid in cash at the time when the conditions are met and the remaining 50% as ordinary shares of UBI Banca with a two-year retention period[4]. In previous years the treatment just described was applied but did not consider the percentage of the remuneration. It only considered whether the bonus earned was lower than €50,000. Starting from 2019, the threshold for variable remuneration was raised to 25% with payment in full, "upfront" and "in cash".

Long-term incentive schemes

A new long-term incentive scheme for the period 2017-2019/2020 was introduced in 2017 to support the Business Plan with the objective of bringing the interests of management into line with those of stakeholders, not only in the short term, but with a view to creating long-term value.

This scheme is intended, amongst other things, to make remuneration target levels more competitive, attributing greater value to the variable component and directing the pay mix towards performance, amongst other things by encouraging the loyalty of key personnel.

The beneficiaries of this plan are the "Identified Staff", with the exception of Directors and Financial Advisors not bound by ordinary employee contracts, Control functions and certain specific positions, taking account of the related pay mix and levels of responsibility.

In 2018, newly named members of "Identified Staff" were also involved, with the exceptions mentioned above.

The bonuses are paid in UBI shares (performance shares), which are considered the most appropriate instruments for aligning the interests of stakeholders with those of management.

While the preliminary trigger conditions ("entry gates") remain in place, specific value creation objectives are set for each scheme, reported in the Remuneration Report, which may be consulted for further details.

The structure of the bonus payout provides for the following payments:

- 60% is paid up-front in shares at the end of the performance measurement period (accrual), with a two-year retention period;
- 40% is paid in shares, deferred by two years and with a one-year retention period. This quota vests before the end of the deferral period, but is subject to a further year of retention to verify that the conditions for the payment effectively exist.

In order to ensure capital and liquidity stability over time, consistent with long-term strategic objectives, the deferred portion is paid on condition that adequate levels of capital stability (Common Equity Tier 1 Ratio) and liquidity stability (Net Stable Funding Ratio) are maintained

4 In consideration of the specific markets involved and the composition of the current remuneration package, for asset management positions, payment is made up front in cash if the individual bonus earned is less than €80,000, and for financial advisors of IWBank, payment is made up front in cash if it is less than €50,000 and less than 33% of recurring remuneration.

at the end of the relative period, consistent with the "Risk Appetite Framework" defined in internal policies. The deferred portion of the bonus shall not be paid if these conditions are not met (a "malus").

The timetable for the grant of portions of bonuses to be paid in financial instruments in relation to incentive schemes

For the above, the timetable for portions of bonus payments made in financial instruments is as follows:

- in 2019 the second portion of shares relating to bonuses earned for the 2014 short-term incentive scheme and the first portion of the shares relating to bonuses earned for the 2016 short-term incentive scheme will be granted;
- in 2020 the second portion of the shares relating to bonuses earned for the 2015 short-term incentive scheme and the first portion of the shares relating to the 2017 short-term incentive scheme will be granted;
- in 2021 the second portion of the shares relating to bonuses earned for the 2016 short-term incentive scheme, the first portion of shares relating to the 2018 short-term incentive scheme and the portion of the shares relating to the 2019 short-term incentive scheme will be granted;
- in 2022 the second portion of the shares relating to bonuses earned by the Chief Executive Officer for the 2015 short-term incentive scheme, the second portion of shares relating to bonuses earned for the 2017 short-term incentive scheme, the first portion of the shares relating to bonuses earned for the 2017-2019 long-term incentive scheme and the portion of shares relating to the 2019 short-term incentive scheme will be granted;
- in 2023 the second portion of the shares relating to bonuses earned for the 2018 short-term incentive scheme, the second portion of shares relating to bonuses earned for the 2017-2019 long-term incentive scheme, the first portion of shares relating to bonuses earned for the 2017-2020 long-term incentive scheme and the portion of shares relating to the 2019 short-term incentive scheme will be granted;
- in 2024 the second portion of the shares relating to bonuses earned for the 2017-2020 long-term incentive schemes and the portion of shares relating to the 2019 short-term incentive scheme will be granted;
- in 2025 the second portion of the shares relating to bonuses earned by the Chief Executive Officer for the 2018 short-term incentive scheme and the portion of shares relating to the 2019 short-term incentive scheme will be granted;

B. Quantitative information

Short and long-term incentive schemes

According to IFRS 2 “share-based payments”, the schemes in question constitute an “equity settled” operation where payment is based on shares and made using equity instruments. On this basis, because the objective of IFRS 2 is to recognise the impact on profit and loss of the remuneration paid by means of equity instruments in the income statement in the form of personnel expense, UBI Banca and the subsidiaries involved in the schemes recognised the cost for the year within the item 150a “Administrative expenses: staff costs” against an increase in equity made by posting the amount to a separate reserve in equity because the obligation of the company will be extinguished by the delivery of equity instruments and that obligation will be settled in any event by the Parent.

As concerns in particular the quantification of the cost of the schemes, since it is impossible to measure the value of the services provided by employees with precision, in compliance with IFRS 2, it is calculated on the basis of the fair value of the UBI share on the grant date multiplied by the number of shares that it is estimated will be vested.

More specifically, the fair value of the equity instruments granted is calculated with account taken of the circumstance that the grant of the instruments will take place over a period starting in 2019 and continuing until 2025. Those estimates are based on the market price of the shares, less the present value of dividends distributable by the UBI Banca Group in the period immediately prior to the grant of the shares, and, in general they adequately weight the terms and conditions governing the grant of the instruments.

The total estimated cost of the short-term incentive schemes for shares that will be granted from 2019 is €9,505 thousand, and is composed as follows:

- up-front portions as follows:
  - 71,327 shares granted in the 2019, equivalent to €205 thousand;
  - 283,406 shares to be granted in 2020, equivalent to €766 thousand;
  - 1,536,557 shares to be granted in 2021, equivalent to €4,204 thousand.
- deferred portions (if the conditions to which the deferral is subject are met) as follows:
  - 83,604 shares granted in the 2019, equivalent to €436 thousand;
  - 68,797 shares to be granted in 2020, equivalent to €456 thousand;
  - 12,087 shares to be granted in 2021, equivalent to €31 thousand;
  - 386,081 shares to be granted in 2022, equivalent to €936 thousand;
  - 741,530 shares to be granted in 2023, equivalent to €1,891 thousand;
  - 116,181 shares to be granted in 2024, equivalent to €225 thousand;
  - 155,485 shares to be granted in 2025, equivalent to €355 thousand.

In accordance with the vesting conditions hypothesised, the cost of the scheme is spread over the whole of its vesting period, with the portion for the year recognised in the income statement, which for the reporting year amounted to €2,480 thousand. Furthermore, any change in the cost will only occur if the vesting requirements are not met and the shares are not delivered as a consequence, either because the result conditions set by the plan are not satisfied or the person is no longer employed and not also as a result of changes in the fair value of UBI shares.

The total estimated cost of the long-term incentive scheme introduced in 2017 is €5,439 thousand and it is distributed throughout the whole of the vesting period set for it with recognition in the income statement of the portion for the year, which for the current year amounts to €809 thousand, composed as follows:

- 1,258,536 shares to be granted in 2023, equivalent to €3,346 thousand;
- 839,024 shares to be granted in 2024, equivalent to €2,093 thousand.

Remuneration to be agreed in the event of the early termination of an employment relationship

For one member of staff belonging to the "Identified Staff" perimeter with an employee contract working in a network bank of the Group, on leaving the position occupied and consequently ending the employment relationship as a result of the merger of the network banks into UBI Banca which occurred in February 2017, it was decided to grant the person an amount equal to 6 months salary in UBI Banca shares in application of the provisions of the job security agreement in place and in compliance with Supervisory Regulations in force on the matter.

A provision was made for the total cost in 2016 and involves the grant of:

- 33,959 shares granted upfront in 2019, equivalent to €97 thousand;
- 33,959 shares deferred to be granted in 2021, equivalent to €86 thousand.

For one member of staff belonging to the "Identified Staff" category, as a result of early termination of the employment relationship which took place in 2018 it was decided to grant the person an amount equal to 6 months salary in UBI Banca shares, in application of the criteria and limits decided by the 2018 Annual General Meeting and in compliance with the supervisory regulations in force on the matter.

A provision was made for the total cost in 2018 and involves the grant of:

- 32,588 shares to be granted up-front in 2021, equivalent to €106 thousand;
- 32,588 deferred shares to be granted in 2023, equivalent to €92 thousand.

For one member of staff belonging to the "Identified Staff" category, as a result of early termination of the employment relationship which took place in 2019 it was decided to grant the person an amount equal to 6.5 months salary in UBI Banca shares, in application of the criteria and limits decided by the 2019 Annual General Meeting and in compliance with the supervisory regulations in force on the matter.

A provision was made for the total cost in 2019 and involves the grant of:

- 25,391 shares to be granted up-front in 2020, equivalent to €61 thousand;
- 10,156 shares deferred to be granted in 2021, equivalent to €23 thousand;
- 10,156 shares deferred to be granted in 2022, equivalent to €22 thousand;
- 5,078 shares deferred to be granted in 2023, equivalent to €10 thousand;
- 5,078 shares deferred to be granted in 2024, equivalent to €10 thousand.

PART L – Segment reporting

The UBI Banca Group did not modify its operating segments (pursuant to IFRS 8) for the purposes of the consolidated financial statements: banking, non-banking financial (consisting of the Group's product companies), corporate centre and insurance. The banking segment comprises the banking line of business consisting as at 31st December 2019 of UBI Banca Spa and IW Bank Spa.
The non-banking financial segment mainly comprises UBI Leasing Spa, UBI Factor Spa, Pramerica SGR Spa and Prestitalia Spa.
The insurance segment comprises Bancassurance Popolari Spa (in addition to Bancassurance Popolari Danni Spa, but only for income generated until its disposal in May), UBI Sicura Spa, Lombarda Vita Spa and Aviva Vita Spa, with the latter companies consolidated using the equity method.
The corporate centre segment comprises UBI Banca Spa (net of its banking business, as specified above), UBI Sistemi e Servizi Scpa, BPB Immobiliare Srl, Kedomus Srl, UBI Academy Scrl and Oro Italia Trading Spa in liquidation.
That segment also includes all the consolidation entries with the exception of entries relating to the purchase price allocation and those relating to goodwill, allocated to the individual sectors to which they belong.
The algebraic sum of the four segments identified in this manner represents the income statement and balance sheet of the UBI Banca Group as at and for the period ended 31st December 2019.

Distribution by operating segment: income statement

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + Intercompany + Consolidation entries except PPA)	Total 2019
Net interest income	1,061,972	205,908	51,833	482,798	1,802,511
Net fee and commission income	1,581,608	178,091	(196)	(93,934)	1,665,569
Net income from trading, hedging and disposal/repurchase of assets/liabilities designated at fair value through profit or loss	48,434	(28,773)	2,620	84,622	106,903
Dividends	-	919	856	6,739	8,514
Gross income	**2,692,014**	**356,145**	**55,113**	**480,225**	**3,583,497**
Net impairment losses for credit risk	(586,698)	(151,740)	(2)	(5,657)	(744,098)
Profits (losses) from contractual modifications without derecognition	(25,233)	(50)	-	-	(25,283)
Net financial income	**2,080,082**	**204,355**	**55,110**	**474,568**	**2,814,116**
Net income from insurance operations	-	-	(38,552)	15,713	(22,839)
Net income from banking and insurance operations	**2,080,082**	**204,355**	**16,559**	**490,281**	**2,791,277**
Administrative expenses	(2,019,692)	(125,135)	(9,315)	(339,492)	(2,493,634)
Net provisions for risks and charges	-	971	(250)	(25,556)	(24,835)
Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(138,948)	(1,131)	(525)	(94,590)	(235,194)
Other net operating income/expense	255,783	8,380	208	18,749	283,120
Operating expenses	**(1,902,856)**	**(116,915)**	**(9,882)**	**(440,889)**	**(2,470,543)**
Profits (losses) of equity investments	-	-	31,073	9,270	40,343
Negative consolidation difference	-	-	-	-	-
Profits (losses) on disposal of investments	-	549	-	5,553	6,101
Profit (loss) before tax from continuing operations	**177,226**	**87,988**	**37,750**	**64,214**	**367,178**
Taxes on income for the period from continuing operations	(57,976)	(28,523)	(1,798)	6,164	(82,133)
Profit (loss) for the period attributable to minority interests	-	(33,580)	-	(267)	(33,848)
Profit (loss) for the year	**119,250**	**25,885**	**35,951**	**70,111**	**251,198**

Net fee and commission income

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + Intercompany + Consolidation entries except PPA)	Total 2019
a) guarantees granted	47,869	(3,267)	-	(27,476)	17,126
b) credit derivatives	-	-	-	-	-
c) management, trading and advisory services	676,678	204,460	(2,803)	56,519	934,854
1. trading in financial instruments	9,065	-	-	(10,565)	(1,501)
2. foreign exchange trading	7,540	-	-	985	8,525
3. portfolio management	-	413,588	-	(1,312)	412,277
4. custody and administration of securities	3,993	-	(276)	(151)	3,566
5. depository banking	-	-	-	-	-
6. placement of securities	428,265	(210,141)	(2,527)	40,047	255,644
7. receipt and transmission of orders	31,988	-	-	2,252	34,241
8. advisory activities	5,379	348	-	5,693	11,420
9. distribution of third party services	190,448	665	-	19,569	210,683
d) collection and payment services	108,880	(640)	(79)	15,639	123,799
e) servicer activities for securitisation transactions	-	-	-	-	-
f) services for factoring transactions	-	13,144	-	-	13,144
g) tax collection and payment services	-	-	-	-	-
h) management of multilateral trading systems	-	-	-	-	-
i) current account administration	286,864	-	-	(20,163)	266,701
j) other services	461,316	(35,606)	2,686	(118,452)	309,944
Net fee and commission income	**1,581,608**	**178,091**	**(196)**	**(93,934)**	**1,665,569**

Net fee and commission income of the Group is attributable almost entirely to the banking segment (over 94%), and more specifically it relates to the following activities: (i) placement of securities, (ii) distribution of third party services, (iii) collection and payment services and (iv) current account administration. The non-financial segment also earns fees and commissions, but to a lesser extent, relating to portfolio management and the placement of securities, which is mainly intragroup business with the preceding banking segment. Further details are given in the tables reported in Part C, Section 2 “Fees and commissions”.

Other net operating income/expense

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + Intercompany + Consolidation entries except PPA)	Total 2019
Other operating income	**262,957**	**34,683**	**299**	**57,861**	**355,800**
Recovery of expenses and other income on current accounts	13,401	-	-	3,880	17,281
Recovery of insurance premiums	10,558	4,502	-	2,036	17,096
Recoveries of taxes	217,142	3,880	-	-	221,022
Rents and other income for property management	8	-	-	6,686	6,694
Recovery of expenses on finance lease contracts	3	17,251	-	551	17,805
Other income and prior year income	21,845	9,050	299	44,707	75,901
Other operating expenses	**(7,173)**	**(26,303)**	**(91)**	**(39,113)**	**(72,680)**
Depreciation of leasehold improvements	-	-	-	(118)	(118)
Costs relating to finance lease contracts	(9)	(21,802)	-	-	(21,811)
Expenses for public authority treasury contracts	-	-	-	(1,424)	(1,424)
Other expenses and prior year expense	(7,164)	(4,501)	(91)	(37,571)	(49,327)
Other net operating income/expense	**255,784**	**8,380**	**208**	**18,748**	**283,120**

Other operating income and expense consists almost totally of income (€355.8 million) relating primarily to the banking segment (over 90%.) and more specifically it consists of (i) recovery of taxes, (ii) fast credit processing fees and (iii) charging third parties for deposit and current account expenses. Income earned by the non-banking financial segment, which is markedly less, relates to expense recoveries on lease contracts and tax recoveries. See the table "16.2 Other operating income: composition" reported in Part C Section 16 "Other net operating income and expenses" for further details.

Distribution by operating segment: balance sheet

Figures in thousands of euro

item/operating segment	Banking (Aggregate)	Non-banking financial (Aggregate)	Insurance (Aggregate)	Corporate Centre (Aggregate + Intercompany + Consolidation entries except PPA)	**Total 31.12.2019**
Financial assets measured at amortised cost - loans and advances to banks	-	-	5,923	7,416,586	7,422,509
Financial liabilities measured at amortised cost - due to banks	-	9,869,205	-	-	9,869,205
Other net financial assets	276,880	25,914	2,296,457	10,678,356	13,277,607
Financial assets measured at amortised cost - loans and advances to customers	74,788,467	9,776,067	1,459	5,249,007	89,815,000
Financial liabilities measured at amortised cost - due to customers	71,570,704	155,942	-	850,609	72,577,255
Financial liabilities measured at amortised cost - debt securities issued	15,634,876	125,497	3,089	7,086,314	22,849,776
Technical reserves	-	-	2,210,294	-	2,210,294
Equity-accounted investees	-	-	244,707	42,646	287,353
Minority interests (+/-)	-	45,578	-	12,652	58,230

The items "Financial assets measured at amortised cost - Loans and advances to banks" and "Financial liabilities measured at amortised cost - Due to banks" have been stated in the four segments on the basis of the prevailing balance and as at the 31st December 2019, showed an overall net interbank balance of -€2,447 million.
The items "Financial assets measured at amortised cost – Loans and advances to banks" and "Financial liabilities measured at amortised cost – Due to banks" relating to the banking segment have been included, together with the relative consolidation entries, in the corporate centre segment.

The item "Financial assets measured at amortised cost – Loans and advances to customers" includes securities measured at amortised cost attributed to the corporate centre segment, along the same lines as other financial assets.

The item "Net financial assets" includes loans and receivables mandatorily measured at fair value (i.e. loans and receivables that have failed the SPPI test set by IFRS 9) and have been attributed to the banking segment along the same lines as other loans and receivables.

The item "minority interests" in the "Non-banking financial" segment is the only portion of equity and of the profit for the period of the company Pramerica SGR Spa, which is not wholly owned. It does not include minority interests of equity investments and the part of consolidated items attributable to minority interests which have been attributed to the "corporate centre".

Absolute amounts are reported for liability items.

Part M – Information on leases

SECTION 1 – Lessee

Qualitative information

The following types of contract have been identified for the UBI Banca Group as falling within the perimeter of those subject to the provisions of IFRS 16 as of 1st January 2019:

- property lease contracts;
- motor vehicle lease contracts;
- IT hardware lease contracts.

Real estate lease contracts constitute the most important area in terms of right-of-use assets. In the large majority of cases these contracts include properties for use as offices or bank branches. The contracts normally have a life of longer than 12 months and typically have renewal and termination options that can be exercised by the lessor and lessee in accordance with the law and contract clauses. Generally these contracts do not include an option to purchase at the end of the lease period or any significant restoration costs for the Group.
Motor vehicles are leased under long-term contracts for the company car fleet which is available to employees.

A more precise and exhaustive description of the perimeter of application, of the impacts on company processes and of the accounting rules and processes is given in "Part A – Accounting policies – A. 1 General – Section 4 Other Aspects", while the criteria followed for the recognition, classification, measurement and derecognition of these contracts is given in "Part A – Accounting policies – A. 2 The main items in the financial statements".
It is also underlined that the cases governed by IFRS 16, paragraph 59 under points b), c) and d) did not give rise to any significant impacts for the Group and that the situations pursuant to paragraph 55 do not apply.

Quantitative information

As concerns quantitative information on the impacts on the Group's capital and operating position, in accordance with the applicable regulations, reference is made, for the content, to the specific sections in these Notes to the Financial Statements. In detail:

– for right-of-use leased assets, "Part B Information on the balance sheet - Assets – Section 9";
– for lease liabilities, "Part B Information on the balance sheet - Liabilities – Section 1";
– for the impacts on profit and loss, "Part C – Information on the income statement", interest expense and depreciation and impairment of property, plant and equipment respectively.

SECTION 2 – Lessor

Qualitative information

It is underlined, with regard to the perimeter of the contracts subject to the provisions of IFRS 16, that 90% of the lease portfolio consists of property and machinery and equipment contracts as reported in sub-section 2.2."Other information" of this section.

Quantitative information

1. Balance sheet and income statement information

As concerns quantitative information on the impacts on the Banking Group's capital and operating position, in accordance with the applicable regulations reference is made, for the content, to the specific sections in these Notes to the Financial Statements. In detail:

– for the receivables arising from these contracts, "Part B Information on the balance sheet - Assets – Section 4";
– for the impacts on profit and loss, "Part C – Information on the income statement", interest income and depreciation and impairment of property, plant and equipment respectively.

2. Finance leases

2.1 Classification by time ranges of payments to be received and reconciliation with finance leases recognised under assets

Time ranges	Non-performing exposures	Performing exposures	31.12.2019
			Lease receivables
Up to 1 year	193,618	762,869	956,487
One year to two years	29,068	807,115	836,183
Two years to three years	30,131	697,353	727,484
Three years to four years	28,761	563,911	592,672
Four years to five years	24,733	440,997	465,730
Over 5 years	179,039	2,258,325	2,437,364
Total lease receivables	**485,350**	**5,530,570**	**6,015,920**
Reconciliation with loans			
Profits not realised (-)	(70,155)	(768,647)	(838,802)
Remaining amount not secured (-)	-	-	-
Loans for leases	**415,195**	**4,761,923**	**5,177,118**

2.2 Other information

Net loans and advances to customers for finance leases, totalled €5,177,118 thousand, net of intercompany eliminations, of which €415,195 thousand were "Non-performing assets" (entries relating to other financing, other assets, deposits and current accounts and other securities are not reported separately).

The lending portfolio for the finance leases of UBI leasing consisted of 30,824 contracts, composed, by remaining debt, as follows:

- 77% property sector;
- 13% machinery and equipment sector;
- 6% energy sector;
- 3% auto sector;
- 1% marine sector.

The ten most significant exposures had a total remaining value of €231,992 thousand.

A negative balance for potential lease instalments (relating to the index value of the instalments) was recognised during the year amounting to €71,865 thousand.

3. Operating leases

3.1 Classification by time ranges of payments to be received

No items of this type exist.

3.2 Other information

No items of this type exist.

Attachments to the Consolidated Financial Statements

Disclosures of fees for auditing services and non-auditing services in compliance with Art. 149 *duodecies* of Consob Issuers' Regulations

Information pursuant to letters a), b) and c) of Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17th December 2013

Disclosures of fees for auditing services and non-auditing services in compliance with Art. 149 duodecies of Consob Issuers' Regulations

In accordance with Art. 149 *duodieces* of Consob Issuers' Regulations, information concerning payments made to the independent auditors Deloitte & Touche Spa and companies belonging to the same network for the following services is given in the table below.

1) Auditing services which include:
- audit of the annual accounts for the purposes of expressing a professional opinion;
- review of the interim accounts.

2) Certification services which include appointments where the auditor assesses a specific element, the determination of which is performed by another who is responsible for it, by employing appropriate criteria in order to furnish a conclusion which gives the recipient a measure of the reliability of that specific element.

3) Other services.

The fees presented in the table relating to the financial year 2019, are those contractually agreed, inclusive of any indexing (but not of out-of-pocket expenses, nor of supervisory authority contributions and VAT).

Type of service	Firm that provided the service	Recipient of the service	Fees (€000)
Audit services	Deloitte & Touche Spa, Deloitte Audit Sàrl, Deloitte Polska Sp.K	(*)	**3,996**
Certification services	Deloitte & Touche Spa, Deloitte Audit Sàrl	(**)	**954**
Other services	Deloitte & Touche Spa	(***)	**1**
Total			**4,951**

(*) UBI Banca Spa, BPB Immobiliare Srl, Centrobanca Sviluppo Impresa Spa - in liquidation, Kedomus Srl, UBI Academy Scrl, UBI Factor Spa, UBI Leasing Spa, Pramerica Management Company Sa, Pramerica SGR Spa, UBI Sistemi e Servizi Scpa, UBI Trustee Sa, UBI Finance Srl, UBI Finance CB 2 Srl, UBI SPV GROUP 2016 Srl, UBI SPV LEASE 2016 Srl, Bancassurance Popolare Spa, Prestitalia Spa, IW Bank Spa, Mecenate Srl – in liquidation, Marche Mutui 2 Srl, Marche Mutui 6 Srl, Oro Italia Trading Srl - in liquidation, UBI Sicura Spa, Palazzo della Fonte Scpa e Bancassurance Popolare Danni Spa.

(**) UBI Banca Spa, UBI Leasing Spa, Pramerica SGR Spa, Bancassurance Popolare Spa, Centrobanca Sviluppo Impresa Spa - in liquidation, UBI Factor Spa, IW Bank Spa, Oro Italia Trading Srl - in liquidation, Mecenate Srl - in liquidation, Kedomus Srl, Pramerica Management Company Sa, UBI Academy Scrl, Marche Mutui 2 Srl.

(***) UBI Banca Spa.

Information pursuant to letters a), b) and c) of Attachment A to Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17th December 2013
Situation as at 31st December 2019

Letter a) - Name of the companies formed and the type of business

	State in which they are located				Brief description of the main activities carried out
	Italy	France	Luxembourg	Poland	
Banks					
UBI Banca Spa (Parent)	x	x			Deposit-taking and lending through a branch network, trading on behalf of others, receipt and transmission of orders, placement of financial instruments, payments and settlements, custody and administration
IW Bank Spa	x				Deposit-taking and lending through a branch network and a network of financial advisors, trading on behalf of others, receipt and transmission of orders, placement of financial instruments, payments and settlements, custody and administration.
Financial companies					
UBI Factor Spa	x			x	Factoring business
UBI Leasing Spa	x				Leasing business
Prestitalia Spa	x				Salary-backed and deducted-from-salary lending
UBI Finance Srl	x				Covered bond collateral pursuant to Law No. 130/1999
UBI Finance CB 2 Srl	x				Covered bond collateral pursuant to Law No. 130/1999
24/7 Finance Srl	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
UBI Finance 2 Srl in liquidation	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
UBI SPV GROUP 2016 Srl	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
UBI SPV LEASE 2016 Srl	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
Mecenate SPV Srl in liquidation	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
Marche Mutui 6 SPV Srl	x				Securitisation of loans and receivables pursuant to Law No. 130/1999
Asset management and trust companies					
Pramerica SGR Spa	x				Management of open-end mutual investment funds
Pramerica Management Company SA			x		Asset management advisory service
UBI Trustee SA			x		Trustee activities
Other companies					
UBI Sistemi e Servizi ScpA	x				Provision of the following: IT services, property management and purchasing, back office and logistics services to support the Group's activit
BPB Immobiliare Srl	x				Sale, purchase and management of the Group's operating properties
UBI Academy Scrl	x				Staff training services
KEDOMUS Srl	x				Sale and purchase of real estate properties not used in the Group's operations
Centrobanca Sviluppo Impresa Spa in liquidation	x				Acquisition and holding of equity investments
Oro Italia Trading Srl in liquidation	x				Wholesale trading in gold and jewellery
Focus Impresa **	x				Investment fund
Bancassurance Popolari Spa	x				Provision of life insurance services
Bancassurance Popolari Danni Spa *	x				Provision of non-life insurance services
UBI Sicura Spa	x				Insurance brokerage

* Company disposed of on 15th May 2019
** Deconsolidated on 31st December 2019

Letter b) - UBI Banca Group revenues by country of location and type of business (gross income as recognised in item 120 of the mandatory income statement, in thousands of euro)

	State in which they are located					
	Italy	France	Luxembourg	Poland	Adjustments and eliminations	**T O T A L**
Banks	3,257,529	1,851	-	-	-	**3,259,380**
Financial companies	173,186	-	-	2,427	-	**175,613**
Asset management and trust companies	177,425	-	3,106	-	-	**180,531**
Other companies	54,941	-	-	-	-	**54,941**
Adjustment and elimination entries	-	-	-	-	(86,967)	**(86,967)**
T O T A L	**3,663,081**	**1,851**	**3,106**	**2,427**	**(86,967)**	**3,583,498**

Letter c) - Number of employees on a full-time equivalent basis

	State in which they are located				
	Italy	France	Luxembourg	Poland	**T O T A L**
Number of employees	19,261	11	13	5	**19,290**

Letter d) - Profit or loss before tax

	State in which they are located					
	Italy	France	Luxembourg	Poland	Adjustments and eliminations	**T O T A L**
Banks	311,538	(1,852)	-	-	-	**309,686**
Financial companies	(56,849)	-	-	2,109	-	**(54,740)**
Asset management and trust companies	138,992	-	578	-	-	**139,570**
Other companies	4,920	-	-	-	-	**4,920**
Adjustment and elimination entries	-	-	-	-	(32,257)	**(32,257)**
T O T A L	**398,601**	**(1,852)**	**578**	**2,109**	**(32,257)**	**367,179**

Letter e) - Taxes on profit or loss

	State in which they are located					
	Italy	France	Luxembourg	Poland	Adjustments and eliminations	**T O T A L**
Banks	(50,110)	-	-	-	-	**(50,110)**
Financial companies	14,514	-	-	(583)	-	**13,931**
Asset management and trust companies	(41,233)	-	(171)	-	-	**(41,404)**
Other companies	(1,746)	-	-	-	-	**(1,746)**
Adjustment and elimination entries	-	-	-	-	(2,804)	**(2,804)**
T O T A L	**(78,575)**	**-**	**(171)**	**(583)**	**(2,804)**	**(82,133)**

Letter f) – Government grants received

In this respect we report that in accordance, amongst other things, with the provisions of the "*Annual law for the market and competition*" (Law No. 124/2017) and Decree Law No. 34/2019 (the "Growth Decree") converted with Law No. 58 of the 28th June 2019, the Group received government grants in 2019, but not in previous years.
More specifically this was a single transfer relating to a plan presented by the former Banca Marche as indicated below:

Fondo Banche Assicurazioni (Insurance Banks Fund)
Regulation 651
Notice 1_2016
Protocol No. 01160900001
Amount €128,250.

We also report that, in compliance with the instructions for compiling this disclosure, this does not include operations with central banks for financial stability purposes, nor operations carried out with the objective of facilitating the transmission of monetary policy.