

Pillar 3 Disclosures

as at 30th September 2014

UBI  **Banca**
UNIONE DI BANCHE ITALIANE

Joint stock co-operative company
Registered office: Bergamo, Piazza Vittorio Veneto 8
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 30th September 2014: €2,254,371,430 fully paid up

www.ubibanca.it

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Introduction

The new prudential rules for banks and investment companies contained in EU Regulation 575/2013 (the Capital Requirements Regulation, known as the CRR) and in the EU Directive 2013/36/EU (the Capital Requirements Directive, known as CRD IV), came into force on 1st January 2014. These transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations. The CRR comes directly into force in member states, while the regulations contained in CRD IV require implementation through national legislation.

On conclusion of a public consultation process started in November 2013, on the following 17th December the Bank of Italy published Circular No. 285 “Regulations for the prudential supervision of banks”, which implements the new EU regulations.

The Pillar 3 Disclosures are regulated directly by Part Eight and Part Ten (Title I, Chapter 3) of the CRR and by regulatory and implementation provisions issued by the European Commission¹, to regulate the following:

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

As opposed to previously, the regulation does not require special tables for the other information subject to disclosure in which the quantitative and qualitative information which banks must publish is classified.

The CRR also requires intermediaries to disclose information on at least an annual basis jointly with financial statements and to assess the need to publish some of or all the information requested more frequently than once a year, in the light of the more important characteristics of their activities.

In continuation with past practice, the UBI Group intends to continue to make Pillar 3 disclosures on at least a quarterly basis, providing an update of the information considered most important. More specifically, this document, which reports the position of the UBI Group as at 30th September 2014, gives an update of quantitative information relating to own funds and capital requirements. All information expressly required by the CRR will be published in the Pillar 3 Disclosures as at 31st December 2014.

¹ The “Regulatory Technical Standard” – RTS and “Implementing Technical Standard” – ITS respectively.

The document Pillar 3 Disclosures as at 31st December 2013 may be consulted for information not contained in this document. Furthermore, any significant changes that occurred during the third quarter of 2014 are reported in this disclosure document.

For full information, the information published relates to the regulatory consolidation, which consists of those entities subject to banking consolidation for regulatory purposes. Any differences with respect to other sources (e.g. the interim first quarter financial report prepared with the same reporting date) are therefore attributable to differences in the scope of consolidation considered.

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

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

Capital ratios as at 30th September 2014

Capital ratios (Basel 3)

Figures in thousands of euro	30.9.2014	30.6.2014
Common Equity Tier 1 capital before filters and transitional provisions	8,021,654	7,974,150
Effects of transitional provisions provided for by the regulations (minority interests)	386,750	375,601
Effects of transitional provisions provided for by the regulations (AFS reserves)	-103,187	-103,596
Adjustments to Common Equity Tier 1 capital due to prudential filters provided for by the regulations	-2,104	-2,811
Government securities sterilisation effect	-103,344	-59,810
Common Equity Tier 1 capital net of prudential filters and transitional provisions	8,199,769	8,183,533
Deductions from Common Equity Tier 1 capital	-490,597	-519,438
<i>of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions</i>	-490,597	-519,438
Common Equity Tier 1 capital	7,709,172	7,664,095
Additional Tier 1 capital before deductions	38,990	39,441
Deductions from Additional Tier 1	-38,990	-39,441
<i>of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions</i>	-38,990	-39,441
Additional Tier 1 capital	-	-
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	7,709,172	7,664,095
Tier 2 capital before transitional provisions	3,347,673	3,527,869
Effects of grandfathering provisions on Tier 2 instruments	6,780	19,376
Tier 2 capital after transitional provisions	3,354,453	3,547,245
Deductions from Tier 2 capital	-339,035	-357,932
<i>of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions</i>	-353,085	-372,586
Tier 2 capital	3,015,418	3,189,313
Total own funds	10,724,590	10,853,408
Credit risk	4,348,406	4,414,926
Credit valuation adjustment risk	11,524	10,808
Market risk	49,620	55,728
Operational risk	333,773	333,773
Total prudential requirements	4,743,323	4,815,235
Risk weighted assets	59,291,538	60,190,438
Common Equity Tier 1 ratio (Common Equity Tier 1 capital/Risk-weighted assets)	13.00%	12.73%
Tier 1 ratio (Tier 1 capital/Risk-weighted assets)	13.00%	12.73%
Total capital ratio (total own funds/risk-weighted assets)	18.09%	18.03%

Own funds

Quantitative information

In compliance with transitional provisions concerning own funds contained in Part II, Chapter 14 of Bank of Italy Circular No. 285 of 17th December 2013 (“Regulations for the supervision of banks”), advantage was taken in the calculation of regulatory capital as at 30th September of the option to not include unrealised profits or losses relating to exposures to central governments classified within “available-for-sale financial assets” in any element of own funds. That option was exercised within the time limit set of 31st January 2014 and was applied at individual company and at consolidated level.

As at 30th September 2014, the Common Equity Tier 1 Capital (CET1) of the UBI Banca Group amounted to over €7.7 billion and total own funds to approximately €10.7 billion. The CET1 increased by approximately €45 million compared with June 2014, largely attributable to a reduction in the shortfall (the difference between expected loss amounts and provisions). As already reported, on the basis of supervisory regulations, the calculation of capital ratios as at 30th September 2014 does not include profit for the period and the consequent changes in filters and deductions.

The Tier 2 capital, on the other hand, fell by approximately €174 million from €3.2 billion as at 30th June 2014 to approximately €3 billion, primarily due to the amortisation of subordinated securities. As opposed to the previous regulations, under the framework established by the CRR, amortisation occurs on the basis of the days remaining in the life of the instrument.

As a result of the performance reported above, total own funds fell by approximately €129 million.

The table below gives details of the items of which own funds were composed as at 30th September 2014.

CAPITAL ITEM	30.09.2014 BASEL 3	30.06.2014 BASEL 3
Common Equity Tier 1 (CET1) capital instruments	2,254,371	2,254,371
CET1 capital share premium accounts	4,716,866	4,716,866
Reserves	3,558,608	3,560,888
<i>(i) retained earnings</i>	1,516,321	1,516,321
<i>(ii) other reserves</i>	2,042,287	2,044,567
Direct and indirect holdings of own CET1 instruments	-120,551	-135,321
Accumulated other comprehensive income (AOCI)	175,605	137,289
Regulatory adjustments relating to unrealised gains or losses	-206,531	-163,406
Minority interests	669,453	673,176
<i>(i) amount allowed in consolidated CET1</i>	282,702	297,575
<i>(ii) amount qualifying under transitional provisions</i>	386,750	375,601
CET1 prudential filters	-2,104	-2,811
Intangible assets (net of related tax liability)	-2,845,947	-2,857,518
<i>(i) goodwill</i>	-2,549,248	-2,549,248
<i>(i) other intangible assets</i>	-296,699	-308,269
Negative amounts resulting from the calculation of expected loss amounts (shortfall on IRB positions)	-490,597	-519,438
<i>(i) shortfall on IRB positions eligible for inclusion in CET 1 under transitional provisions</i>	-176,529	-186,293
<i>(i) shortfall on qualifying AT1 IRB positions that exceed the AT1 capital of the institution</i>	-314,068	-333,145
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0
COMMON EQUITY TIER 1 CAPITAL	7,709,172	7,664,095
Additional Tier 1 instruments and the related share premium accounts	38,990	39,441
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-353,058	-372,586
Negative amounts on qualifying IRB positions that exceed the AT1 capital of the institution	314,068	333,145
TIER 1 (T1) CAPITAL	7,709,172	7,664,095
Tier 2 (T2) capital instruments and the related share premium accounts	3,347,673	3,527,869
Amount of qualifying items referred to in Article 484 (5) and the related share premium account subject to phase out from T2	6,780	19,376
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-338,705	-357,803
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	-41,605	-41,567
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required for pre-CRR treatment	41,275	41,438
TIER 2 (T2) CAPITAL	3,015,418	3,189,313
TOTAL CAPITAL (TC=T1+T2)	10,724,590	10,853,409

Capital requirements

Quantitative information

The table below summarises the fulfilment of capital requirements in terms of capital ratios and it gives details of the various capital requirements.

	Capital requirement 30.09.2014	Capital requirement 30.06.2014
CREDIT AND COUNTERPARTY RISK		
Total credit risk	4,294,626	4,364,284
Total counterparty risk	53,779	50,642
Total credit and counterparty risk	4,348,405	4,414,926
MARKET RISK - Standardised approach		
- position risk in debt instruments	46,947	53,754
- position risk in equity instruments	1,136	1,021
- currency risk	1,537	953
- position risk in commodities	-	-
Total market risk	49,620	55,728
OPERATIONAL RISK		
Basic indicator approach	3,200	3,200
Standardised approach	46,989	46,989
Advanced measurement approach	283,584	283,584
Total operational risk	333,773	333,773
CREDIT VALUATION ADJUSTMENT RISK		
Standardised method	11,524	10,808
Total operational risk	11,524	10,808
SUPERVISORY RATIOS		
Common equity Tier 1 capital ratio (Common Equity Tier 1 capital/Risk-weighted assets)	13.00%	12.73%
Tier 1 capital ratio (Tier 1 capital/Risk-weighted assets)	13.00%	12.73%
Total capital ratio (Total own funds /Risk-weighted assets)	18.09%	18.03%

	amount as at 30.09.2014				amount as at 30.06.2014			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement
Credit and counterparty risk - STANDARDISED APPROACH								
Exposures to or guaranteed by central governments and banks	2,511,377	200,910	-	-	2,498,865	199,909	-	-
Exposures to or guaranteed by regional governments or local authorities	155,190	12,415	-	-	168,325	13,466	-	-
Exposures to or guaranteed by public sector entities	147,736	11,819	226	18	153,177	12,254	194	16
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	1,265,716	101,257	84,511	6,761	1,211,640	96,931	81,627	6,530
Exposures to or guaranteed by corporates	7,775,501	622,040	350,854	28,068	8,231,623	658,530	337,426	26,994
Retail exposures	4,295,645	343,652	186	15	4,269,820	341,586	415	33
Exposures secured by real estate property	1,956,504	156,520	-	-	1,024,252	81,940	-	-
Exposures in default	3,212,156	256,972	11,529	922	2,844,055	227,524	9,319	746
High-risk exposures	79,468	6,357	-	-	78,040	6,243	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-
Short-term exposures to corporates and supervised intermediaries	-	-	-	-	-	-	-	-
Exposures to UCITS	18,139	1,451	-	-	19,323	1,546	-	-
Exposures in equity instruments	2,192,369	175,390	86,609	6,929	2,114,312	169,145	86,608	6,929
Other exposures	1,833,459	146,677	-	-	1,924,099	153,928	-	-
Securitisations	-	-	-	-	-	-	-	-
Total standardised approach	25,443,260	2,035,460	533,915	42,713	24,537,531	1,963,002	515,589	41,248
Credit and counterparty risk - INTERNAL RATING BASED APPROACH								
Exposures to or guaranteed by corporates								
Specialised lending								
SMEs	7,804,503	624,360	-	-	8,023,937	641,915	-	-
<i>SMEs to which the supporting factor is applied (0.7619)</i>	3,125,662	250,053	-	-	3,392,284	271,383	-	-
Other enterprises	15,123,257	1,209,861	138,330	11,066	15,858,194	1,268,656	117,425	9,394
Retail exposures								
Exposures secured by real estate property: SMEs	1,089,773	87,182	-	-	1,191,373	95,310	-	-
<i>Exposures guaranteed by real estate property: SMEs to which the supporting factor is applied (0.7619)</i>	536,556	42,924	-	-	555,752	44,460	-	-
Exposures secured by real estate property: private individuals	2,884,597	230,768	-	-	3,517,956	281,436	-	-
Qualified retail revolving exposures	-	-	-	-	-	-	-	-
Other retail exposures: SMEs	1,337,442	106,995	-	-	1,424,568	113,965	-	-
<i>Other retail exposures: SMEs to which the supporting factor is applied (0.7619)</i>	1,051,573	84,126	-	-	1,062,032	84,963	-	-
Other retail exposures: private individuals	-	-	-	-	-	-	-	-
Specialised lending - slotting criteria	-	-	-	-	-	-	-	-
Total methodology based on internal ratings	28,239,572	2,259,166	138,330	11,066	30,016,028	2,401,282	117,425	9,394

The following capital requirements must be satisfied for 2014, given as percentages of risk-weighted assets:

- the Common Equity Tier 1 capital must be equal to at least 4.5% of total RWAs;
- the Tier 1 capital must be equal to at least 5.5% of total RWAs;
- own funds (equal to the sum of the Tier 1 and the Tier 2 capital) must be equal to at least 8% of total RWAs.

Additionally, banks are obliged to hold a capital conservation buffer equal to 2.5% of risk-weighted assets. Therefore, the minimum capital ratios required of the UBI Group 2014 are 7% of the Common Equity Tier 1 capital inclusive of the capital conservation buffer, 8% of the Tier 1 capital and 10.5% of total own funds.

Compliance with that requirement at the end of the period required capital of approximately €4,743 million (equal to total capital requirements for credit, counterparty, credit valuation adjustment, market and operational risk), against which the Group recorded actual regulatory capital amounting to approximately €10,725 million (see the section on own funds).

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models² for the calculation of capital requirements for credit risk – “Corporate” segments (“exposures to businesses”) and “Retail” segments (sub-portfolios “retail: exposures backed by residential real estate” and “retail: other exposures³”) – and operational risks.

Capital ratios as at 30th September 2014 recorded an increase compared with 30th June 2014. The Common Equity Tier 1 ratio and the Tier 1 ratio stood at 13.00% (12.73% in June 2014), while the Total Capital ratio was 18.09% (18.03% in June 2014).

Risk weighted assets fell from €60.2 billion in June to €59.3 billion in September. The main difference in the comparison was the decrease in capital requirements for credit risk attributable to changes in volumes of lending. A fall was recorded in capital requirements for market risk.

² Tables 7 and 12 of the full Pillar 3 disclosure document as at 31st December 2013 may be consulted for further information on internal models.

³ Limited to the small to medium-size enterprise portfolio comprised within the “Retail” segment (“SME retail”).

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

The undersigned, Elisabetta Stegher, as the Senior Officer Responsible for preparing the corporate accounting documents of Unione di Banche Italiane Scpa, hereby declares, in compliance with the second paragraph of article 154 bis of the “Testo unico delle disposizioni in materia di intermediazione finanziaria” (Consolidated Finance Act), that the information contained in this document “Pillar 3 disclosures as at 30th September 2014” is reliably based on the records contained in corporate documents and accounting records.

The Senior Officer Responsible for the preparation of corporate accounting documents

Brescia, 11th November 2014