# Pillar 3 disclosures

as at 31st March 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 31st March 2014: €2,254,371,430 fully paid up

www.ubibanca.it

# Contents

# 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)[1], 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 must be implemented through national legislation.

On conclusion of a public consultation process started in November, on 17th December 2013 the Bank of Italy published Circular No. 285 "Rules for prudential supervision of banks", which implements the new EU regulations. The circular is composed of three parts:

i) the first implements CRD IV in Italy by means of regulations issued by the Bank of Italy;

ii) the second contains details (as recognition) of the provisions of the CRR which are immediately applicable together with those over which national discretion has been exercised by the Italian authority;

iii) the third contains provisions which, although not harmonised at European level, are needed to align Italian regulations with best practices and requirements established by international bodies.

The Pillar 3 Disclosures are regulated directly by Part Eight and Part Ten (Title I, Chapter 3) of the CRR and by regulatory and implementation provisions issued by the European Commission[2], to regulate the following:

- standard templates for the public disclosure of information on own funds (regulatory capital);

- 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.

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[1] The texts of the regulation and the Directive were published in the Official Journal of the European Union on 27th June 2013.

[2] The "Regulatory Technical Standard" – RTS and "Implementing Technical Standard" – ITS respectively.

This document, which reports the position of the UBI Group as at 31st March 2014, gives an update of quantitative information relating to own funds and capital requirements calculated according to the new prudential supervisory rules. All information expressly required by the CRR will be published in the Pillar 3 Disclosures as at 31st December 2014.

The full disclosure 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 first quarter of 2014 are reported in this disclosure document.

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

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

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

For full information, the information published relates to the 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 tables are stated in thousands of euro, unless otherwise stated.

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### *Capital ratios as at 31st March 2014*

| Figures in thousands of euro | 31.03.2014 BASEL 3 |
|---|---|
| Common Equity Tier 1 capital before filters and transitional provisions | 7,841,670 |
| Effects of transitional provisions provided for by the regulations (minority interests) | 383,303 |
| Effects of transitional provisions provided for by the regulations (AFS reserves) | -130,593 |
| Adjustments to Common Equity Tier 1 capital due to prudential filters provided for by the regulations | -5,191 |
| Government securities sterilisation effect | 5,547 |
| **Common Equity Tier 1 capital net of prudential filters** | **8,094,736** |
| Deductions from Common Equity Tier 1 capital | -572,229 |
| *of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions* | *-535,172* |
| **Common Equity Tier 1 capital after filters and deductions** | **7,522,507** |
| **Tier 1 capital after filters and deductions** | **7,522,507** |
| **Tier 2 capital before transitional provisions** | **3,688,037** |
| Effects of grandfathering provisions on Tier 2 instruments | 31,835 |
| **Tier 2 capital after transitional provisions** | **3,719,872** |
| Deductions from Tier 2 capital | -345,977 |
| *of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions* | *-356,782* |
| **Tier 2 capital after specific deductions** | **3,373,895** |
| **Total own funds** | **10,896,402** |
| Credit risk | 4,457,665 |
| Market risk | 103,535 |
| Operational risk | 359,124 |
| Other calculation items | - |
| **Total prudential requirements** | **4,920,324** |
| **Risk weighted assets** | **61,504,050** |
| **Common Equity Tier 1 ratio** (Common Equity Tier 1 capital after filters and deductions/risk-weighted assets) | **12.23%** |
| **Tier 1 ratio** (Tier 1 capital after filters and deductions/risk-weighted assets) | **12.23%** |
| **Total capital ratio** (Total own funds /Risk weighted assets) | **17.72%** |

The report as at 31st March represents the first application of the new European regulatory framework for prudential supervisory reports (see below for details).

# Own funds

## *Qualitative information*

The new Basel 3 framework introduces various changes to the previous 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 innovative equity instruments and callable subordinated liabilities); greater harmonisation of items to be deducted (with regard to some categories of deferred tax assets[3] and to significant holdings in banks and finance and insurance companies); the partial inclusion of minority interests in common equity.
The new rules will be introduced gradually. In most cases the new definition of regulatory capital will be phased in over four years, while other capital instruments which no longer qualify will be excluded gradually from regulatory capital by 2021.

### Regulations for equity reserves

From 1st January 2014, consolidated banking groups and banks which do not belong to banking groups must have prime quality capital (Common Equity Tier 1) equal to 7% of risk weighted assets of which 4.5% as a minimum requirement and 2.5% as a capital conservation buffer[4].
Requirements for countercyclical buffers, global systemic importance buffers and systemically important institution buffers will apply from the 1st January 2016.
Conservation measures are already in place from the 1st January 2014 which in the event of failure to comply with the combined capital reserve requirement (i.e. the sum of the various applicable buffers) involve limits set on distributions (dividends, variable remuneration, purchase of treasury shares, etc.) and the requirement to implement a capital conservation plan which contains measures intended to top up capital to the necessary level and to maintain required capital reserves.

### Transitional measures concerning own funds

An option was provided, until the adoption of IFRS 9 in Europe, which will replace the current IAS 39. It allows the filter to be maintained on unrealised gains and losses relating to exposures to central governments of countries belonging to the EU recognised within the AFS portfolio. The banks concerned were required to exercise that option by 31st January 2014. As part of the transitional provisions, rules were also laid down for the treatment of residual amounts not deducted from the various items of capital, generally maintaining the regulatory measures previously in force.

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[3] Deferred tax assets that rely on future profitability and arise from temporary differences (except for those transformed or which may be transformed into tax credits).
[4] For banks belonging to banking groups a conservation buffer percentage of 0.625% will apply, which will gradually increase from 1st January 2017 until it reaches 2.5% on 1st January 2019.

### *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, advantage was taken in the calculation of regulatory capital as at 31st March 2014 of the option to not include unrealised gains or losses relating to exposures to central governments classified within the IAS 39 (approved by the EU) class "available-for-sale financial assets" in any item of own funds[5]. That option was exercised within the time limit set of 31st January 2014 and was applied at individual company and at consolidated level.

The effect of the sterilisation on the exposures in question as at 31/03/2014 was positive by approximately €5.5 million.

The table below gives details of the items of which the regulatory capital was composed as at 31st March 2014.

| CAPITAL ITEM | 31.03.2014 BASEL 3 |
|---|---|
| **Common Equity Tier 1 (CET1) capital instruments** | **2,254,371** |
| **CET1 capital share premium accounts** | **4,716,866** |
| **Reserves** | **3,484,559** |
| *(i) retained earnings* | 1,439,992 |
| *(ii) other reserves* | 2,044,567 |
| **Direct and indirect holdings of own CET1 instruments** | **-132,076** |
| **Accumulated other comprehensive income (AOCI)** | **90,582** |
| **Regulatory adjustments relating to unrealised gains or losses** | **-125,046** |
| **Minority interests** | **673,296** |
| *(i) amount allowed in consolidated CET1* | 289,991 |
| *(ii) amount qualifying under transitional provisions* | 383,305 |
| **CET1 prudential filters** | **-5,191** |

[5] This treatment applies until the European Commission adopts a regulation based on EU Regulation No. 1606/2002, which approves the International Financial Reporting Standard that will replace the above-mentioned IAS 39.

| CAPITAL ITEM | 31.03.2014<br>BASEL 3 |
|---|---|
| **Intangible assets (net of related tax liability)** | **-2,862,627** |
| *(i) goodwill* | -2,549,249 |
| *(i) other intangible assets* | -313,378 |
| **Negative amounts resulting from the calculation of expected loss amounts (shortfall on IRB positions)** | **-535,172** |
| *(i) shortfall on IRB positions eligible for inclusion in CET 1 under transitional provisions* | -178,391 |
| *(i) shortfall on qualifying AT1 IRB positions that exceed the AT1 capital of the institution* | -356,782 |
| **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)** | **-37,056** |
| **COMMON EQUITY TIER 1 (CET1) CAPITAL** | **7,522,507** |
| **Additional Tier 1 (AT1) capital instruments and the related share premium accounts** | **0** |
| **Negative amounts resulting from the calculation of expected loss amounts under transitional provisions** | **-356,782** |
| **Negative amounts on qualifying IRB positions that exceed the AT1 capital of the institution** | **356,782** |
| **TIER 1 (T1) CAPITAL** | **7,522,507** |
| **Tier 2 (T2) capital instruments and the related share premium accounts** | **3,688,037** |
| **Amount of qualifying items referred to in Article 484 (5) and the related share premium account subject to phase out from T2** | **31,835** |
| **Negative amounts resulting from the calculation of expected loss amounts under transitional provisions** | **-356,782** |
| **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)** | **-41,432** |
| **Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR treatment** | **52,237** |
| **TIER 2 (T2) CAPITAL** | **3,373,895** |
| **TOTAL CAPITAL (TC=T1+T2)** | **10,896,402** |

As at 31/03/2014 Group own funds (total capital) amounted to €10,896 million.

The main negative impacts of the new supervisory rules for the UBI Group with regard to the Common Equity Tier 1 capital concern the following: the reduction in the qualification of minority interests, which previously qualified for full inclusion in own funds; the new deduction of investments held indirectly through funds or other equity instruments; the application of a transitional, "phasing-in" regime, in relation to the difference between expected loss amounts and provisions; and fair value reserves (except for those for Italian government securities).
These impacts are partially offset by the risk weighting (250%) on directly held significant equity investments, previously deducted from the highest quality capital.

In accordance with the new supervisory rules, self-financing for the period is not included within own funds. If it were included, the CET1 ratio would be 12.31%, an increase of 8 basis points compared with the final figures for March.

As concerns Tier 2 capital, inclusion of instruments in the item is calculated differently over the last five years of the maturity of those instruments. This approach results in a decrease in the instruments qualifying for inclusion, previously subject to straight-line annual amortisation.

# Capital requirements

## *Quantitative information*

With regard to capital requirements, the new European regulatory framework involves, amongst other things, the introduction of new rules for counterparty risk. More specifically, the following were introduced: i) a special capital requirement (Credit Valuation Adjustment – CVA) to cover losses resulting from adjustments to the market value of OTC derivatives contracts following changes in credit ratings; ii) a specific treatment for central counterparty (CCP) exposures.

Furthermore, the new European regulations, which remain the same with regard to the previous rules for credit risk, allow a favourable regulatory treatment for exposures to small to medium-size businesses, in consideration of the role that they play in the European Union economy (a "supporting factor").

The table below gives details of the various capital requirements and compliance with requirements in terms of capital ratios.

| CAPITAL ADEQUACY | Capital requirement 31.03.2014 |
|---|---|
| **A. REGULATORY CAPITAL REQUIREMENTS** | |
| **Credit risk**<br>*Standardised approach* | |
| Exposures to or guaranteed by central governments and central banks | 177,698 |
| Exposures to or guaranteed by regional governments and local authorities | 12,263 |
| Exposures to or guaranteed by public sector entities | 12,208 |
| Exposures to or guaranteed by multilateral development banks | - |
| Exposures to or guaranteed by international organisations | - |
| Exposures to or guaranteed by supervised intermediaries | 86,901 |
| Exposures to or guaranteed by corporates | 658,940 |
| Retail exposures | 357,806 |
| Exposures secured by real estate property | 84,473 |

| CAPITAL ADEQUACY | Capital requirement 31.03.2014 |
|---|---|
| Exposures in default | 228,516 |
| High-risk exposures | 1,015 |
| Exposures in the form of covered bonds | - |
| Short-term exposures to corporates and supervised intermediaries | - |
| Exposures to UCITS | 23,607 |
| Exposures in equity instruments | 182,954 |
| Other exposures | 171,832 |
| Securitisations | 396 |
| ***Total standardised approach*** | **1,998,609** |
| Methodology based on internal ratings | |
| Exposures to or guaranteed by corporates | |
| Specialised lending | - |
| SMEs | 656,764 |
| *SMEs to which the supporting factor is applied* | *266,513* |
| Other enterprises | 1,162,022 |
| Retail exposures | - |
| Exposures secured by real estate property: SMEs | 96,015 |
| *Exposures secured by real estate property: SMEs to which the supporting factor is applied* | *40,714* |
| Exposures secured by real estate property: natural persons | 263,012 |
| Qualified retail revolving exposures | - |
| Other retail exposures: SMEs | 119,687 |
| *Other retail exposures: SMEs to which the supporting factor is applied* | *81,453* |
| Other retail exposures: natural persons | - |
| Specialised lending - slotting criteria | 116,940 |
| ***Total methodology based on internal ratings*** | **2,414,440** |
| **Total credit risk** | **4,413,049** |
| **Counterparty risk** | 44,616 |

| CAPITAL ADEQUACY | Capital requirement 31.03.2014 |
|---|---|
| | |
| **Total counterparty risk** | **44,616** |
| **Market risk** | |
| *Standardised approach* | |
| Assets included in the supervisory trading portfolio: | |
| - position risk | 80,995 |
| *of which specific to positions with securitisations* | - |
| - concentration risk | - |
| Other assets: | - |
| - settlement risk | - |
| - foreign exchange risk | 22,540 |
| - position risk in commodities | - |
| **Total market risk** | **103,535** |
| **Operational risk** | |
| *Standardised approach* | |
| Basic indicator approach | 3,200 |
| Standardised approach | 46,989 |
| Advanced measurement approach | 308,935 |
| **Total operational risk** | **359,124** |
| **B. CAPITAL RATIOS** | |
| **CET1 ratio** | **12.23%** |
| **Tier 1 ratio** | **12.23%** |
| **Total capital ratio** | **17.72%** |

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models[6] for the calculation of capital requirements for credit risk – "Corporate"

[6] Tables 7 and 12 of the Pillar 3 disclosures as at 31st December 2013 may be consulted for further information on the subject of internal models.

segments ("exposures to businesses") and "Retail" segments (sub-portfolios "retail: exposures backed by residential real estate" and "retail: other exposures[7]") – and operational risks.

The table below summarises compliance with requirements in terms of ratios: in 2014 the Common Equity Tier 1 ratio must be equal to at least 7% of total assets – both on- and off-balance sheet – weighted on the basis of various coefficients for credit, counterparty, market and operational risk (termed "risk weighted assets" – RWA); the minimum Tier 1 ratio must be at least 8%; and lastly the total capital ratio must be at least 10.50%[8].
Compliance with that requirement at the end of the year required capital of approximately €4,920 million (equal to total capital requirements for credit, counterparty, market and operational risk), against which the Group recorded actual regulatory capital amounting to €10,896 million (see the section on own funds).

With regard to risk weighted assets, the most significant negative impact concerned the inclusion in this item of deferred tax assets (DTAs), which was only partially offset by the benefit of the introduction of the "supporting factor" already mentioned, that allows the capital requirement to be reduced for exposures to small to medium-size businesses which satisfy particular conditions.

[7] Limited to the small to medium-size enterprise portfolio comprised within the "Retail" segment ("SME retail").
[8] This includes the capital conservation buffer, equal to 2.5% of the RWAs (see below).

# 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 31st March 2014"is reliably based on the records contained in corporate documents and accounting records.*

Elisabetta Stegher

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

*Brescia, 13th May 2014*