Pillar 3 disclosures

as at 30th September 2013

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint stock co-operative company
Registered office: Bergamo, Piazza Vittorio Veneto 8
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 30th September 2013: €2,254,371,430 fully paid up

www.ubibanca.it

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Introduction

In order to strengthen "market discipline", the "New regulations for the prudential supervision of banks" (Bank of Italy Circular No. 263 of 27th December 2006 and subsequent amendments) make it compulsory for banks to publish disclosures (the document "Pillar 3 Disclosures") that provide an adequate degree of transparency with regard to risk exposure, monitoring and management and which therefore give particular importance to capital adequacy.

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

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

This document, which reports the position of the UBI Group as at 30th September 2013, therefore provides an update of the quantitative information in tables three and four. The full disclosure document Pillar 3 Disclosures as at 31st December 2012 and the document Pillar 3 Disclosures as at 30th June 2013 may be consulted for information not contained in this document. Furthermore, any significant changes that occurred during the third quarter of 2013 are reported in this disclosure document.

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

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

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

For full information, the information published relates to the supervisory consolidation, which consists of those entities subject to banking consolidation for supervisory purposes. Any differences with respect to other sources (e.g. the interim third 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 Disclosure on its website in the investor relations section (www.ubibanca.it).

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

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Capital ratios as at 30th September 2013

Capital ratios (Basel 2 AIRB)

Figures in thousands of euro	30.9.2013	30.9.2013 (consistent with June 2013)	30.6.2013	31.12.2012
Tier 1 capital before filters	8,186,738	8,203,536	8,160,424	8,124,210
Preference shares and savings/privileged shares attributable to non-controlling interests	382,854	382,854	382,854	382,854
Tier 1 capital filters	-24,978	-14,935	-24,978	-30,471
Tier 1 capital after filters	**8,544,614**	**8,571,455**	**8,518,300**	**8,476,593**
Deductions from tier 1 capital	-631,668	-637,994	-577,962	-212,873
of which: negative elements for 50% deduction Excess of expected losses over impairment losses (IRB models)	*-424,152*	*-424,152*	*-370,446*	*-71,632*
Tier 1 after filters and specific deductions	**7,912,946**	**7,933,461**	**7,940,338**	**8,263,720**
Tier 2 capital after filters	**4,283,965**	**4,299,227**	**4,270,808**	**4,310,534**
Deductions from tier 2 capital	-631,668	-637,994	-577,962	-212,873
of which: negative elements for 50% deduction Excess of expected losses over impairment losses (IRB models)	*-424,152*	*-424,152*	*-370,446*	*-71,632*
Tier 2 capital after filters and specific deductions	**3,652,297**	**3,661,233**	**3,692,846**	**4,097,661**
Deductions from tier 1+tier 2 capital	**-**	**-**	**-**	**-157,762**
Total regulatory capital	**11,565,243**	**11,594,694**	**11,633,184**	**12,203,619**
Credit and counterparty risk	4,342,033	4,342,033	4,476,112	5,611,624
Market risk	59,543	59,543	63,458	78,253
Operational risk	421,000	421,000	421,000	437,271
Other calculations (*)	-	-	42,522	-
Total capital requirements	**4,822,576**	**4,822,576**	**5,003,092**	**6,127,148**
Tier 3 subordinated liabilities				
Amount eligible (**)	*42,514*	*42,514*	*45,309*	*55,873*
Risk weighted assets	**60,282,200**	**60,282,200**	**62,538,650**	**76,589,350**
Core tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	**12.49%**	**12.53%**	**12.08%**	**10.29%**
Tier 1 capital ratio (tier 1 capital/risk weighted assets)	**13.13%**	**13.16%**	**12.70%**	**10.79%**
Total capital ratio [(regulatory capital+tier 3 eligible)/risk weighted assets]	**19.26%**	**19.30%**	**18.67%**	**16.01%**

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

(**) Excess of tier two subordinated liabilities (lower tier two) over the amount that qualifies for inclusion in tier two capital. The amount may be used to cover capital requirements on market risks up to a maximum of 71.4% of those same requirements.

In accordance with supervisory regulations, supervisory reporting as at 30th September 2013 requires an update on the regulatory capital at the end of the first half consisting only of events of particular importance. These include, for example, changes in the share capital and any losses on loans of a significant amount relating to single companies included in the consolidation, with no account taken of profit for the period and the relative probable dividend, as well as any changes in capital filters and deductions.

In order to ensure a proper interpretation of changes in Group capital, the position is given again relating to 30^{th} September 2013, but restated in terms consistent with that for June 2013 and December 2012. The data for the regulatory capital reported in tables three and four, published below, relates to the latter position.

Table 3 – Regulatory capital structure

Quantitative information

Use was made by the UBI Banca Group in the calculation of regulatory capital as at 30th September 2013 – in compliance with provisions issued by the Bank of Italy in May 2010[1] – of the possibility of completely neutralising the impacts on regulatory capital of gains and losses recognised in the valuation reserves relating to government securities issued by EU member states held in the "available-for-sale financial assets" portfolio. This approach is in addition to that already contained in regulations, which requires losses to be deducted entirely from regulatory capital and gains to be only partially included. The option in question has been applied across the board by all members of the banking group since 30th June 2010.

Operations on capital

Repurchase of lower tier 2 subordinated bonds

On 9th September 2013, UBI Banca announced an invitation to the holders of the lower tier 2 subordinated bonds "€300,000,000 Callable Step-Up Floating Rate Subordinated Notes due 2018" (ISIN number XS0272418590) – issued on 30th October 2006 under the EMTN programme by the former BPU Banca and outstanding for a nominal amount of €181,650,000[2] – to offer their bonds for sale to the issuer at an offer price of 93% of the nominal value.

This operation, authorised by the Bank of Italy on 22nd August 2013, formed part of UBI Banca's liability management in view of prevailing market conditions and regulatory developments.
The issuer formalised its intention in the invitation not to exercise its right to redeem the bond earlier than scheduled (30th October 2013), after making a change to the issue conditions on that same 9th September designed to eliminate the subordination clause. As a consequence, the bonds not offered for sale at the end of the invitation period (17th September 2013) became

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

[2] Following the issue, UBI Banca had repurchased bonds for a nominal amount of €88,350,000 as part of a public exchange offer in June 2009. In 2012 it had then proceeded to make direct purchases on the market for a further nominal amount of €30,000,000. Table 3 of the Pillar 3 disclosure document as at 30th June 2013 may be consulted for details of the characteristics of the instrument.

unsecured senior bonds from the date of payment of the quarterly interest (the 30th October 2013) and no longer qualified for inclusion in the regulatory capital.

As already reported on 18th September 2013, the total nominal value of the bonds validly offered for sale by bondholders was €70,350,000.
On the settlement date of the operation (24th September 2013), the nominal value of the issue still outstanding had therefore fallen to €111,300,000.
All the bonds repurchased, including those relating to previous operations, were cancelled.

The table below gives details of the items of which the regulatory capital was composed as at 30th September 2013, restated on a basis consistent with that in December 2012.

COMPOSITION OF THE REGULATORY CAPITAL	**30.09.13 consistent with June/December**	**31.12.12**
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2,717,394	2,719,788
- Share premiums	4,772,281	4,772,715
- Reserves and profit for the period	3,614,825	3,552,906
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- Non-innovative capital instruments:	-	-
- non-innovative capital instruments eligible up to 35%	-	-
- non-innovative capital instruments eligible up to 50%	-	-
- Instruments subject to transition provisions (grandfathering)	382,854	382,854
- Prudential filters: increases in tier 1 capital	-	-
- Fair value option: changes in its creditworthiness	-	-
- Redeemable shares	-	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other positive prudential filters	34	240
- Total positive elements of tier 1 capital	11,487,388	11,428,503
- Negative elements:		
- Treasury shares or quotas	6,121	4,375
- Goodwill	2,574,144	2,574,144
- Other intangible assets	320,700	342,679
- Loss for the period	-	-
- Other negative elements:	-	-
- Net impairment losses on loans	-	-
- Net impairment of supervisory amounts relating to the "trading portfolio for supervisory purposes "	-	-
- Other	-	-

COMPOSITION OF THE REGULATORY CAPITAL	30.09.13 consistent with June/December	31.12.12
- Prudential filters: deductions from tier 1 capital	-	-
- Fair value option: changes in its creditworthiness	-	-
- Negative reserves on available-for-sale securities	-	-
- Equity instruments and units in OICR (collective investment instruments).	-	-
- Debt instruments	14,969	30,711
- Cumulative net gains on property, plant and equipment	-	-
- Capital elements subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other negative filters	-	-
- Total negative elements of tier 1 capital	**2,915,934**	**2,951,909**
- Tier 1 capital before items to be deducted	**8,571,454**	**8,476,594**
	-	-
TIER 1 CAPITAL – ELEMENTS TO BE DEDUCTED	-	-
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	-	-
- Shareholdings	6,198	4,531
- Non-innovative capital instruments	-	-
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	-	-
- Shareholdings	3,405	4,508
- Non-innovative capital instruments	-	-
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee	-	-
- Shareholdings	-	-
- Non-innovative capital instruments	-	-
- Innovative capital instruments and non-innovative capital instruments with maturity	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	183,522	127,191
- Subordinated instruments	20,717	5,011

COMPOSITION OF THE REGULATORY CAPITAL	30.09.13 consistent with June/December	31.12.12
- Excess of expected losses over total net impairment losses recognised	424,152	71,632
- Expected losses on equity instruments and exposure to OICR (collective investment instruments) where the underlying relates to/is treated as equity instruments	-	-
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on non DVP transactions	-	-
- Total elements to be deducted	**637,994**	**212,873**
TIER ONE CAPITAL	**7,933,460**	**8,263,721**
TIER 2 CAPITAL		
- Positive elements		
- Valuation reserves	63,976	63,201
- Innovative capital instruments and non-innovative capital instruments with maturity not eligible for inclusion in tier one capital	-	-
- Non-innovative capital instruments not eligible for inclusion in tier one capital:	-	-
- non-innovative capital instruments eligible up to 35%	-	-
- non-innovative capital instruments eligible up to 50%	-	-
- Hybrid capital instruments		
- Tier 2 subordinated liabilities	4,285,727	4,238,297
- Excess of total net impairment losses recognised over expected losses	-	74,054
- Net gains on equity investments	-	-
- Other positive elements	-	-
- Prudential filters: increases in the tier 2 capital:	44,292	23,995
- Total positive elements of the tier 2 capital	**4,393,995**	**4,399,547**
- Negative elements:		
- Net losses on equity investments	-	-
- Loans and receivables	-	-
- Other negative elements	72,622	77,016
- Prudential filters: deductions from tier two capital	22,146	11,998
- Total negative elements of tier 2 capital	**94,768**	**89,014**
- Tier 2 capital before items to be deducted:	**4,299,227**	**4,310,533**
TIER 2 CAPITAL – ELEMENTS TO BE DEDUCTED		
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	6,198	4,531
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	3,405	4,508
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee	-	-
- Equity investments in insurance companies	204,239	132,202

COMPOSITION OF THE REGULATORY CAPITAL	30.09.13 consistent with June/December	31.12.12
- Excess of expected losses over total net impairment losses recognised	424,152	71,632
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on non DVP transactions	-	-
- Total elements to be deducted	**637,994**	**212,873**
TIER 2 CAPITAL	**3,661,233**	**4,097,660**
ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 CAPITAL	**-**	**157,762**
REGULATORY CAPITAL	**11,594,693**	**12,203,619**
TIER 3 CAPITAL	**42,514**	**55,873**
REGULATORY CAPITAL INCLUDING THE TIER 3 CAPITAL	**11,637,207**	**12,259,492**

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

Regulatory capital as at 30th September 2013 stood at approximately €11,595 million (€11,637 including the tier 3 capital), down compared to almost €12,204 million at the end of 2012 (-€609 million), due mainly to the increase in deductions for excess expected losses over impairment losses recognised, applied following the adoption of internal models relating to the retail supervisory segment[3]. These deductions, 50% of which are applied to the tier 1 capital and 50% to the tier 2 capital, are mainly attributable to the fall in tier 1 capital (-€330 million), not offset by other increases which did affect the item, while their impact on tier two capital was greater (-€436 million): the latter result included approximately €74 million due to the decrease relating to lower positive items for the positive difference between total impairment losses recognised and expected losses and the greater recognition of subordinated tier 2 elements amounting to approximately €47 million. We report that from 31st March 2013, shareholdings and subordinated instruments held in insurance companies (until 31st December 2012 these were deducted from the total of the tier one and tier two capital if purchased before 20th July 2006) are now deducted 50% from the tier one capital and 50% from the tier two capital[4]. This change involved a reclassification of the instruments, previously deducted from the total of the tier one and tier two capital, for a total amount of €144 million (as at 30th September).

[3] Table 7 of the Pillar 3 disclosure document as at 30th June 2013 may be consulted for further information on the subject of internal models.

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

Table 4 – Capital adequacy

Quantitative information

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

CAPITAL ADEQUACY	Capital requirement 30.09.2013	Capital requirement 31.12.2012
A. SUPERVISORY CAPITAL REQUIREMENTS		
Credit risk		
Standardised approach		
Exposures to or guaranteed by central governments and central banks	139	178
Exposures to or guaranteed by regional government and local authorities	12,897	13,193
Exposures to or guaranteed by non-commercial and public sector entities	73,450	67,825
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	127,812	206,241
Exposures to or guaranteed by corporates	772,842	872,645
Retail exposures	406,021	834,791
Exposures secured by real estate property	143,403	765,030
Past-due exposures	263,293	427,946
High-risk exposures	14,804	14,840
Exposures in the form of covered bonds	-	1,927
Short-term exposures to supervised intermediaries and corporates	-	-
Exposures to OICR (collective investment undertakings)	7,066	6,710
Other exposures	78,910	233,206
Securitisations	189	208
Total standardised approach	**1,900,826**	**3,444,740**
Methodology based on internal ratings		
Exposures to or guaranteed by corporates	1,808,090	1,972,429
Specialised lending	-	-
SMEs	*703,343*	*759,571*

CAPITAL ADEQUACY	Capital requirement 30.09.2013	Capital requirement 31.12.2012
Other companies	*1,104,747*	*1,212,858*
Retail exposures	461,073	-
Exposures secured by residential real estate property: SMEs	*41,662*	-
Exposures secured by residential real estate property: private individuals	*231,831*	-
Qualified retail revolving exposures	-	-
Other retail exposures: SMEs	*187,580*	-
Other retail exposures: private individuals	-	-
Specialised lending - slotting criteria	123,620	112,978
Total methodology based on internal ratings	**2,392,783**	**2,085,407**
Total credit risk	**4,293,609**	**5,530,147**
Counterparty risk	48,424	81,478
Total counterparty risk	**48,424**	**81,478**
Market risk		
Standardised approach		
Assets included in the supervisory trading portfolio:		
- position risk	58,031	77,678
of which specific to positions with securitisations	-	*5,224*
- concentration risk	-	-
Other assets:	-	-
- supervisory risk	-	-
- currency risk	1,478	531
- position risk in commodities	34	44
Total market risk	**59,543**	**78,253**
Operational risk		
Basic indicator approach	17,635	54,753
Standardised approach	64,795	33,446
Advanced measurement approach	338,570	349,072
Total operational risk	**421,000**	**437,271**

B. SUPERVISORY RATIOS

Core Tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	12.53%	10.29%
Tier 1 ratio (tier 1 capital/risk weighted assets)	13.16%	10.79%
Total capital ratio [(Tier 2 capital+ qualifying tier 3 capital)/risk weighted assets	19.30%	16.01%

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models[5] for the calculation of capital requirements for credit risk – "Corporate" segments ("exposures to businesses") and "Retail" (sub-portfolios "retail: exposures backed by residential real estate" and "retail: other exposures[6]") – and operational risks.

Capital ratios as at 30th September 2013 – calculated on the basis of the Basel 2 AIRB approach - recorded an increase compared to 31st December 2012. The core tier one ratio was in fact 12.53% (10.29% in December 2012). The tier 1 ratio fell from 10.79% (in December 2012) to 13.16%, while the total capital ratio stands at 19.30% (16.01% in December 2012).

The rise in all the capital ratios was generated by the savings resulting from the application of the advanced methods for credit risk (AIRB, retail segment – the latter since the supervisory report prepared as at 30th June 2013 – and by the contraction in risk weighted assets (RWA), attributable to trends for volumes of lending. In particular a reduction was recorded compared to December 2012 in the capital requirement for credit risks, down by approximately €1.3 billion along with a decrease for a total of €35 million in the capital requirements for operational and market risks. More specifically, the reduction in the capital requirement for operational risks was due to the combined effect of a reduction in the VaR estimated by the advanced calculation model (determined mainly by an update of the system database), an increase in the capital requirement calculated using the standardised approach and by a reduction at the same time in the component for the basic indicator approach (attributable to the adoption of the standardised approach by UBI Leasing and Prestitalia from the supervisory report as at 30th June 2013, to replace the basic indicator approach). The requirement for market risk decreased following the close down of the securitisation held by the special purpose entities Albenza 3 Srl and Orio Finance Nr. 3 Plc[7] (with the relative redemption of the securities) and lower generic risk.

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[5] Tables 7 and 12 of the Pillar 3 disclosure documents as at 30th June 2013 and as at 31st December 2012 may be consulted for further information on the subject of internal models. The application of internal methods is subject to a quantitative constraint (a "floor"), equal to 87.5% of the sum of the requirements calculated on the basis of Basel 1 regulations, to which any capital savings obtained using internal models is subject.

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

[7] Table 10 of the Pillar 3 disclosure documents as at 30th June 2013 and as at 31st December 2012 may be consulted for further information on the securitisation in question.

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

The undersigned, Elisabetta Stegher, as the Senior Officer Responsible for preparing the corporate accounting documents of Unione di Banche Italiane Scpa, hereby declares, in compliance with the second paragraph of article 154 *bis* of the "*Testo unico delle disposizioni in materia di intermediazione finanziaria*" (Consolidated Finance Act), that the information contained in this disclosure is reliably based on the records contained in corporate documents and accounting records.

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

Brescia, 12th November 2013