Pillar 3 disclosures

Translation from the Italian original which remains the definitive version

as at 31st March 2018

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint Stock 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 December 2017: Euro 2,843,177,160.24
www.ubibanca.it

Contents

Introduction

The prudential rules for banks and investment companies have been 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) since 1st January 2014. They transpose standards defined by the Basel Committee on Banking Supervision (known as the Basel 3 framework) into European Union regulations. The Bank of Italy implemented the EU regulations by publishing Circular No. 285 "Regulations for the prudential supervision of banks".

In order to strengthen "market discipline", the regulations make it compulsory for banks to publish disclosures (the "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.

More specifically 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[1], 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.

The regulation does not require special tables for the other information subject to disclosure in which information that 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. Following on from past practice, the UBI Group intends to make Pillar 3 Disclosures on at least a quarterly basis, providing an update of the information considered most important.

The Basel Committee has subjected the public disclosure framework to analysis, recommending that supervisory authorities have them transposed, for those areas for which they are responsible, into their supervisory regulations[2]. At European level, the EBA published the second final version of the "Guidelines on disclosure requirements under part Eight of Regulation No (EU) 575/2013" last June in order to increase the consistency and

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[1] The "Regulatory Technical Standard" – RTS and "Implementing Technical Standard" – ITS respectively.
[2] "Pillar 3 disclosure requirements – consolidated and enhanced framework", March 2017 and "Revised Pillar 3 disclosure requirements" January 2015, Basel Committee on Banking Supervision.

comparability of the information to be provided in the Pillar 3 disclosures. From 31st December 2017, these guidelines apply to the "Globally and Other Systemically Important Institutions" (G-SIIs and O-SIIs). It is left to the competent authorities to decide whether they also wish to require institutions other than G-SIIs and O-SIIs to apply some or all of the recommendations contained in the guidelines[3]. In this respect, it is underlined that in exercising this power the supervisory authority has not provided for full application of the guidelines for important institutions (IIs) that are classified neither as G-SIIs nor as O-SIIs. As a consequence the procedures followed by the UBI Banca Group for Pillar 3 disclosures is essentially along the same lines as previously because it provides exhaustive information sufficient to comply with the requirements of part 8 of the CRR.

More specifically, this document, which reports the position of the UBI Group as at 31st March 2018 gives an update of quantitative information relating to own funds, capital requirements and leverage. The Pillar 3 disclosures as at 31st December 2017 may be consulted for information not contained in these disclosures.

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 these Pillar 3 disclosures on its website in the investor relations section (www.ubibanca.it).

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

[3] These recommendations have been implemented in the draft amendment to CRR 575/2013 published in November 2016.

Capital ratios

The table below reports the capital ratios for the UBI Banca Group.

Capital ratios (Basel 3)

Figures in thousands of euro	31.03.2018	31.12.2017
Common Equity Tier 1 capital before filters and transitional provisions	7,060,570	7,712,369
Effects of transitional provisions provided for by the regulations (minority interests)	-	8,523
Effects of transitional provisions provided for by the regulations (AFS reserves - debt instruments other and equity instruments)	-	-13,747
Effects of transitional provisions provided for by the regulations (AFS reserves - government	-	24,555
Effects of transitional provisions provided for by the regulations (Pension Funds)	-	-1,002
Effects of transitional provisions provided for by the regulations (DTAs)	-	66,176
Effects of transitional IFRS 9 provisions	242,498	0
Adjustments to Common Equity Tier 1 capital due to prudential filters provided for by the	-12,508	-7,638
Common Equity Tier 1 capital net of prudential filters	**7,290,560**	**7,789,237**
Deductions from Common Equity Tier 1 capital in relation to negative items for shortfall of provisions to expected losses (*)	*-95,316*	*-34,735*
Common Equity Tier 1 capital	**7,195,245**	**7,754,502**
Additional Tier 1 capital before deductions	**-**	**-**
Deductions from Additional Tier 1 capital	-	0
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	-	0
Additional Tier 1 capital	**-**	**-**
Tier 1 capital (Common Equity Tier 1 + Additional Tier 1)	**7,195,245**	**7,754,502**
Tier 2 capital before transitional provisions	1,536,336	1,775,601
Effects of grandfathering provisions on Tier 2 instruments	-	-
Tier 2 capital after transitional provisions	**1,536,336**	**1,775,601**
Deductions from Tier 2 capital	-55,350	-54,630
of which: negative items due to shortfall of provisions to expected losses, inclusive of the application of transitional provisions	-	*-3,859*
Tier 2 capital after specific deductions	**1,480,986**	**1,720,971**
Total own funds	**8,676,231**	**9,475,473**
Credit risk	4,374,312	4,946,639
Credit valuation adjustment risk	4,706	4,943
Market risk	79,349	75,680
Operational risk	337,033	337,033
Total prudential requirements	**4,795,399**	**5,364,295**
Risk weighted assets	**59,942,487**	**67,053,683**
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk-weighted assets)	**12.00%**	**11.56%**
Tier 1 ratio (Tier 1 capital after filters and deductions/risk-weighted assets)	**12.00%**	**11.56%**
Total capital ratio (total own funds/risk-weighted assets)	**14.47%**	**14.13%**

(*) The comparative figure includes the effects of transitional provisions

Own funds

Quantitative information

The calculation of own funds has been carried out in accordance with the 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), which 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 calculation was performed according to their implementation in turn in the Italian regulatory framework. The introduction of Basel 3 rules is subject to a transitional (phased-in) regime during which the new rules will be applied to an increasing degree, generally over a five-year period of time (2014-2018), when they will reach full application. At the same time, capital instruments that no longer qualify are being gradually excluded from total capital for regulatory purposes by 2021. We therefore report in particular that the rules relating to the inclusion of capital items in own funds subject to the transitional treatment until 31st December 2017 will apply fully from 1st January 2018 (amongst others these include the shortfall on IRB positions, which is to say negative amounts resulting from the calculation of expected losses, DTA's on future profits, minority interests and valuation reserves).

Furthermore, the financial reporting standard IFRS 9 "Financial Instruments" replaces 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[4]. As concerns the impacts on regulatory own funds, the Group has opted for the adhesion to the transitional regime provided for by Regulation EU 2017/2395, which amends Regulation No. 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 the 2018, 85% in the 2019, 70% in the 2020, 50% in the 2021, 25% in 2022).

As at 31st March the Common Equity Tier 1 (CET1) capital of the UBI Banca Group amounted to approximately €7.195 billion, down on €7.755 billion in December 2017. Own funds stood out €8.676 billion, down compared with €9.475 billion last December.

As concerns changes in the Common Equity Tier 1 (CET1) capital (-€559 million approx.), the main impacts were as follows:

- -€670 million resulting from changes recorded in reserves, the economic result that qualifies for regulatory purposes and other items of accumulated other comprehensive income (the OCI reserve). The following contributed in particular to these changes: the first-time adoption of IFRS 9 by approximately -€787 million; the result for the first quarter

[4] Cf. the section "The transition to the new financial reporting standards IFRS 9 and IFRS 15" in the "Quarterly consolidated financial report as at 31st March 2018" available in the Investor Relations section of the corporate website at https://www.ubibanca.it/.

which took pro rata account of a dividend assumption and the changes recorded in the OCI reserve due to the ending of the transitional treatment and movements recorded during the period;

- +€242 million relating to the capital component which incorporates a positive contribution resulting from the transitional regime provided for by Regulation No. 2017/2395 of provisions (approximately -€255 million) recognised on credit positions subject to the standardised approach carried out on first-time adoption (only 5% of these provisions were therefore included in the CET1 ratio);
- -€61 million resulting from a change in the provision shortfall. More specifically, the following contributed to this change: around -€4 million as a result of the end of the transitional treatment for that capital item;[5] and -€56 million attributable to the combined impacts of the application of the "model change"[6] and the increase in impairment losses on lending positions subject to internal models following first-time adoption of the IFRS standard. The "model change" involved a change in the mix of capital absorptions between performing positions (with a reduction in RWAs) and default positions (for which the "model change" determined an increase in the regulatory expected loss for portfolios subject to internal models as well as an increase in RWAs, as result of the introduction of a specific capital requirement, ELBE, for these portfolios) with a virtually nil overall impact on capital ratios. The increase in the regulatory expected loss, which would have involved a theoretical increase in the shortfall with a consequent negative impact on regulatory capital, was substantially offset by the recognition of greater provisions on loan positions subject to IRB approaches carried out with the first-time adoption of IFRS 9.
- -€65 million resulting from the absence of the effects of transitional provisions relating to DTAs on future profits[7], for which the total was in fact unchanged during the course of the first quarter of 2018;
- -€9 million approximately resulting from the end of the transitional treatment for the inclusion of minority interests[8];
- +€4 million approximately resulting from the combined changes reported for intangible assets, prudential filters, defined pension fund assets and other residual changes.

The Tier 2 capital was down by approximately €240 million to stand at around €1.481 billion. That decrease was caused mainly by the absence of the inclusion, compared with December 2017, of the greater impairment losses with respect to the expected credit losses on credit exposures subject to the IRB approach up to a maximum of 0.6% of IRB RWAs and a reduction in the eligibility of instruments as a result of regulatory amortisation instalments for the period. The changes recorded in other T2 items were mainly the result of the application of fully loaded rules and specifically to items connected with the transitional treatment for the shortfall and for the AOCI reserve.

[5] On the basis of the transitional provisions applicable in 2017, 80%, 10% and 10% of the shortfall of provisions was deducted from the CET1, T1 and T2 capital respectively. In the absence of AT1 capital, in December 2017, 90% of the shortfall, amounting to -€38.5 million, was deducted from the CET1, benefiting from a transitional adjustment of 10% amounting to approximately +€3.8 million.
[6] The UBI Group obtained authorisation for a "model change" in the first quarter of the year. See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.
[7] A deduction of 80% of total DTAs was allowed for 2017 based on future profits. The CET1 therefore benefited by 20% of the amount as a transitional adjustment.
[8] As concerns the gradual exclusion of minority interests, no longer eligible when fully loaded, 80% was set for 2017 (phase-out). As a consequence, with the end of the application of the transitional provisions, it was no longer possible to include the remaining 20%.

(figures in thousands of euro)

Capital item	31/3/2018	31/12/2017
Common Equity Tier 1 (CET1) capital instruments	2,843,177	2,843,177
CET1 capital share premium accounts	3,306,627	3,306,627
Reserves and Profit for the period	2,992,252	3,774,474
Direct and indirect holdings of own CET1 instruments	(34,754)	(38,007)
Accumulated other comprehensive income (AOCI)	3,027	(120,188)
Regulatory adjustments relating to unrealised gains or losses	-	13,661
Minority interests	-	8,523
(i) amount allowed in consolidated CET1	-	-
(ii) amount qualifying under transitional provisions	-	*8,523*
CET1 prudential filters	(12,508)	(7,638)
Intangible assets	(1,718,574)	(1,722,837)
(i) goodwill	*(1,495,690)*	*(1,495,690)*
(i) other intangible assets	*(222,884)*	*(227,147)*
Negative amounts resulting from the calculation of expected loss amounts (shortfall on IRB positions)	(95,316)	(34,735)
(i) shortfall IRB positions eligible for inclusion in CET1 (*)	*(95,316)*	*(30,875)*
(i) shortfall on qualifying AT1 IRB positions that exceed the AT1 capital of the institution (excess of deductions from AT1)	-	*(3,859)*
Regulatory adjustments relating to unrealised losses (Excess deductions from AT1)	-	(2,853)
Deferred tax assets that rely on future profitability, and do not arise from temporary differences	(329,933)	(264,703)
Regulatory effects relating to defined benefit pension funds	(1,252)	(1,002)
Effects of IFRS 9 transitional arrangements	242,498	-
COMMON EQUITY TIER 1 (CET1) CAPITAL	**7,195,245**	**7,754,502**
Additional Tier 1 instruments and the related share premium accounts	-	-
Instruments issued by subsidiaries included in AT1	-	-
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-	(3,859)
Negative amounts on qualifying IRB positions that exceed the AT1 capital of the institution	-	3,859
Negative amount resulting from transitional provisions applied to the loss for the period	-	-
Regulatory adjustments relating to unrealised gains or losses	-	(2,853)
Negative amounts for the period that exceed the AT1 capital	-	2,853
ADDITIONAL TIER 1 (AT1) CAPITAL	**-**	**-**
TIER 1 (CET1 + AT1)	**7,195,245**	**7,754,502**
Tier 2 (T2) capital instruments and the related share premium accounts	1,536,336	1,775,601
Amount of qualifying items referred to in Article 484 (5) and the related share premium account subject to phase out from T2	-	-
Instruments issued by subsidiaries included in T2	-	-
Direct and indirect holdings of Tier 2 instruments	(11,832)	(13,946)
Negative amounts resulting from the calculation of expected loss amounts under transitional provisions	-	(3,859)
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)	(43,518)	(43,698)
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required for pre-CRR treatment	-	6,873
TIER 2 CAPITAL (T2)	**1,480,986**	**1,720,971**
TOTAL CAPITAL (TC=T1+T2)	**8,676,231**	**9,475,473**

(*) The comparison period includes the effects of transitional provisions

Capital requirements

Quantitative information

The tables below summarise compliance with capital requirements in terms of capital ratios and they give details of the various capital requirements.

(figures in thousands of euro)

Capital requirements	31.03.2018	31.12.2017
CREDIT AND COUNTERPARTY RISK	**4,374,312**	**4,946,639**
Total credit risk	4,322,905	4,894,812
Total counterparty risk	51,407	51,827
MARKET RISK - Standardised approach	**79,348**	**75,680**
- position risk in debt instruments	50,560	72,309
- position risk in equity instruments	2,268	3,272
- currency risk	26,520	99
- position risk in commodities		
OPERATIONAL RISK	**337,033**	**337,033**
Basic indicator approach	10,201	10,201
Standardised approach	101,426	101,426
Advanced measurement approach	225,406	225,406
CREDIT VALUATION ADJUSTMENT RISK	**4,706**	**4,943**
Standardised method	4,706	4,943

Supervisory ratios	31.03.2018	31.12.2017
Common Equity Tier 1 ratio (Common Equity Tier 1 capital after filters and deductions/risk weighted assets)	**12.00%**	**11.56%**
Tier 1 ratio (Tier 1 capital/Risk weighted assets)	**12.00%**	**11.56%**
Total Capital ratio [total own funds/risk weighted assets]	**14.47%**	**14.13%**

(figures in thousands of euro)

Credit and counterparty risk	31.03.2018				31.12.2017			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement	RWAs	Capital Requirement
Standardised approach	**27,156,483**	**2,172,519**	**528,085**	**42,247**	**29,981,710**	**2,398,537**	**532,069**	**42,565**
Exposures to or guaranteed by central governments or central banks	2,705,119	216,410	-	-	3,021,008	241,681	-	-
Exposures to or guaranteed by regional governments or local authorities	139,723	11,178	9	1	146,216	11,697	9	1
Exposures to or guaranteed by public sector entities	151,633	12,131	-	-	153,949	12,316	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposures to or guaranteed by supervised institutions	1,665,735	133,259	60,067	4,805	1,690,748	135,260	51,127	4,090
Exposures to or guaranteed by corporates and others	8,057,096	644,568	180,405	14,432	8,958,248	716,660	196,236	15,699
Retail exposures	5,723,711	457,897	405	32	5,984,103	478,728	430	34
Exposures secured by mortgages of immovable properties	1,890,704	151,256	-	-	2,915,687	233,255	-	-
Exposures in default	2,769,293	221,543	13,252	1,060	3,100,972	248,078	10,350	828
High-risk exposures	18,299	1,464	-	-	18,558	1,485	-	-
Exposures in the form of covered bonds	511	41	-	-	518	41	-	-
Short-term exposures to corporates and other supervised intermediaries	-	-	-	-	-	-	-	-
Exposures to UCITS	663,870	53,110	-	-	671,723	53,738	-	-
Equity exposures	1,185,562	94,845	273,947	21,916	1,164,131	93,130	273,917	21,913
Other exposures	2,185,227	174,818	-	-	2,155,849	172,468	-	-
Items which represent positions towards securitisations					-	-	-	-
Internal rating based approach	**26,879,824**	**2,150,386**	**114,505**	**9,160**	**31,203,434**	**2,496,275**	**115,775**	**9,262**
Exposures to or guaranteed by central governments or central banks								
Exposures to or guaranteed by supervised institutions, public sector and local entities and others								
Exposures to or guaranteed by corporates - SMEs	5,630,223	450,418			6,577,286	526,183		
- to which the support factor is applied	*2,736,168*	*218,893*			*3,593,882*	*287,511*		
Exposures to or guaranteed by corporates - Specialised lending	-	-						
Exposures to or guaranteed by corporates - Other corporates	12,714,318	1,017,145			17,512,536	1,401,003		
Retail exposures secured by real estate property: SMEs	1,419,088	113,527			871,675	69,734		
- to which the support factor is applied	*285,874*	*22,870*			*210,871*	*16,870*		
Retail exposures secured by real estate property: private individuals	4,105,186	328,415			2,815,599	225,248		
Retail exposures Revolving exposures	-	-						
Other retail exposures: SMEs	1,144,509	91,561			1,388,494	111,080		
- to which the support factor is applied	*610,067*	*48,805*			*680,661*	*54,453*		
Other retail exposures: private individuals	-	-						
Specialised lending - slotting criteria	1,725,746	138,060	114,505	9,160	1,676,632	134,130	115,775	9,262
Other activities different from lending								
Items which represent positions towards securitisations	140,754	11,260			361,212	28,897		
Total	**54,036,307**	**4,322,905**	**642,590**	**51,407**	**61,185,144**	**4,894,812**	**647,844**	**51,827**

(figures in thousands of euro)

Credit and counterparty risk	31.03.2018 Amounts not weighted	31.03.2018 Amounts weighted	31.03.2018 Requirement	31.12.2017 Amounts not weighted	31.12.2017 Amounts weighted	31.12.2017 Requirement
A. CREDIT AND COUNTERPARTY RISK						
A.1 Standardised approach	**58,113,392**	**27,684,568**	**2,214,765**	**61,960,519**	**30,513,779**	**2,441,102**
Exposures to or guaranteed by central governments or central banks	24,647,529	2,705,119	216,410	24,436,888	3,021,008	241,681
Exposures to or guaranteed by regional governments or local authorities	701,379	139,732	11,179	733,463	146,225	11,698
Exposures to or guaranteed by public sector entities	381,617	151,633	12,131	380,690	153,949	12,316
Exposures to or guaranteed by multilateral development banks	6	0	0	4	0	0
Exposures to or guaranteed by international organisations	0	0	0	0	0	0
Exposures to or guaranteed by supervised institutions	4,243,167	1,725,802	138,064	4,096,091	1,741,875	139,350
Exposures to or guaranteed by corporates and others	8,910,790	8,237,501	659,000	9,814,609	9,154,484	732,359
Retail exposures	8,183,954	5,724,116	457,929	8,525,324	5,984,533	478,762
Exposures secured by mortgages of immovable properties	4,669,313	1,890,704	151,256	6,827,876	2,915,687	233,255
Exposures in default	2,235,043	2,782,545	222,604	2,533,486	3,111,322	248,906
High-risk exposures	12,199	18,299	1,464	12,372	18,558	1,485
Exposures in the form of covered bonds	5,111	511	41	5,176	518	41
Short-term exposures to corporates or others or to supervised institutions	0	0	0	0	0	0
Exposures to UCITS	217,246	663,870	53,110	225,082	671,723	53,738
Equity exposures	864,437	1,459,509	116,761	853,812	1,438,048	115,043
Other exposures	3,041,601	2,185,227	174,818	3,515,646	2,155,849	172,468
Items which represent positions towards securitisations	0	0	0	0	0	0
A.2 Internal rating based approach - Risk assets	**75,170,888**	**26,994,329**	**2,159,546**	**72,148,219**	**31,319,209**	**2,505,537**
Exposures to or guaranteed by central governments or central banks						
Exposures to or guaranteed by supervised institutions, public sector and local entities and others						
Exposures to or guaranteed by corporates - SMEs	13,134,922	5,630,223	450,418	12,388,640	6,577,286	526,183
Exposures to or guaranteed by corporates - Specialised lending	0	0	0	0	0	0
Exposures to or guaranteed by corporates - Other corporates	24,562,096	12,714,318	1,017,145	25,021,996	17,512,536	1,401,003
Retail exposures secured by real estate property: SMEs	4,543,215	1,419,088	113,527	4,899,917	871,675	69,734
Retail exposures secured by real estate property: private individuals	23,957,052	4,105,186	328,415	21,385,772	2,815,599	225,248
Retail exposures Revolving exposures	0	0	0	0	0	0
Other retail exposures: SMEs	4,884,230	1,144,509	91,561	4,151,637	1,388,494	111,080
Other retail exposures: private individuals	0	0	0	0	0	0
Specialised lending - slotting criteria	2,041,939	1,840,251	147,220	2,019,823	1,792,407	143,392
Items which represent positions towards securitisations	2,047,434	140,754	11,260	2,280,434	361,212	28,897
Other activities different from lending					0	0

Following authorisations received from the Supervisory Authority, the UBI Group now uses internal models[9] for the calculation of capital requirements for credit risk – “Corporate” segments (“exposures to businesses”) and “Retail” segments (sub-portfolios “retail: exposures backed by real estate” and “retail: other exposures[10]”) – and operational risks. As already mentioned, UBI Banca received authorisation in the first quarter of 2018 from the ECB for the implementation of a “model change”[11], which will modify the Bank’s internal models for credit risk for compliance with the new regulatory framework, with the introduction, amongst other things, of a capital requirement for default positions.

Risk weighted assets were down to €59.943 billion from €67.054 billion at the end of 2017, a reduction of approximately €7.111 billion. That change was mainly attributable to the effects of the introduction of new internal models on performing positions (“model change”), to lower capital absorption for the product companies, to the recovery of the eligibility of guarantees and to a reduction in DTAs following a realignment of deferred tax assets and liabilities due to the impacts of the adoption of IFRS 9.

With account taken of those changes, compliance with minimum capital requirements as at 31st March 2018, equal to total capital requirements for credit, counterparty, credit valuation adjustment, market and operational risk, required capital of approximately €4,795 million (€5,364 million in December 2017), against which the Group recorded actual regulatory capital (own funds) of €8,676 million (€9,475 million in December 2017).

As notified in a communication dated 28th December 2017,[12] the ECB set the following requirements for the UBI Group at consolidated level for 2018:

- a new minimum phased-in CET1 capital ratio requirement of 8.625% (the result of the sum of the minimum Pillar 1 regulatory capital requirement (4.5%), the Pillar 2 requirement (2.25%) and the capital conservation buffer (1.875%[13]));
- 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%)). If the capital conservation buffer of 1.875% is added, this then gives a minimum requirement in terms of the regulatory total capital ratio of 12.125%.

As at 31st March the UBI Group complied with the regulatory limits requested and the Common Equity Tier 1 ratio and the Tier 1 ratio stood at 12.00% (11.56% in December 2017) and the Total Capital ratio was 14.47% (14.13% in December 2017).

If Basel 3 rules on a full application basis are applied without taking account of the effects of adhesion to the transition regime allowed from 2018 by Regulation EU No. 2017/2395 relating to the impacts on capital of first-time adoption of IFRS 9, then the Group’s capital ratios as at 31st March 2018 would be 11.64% for the Common Equity Tier 1 ratio and the Tier 1 ratio and 14.13% for the Total Capital ratio.

[9] For further details see the full Pillar 3 Disclosures document as at 31st December 2017 and the press release dated 22nd March 2018, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.
[10] Limited to the small to medium-size enterprise portfolio comprised within the “Retail” segment (“SME retail”).
[11] See the press release dated 22nd March 2018 for details, available in the Investor Relations section of the corporate website at http://www.ubibanca.it.
[12] Cf. the press release dated 28th December 2017 available in the Investor Relations section of the corporate website at https://www.ubibanca.it.
[13] In application of the phased-in transitional provisions set for the sector by the Bank of Italy, 1.25% was included in the CCB in the 2017 requirements and 1.875% was included for 2018.

Template IFRS 9-FL. Comparison of institutions' own funds and capital and leverage ratios, with and without the application of transitional arrangements for IFRS 9 or analogous expected credit losses

(figures in thousands of euro)

Available capital	
Common Equity Tier 1 (CET1) capital	7,195,245
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,952,747
Tier 1 capital	7,195,245
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,952,747
Total capital	8,676,231
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,433,733

Risk-weighted assets	
Total risk-weighted assets	59,942,487
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	59,706,794

Capital ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	12.00%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.64%
Tier 1 (as a percentage of risk exposure amount)	12.00%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.64%
Total capital (as a percentage of risk exposure amount)	14.47%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.13%

The difference recorded between the CET1 capital and the fully loaded CET1 capital (as if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied) is attributable to the positive capital component amounting to approximately €242 million which sterilises 95% of the provisions (-€255 million approx.) recognised on credit positions subject to the standardised approach on first-time adoption of IFRS 9. The greater provisions recognised on credit positions subject to IRB models on first-time adoption more or less fully offset the increase in regulatory expected credit losses, especially for the default positions following the application of the "model change". In other words, the greater provisions recognised on credit positions subject to IRB models on first time at adoption substantially offset the increase in the regulatory expected credit loss, which would have caused a theoretical increase in the shortfall with a consequent negative impact on regulatory capital. As concerns risk weighted assets (RWAs), the difference between the phased-in amount and the fully loaded amount (+€236 million approx.) is determined by the greater RWAs connected with the transitional IFRS 9 adjustment (95% of the greater provisions of approximately €255 million recognised on credit positions subject to the standardised approach on first-time adoption).

Banks have been obliged to hold a countercyclical capital buffer since 1st January 2016. If it is considered that, as reported in the press release dated 22nd December 2017, the Bank of Italy set the countercyclical capital buffer for the first quarter of 2018 at 0% for exposures to counterparties resident in Italy and also that the Group mainly has exposures to domestic counterparties[14], then the Group's countercyclical capital buffer is negligible.

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In consideration of the ratios achieved as at 31st March 2018 – and on the basis of the simulations carried out for future years according to current regulations and on a "fully loaded" basis – significant margins clearly exist to maintain a strong capital position, higher than that requested by capital requirements.

[14] The capital requirement for significant exposures to counterparties not resident in Italy is below 5% of the total capital requirement for significant exposures.

Leverage ratio

Quantitative information

The leverage ratio stood at 5.46% as at 31st March 2018, while it is estimated at 5.29% fully loaded.

The table below reports summary data on the calculation of the UBI Group leverage ratios as at 31st March 2018. The ratio was calculated according to the provisions of the CRR, as amended by the Delegated Act (EU) No. 62/2015[15] and it takes account of the "Guidelines on uniform disclosure under Art. 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" EBA/GL/2018/01.

Both versions of the Tier 1 capital and of exposures at the end of the period were used (capital and exposure measures), to calculate the ratio as follows:

- Tier 1 capital and the exposure measure in the transitional regime that is calculated making reference to the calculation rules applicable from time to time in the transition period in accordance with Regulation EU 2017/2395 relating to the capital impacts of first-time adoption of IFRS 9;
- the fully loaded Tier 1 capital and the exposure measure calculated as if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied.

Leverage ratio as at 31st March 2018

(figures in thousands of euro)

	31.03.2018	31.12.2017
Fully loaded tier 1 capital	6,952,747	7,664,885
Fully phased-in exposure	131,478,144	132,540,784
Fully phased in leverage ratio	**5.29%**	**5.78%**
Transition Tier 1 capital	7,195,245	7,754,502
Transition exposure	131,720,643	132,621,877
Transition leverage ratio	**5.46%**	**5.85%**

[15] The Commission Delegated Act brings the rules for calculating the ratio into line with the provisions of the Basel Committee - cf. "Basel III Leverage ratio framework and disclosure requirements", January 2014.

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 Spa, 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 "Pillar 3 Disclosures as at 31st March 2018" 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

Bergamo, 10th May 2018