

Banks Ratings Navigator		
Navigator date:	16 Jan 2017	
Last rating action:	02 Dec 2016	
Sector Details:		
Bank sector:	Wholesale Commercial	
Region:	DM Europe	
Country:	Italy	
Country IDR:	BBB+ Negative	
Last action:	21 Oct 16 Affirmed	
Country ceiling:	AA+	
Macro prudential indicator:	1	
Bank systemic indicator:	bbb	
Bank Rating History		
Viability Rating (VR)		
02 Dec 16	bb	Affirmed
12 Jan 16	bb	Affirmed
23 Jan 15	bb	Affirmed
Issuer Default Rating (IDR)		
02 Dec 16	BB Negative	Affirmed
12 Jan 16	BB Stable	Affirmed
23 Jan 15	BB Stable	Affirmed
Support Rating Floor (SRF)		
01 Dec 08	NF	Affirmed
16 Mar 07	NF	New Rating
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
■	Higher Influence	
■	Moderate Influence	
■	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	 Stable
Peer Ratings bars = Count of banks		
21	DM Europe Wholesale Commercial	
3	Italy Wholesale Commercial	
Relevant Criteria & References		
Global Bank Rating Criteria (Nov 2016)		
Macro-Prudential Risk Monitor (May 2016)		
Analysts		
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	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Financial Profile			Viability Rating	Institutional Support	Issuer Default Rating
							Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity			
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB Negative
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc										ccc	CCC	CCC
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Institutional Support				Value
Parent VR				nr
Total Adjustments (notches)				
Institutional Support:				
Support Factors (negative)		Equalised	1 Notch	2+ Notches
Parent Ability to Support				
Parent/group regulation				✓
Relative size			✓	
Parent Propensity to Support				
Role in group			✓	
Potential for disposal			✓	
Implication of subsidiary default				✓
Integration			✓	
Jurisdiction			✓	
Size of ownership stake			✓	
Support track record			✓	
Subsidiary performance and prospects			✓	
Branding				✓
Legal commitments				✓
Cross-default clauses				✓

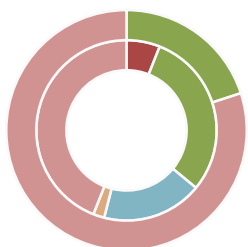
Drivers & Sensitivities	
VR-Driven Ratings	UBAE's ratings reflect the bank's niche trade finance franchise based on flows between Italy and the Middle East and North Africa region and its reliance on substantial deposit funding from its majority shareholder, Libyan Foreign Bank (LFB).
Growing Pressure on Capital	The Negative Outlook on UBAE's Long-Term IDR reflects growing pressure on the bank's capitalisation due to modest buffers over minimum regulatory capital requirements, exacerbated by weaker earnings resulting from low interest rates.
Business Diversification Benefits	Despite UBAE's niche focus, it has some diversification from business lines with a few major Italian corporates, SMEs and small regional banks.
Adequately Controlled Risks	Underwriting standards are tight and risks are adequately controlled. The bank has consistently demonstrated good asset quality, which reflects its long-standing relationships with its clients, including entities related to Libya and the LFB.
Weak Performance	Operating profit is suffering from low interest rates, particularly on the bank's liquid assets in Italy and in European markets, where UBAE deploys surplus funds from LFB. Profitability is also hampered by a high cost base.
Small Capital Base	UBAE's capital base is small in absolute terms, exposing it to event risk from high credit concentrations and operational risks.
Funding Dependence and Ample Liquidity	UBAE's concentrated deposits provided by LFB can fluctuate quite significantly, depending on the latter's needs. Overall, liquidity is ample due to the short-term and self-liquidating nature of trade-finance transactions and its large portfolio of liquid assets.
Ratings Sensitivities	Continuing weaker earnings, large withdrawals of parent funding or further pressure on capital ratios would be negative for ratings. A material improvement in core capital could bring rating upside.

Key Financial Ratios (12 Jan 2017)	UBAE				Direct Peers Median				Region Sector Median							
	Number of Banks:				5	5	5	5								
	Statement:				FYE15	FYE14	FYE13	FYE12	FYE15	FYE14	FYE13	FYE12	FYE15	FYE14	FYE13	FYE12
Size (EURm)																
Total assets	2,787	3,392	1,741	2,377	1,557	1,639	1,717	1,782	22,356	22,146	22,323	23,856				
Risk weighted assets (RWA)	1,862	1,605	1,265	1,681	1,427	1,319	1,263	1,199	9,319	8,087	7,584	8,843				
Total equity	220	218	209	211	220	218	209	211	1,599	1,276	929	1,150				
Fitch core capital (FCC)	219	216	207	209	219	216	207	209	1,483	1,073	856	808				
Asset Quality																
Impaired loans/gross loans	7.9%	6.9%	4.7%	2.5%	3.1%	3.8%	3.2%	2.5%	3.1%	3.4%	4.0%	4.5%				
Growth of gross loans	-22.5%	15.0%	-20.6%	96.5%	-10.4%	15.0%	16.8%	-0.6%	-0.2%	8.4%	-6.1%	-1.6%				
Reserves for impaired loans/impaired loans	90.7%	85.5%	138.9%	126.4%	85.6%	85.5%	96.6%	97.8%	50.3%	44.0%	40.9%	39.6%				
Loan impairment charges/avg gross loans	-1.5%	0.1%	0.2%	-0.5%	0.2%	0.9%	1.1%	0.4%	0.4%	0.8%	1.0%	0.5%				
Earnings and Profitability																
Operating profit/risk weighted assets	0.7%	0.8%	1.2%	1.6%	0.7%	0.8%	1.2%	1.6%	1.1%	0.9%	0.9%	1.1%				
Net interest income/average earning assets	0.7%	0.9%	1.4%	1.1%	1.7%	1.9%	1.6%	1.3%	1.2%	1.0%	0.9%	1.1%				
Non-interest expense/gross revenues	80.1%	81.2%	71.2%	53.1%	80.1%	81.2%	71.2%	53.1%	54.2%	53.5%	56.1%	62.0%				
Loans & secs imp charges/pre-imp op. profit	-75.7%	-80.3%	-26.1%	-10.1%	6.1%	35.1%	33.1%	13.0%	16.3%	34.6%	33.1%	28.8%				
Operating profit/average total assets	0.5%	0.5%	0.7%	1.0%	0.5%	0.5%	0.7%	1.0%	0.4%	0.4%	0.2%	0.4%				
Net income/average total equity	3.1%	4.5%	4.9%	9.0%	3.1%	4.5%	4.9%	9.0%	6.3%	5.8%	4.7%	6.6%				
Capital and Leverage																
FCC/FCC-adjusted risk weighted assets	11.7%	13.5%	16.4%	12.4%	16.7%	14.5%	16.4%	21.6%	13.4%	12.6%	12.9%	11.3%				
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	9.1%	9.1%	n.a.	n.a.	7.2%	5.3%	6.3%	7.6%				
Tangible common equity/tangible assets	7.9%	6.4%	11.9%	8.8%	12.1%	13.8%	13.5%	13.6%	6.1%	6.2%	5.2%	4.8%				
CET1 capital ratio	11.7%	13.0%	16.4%	11.7%	11.7%	14.0%	16.4%	12.7%	13.2%	12.5%	12.4%	11.6%				
Internal capital generation	1.5%	2.2%	4.9%	9.1%	1.5%	2.2%	4.9%	6.8%	3.8%	3.2%	2.8%	4.6%				
Imp loans less reserves for imp Loans/FCC	1.2%	2.2%	-3.6%	-1.6%	0.9%	1.9%	0.1%	0.1%	19.1%	18.3%	24.2%	18.9%				
Funding and Liquidity																
Loans/customer deposits	256.3%	317.2%	369.0%	117.3%	256.3%	280.1%	369.0%	134.4%	154.5%	164.2%	167.2%	159.5%				
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	84.7%	115.6%	n.a.	n.a.	124.0%	132.0%	150.0%	236.0%				
Customer deposits/total funding excl derivs	5.6%	4.8%	7.4%	20.8%	14.3%	17.3%	13.0%	20.8%	39.8%	35.3%	33.9%	36.1%				

Business Mix

(by profit or revenue)

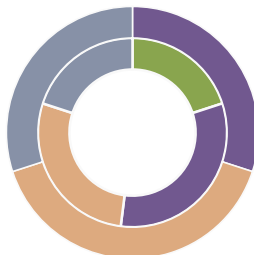
- Retail banking (0%)
- SME banking (0%)
- Corporate banking (20%)
- Investment banking (0%)
- Transaction banking (0%)
- Asset management (0%)
- Insurance (0%)
- Other (80%)



Outer: UBAE
Inner: Direct Peers Average

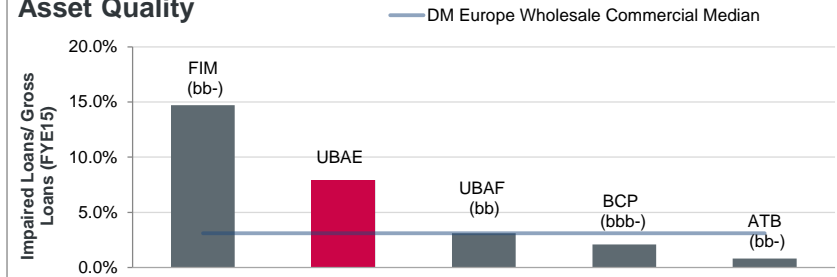
Lending Type

- Resi mortgages (0%)
- Comm mortgages (0%)
- Asset finance (0%)
- Other secured (30%)
- Personal unsecured (0%)
- Comm unsecured (40%)
- Fls & Sovs (30%)
- High yield (0%)
- Other unsecured (0%)

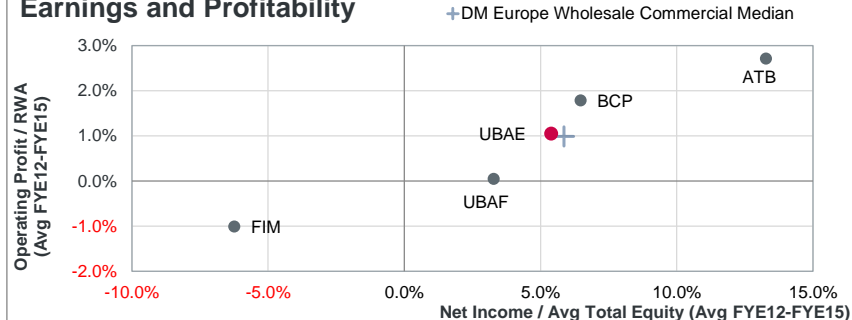


Outer: UBAE
Inner: Direct Peers Average

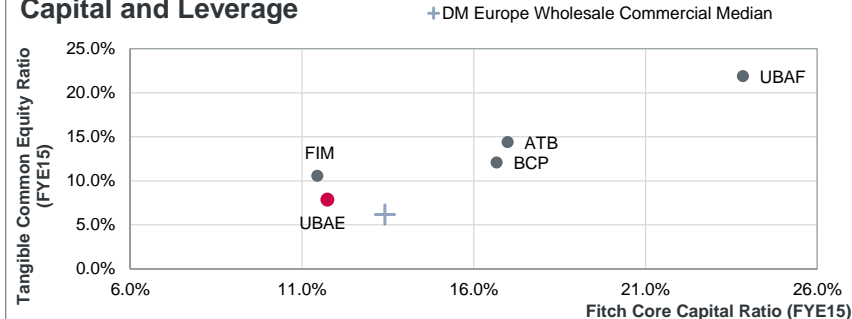
Asset Quality



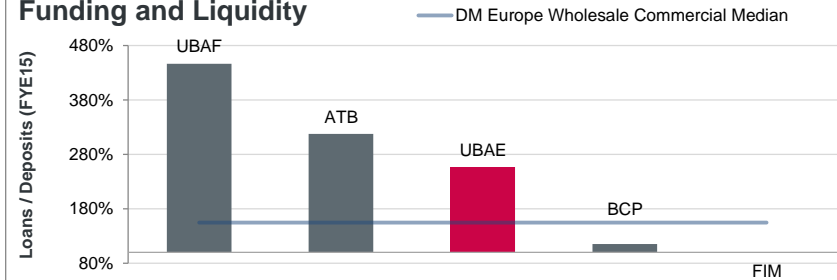
Earnings and Profitability



Capital and Leverage



Funding and Liquidity



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