



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

**Settlement Agreement between the Central Bank of Ireland
and UniCredit Bank Ireland p.l.c.**

The Central Bank of Ireland (the “**Central Bank**”) has entered into a Settlement Agreement with effect from 13 March 2014 with UniCredit Bank Ireland p.l.c. (the “**Firm**”), a regulated financial services provider, in relation to prescribed contraventions of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. 661/2006) (as amended) (“**the 2006 Regulations**”) and of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. 395/1992) (“**the 1992 Regulations**”).

Reprimand and fine

The Central Bank reprimanded the Firm and required it to pay a monetary penalty of €315,000.

Contraventions

Four contraventions in total were identified:

1. On the reporting dates 31 December 2011, 31 March 2012 and 30 June 2012, in breach of the 2006 Regulations, the Firm had an exposure to non-Euro denominated sovereign Italian bonds in excess of the permitted limits;

2. On the reporting dates 31 March 2012 and 30 June 2012, in breach of the 2006 Regulations, the Firm had an exposure to non-Euro denominated sovereign Spanish bonds in excess of the permitted limits;
3. For certain dates in November 2012 and December 2012, in breach of the 2006 Regulations, the Firm had an exposure to a single client which was in excess of the permitted limits; and
4. The single-client exposure complained of occurred because the Firm, in breach of Regulation 16(3) of the 1992 Regulations, failed to have effective processes and adequate internal control mechanisms in place to ensure the limits imposed by the 2006 Regulations were adhered to.

Large Exposure Requirements

The large exposure requirements in the 2006 Regulations are imposed on credit institutions to limit the level of exposure which an institution may have to any one person or entity, or group of connected persons/entities, and so to contain the loss an institution may experience in the event of counterparty failure. Credit institutions submit large exposure returns to the Central Bank setting out details of the level of their large exposures against these limits.

Background to the Contraventions

Contraventions 1 and 2

In October 2011, following a three notch simultaneous ratings downgrade of the Republic of Italy, the Firm immediately notified the Central Bank that it had an exposure to non-Euro denominated sovereign Italian bonds in excess of the permitted large exposure limits. In January 2012, following a two notch simultaneous ratings downgrade of the Kingdom of Spain, the Firm immediately notified the Central Bank that it had an exposure to non-Euro denominated sovereign Spanish bonds in excess of the permitted large exposure limits. These downgrades led to the non-Euro denominated sovereign assets being reclassified for the purpose of large exposure requirements. Prior to the downgrades, each of these assets had a risk weighting of 0% but following the downgrades the risk weighting moved

immediately to 100%. Following notification to the Central Bank, a remediation proposal was made which was ultimately approved.

Contravention 3 and 4

In January 2013 the Firm notified the Central Bank that its exposure to one of its clients had also exceeded the permitted large exposure limits for certain dates in November 2012 and December 2012. This occurred as a result of an increase in the Firm's exposure to this client and the failure by the Firm to monitor at all times its total exposure to this client for large exposure purposes.

Penalty decision factors

The penalties imposed in this case reflect the importance the Central Bank places on compliance with the large exposure limits and having adequate internal controls in place to ensure that at all times a firm is in compliance with the large exposure limits.

In deciding the appropriate penalty to impose, the Central Bank has taken the following into account:

- the importance of monitoring (on an ongoing basis) and limiting the size of large exposures;
- the failure to have in place at all times adequate internal controls to ensure adherence to the large exposure requirements undermines the ability of the Central Bank to supervise the level of risk to which a firm is subject;
- the Firm notified the Central Bank immediately of the breaches and took appropriate remedial steps in consultation with the Central Bank, to rectify the breaches;
- the market disturbance which resulted in the downgrades of Italy and Spain's sovereign bonds;
- the Firm has introduced enhanced procedures and controls to improve its monitoring of large exposures; and

- the cooperation of the Firm during the investigation and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms that the matter is now closed.

- End –

The Central Bank of Ireland has entered into a Settlement Agreement on 13 March 2014 with UniCredit Bank Ireland plc, a regulated financial services provider, in relation to breaches of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. 661/2006) (as amended) and the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. 395/1992).

The Central Bank of Ireland also issued a general comment from Director of Enforcement, Derville Rowland:

“This is the first settlement by the Central Bank with a firm for breaches of the large exposure limits and the failure to have in place proper internal controls around large exposures.

The purpose of the large exposure requirements is to limit the level of exposure which a firm has to an individual or entity or to a group of connected individuals or entities so that if that individual or entity was in difficulty this would not have a significant impact on the firm. The Central Bank is tasked with monitoring the level of large exposures which a firm has and their compliance with large exposure limits to ensure that firms are not exposed to significant levels of risk as a result of such exposures.

The failure by regulated financial services providers to ensure that they comply with large exposure limits at all times is viewed as a serious matter by the Central Bank given the potential risks to a firm's stability in the event of an individual or an entity falling into financial difficulty.

Regulated institutions must have effective processes in place to identify, manage and monitor the level of risk they are exposed to, and proper and effective systems and controls in place to ensure compliance with large exposure limits. Where the Central Bank finds evidence of failures in these areas the Central Bank will continue to use its range of regulatory tools including enforcement."