

# Pillar 3 disclosures

as at 31<sup>st</sup> December 2008



**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 Bank of the Unione di Banche Italiane Banking Group  
Share capital as at 31<sup>st</sup> December 2008: Euro 1.597.864.755,00 fully paid up

[www.ubibanca.it](http://www.ubibanca.it)

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## Introduction

Compliance with the *New regulations for the prudential supervision of banks* (Bank of Italy Circular No. 263 of 27<sup>th</sup> December 2006 and subsequent amendments) makes it compulsory for financial intermediaries to publish disclosures (the document “Pillar 3 disclosures”) which 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 as “Pillar 3” – which accompanies 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.

This document provides information relating to the UBI Group as at 31<sup>st</sup> December 2008. It therefore does not present historical comparative figures, which will be presented from the next publication. Neither does it contain information on the methodologies employed in internal rating models, which will be contained in future disclosures, once authorisation has been obtained to use them from the Bank of Italy for the purposes of calculating capital requirements.

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 Capital & Policies Area and by the Strategy and Control Macro Area in the disclosure document, which also includes a declaration by the senior officer responsible for preparing the company accounting documents.

For completeness of information, these figures relate to the supervisory consolidation, which consists of those entities subject to banking consolidation for supervisory purposes and any differences with respect to other sources (consolidated financial statements 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](http://www.ubibanca.it)).

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



## Table 1 – General requirements

### *Qualitative information*

In compliance with current regulations, the UBI Group has adopted a risk control system which disciplines and integrates the organisational, regulatory and methodological guidelines of the system of internal controls with which all Group member companies must comply in order to allow the Parent Bank to perform its activities of strategic, management and operational control in an effective and economical manner.

Group member companies co-operate pro-actively in identifying risks to which they are subject and in defining the relative criteria for measuring, managing and monitoring them.

The key principles on which Group risk analysis and management are based for the pursuit of an increasingly more knowledgeable and efficient allocation of economic and supervisory capital are as follows:

- rigorous containment of financial and credit risks and strong management of all types of risk;
- the use of sustainable value creation logic in defining risk appetite and the allocation of capital;
- definition of the Group's risk appetite with reference to specific types of risk and/or specific activities in a set of policy regulations for the Group and for the single entities within it.

The system of risk governance and management is reflected in the organisational structure of the Group, which is designed, from an organisational, regulatory and methodological viewpoint, to ensure that operations have an appropriate risk appetite.

More specifically the Risk Management Area ensures that both current and future measurement and monitoring of Group exposure to different types of risk – market risk, credit risk, interest rate risk, liquidity risk and operational risk – both current and future, is measured and controlled by developing risk measurement models, thereby guaranteeing full implementation of policies by performing second level controls. The Risk Capital & Policies Area supervises capital and assesses both economic and supervisory capital adequacy, formulating risk management policies and pricing models consistent with the measurement of the creation of value within the Group.

In compliance with the *New regulations for the prudential supervision of banks* (Bank of Italy Circular No. 263/2006), the UBI Group has put a process in place to calculate its total capital adequacy requirement – for the present and the future – to meet all significant risks to which the Group is or might be exposed on the basis of its operations (ICAAP - Internal Capital Adequacy Assessment Process).

In consideration of its mission and the operations of the UBI Group and also the market context in which it operates, the risks to be subjected to measurement in the ICAAP process were identified and divided into First Pillar and Second Pillar risks as required by the relative regulations.

- 1) *First Pillar risks*, already managed under the requirements of supervisory regulations, are as follows:
  - credit risk (inclusive of counterparty risk);
  - market risk;
  - operational risk.
  
- 2) *Second Pillar risks*:
  - a. *measurable*, for which quantitative methods are formulated which lead to the determination of internal capital:
    - concentration risk;
    - interest rate risk;
    - business risk;
    - equity risk.
  
  - b. *non measurable*, which are subjected to qualitative assessment (policies, control measures, attenuation or mitigation):
    - securitisation risk;
    - compliance risk;
    - liquidity risk;
    - reputational risk;
    - residual risk;
    - strategic risk.

## ***First Pillar Risks***

### **Credit risk**

The strategies and policies for assuming credit risk and the instruments employed to manage credit risk are formulated at the Parent Bank, by the Risk Capital & Policies Area in conjunction with the Credit Area. The Commercial Macro Area, the Risk Management Area and the Studies Service also contribute to the formulation of policies. There is a particular focus in the formulation of the credit policies on maintaining an appropriate risk/yield profile and on assuming risks that are consistent with the risk appetite defined by senior management and, more generally, with the mission of the UBI Group.

The priorities in the orientation of the Group's credit policies are to support local economies, families, businessmen, professionals and small-to-medium size enterprises. The particular attention paid to maintaining relationships established with customers and to developing them over the years is one of the strong points of the Group and it helps to eliminate information asymmetries and offers continuity in customer relationships with a view to long term support. Even in the current difficult economic situation, the Group is ensuring that the economy has adequate access to credit, while nevertheless conserving the quality of that credit.



Credit policies have been developed on the basis of:

- macroeconomic forecasts which allow risk and expected growth for 2009 to be assessed for different sectors and geographical areas;
- forecasts of growth in lending from which expected growth rates can be defined for each sub-portfolio, geographical area, sector and rating class;
- a model to optimise the portfolio developed using an EVA® approach with the objective of maximising the value created on the corporate market, while complying with the constraints applied to maintain high asset quality and an acceptable risk profile for loans.

Current credit risk management policies are as follows:

- *credit policy*, which outlines the growth strategy for the Group corporate lending portfolio;
- *country and institutional counterparty risk policy*, which sets out rules and principles for managing credit granted to resident and non resident institutional customers and also to ordinary customers in countries at risk;
- *policy for the distribution of mortgage loans through intermediaries*, which regulates the procedures for the use of external distribution networks for granting mortgages to non captive customers in order to contain potential credit, operational and reputational risks;
- *policy on the portability, renegotiation, substitution and early repayment of the mortgages of direct customers of the network banks*, which sets UBI Group guidelines for the portability (in both directions), the renegotiation, the substitution and early repayment (partial or total) of mortgages. It complies with the regulatory framework and is designed with a view to minimising the times required, the conditions and the related costs and also to equipping the Group with appropriate processes and tools to manage the relative risks (credit, operational and reputational);
- *policy on the portability, renegotiation, substitution and early repayment of mortgages granted through intermediaries*, which relates to mortgages granted on the basis of standing arrangements between the companies and banks in the Group and specific distribution networks;
- *policy on “single name” credit risk concentration*, which sets maximum limits on exposure to a single counterparty in order to limit risks of instability that would arise from high rates of concentration of loans on major borrowers;
- *policy for Centrobanca structured finance transactions*, which sets specific limits and constraints (especially with regard to rating classes and maturity) for the structured finance transactions of Centrobanca. It combines the achievement of budget targets in terms of volumes disbursed and profitability with appropriate management in terms of concentration and distribution by rating classes;
- *risk-adjusted pricing policy*, which defines a process to formulate and implement risk-adjusted pricing approaches for various products which involve the assumption of credit risk.

Credit policies are implemented in the distribution network by means of:

- loan assessment procedures which are made easier for counterparties belonging to attractive clusters and through targeted marketing campaigns;
- initiatives designed to contain risk profiles and limit the negative impact on value creation in the corporate portfolio (corrective pricing action/acquiring security/revision of credit lines) for counterparties belonging to unattractive clusters.

The organisational model on which the units which manage lending activity is based is as follows:

- Parent Bank units for centralised monitoring and co-ordination;
- the General Managements of Banks and Group companies, to which the following report:
  - Credit Departments;
  - Local Approval Centres;
  - Branches;
  - Corporate Banking Units (CBUs);
  - Private Banking Units (PBUs).

The characteristics of that organisational model not only ensure strong standardisation between the units of the Parent Bank and the corresponding units in the Network Banks, with consequent linearity in the processes and the optimisation of information flows, but they also provide a clear separation between commercial and credit functions. Loan granting activity is also differentiated by customer segment (Retail/Private and Corporate) and specialised by the status of the loan: “performing” (managed by Retail, Private and Corporate lending units) and problem (managed by Problem Loan units).

Furthermore, the introduction of decentralised Local Approval Centres (LACs) in the banking area to support retail branches and units for private banking customers guarantees effective co-ordination and liaison between different units operating on the various markets. The Parent Bank oversees policy management, overall portfolio monitoring, the refinement of assessment systems, problem loan management and compliance with regulations through the Credit Area, the Strategy and Control Macro Area, the Credit Recovery Area and the audit functions of the Parent Bank and Group.

For all those entities (individual companies or groups) with authorised credit from banks and companies in the Group (including risk activities involving issuer and related risks) which totals more than 50 million euro, the Parent Bank must set an operational limit which is the maximum credit that may be authorised for the counterparty at UBI Group level. The Management Board of the Parent Bank is responsible for granting, changing and renewing operational limits on the proposal of the UBI Credit Area after first consulting the UBI Credit Committee.

The banks and companies of the Group must also request a prior, consultative, non binding opinion from the Parent Bank for combinations of a) amounts of authorised credit and b) determined internal rating classes. It is the Parent Bank’s duty to assess whether it is consistent with the credit policies of the Group, according to the criteria and parameters laid down in the credit authorisation regulations of the Group. A prior opinion is not required for credit authorisations for single counterparties or groups of companies which fall within the operational limits that have been set.

In consideration of the specific federal organisation of the UBI Group, the Parent Bank decided to adopt a “focused” model for the management of corporate customers common to more than one Network Bank on the basis of which, briefly:

- decisions relating to credit risk management, pricing and the formulation of commercial policies for customers common to two or more banks are centred on a lead bank, termed the Pivot Bank, thereby avoiding the generation of a decrease in the overall profitability on the counterparty;
- non Pivot Banks abstain from opening new accounts and/or from granting new credit facilities.

A Pivot Bank may be defined as the bank which has the best chances, with its own business units, of arranging new business and/or intensifying existing business with the customer in common, in order to draw the greatest possible benefit for the whole banking Group. It therefore directs the other banks involved with regard to the most appropriate conduct to follow to improve business with the customer as a whole.

The various organisational units in Banks and Product Companies are responsible for credit and commercial activities and they also hold responsibility for monitoring both the activity they perform directly and that performed by those units which report to them. More specifically, responsibility for managing and monitoring performing loans lies in the first instance with the account managers who handle daily relationships with customers and who have an immediate perception of any deterioration in credit quality. Nevertheless all employees of Group member companies are required to promptly report all information that might allow difficulties to be identified at an early stage or which might recommend different ways of managing accounts, by concretely participating in the monitoring process.

In the second instance, the organisational unit responsible for monitoring credit risk is the Credit Quality Management and Monitoring unit, which carries out monitoring, supervision and analysis of performing positions on both a case by case and a collective basis, where the intensity and degree of detail of the analysis is a function of the risk class attributed to the counterparties and the seriousness of the performance problems.

This unit, not involved in loan approval procedures, either on its own initiative or on submission of a proposal, may assess a position and decide (or propose to a superior decision-making unit when the decision does not lie within its powers), to change the classification of performing counterparties to a more serious status. In these cases it asks, through its Credit Department, the Credit Area – Credit Service – Opinions Function to issue a prior non binding opinion in those cases where Credit Authorisation Regulations require it. The Credit Quality Management and Monitoring Service in the Credit Area of UBI Banca is responsible for co-ordinating and defining guidelines for monitoring the lending portfolio, overseeing the development of monitoring tools, monitoring credit policies and preparing management reports.

Finally the Risk Management and Risk Capital & Policies areas operate within the Strategy and Control Macro Area.

The Credit Risk Service operates within the Risk Management Area and performs the following:

- it defines, in co-operation with the Methods and Models Service, Group criteria and methodologies for the development of internal rating models – probability of default (PD), loss given default (LGD), and exposure at default (EAD) – in line with regulatory requirements and best practices;
- it works, in co-operation with the Rating Desk and the Major Borrowers Rating units on the Credit Area staff, on the definition of methods for assigning counterparty ratings;
- it produces periodic analyses which illustrate the risk profile of the total lending portfolio and the commercial sub-portfolios at Group level and at the level of individual legal entities, in terms of rates of loan deterioration and distribution by rating class and concentration in the largest customers;
- it develops methods, in co-operation with the Tax and Administration Area, for calculating collective provisions to be recognised in the financial statements on the basis of internal credit ratings for the Network Banks and loan deterioration rates for the other Banks and Product Companies;

- it calculates loan deterioration rates for the Group and defines the relative calculation methods for individual legal entities;
- it works, in co-operation with the Risk Capital & Policies and the Commercial Areas, to provide input parameters (PD, LGD, EAD) for product pricing activities.

Furthermore the Credit Risk Service plays a key role within the Basel 2 project:

- it formulates guidelines on credit risk matters generally and also with regard to periodic reporting to the Supervisory Authority;
- it draws up roll-out plans for models implemented at the Parent Bank;
- it co-ordinates activities for the development and maintenance of internal rating processes and systems.

Within the Risk Capital and Policies Area, the Credit Portfolio Policies and Pricing Service defines policies for the assumption and management of credit risk and, in co-operation with the other areas concerned, strategies for the development of the lending portfolio. It co-ordinates activities for the operational implementation of policies, the assumption and management of risk at Group level and it periodically monitors the consistency of these with Group operations and proposes corrective action if necessary. It monitors the implementation of credit policies in co-operation with the Commercial Macro Area with a view to the creation of value within commercial processes. It defines in detail and undertakes active credit portfolio management action designed to optimise the creation of value on the loan portfolio and also takes initiatives to mitigate, monitor and transfer credit risk (e.g. securitisations), assessing the impact on economic capital and on supervisory capital requirements.

Finally, it defines, in co-operation with the Credit and Commercial Area, ways of assessing performances and counterparties in terms of value creation and also criteria concerning the appropriateness of pricing in relation to risk, in line with the general value creation model defined by the Capital Management Service.

As concerns the production and distribution of products which involve the assumption of credit risk by Group member companies, it formulates appropriate methods for carrying out “intragroup pricing” and it participates, together with the Commercial Macro Area, in defining the relative convention agreements.

At present, the IRB system of the UBI Group involves the use of automatic models for private individuals and small-sized businesses, automatic models supplemented by qualitative questionnaires and a geo-sectoral module for medium-to-large size businesses, and a mainly judgemental model for major borrowers (i.e. groups of companies with authorised credit of greater than 20 million euro).

Automatic models summarise ratings statistically on the basis of the following risk factors appropriately calibrated according to the type of counterparty or model

- economic and financial factors;
- performance factors (internal and external);
- qualitative factors (competitive positioning, corporate structure, etc.);
- geo-sectoral factors.

The major borrower model integrates an economic and financial assessment with a structured judgemental component which examines aspects such as the shareholder base, management, sector, competitive environment and financial flexibility, giving great consideration to factors relating to the group of companies to which the counterparty belongs.

Taken as a whole the models just described constitute the internal rating system of the Group managed by the Risk Management Area and by the Credit Area. It is constantly subjected to refinement in order to increase the accuracy of credit rating measurement both for individual counterparties and at aggregate level.

The processes generated or directly impacted by the introduction of internal credit rating systems within the Network Banks are as follows:

- identification of a model for the calculation of counterparty credit ratings;
- assignment of a first loan disbursement rating;
- assignment of a performance rating: ratings are assigned to all counterparties on the basis of operational risk and qualitative and balance sheet variables where present;
- rating change (override): requests are made by account managers and by central credit units of Network Banks to modify ratings calculated by the system;
- monitoring of ratings: performance ratings are verified with periodical recalculations after the first disbursement; annual verification of ratings: the input data for calculating ratings are updated by the staff concerned (e.g. account managers).

Internal ratings also constitute key factors in the following processes:

- the lending process (approval and renewal authorisations);
- calculation of collective impairment of performing loans;
- management reporting;
- formulation of credit policies.

The operational units involved in the loan disbursement and renewal process use internal credit ratings which constitute necessary and essential evaluation factors for credit authorisations when these are assessed and revised. Powers to authorise loans are based on the risk profiles of the customers or the transactions as given by the credit rating, while they are managed using *Pratica Elettronica di Fido* (electronic credit authorisation) software. The credit ratings are used both by the management reporting system and in the information made available to units in Banks involved in the lending process.

The assignment to rating classes that are different from those calculated by the internal rating system on the basis of the models adopted is made by proposing an override on the rating for which the methods of presentation, examination and validation are different for cases of:

- higher rating override;
- lower rating override.

These changes are made on the basis of information not already considered by the rating model, not adequately weighted by the model or where it is intended to anticipate the future influence of the information.

The Group intends, within the framework of the Basel 2 project, to apply for authorisation from the supervisory body in 2009 to use its own internal rating and LGD models for the purpose of determining minimum supervisory capital requirements for the corporate and retail exposures supervisory portfolios.

The Group pursues the objective of maintaining a level of capitalisation that is adequate for the effective risk of its lending portfolio and therefore of using the rating and LGD calculation systems which are already used for operating purposes also for supervisory purposes.

The Credit Risk Service is responsible for Group reporting on credit risk in order to monitor changes in the risk attached to lending for individual banks and commercial portfolios. The

reports are submitted monthly to the Management Board and quarterly to the Boards of Directors of the individual Network Banks. The reports give changes in loan deterioration rates and the distributions by internal rating classes for all banks and for the Network Banks they give changes in average risk for the Corporate Market, the Small Business portfolio in the Retail Market and for the Affluent and Mass Market portfolios again in the Retail Market. Reporting for the Product Companies is based on the specific risk for the various types of lending and products marketed. Special reports on specific matters are also prepared on the main components of credit risk.

The Group employs standard risk mitigation techniques used in the banking sector by acquiring security such as properties and financial instruments as well as personal guarantees from counterparties for some types of loan. Determination of the total amount of credit that can be granted to a given customer and/or group of companies to which the customer belongs takes account of special criteria for assigning weightings to the different categories of risk and to guarantees. Prudential "haircuts" are applied to the estimated value of collateral depending on the type of security.

The Credit Risk Working Group which forms part of the Basel 2 Project contains a Credit Risk Mitigation Project in which various organisational units are involved (credit, legal, organisational, technological/IT) for the purpose of:

- redefining credit processes relating to the acquisition and management of collateral;
- verifying the admissibility of the contractual standards of guarantees;
- recovering all the information required to ensure the admissibility of mortgage collateral, in line with the provisions of Basel 2 in terms of specific requirements.

The Group benefited from the expertise and experience of an external specialist which performed data recovery following precise instructions and under careful monitoring by the UBI Credit Risk Mitigation Working Group.

With particular regard to mortgages, the Group took action in 2008 to ensure that credit processes made it compulsory to enter all data on a property needed to render collateral eligible in account manager software systems. Particular attention was paid to the compulsory nature of expert appraisals and to the prompt recovery of the notarial information (details of registrations) needed for guarantees to be accepted.

Further information on policies and processes for the assessment and management of collateral together with a description of the main types of guarantees accepted by the Group is given in Table 8 which may be consulted.

### **Counterparty risk**

Counterparty risk is defined as the risk of default by counterparties with exposures towards the bank on derivatives contracts.

In order to quantify exposure to that risk, the UBI Group currently uses the present value method, which estimates the cost incurred to find another party willing to take on the contractual obligations of the originally contracted counterparty, if this becomes insolvent. The Group intends in future to use EPE (Expected Positive Exposure) models with a view to requesting authorisation from the Bank of Italy to use internal models, subject to satisfying the organisational and quantitative requirements contained in supervisory regulations.

See Table 9 for further information on counterparty risk.



## Market risk

The guidelines for the assumption and monitoring of market risk in the Group are defined in the Policy for Financial Risk Management. The Parent Bank intervenes in the process of managing and monitoring financial risk as follows:

- approval of methodologies for measuring financial risks by the Management Board of the Parent Bank, which are then adopted by the Boards of Directors of individual Group member companies;
- definition of strategic guidelines and of the target range for the total ALM positioning of the Group and individual companies (ordinarily when budgets are formulated). This positioning is approved by the UBI Management Board on the proposal of the Finance Committee and is submitted to the Boards of Directors of individual Group member companies for implementation;
- definition of the type of investments, risk limits and quantification of these for the Group as a whole and for each Group member company in respect of investment portfolios. These limits are approved by the UBI Management Board on the proposal of the Finance Committee and are submitted to the Boards of Directors of individual Group member companies for implementation;
- monitoring, co-ordination and strategic control by the Finance Committee on developments in the management of financial risks. Reports on portfolios exposed to credit risk must be systematically forwarded also to the Credit Area;
- in the presence of particular conditions, the Finance Committee makes proposals for urgent intervention and corrective action if necessary to Group risk assumption centres;
- design and management of the system of internal controls, in accordance with the relative specific regulations.

Management of market risk in the Group is centred in general in the Finance Area of the Parent Bank. Exception is made for the portfolio for which management has been delegated to UBI Pramerica SGR by the Parent Bank and for portfolios managed directly by Centrobanca, IW Bank, BDG and UBI Banca International.

For the trading book, the monitoring of the consistency of the risk profiles of Group portfolios with respect to risk/return objectives is based on a system of limits which involves the combined use of various indicators and it is subject to daily verification by the Risk Management Area.

The following are defined for each portfolio of the Group:

- mission;
- maximum cumulative loss limit;
- VaR limit;
- type of financial instruments permitted;
- possible limits on composition;
- possible limits on sensitivity.

Measurement of risk for individual portfolios and/or globally for the trading book is integrated with stress testing and backtesting.

The risk factors considered by the Group in relation to the trading book are as follows:

- interest rate risk;

- inflation risk;
- currency risk;
- equity risk;
- volatility risk;
- credit spread risk;
- commodities risk.

The UBI Group intends to introduce procedures in 2009 for the approval of internal market risk models by the Bank of Italy.

The summary measurement used to assess the exposure of the Bank to interest rate, exchange rate, equity, volatility, credit spread, and commodities risks is that of the value at risk, which gives an estimate of the loss that could occur following adverse changes in risk factors with a confidence level of 99% and a holding period of one day. This value is defined in terms of limits consistent with the time horizon for the possible disinvestment of the portfolios. The method used for calculating VaR is that of historical simulation on 500 observations and full valuation of the positions.

The Group employs a stress testing programme to identify events or factors which could have a significant effect on positions to supplement the risk indicators obtained from the use of VaR. Stress tests are by nature both quantitative and qualitative and they consider not just market risks, but also the effects on liquidity generated by market turbulence. They are based on both specially created theoretical shocks and market shocks actually observed in a predetermined historical period.

The predictive power of the model adopted for risk measurement is currently monitored using daily backtesting analysis, which uses a theoretical P&L calculated on the basis of hypothetical changes in the value of the portfolio, determined by revaluing at the time  $t$ , the positions at the end of the day at  $t-1$  (assuming the positions are unchanged).

Financial risks are monitored daily by the Risk Management Area by calculating the VaR for all the portfolios held by the UBI Banca Group that are classified as part of the trading book, and this is completed by actual and theoretical backtesting. The levels of VaR and MCL are monitored for portfolios on which limits are set and overshoots are reported, in compliance with the 2009 financial risk policy and regulations. Detailed reports on total VaR and VaR by risk factor for each portfolio are produced weekly with end of period data, along with the qualitative and quantitative limits set by the 2009 Financial Risk Policy and regulations.

In addition to the daily and weekly reports just described, an analysis document is prepared monthly and quarterly, which, amongst other things, contains the results of stress tests (theoretical and historical), the figures for the return on the macro portfolios of the trading book, the main movements on portfolios and possible analyses of large exposures.

The principal recipient of all the reports is senior management, except for the weekly reports which are sent to the Finance Committee.

### **Operational risk**

The UBI Banca Group places a particular focus in the formulation of operational risk management policies on maintaining an appropriate risk profile that is consistent with the risk appetite defined by senior management. It is Group policy to identify, measure and monitor operational risks within an overall process of operational risk management with the following objectives:



- to identify the causes of prejudicial events at the origin of operational losses<sup>1</sup> and consequently to increase corporate profitability and improve operational efficiency, by identifying critical areas and monitoring and optimising the system of controls;
- to optimise policies to mitigate and transfer risk, such as for example, the use of insurance, on the basis of the magnitude and effective exposure to risk;
- to optimise the allocation and absorption of capital for operational risk and provision policies in a perspective of creating value for shareholders;
- to support decision-making processes concerning the start up of new business, activities, products and systems;
- to develop an operational risk culture at business unit level increasing awareness throughout units;
- to respond to the regulatory requirements of the New Basel Accord on Capital for banks and banking groups.

In the light of the regulatory context as set out by the Bank of Italy in the publication of Circular No. 263, the UBI Banca Group has adopted, from the current year, the “traditional standardised approach” (TSA) in combined use with the “basic indicator approach” (BIA) for the calculation of capital requirements for operational risks and it has also started activities to apply to the Supervisory Authority for authorisation by 30<sup>th</sup> June 2009 to use an internal “advanced measurement approach” (AMA) in combined use with the TSA and BIA approaches (partial AMA, where “partial” is intended as the adoption of the AMA approach on some lines of business or Group entities only).

Operational risk permeates the whole organisational structure and is found in every function and organisational unit. An organisational model was therefore designed to manage it which assigns tasks and responsibilities at both local and central level of the legal entities involved in the Group as a whole. An Operational Risk Committee has been formed at the Parent Bank with policy-making and supervision duties for the overall process of operational risk management, while a specific service (“Operational Risks Service”) is also in operation within the Risk Management Area dedicated to the planning, development and maintenance of methods for detecting, measuring and monitoring operational risk and for verifying the effectiveness of measures to mitigate it and of the connected reporting systems. The Operational Risks Service receives support from the Methods and Systems Service that operates within the Risk Management Area for the design and development of the AMA methods and system structure and for maintenance of the IT environment. Within the Risk Capital & Policies Area, there is also a Financial Service and Operational Risk Policies Service, responsible, in co-operation with the other organisational units concerned, for defining policy for the management, monitoring and mitigation of operational risk, including policies for insurance risk management and for the Models and Processes Validation Service responsible for the validation process.

The organisational model is structured with four levels of responsibility for the individual legal entities of the Group.

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<sup>1</sup> An operational loss is defined as a set of negative economic impacts resulting from events of an operational nature, recognised in the accounts of a business and sufficient to impact on the income statement.

- *Operational Risk Officer* (ORO): these are responsible within their legal entities for implementing the overall framework for the management of operational risks;
- *Local Operational Risk Support Officer* (LORSO): the main role acting in support of the Operational Risk Officer in the general management of operational risks in the legal entities to which they belong.
- *Risk Champion* (RC): operationally responsible for supervising operational risk management for the purposes of overall validation in their business areas, co-ordinating and supporting the relative risk owners. They support the risk monitoring process and participate in the definition and implementation of mitigation strategies;
- *Risk Owners* (RO): their task is to recognise and report actual and/or potential operational loss events which occur or are detected in the course of everyday operations. They participate in the implementation of corrective or improvement action decided at higher levels designed to reduce exposure to risk.

The operational risk management system of the Group is composed of the following:

- a decentralised process for collecting data on operational losses (loss data collection) designed for integrated and systematic detection of damaging events that occur which result in an actual loss. Operational losses detected are periodically reconciled in the accounts and updated in real time by risk owners and/or risk champions by means of a software application available on the Group intranet, which shows any recoveries that are obtained separately, including those resulting from specific insurance policies;
- a structured process for mapping and assessing risk scenarios (risk assessment) intrinsic to the business areas of the Group, supported by a software application for integrated management, where the intention is to furnish critical operational self diagnosis of potential exposure to the risk of future losses, of the adequacy of controls and of the mitigation measures in place;
- a database of operational losses incurred by the sector nationally since 2003. The Group has participated in the DIPO (Italian database of operational losses) project launched by the Italian Banking Association to exchange loss data in the sector since it commenced;
- a system for measuring economic and supervisory capital to calculate the absorption of supervisory capital by operational risk for each business unit using a standardised and AMA approach. The measurement of operational risk using the AMA system, currently subject to authorisation, is of the “loss distribution approach” type and it was developed within the Risk Management Area using the SAS OpRisk VaR and SAS calculation engines, integrating the sources of information mentioned in previous points (internal and external loss and self risk assessment scenarios) by employing the Bayesian method.

A reporting system has been implemented to support the monitoring of operational risks which furnishes the information needed for proper management, measurement and mitigation of the levels of risk assumed by the Group.

That system is structured with the same levels of responsibility employed by the organisational model to support the multiple information requirements intrinsic to the federal model of Group organisation. The objective is to guarantee standardised information and allow periodic verification of the operational risks assumed as input for the definition of management strategies and objectives that are consistent with standard levels of acceptable risk.

Reporting to corporate bodies, the senior management of the Parent Bank and of the network banks and to the Operational Risks Committee is periodically performed centrally by the

Operational Risks Service. It includes an analysis at differing degrees of detail and with differing frequencies (monthly/quarterly) according to requirements of the following: an analysis of data on internal losses and the relative recoveries together with a comparison with external data for the sector nationally; the results of the assessment of risk exposure with the identification of areas of vulnerability; and a description of the action needed to prevent and mitigate risk and of the relative effectiveness.

The UBI Banca Group renewed the insurance policies expiring at the end of 2008 to cover the principal transferable operational risks. It intends to use these to reduce its capital requirement by means of the AMA approach, bringing them into line with prudential supervisory regulations (Bank of Italy Circular No. 263/2006). The policies were taken out by UBI Banca in its own name and on behalf of the Network Banks and Product Companies of the Group concerned.

## **Second Pillar Risks**

### **Concentration risk**

Concentration risk is defined as risk resulting from exposures in the banking book to counterparties, groups of counterparties in the same economic sector or counterparties which carry on the same business or belong to the same geographical area.

The method of estimating it adopted by the Group, until a portfolio model for credit risk is developed, uses algorithms to determine a measurement of internal capital in a manner which takes account of the greater sensitivity of a more concentrated portfolio.

Concentration risk can be divided into two types, which use different calculation methodologies:

- single name concentration, which uses a regulatory approach with the calculation of Granularity Adjustment (GA);
- sector concentration risk, which uses the Italian Banking Association methodology to measure the impacts on internal capital caused by changes in sector concentration, as measured by the Herfindahl (Hs) index. The Group produces additional stress measurements, obtained by using specific coefficients to increase the adjusted rate of impairment characteristic of the Bank's portfolio.

### **Interest rate risk**

Interest rate risk is defined as the current or future risk of a change in net interest income and in the economic value of the Group following unexpected changes in interest rates which have an impact on the banking book.

The monitoring and management of structural interest rate risk - from fair value and from cash flow - is performed by the Risk Management Area of the Parent Bank and extends to include all interest rate sensitive banks and companies in the Group.

The strategic limits and operational limits on Group exposures are outlined by the Management and Supervisory Boards, to ensure compliance with legislation and strategic Group policy.

Exposure to interest rate risk is measured by using gap analysis and sensitivity analysis models on all those financial instruments, assets and liabilities, not included in the trading book, in accordance with supervisory regulations.

The methodologies employed for measuring interest rate risk are based on a static approach for positions and they are divided into gap analysis and sensitivity analysis. Sensitivity analysis of economic value is flanked by sensitivity analysis of net interest income which focuses on changes in profits in the following twelve months.

The Risk Management Area also monitors specific and macro hedges using derivative financial instruments for fixed rate and medium term loans, bonds and fixed rate deposits.

Further information on interest rate risk is given in Table 14.

### **Business risk**

Business risk is defined as the risk of adverse and unexpected changes in profits and margins with respect to forecasts, connected with volatility in volumes of business due to competitive pressures and market conditions.

The methodology used for calculating internal capital for business risk is based on the volatility of profits (by measurement of EaR – Earnings at Risk), calculated by applying a parametric approach, while stress tests are formulated by taking account of the performance of asset management funds, with a time horizon of twelve months.

### **Equity risk**

Equity risk is defined as the risk of losses incurred in the portfolio of equity instruments held by the Group in external companies not subject to consolidation.

The methodologies proposed for the measurement of equity risk are borrowed from market risk. The Group has chosen to calculate internal capital for this risk by using historical full evaluation of VaR.

The ICAAP Function performs stress tests similar to those employed for market risk, both on historical scenarios of extreme shocks and on hypothetical scenarios which consider specific adverse conditions for the Group equity portfolio.

### **Securitisation risk**

Securitisation risk is defined as the risk that the economic substance of a securitization transaction, for which the Group is the originator, is not fully reflected in risk assessment and management decisions;

The management and mitigation of risks resulting from securitisations are performed by applying a specific internal policy, set at Group level, in order to put processes and minimum internal requirements in place for the approval of new securitisation transactions.

### **Compliance risk**

Compliance risk is defined as the risk of incurring legal or administrative penalties, substantial financial losses or damage to reputation resulting from violations of laws and external regulations or internal regulations (e.g. by-laws, codes of conduct and voluntary codes).

Compliance risk runs right across the organisation because it results from incorrect compliance or failure to comply with laws, regulations, procedures and codes of conduct.

Activities in the UBI Group to identify, assess, monitor and report on compliance with laws, regulations and procedures, and also the methodologies used, are performed by the Compliance Function, on the staff of the General Manager. It highlights areas of vulnerability, draws up plans for corrective action and assesses their effectiveness.

### **Liquidity risk**

Liquidity risk relates to the ability or inability of the Group to meet its payment obligations and/or to raise additional funding (funding liquidity risk), or to the possibility that the amount obtained from the liquidation of some of its assets might be significantly different from the present market values (asset liquidity risk).

It is Group policy to maintain a low level of exposure to liquidity risk by employing a risk limit and management system based on gap analysis of cash flow (inflow and outflow) by residual maturity.

The primary objective of liquidity risk management is to meet payment obligations and to raise additional funding at a minimum cost and without jeopardising the future potential income.

At consolidated level, liquidity risk is regulated as part of the Policy for Financial Risk Management. Not only does the policy set exposure limits and early warning thresholds, it also sets rules designed to pursue and maintain structural balance in network banks and product companies by means of co-ordinated and efficient funding and lending policies.

Finally the objective of the policy is to standardise both the procedures for taking action and the criteria for identifying rates and charges across all Group member companies, identifying *a priori* any specific exceptions there may be.

The following are responsible for liquidity risk management:

- the Finance Area (1<sup>st</sup> level management) which monitors liquidity daily and manages risk on the basis of defined limits;
- the Risk Management Area (2<sup>nd</sup> level management), responsible for periodically verifying that limits are observed.

The main objective of the analysis is to measure the degree of cover for the liquidity requirement of the Group and individual companies.

Liquidity risk is monitored principally by using a liquidity gap model which calculates the net cash flows of the Group or of individual companies over time in order to detect any critical points in the expected liquidity conditions. The total liquidity requirement is calculated as the sum of the negative gaps (outflows greater than inflows) recorded for each individual time period. Any positive gaps found in a time period are used to reduce negative gaps in subsequent periods.

The liquidity requirement thus calculated is compared to the total available liquidity (consisting of assets that can be liquidated immediately and assets that can be easily liquidated) in order to determine the cover for the risk generated by a position.

Liquidity management also includes a stress testing programme drawn up by the UBI Banca Group as part of the project for the Second and Third Pillars of the Basel 2 programme. It is

designed to measure the effects on liquidity management of specific events (sensitivity analysis) or of the combined changes in a set of economic and financial variables, hypothesising adverse scenarios (scenario analysis).

The objectives of stress tests consist of assessing the vulnerability of the Group to exceptional but plausible events and they provide a better assessment of exposure to liquidity risk, of the systems for mitigating and monitoring them and of the length of the survival period under hypotheses of adverse scenarios.

Seven dimensions were identified in the creation of the scenarios, where changes in the dimensions have impacts of differing intensity on the determination of expected cash flows.

The scenarios are divided into three types:

- *ordinary operations*, with liquidity difficulties that are not acute and are controlled by countermeasures which fall within the scope of ordinary operations with no impact on budgets;
- *Group specific crises*, which involve resort to extraordinary countermeasures with intervention external to the Group itself;
- *entire market crises*.

Each scenario is assessed according to three different levels of gravity.

In addition to monitoring the net liquidity position and specific risk indicators, the Group has also adopted a contingency funding plan, as a risk mitigation instrument, to deal with liquidity crises, with the following characteristics:

- identification of signs of difficulty;
- definition of procedures and action strategies.

The primary purpose of the Contingency Funding Plan (CFP) is to protect the assets of the bank in situations of liquidity drainage by putting in place strategies to manage contingency situations and procedures to find sources of funding in cases of emergency.

The principal constituent features of the Group CFP are as follows:

- *trigger events* to activate the plan. Risk indicators and the relative early warning thresholds which have been identified are monitored daily: exceeding an early warning threshold (or a combination of more than one of these) and a limit set for a specific indicator triggers the CFP with the relative degree of emergency severity;
- *roles and responsibilities* of those involved in the CFP. The emergency plan consists of action strategies with a clear indication of the composition, roles and responsibilities of the liquidity management committee, the body responsible for managing an emergency;
- *emergency levels*. The level of emergency (low, medium, high) determines the composition of the liquidity management committee and the relative powers;
- *stress tests*. As part of CFP procedures, daily and monthly/quarterly stress tests are performed: the former are performed on the basis of specific short term (up to one month) liquidity risk related scenarios; the latter involve the definition of scenarios based on combinations of variables designed to assess the impact of a possible negative business cycle. The daily additional total liquidity requirement generated by the stress tests is calculated for the short term liquidity risk scenarios. Exceeding the early warning thresholds associated with the stress tests may trigger the contingency funding plan.

### **Reputational risk**

Reputational risk is defined as the risk of incurring losses resulting from a negative perception of the image of the bank by customers, counterparties, shareholders of the bank, investors, the supervisory authority or other stakeholders.

The manifestation of that risk results from interaction between reputation factors and variables, such as the environment, brands and image and communication processes.

The management and mitigation of reputation risk is performed by issuing internal regulations required by specific policies set at Group Level, which identify the areas in which it is most probable that events with tangible repercussions for reputational risk might manifest.

### **Residual risk**

Residual risk is defined as the risk of incurring losses resulting from the unforeseen ineffectiveness of credit risk mitigation techniques used by the Group.

The management and mitigation of this risk in the UBI Group is ensured by compliance with a specific policy which defines the processes designed to monitor general and specific requirements for the acquisition of collateral, with verification of compliance with supervisory requirements.

### **Strategic risk**

Strategic risk is defined as the current or future risk of a decline in profits or in capital as a consequence of failures resulting from changes in the business environment , inadequate implementation of decisions , or poor responsiveness to competitive developments .

Assessment of this risk is performed by the Integration Business Plan Function and by the Planning and Reporting Service and it focuses on large scale projects that are highly innovative with respect to established policies.

The Planning and Reporting Service prepares a monthly operating report containing analyses of gaps between budgeted and actual results for the main operating and capital performance indicators for the Group.

These analyses, together with those for monitoring changes in revenue and expense synergies, integration costs and the state of progress for Business Plan projects, are summarised in the quarterly report on results submitted to Management and Supervisory Board meetings.





## Table 2 - Scope of application

### *Qualitative information*

The bank to which the Pillar 3 disclosure obligations apply is UBI Banca Scpa, the Parent Bank of the co-operative banking group of the same name, listed on the Milan stock exchange and included in the S&P/MIB index. The content of this Pillar 3 Disclosure document relates to the prudential scope of consolidation (referred to as the so-called banking group), as defined by the supervisory regulations in force.

The prudential scope of consolidation includes:

- banks, financial and other operating companies that are directly or indirectly controlled by the parent bank which are subject to full consolidation;
- banks, financial and other operating companies in which an interest of 20% or greater is held, which are subject to proportionate consolidation.

Further prudential supervisory treatment involves the deduction from the supervisory capital of the value of subsidiaries and the addition of the value of equity investments to the risk weighted assets (RWA).

The prudential scope of consolidation used in this disclosure document differs from the statutory accounting scope of consolidation (determined by IAS/IFRS standards): this circumstance may generate differences between the sets of data presented in this document and those presented in the consolidated annual report for the same year.

There are no hindrances within the Group, either legal or substantial, which might prevent the rapid transfer of capital resources or funds.

In compliance with supervisory regulations<sup>2</sup>, as no capital deficiencies exist at consolidated level as at 31<sup>st</sup> December 2008, the individual capital requirement of the banks in the UBI Group is reduced by 25%.

The table below lists the consolidated companies, with an indication of the different treatment for statutory accounting and supervisory purposes.

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<sup>2</sup> With circular No. 263/06 the Bank of Italy states that “in banking groups, for Italian banks, individual capital requirements to meet credit, counterparty, market and operational risk are reduced by 25% provided that the supervisory capital at consolidated level is not less than the total supervisory capital requirement”.

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory accounting purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
<b>A.1 Fully consolidated companies</b>							
1. Unione di Banche Italiane Scpa - UBI Banca	Bergamo				Full	Full	Banking
2. Albenza 2 Srl	Milan				Full	RWA	Financial
3. Albenza 3 Srl	Milan				Full	RWA	Financial
4. Banca 24-7 Spa	Bergamo	1	UBI Banca Scpa	100,000%	Full	Full	Banking
5. Banca Carime Spa	Cosenza	1	UBI Banca Scpa	85,829%	Full	Full	Banking
6. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa Banco di Brescia Spa	74,244% 8,716%	Full	Full	Banking
7. Banca Lombarda Preferred Capital Company LLC	Delaware (USA)	1	UBI Banca Scpa	100,000%	Full	Full	Financial
8. Banca Lombarda Preferred Securities Trust	Delaware (USA)	1	UBI Banca Scpa	100,000%	Full	Full	Financial
9. UBI Banca Private Investment Spa	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Banking
10. Banca Popolare Commercio e Industria Capital Trust	Delaware (USA)	1	BPCI Funding Llc - USA	100,000%	Full	Full	Financial
11. Banca Popolare Commercio e Industria Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100,000%	Full	Full	Financial
12. Banca Popolare Commercio e Industria Spa	Milan	1	UBI Banca Scpa	83,361%	Full	Full	Banking
13. Banca Popolare di Ancona Spa	Jesi ( AN)	1	UBI Banca Scpa	99,294%	Full	Full	Banking
14. Banca Popolare di Bergamo Spa	Bergamo	1	UBI Banca Scpa	100,000%	Full	Full	Banking
15. Banca Regionale Europea Spa	Cuneo	1	UBI Banca Scpa	59,952%	Full	Full	Banking
16. Banco di Brescia Spa	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Banking
17. Banco di San Giorgio Spa	Genova	1	UBI Banca Scpa Banca Regionale Europea Spa	34,823% 56,332%	Full	Full	Banking
18. Banque de Depots et de Gestion Sa	Lausanne (Switzerland)	1	UBI Banca Scpa	100,000%	Full	Full	Banking
19. BDG Singapore Pte Ltd	Singapore	1	UBI Banca Scpa	100,000%	Full	Full	Financial
20. BPB Capital Trust	Delaware (USA)	1	BPB Funding Llc - USA	100,000%	Full	Full	Financial
21. BPB Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100,000%	Full	Full	Financial
22. BPB Immobiliare Srl	Bergamo	1	UBI Banca Scpa	100,000%	Full	Full	Instrumental
23. UBI Centrosystem Spa	Milan	1	UBI Banca Scpa	100,000%	Full	RWA	Instrumental
24. UBI Leasing Spa	Brescia	1	UBI Banca Scpa Banca Popolare di Ancona Spa	79,996% 18,997%	Full	Full	Financial
25. UBI Pramerica Alternative Investments SGR Spa	Milan	1	UBI Pramerica SGR Spa	92,750%	Full	Full	Financial
26. Capitalgest Alternative Investment SGR Spa	Brescia	1	UBI Pramerica SGR Spa	100,000%	Full	Full	Financial
27. Capitalgest Spa	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Financial
28. UBI Factor Spa	Milan	1	UBI Banca Scpa	100,000%	Full	Full	Financial
29. Centrobanca Spa	Milan	1	UBI Banca Scpa Banca Popolare di Ancona Spa	92,351% 5,471%	Full	Full	Banking
30. Centrobanca Sviluppo Impresa SGR Spa	Milan	1	Centrobanca Spa	100,000%	Full	Full	Financial
31. Coralis Rent Srl	Milan	1	Mercato Impresa Spa	100,000%	Full	RWA	Other
32. Coralis Travel In liquidazione Srl	Milan	1	Mercato Impresa Spa	100,000%	Full	RWA	Other
33. 24-7 Finance Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
34. FinanzAttiva Servizi Srl	Milan	1	UBI Banca Scpa	100,000%	Full	Full	Instrumental
35. Gestioni Lombarda Suisse Sa	Lugano ( Switzerland)	1	Banque de Depots et de Gestion Sa	100,000%	Full	Full	Financial
36. Investnet Holding N.V.	Amsterdam (Holland)	1	Investnet International Sa	100,000%	Full	Full	Other
37. Investnet International Sa	Luxembourg	1	IW Bank Spa	100,000%	Full	Full	Financial
38. Investnet Italia Spa	Milan	1	Investnet International Sa	100,000%	Full	Full	Other
39. Investnet Work Iberica Spa SE	Milan	1	Investnet Italia Spa	100,000%	Full	Full	Other
40. IW Bank Spa	Milan	1	UBI Banca Scpa Centrobanca Spa	18,903% 33,832%	Full	Full	Banking
41. Lombarda Lease Finance 2 Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
42. Lombarda Lease Finance 3 Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
43. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
44. UBI Management Company Sa	Luxembourg	1	UBI Banca International SA UBI Banca Private Investment Spa	1,000% 99,000%	Full	Full	Financial
45. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
46. Mercato Impresa Spa	Milan	1	UBI Banca Scpa	98,557%	Full	RWA	Other
47. UBI Finance Srl	Milan	1	UBI Banca Scpa	60,000%	Full	Full	Financial
48. Orio Finance Nr. 2 Plc	Dublin (Ireland)				Full	RWA	Financial
49. Orio Finance Nr. 3 Plc	Dublin (Ireland)				Full	RWA	Financial
50. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Instrumental
51. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	100,000%	Full	Full	Financial
52. Silf - Società Italiana Leasing e Finanziamenti Spa	Cuneo	1	UBI Banca Scpa	100,000%	Full	Full	Financial
53. Sintonia Finance Srl	Milan				Full	RM	Financial
54. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Instrumental
55. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100,000%	Full	Full	Financial
56. UBI Assicurazioni Spa	Milan	1	UBI Banca Scpa Banca Popolare di Ancona Spa	85,000% 15,000%	Full	Deducted from Sup. Cap.	Insurance

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory accounting purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
57. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa	92,027%	Full	Full	Banking
			Banco di Brescia Spa	3,347%			
			Banco di San Giorgio Spa	0,225%			
			Banca Popolare di Bergamo Spa	4,401%			
58. UBI Insurance Broker Srl	Bergamo	1	UBI Banca Scpa	100,000%	Full	RWA	Other
59. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	34,080%	Full	Full	Financial
			Capitalgest Spa	30,921%			
60. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10,000%	Full	Full	Financial
61. UBI Sistemi e Servizi Sepa	Brescia	1	UBI Banca Scpa	68,000%	Full	Full	Instrumental
			Banca Popolare di Bergamo Spa	4,000%			
			Banco di Brescia Spa	4,000%			
			Banca Popolare Commercio e Industria Spa	4,000%			
			Banca Popolare di Ancona Spa	4,000%			
			Banca Carime Spa	4,000%			
			Banca Regionale Europea Spa	4,000%			
			Banco di San Giorgio Spa	2,000%			
			Banca di Valle Camonica Spa	2,000%			
			UBI Banca Private Investment Spa	2,000%			
			Centrobanca Spa	1,000%			
			UBI Factor Spa	1,000%			

#### A.2 Proportionately consolidated companies

1. Barberini Sa	Brussels (Belgium)	2	UBI Banca Scpa	33,333%	Proportionate	Proportionate	Financial
2. UBI Trust Company Ltd	Jersey (Great Britain)	2	UBI Banca International SA	99,998%	Proportionate	Proportionate	Financial
3. By You Spa	Milan	2	UBI Banca Scpa	40,000%	Proportionate	Proportionate	Financial
4. By You Piemonte Srl	Ciriè (TO)	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
5. By You Mutui Srl	Milan	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
6. By You Liguria Srl	Genoa	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
7. By You Adriatica Srl	Bologna	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
8. By You Nord Srl	Milan	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
9. By You Centro Srl	Bologna	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
10. By You Sud Srl	Milan	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
11. Polis Fondi SGR Spa	Milan	2	UBI Banca Scpa	9,800%	Proportionate	Proportionate	Financial
12. Prestitalia Spa	Rome	2	Barberini SA	68,518%	Proportionate	Proportionate	Financial

#### A.3 Companies consolidated using the equity method

1. Arca SGR Spa	Milan	3	UBI Banca Scpa	23,124%	Equity method	Deducted from Sup. Cap.	Financial
			Banca Popolare di Ancona Spa	3,584%			
2. Aviva Vita Spa	Milan	3	UBI Banca Scpa	50,000%	Equity method	Deducted from Sup. Cap.	Insurance
3. Capital Money Spa	Milan	3	UBI Banca Scpa	20,000%	Equity method	Deducted from Sup. Cap.	Financial
4. Ge.Se.Ri. Spa in liquidazione	Cuneo	3	Banca Regionale Europea Spa	95,000%	Equity method	Deducted from Sup. Cap.	Financial
5. Group Srl	Milan	3	Centrobanca Spa	22,500%	Equity method	RWA	Other
6. Lombarda China Fund Management Co.	Shenzen (China)	3	UBI Banca Scpa	49,000%	Equity method	Deducted from Sup. Cap.	Financial
7. Lombarda Vita Spa	Brescia	3	UBI Banca Scpa	49,900%	Equity method	Deducted from Sup. Cap.	Insurance
8. Prisma Srl	Milan	3	UBI Banca Scpa	20,000%	Equity method	Deducted from Sup. Cap.	Other
9. Secur Broker Srl	Bergamo	3	UBI Insurance Broker	30,000%	Equity method	Deducted from Sup. Cap.	Other
			UBI Banca Scpa	10,000%			
10. SF Consulting Srl	Mantua	3	UBI Banca Scpa	35,000%	Equity method	RWA	Other
11. Sider Factor Spa	Milan	3	UBI Factor Spa	27,000%	Equity method	Deducted from Sup. Cap.	Financial
12. Sofipo Fiduciarie Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30,000%	Equity method	Deducted from Sup. Cap.	Financial
13. SPF Studio Progetti e servizi Finanziari Srl	Rome	3	Banca Popolare di Ancona Spa	25,000%	Equity method	RWA	Other
14. Tex Factor Spa	Milan	3	UBI Factor Spa	20,000%	Equity method	Deducted from Sup. Cap.	Financial
15. UBI Assicurazioni Vita Spa	Milan	3	UBI Assicurazioni Spa	49,999%	Equity method	Deducted from Sup. Cap.	Insurance

#### Key

Type of relationship

1 = Majority of voting rights in ordinary general meetings

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory accounting purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			

2 = Joint control

3 = Significant influence

## Table 3 - Supervisory capital structure

### Qualitative information

Supervisory capital is calculated on the basis of capital amounts and profit determined by applying the IAS/IFRS international accounting standards in accordance with Circular No. 263/06 and the twelfth update of Circular No. 155/91 (*Instructions for compiling supervisory capital reports and capital ratios*) both issued by the Bank of Italy.

Supervisory capital is calculated as the algebraic sum of a series of positive and negative items, which are considered eligible for inclusion – with or without limitations – in relation to the ‘quality’ of the capital. The amount of those items is considered net of any tax liabilities. Positive components of the capital must be fully available to the Bank, so that they can be used without restrictions to cover risks to which the intermediary is exposed.

Supervisory capital is composed of tier 1 capital and tier 2 capital, net of “prudential filters”<sup>3</sup> and some deductions.

In detail:

- tier 1 capital includes paid up share capital, share premiums, reserves (considered prime quality items), non innovative instruments (not present in the UBI Group) and innovative capital instruments, profit for the period, net of the part destined for distribution as dividends and other forms of distribution and positive prudential filters (termed positive elements of tier 1 capital). Own shares held in portfolio, goodwill, intangible fixed assets, prior and current year losses, other negative items and negative<sup>4</sup> prudential filters for tier 1 capital (termed negative elements of tier 1 capital) are deducted from the total of those items. The algebraic sum of the positive and negative components of the tier 1 capital constitutes the “tier 1 capital before items to be deducted”. Tier 1 capital is constituted by the difference between the “tier 1 capital before items to be deducted” and “items to be deducted from tier 1 capital”.
- tier 2 capital comprises – with some limits on eligibility for inclusion – the valuation reserves, non innovative capital instruments not eligible for inclusion in the tier 1 capital, innovative capital instruments not eligible for inclusion in the, hybrid capital

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<sup>3</sup> Prudential filters are corrections made to equity items in the balance sheet made to safeguard the quality of the supervisory capital and to reduce potential volatility induced by the application of IAS/IFRS international accounting standards. With regard to those prudential filters that are most important to the UBI Group, the regulations state that unrealised gains and losses on available-for-sale financial assets are divided between equity securities (inclusive of collective investment instruments) and debt securities. For each of these aggregates, if the reserve in question is negative it reduces the tier 1 capital and if it is positive the supplementary capital is increased by 50% of the reserve.

<sup>4</sup> Inclusive of the negative prudential filter pursuant to Bank of Italy circular No. 256030 of 11/03/2009 designed to dilute over time the impact on the income statement generated by the tax relief on goodwill.

instruments, tier 2 subordinated liabilities, other positive elements and positive prudential filters (termed positive elements of tier 2 capital). Other negative items and negative tier 2 prudential filters (termed negative elements of tier 2 capital) are deducted from the total of those items.

Fifty percent of each interest of greater than 10% held in the share capital (those less than that threshold are summed and compared with 10% of tier 1 capital + tier 2 capital, deducting only that part that exceeds it) of banks and financial companies (to which the following is added: innovative and non innovative capital instruments, hybrid capital instruments and the subordinated instruments issued by them if they are eligible for inclusion in the supervisory capital of the issuers themselves) is deducted from “tier 1 capital before items to be deducted” and from “tier 2 capital before items to be deducted”. That same calculation is performed for equity investments (> 20%) in insurance companies and for subordinated liabilities issued by them (until 31/12/2012 equity investments in insurance companies acquired before 20/07/2006 and the relative subordinated liabilities can be deducted from the total of “tier 1 capital + tier 2 capital”).

Tier 1 capital is fully eligible for inclusion in the supervisory capital. Non innovative capital instruments can be included in tier 1 capital up to a limit of 20 percent of the “tier 1 capital before items to be deducted”, inclusive of the non innovative instruments themselves and the innovative instruments. The latter, which are different from the non innovative instruments that they have automatic “step-up” clauses which adjust the rate of remuneration (connected with redemption rights or other clauses designed to incentivise redemption by the issuer) must be contained within a limit of 15 percent of the amount of tier 1 capital inclusive of the latter instruments themselves only. Any excess may be included in tier 2 capital on a par with hybrid capital instruments.

Tier 2 capital is eligible for inclusion in the supervisory capital up to a maximum amount that is equal to the tier 1 capital before deductions. Subordinated liabilities are included in tier 2 capital up to a maximum limit that is equal to 50 percent of the tier 1 capital before deductions.

The table below summarises the main contractual characteristics of the innovative instruments which, together with the share capital and reserves, are included in the calculation of tier 1 capital and also of the hybrid capital instruments and the tier 2 subordinated liabilities which contribute to tier 2 capital.

	ISSUER		TYPE OF ISSUE	COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2008	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL
<b>TIER 1 CAPITAL</b>	<b>BPB CAPITAL TRUST</b>		1 2001/perpetual - mixed rate Currency euro	Until 2010 fixed rate of 8,364% and subsequently floating rate Euribor 3 months + 4,60%	perpetual	Call 15-02-2011	300.000	323.337	300.000
	<b>BANCA LOMBARDA PREFERRED SECURITIES TRUST</b>	<b>Innovative capital instruments</b>	2 2000/perpetual - mixed rate Currency euro	Until 2010 fixed rate of 8,17% and subsequently floating rate with Euribor 3 months +3,375%	perpetual	Call 20-03-2010	155.000	165.932	155.000
	<b>BPCI CAPITAL TRUST</b>		3 2001/perpetual - mixed rate Currency euro	9,00% until 10 <sup>th</sup> year Euribor 3 months + 5,40% from year 11	perpetual	Call 27-06-2011	115.000	119.682	115.000
<b>SUPPLEMENTARY CAPITAL</b>	<b>UNIONE DI BANCHE ITALIANE</b>	<b>Ordinary subordinated bond issues (Lower Tier II)</b>	4 2006/2016 - floating rate EMTN ISIN XS0259653292 Currency euro	Quarterly Euribor 3M + 0,50% for years 1-5 Euribor 3M + 1,10% for years 6-10	30-06-2016	Call 30-06-2011	300.000	299.332	299.307
			5 2005/2015 - floating rate EMTN ISIN XS0237670319	Quarterly Euribor 3M + 0,40% for years 1-5 Euribor 3M + 1,00% for years 6-10	07-12-2015	07-12-2010	500.000	500.760	498.825
			6 2004/2014 - floating rate ISIN IT0003754949 Currency euro	Half year Euribor 6M + 0,125% for years 1-5 Euribor 6M + 0,725% for years 6-10	23-12-2014	23-12-2009	110.979	108.533	109.556
			7 2004/2014 - floating rate ISIN IT0003723357 Currency euro	Half year Euribor 6M + 0,125% for years 1-5 Euribor 6M + 0,725% for years 6-10	22-10-2014	22-10-2009	139.021	133.687	133.639
			8 2008/2015 - floating rate ISIN IT0004424435 Currency euro	Quarterly Euribor 3M + 0,85%	28-11-2015		599.399	588.514	599.389
			9 2006/2018 - variable rate EMTN ISIN XS0272418590 Currency euro	Quarterly Euribor 3M + 0,50% for years 1-7 Euribor 3M + 1,10% for years 8-12	30-10-2018	Call 31-10-2013	300.000	301.946	299.079
			10 2004/2014 - variable rate EMTN ISIN XS0195722003 Currency euro	Quarterly Euribor 3M + 0,45% for years 1-5 Euribor 3M + 1,05% for years 6-10	30-06-2014	30-06-2009	250.000	250.187	249.290
			11 2006/2016 - floating rate EMTN ISIN XS0278107999 Currency euro	Quarterly Euribor 3M + 0,40% for years 1-5 Euribor 3M + 1,00% for years 6-10	19-12-2016	19-12-2011	200.000	200.062	199.726

ISSUER	TYPE OF ISSUE		COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2008	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL	
	<b>Ordinary subordinated bond issues (Upper Tier II)</b>	12	2000/2010 - fixed rate EMTN ISIN XS0108245167 Currency euro	Fixed rate 6,875%		350.000	383.993	350.000	
		13	1999/2009 - floating rate EMTN ISIN XS0099052275 Currency euro	Quarterly Euribor 3M + 1,05%	30-06-2009		100.000	100.349	99.840
<b>BANCO DI BRESCIA</b>	<b>Ordinary subordinated bond issues (Lower Tier II)</b>	14	2002/2009 floating rate ISIN IT0003403224 Currency euro	Euribor 3 months + 0,40% for the first 5 years, + 0,50% for subsequent years	12-12-2009	24.994	25.051	5.000	
<b>BANCA POPOLARE DI BERGAMO</b>	<b>Hybrid capital instruments (Upper Tier II)</b>	15	2001/2012 - floating rate ISIN IT0003210074 Currency euro listed in Milan	Quarterly Euribor 3M + spread between 0,80% and 1%	18-06-2012	No provision	250.000	250.401	250.000
<b>BANCA CARIME</b>	<b>Hybrid capital instruments (Upper Tier II)</b>	16	2002/2012 - fixed rate 6% ISIN IT0003302863 Currency euro	Half yearly fixed rate 6%	25-06-2012	No provision	164.000	164.570	163.597
<b>BANCA POPOLARE DI ANCONA</b>	<b>Ordinary subordinated bond issues (Lower Tier II)</b>	17	2001/2009 - floating rate ISIN IT0003199939 Currency euro	Quarterly Euribor 3M + 0,175% for years 1-5 Euribor 3M + 0,40% for years 6-8	14-12-2009	Not exercised	99.806	99.998	20.000
<b>TOTAL</b>						<b>3.958.199</b>	<b>4.016.334</b>	<b>3.847.248</b>	



## Quantitative information

The table below gives details of the items of which the supervisory capital is composed.

COMPOSITION OF SUPERVISORY CAPITAL	Amount
<b>TIER 1 CAPITAL</b>	
<b>- Positive elements</b>	
- Share capital	2.151.518
- Share premiums	7.147.058
- Reserves	2.559.710
- Non innovative capital instruments	-
- Innovative capital instruments	570.000
- Net profit for the period	40.116
- Prudential filters: increases in tier 1 capital:	-
- Fair value option: changes in its credit worthiness	-
- Reimbursable shares	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-
- Other positive prudential filters	1.281
<b>- Total positive elements of tier 1 capital</b>	<b>12.469.683</b>
<b>- Negative elements</b>	
- Own shares or quotas	-
- Goodwill	4.378.547
- Other intangible fixed assets	859.805
- 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	-
- Prudential filters: deductions from tier 1 capital	-
- Fair value option: changes in its credit worthiness	-
- Negative reserves on available-for-sale securities	-
- Equity instruments and units in O.I.C.R (collective investment instruments)	3.939
- Debt securities	123.069
- Cumulative net gains on property, plant and equipment	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-
- Other negative filters	54.718
<b>- Total negative elements of tier 1 capital</b>	<b>5.420.078</b>
<b>- Tier 1 capital before items to be deducted</b>	<b>7.049.605</b>

COMPOSITION OF SUPERVISORY CAPITAL	Amount
<b>TIER 1 CAPITAL – ELEMENTS TO BE DEDUCTED</b>	
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the entity invested in	-
- shareholdings	23.088
- Non innovative capital instruments	-
- Innovative capital instruments	-
- 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 entity invested in	-
- Shareholdings	11.844
- Non innovative capital instruments	-
- Innovative capital instruments	-
- Hybrid capital instruments	-
- Subordinated instruments	-
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the entity invested in	-
- Shareholdings	-
- Non innovative capital instruments	-
- Innovative capital instruments	-
- Hybrid capital instruments	-
- Subordinated instruments	-
- Equity investments in insurance companies	-
- Equity investments	64.906
- Subordinated instruments	5.046
- Expected losses in excess of total impairment losses	-
- Deductions resulting from securitisations	-
- Deductions relating to settlement risks on DVP transactions	-
<b>- Total elements to be deducted</b>	<b>104.883</b>
<b>TIER 1 CAPITAL</b>	<b>6.944.723</b>
<b>TIER 2 CAPITAL</b>	
<b>- Positive elements</b>	
- Valuation reserves	120.963
- Non innovative capital instruments not eligible for inclusion in tier 1 capital	-
- Innovative capital instruments not eligible for inclusion in tier 1 capital	-
- Hybrid capital instruments	863.437
- Tier 2 subordinated liabilities	2.413.811
- Excess of total net impairment losses over expected losses	-
- Net gains on equity investments	-
- Other positive elements	-
- Prudential filters: increases in the supplementary capital:	-
<b>- Total positive elements of tier 2 capital</b>	<b>3.398.211</b>
<b>- Negative elements</b>	
- Net losses on equity investments	-
- Loans	-
- Other negative elements	18.841
- Prudential filters: deductions from supplementary capital	-
<b>- Total negative elements of tier 2 capital</b>	<b>18.841</b>
<b>- Tier 2 capital before items to be deducted</b>	<b>3.379.370</b>

COMPOSITION OF SUPERVISORY CAPITAL	Amount
<b>TIER 2 CAPITAL – ITEMS TO BE DEDUCTED</b>	
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the entity invested in	23.088
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the entity invested in	11.844
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the entity invested in	-
- Equity investments in insurance companies:	69.951
- Excess of expected losses over total net impairment losses	-
- Deductions resulting from securitisations	-
- Deductions relating to settlement risks on DVP transactions	-
<b>- Total elements to be deducted</b>	<b>104.882</b>
<b>TIER 2 CAPITAL</b>	<b>3.274.488</b>
<b>ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 CAPITAL</b>	<b>258.399</b>
<b>SUPERVISORY CAPITAL</b>	<b>9.960.812</b>
<b>TIER 3 CAPITAL</b>	-
<b>SUPERVISORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL</b>	<b>9.960.812</b>



## Table 4 - Capital adequacy

### *Qualitative information*

The new supervisory instructions for banks issued by the Bank of Italy (Circular No. 263/06) underline the importance of internal processes for assessing capital adequacy. The regulations state that banks must define a process designed to determine their total capital adequacy, in present and future terms, needed to meet all significant risks (i.e. ICAAP). The senior management of the UBI Group immediately recognised the crucial role played by ICAAP and in October 2007 it set up an ICAAP Function as part of the Capital Management Service within the Risk Capital & Policies Area. The ICAAP Function was given responsibility for activities connected with the process for assessing the present and future capital adequacy requirement.

In this context the UBI Group places particular attention, in the oversight and management of its capital adequacy, to the dimensions and optimum combinations of different capital instruments in order to ensure that its capital structure is consistent with its risk appetite, as defined later in this document. More specifically, the Parent Bank, UBI Banca, which performs supervision and co-ordination activities for the companies in the Group, assesses capitalisation requirements in both the strict sense and also through the issuance of subordinated liabilities or hybrid capital instruments of subsidiaries. The senior management of the Parent Bank submits proposals to its governing bodies which decide accordingly. The proposals, once approved by the governing bodies of the Parent Bank, are then submitted to the competent bodies of the subsidiaries. The Parent Bank analyses and co-ordinates capital requirements on the basis of the Group development plan, the related risk profiles and in compliance with supervisory constraints, and it acts as a privileged counterparty in gaining access to capital markets applying an integrated approach to optimising capital size.

The capital adequacy assessment process commences with the definition and details of the risk profile (risk appetite) of the Group. This represents the starting point because it contributes to the definition of strategic positioning, by outlining the main aspects of the risk appetite on the basis of risk measurement, monitoring and management processes. More specifically it defines: the governance rules with regard to ICAAP; the strategic positioning objectives also in terms of standard indicators; the risks to which the Group is exposed; the allocation of capital to the different types of risk and guidelines for mitigating risk and the translation of risk appetite into operational limits.

The risk appetite of UBI Banca is defined in such a manner as to be consistent with its mission, strategy and business and value creation objectives. The definition includes the following quantitative and qualitative factors:

- from a quantitative viewpoint, the risk appetite is given by the amount of capital that the Bank is willing to put at risk and it helps to define the strategic positioning of the Group;
- from a qualitative viewpoint, risk appetite relates to the Group's desire to strengthen its management and monitoring systems and the efficiency and effectiveness of its system of internal controls.

The procedures for defining the UBI Group's risk appetite are based:

- on the capital ratio objectives set in the Integration Business Plan and the relative supervisory capital requirements set by the supervisory authority;
- on the determination of rating targets, or in other words the probability of default that the bank is implicitly willing to accept in terms of total internal capital;
- on the minimisation of the possible impacts resulting from risks, pursued by adopting appropriate policies, rigorous organisational controls, measurement methodologies and mitigation tools. With regard to non measurable risks in particular, the Group aims at strengthening its organisational and IT structures and controls.

The following analysis metrics are used to assess risks:

- *internal capital*, defined as the capital requirement for a determined risk that the Group considers necessary to cover losses above a given expected level;
- *total internal capital*, defined as internal capital required for all significant risks assumed by the Group, including possible internal capital requirements due to considerations of a strategic character;
- *supervisory capital*, i.e. the total capital requirement as defined by supervisory regulations, calculated as the sum of single requirements relating to First Pillar risks.

The following analysis metrics are used from the viewpoint of capital management to cover risks:

- *supervisory capital*, defined as a regulatory measurement of capital – specified in regulations – to be held to cover capital requirements;
- *total capital*, defined as the sum of capital elements that the Group considers can be used to cover internal capital and total internal capital requirements.

The supervisory capital is compared with the total capital requirement to verify the achievement of objects expressed in terms of capital ratios. The total capital is compared with total internal capital to verify the achievement of objectives expressed in terms of rating targets.

The individual risks to be subjected to ICAAP assessment have been identified on the basis of the operations of the UBI Group and its characteristics; they are illustrated in Table 1 of this document.

The level of absorption of internal capital and the assessment of capital adequacy are estimated on the basis of the current situation and the outlook for the future. The ICAAP Function supplements its report on total current internal capital quarterly in its general risk report submitted to the Management Committee and to the governing Boards.

With regard to forecasting, the ICAAP Function contributes to the preparation of budgets and the Business Plan, by calculating consolidated capital requirements on the basis of profit and financial projections and by recalculating capital ratios in order to verify their consistency with target ratio objectives set by the Group's risk appetite.

As part of the project to update the Business Plan, extending it to 2011, the ICAAP Function has been involved mainly in the definition of specific stress test models relating to credit risk. These are designed to determine not only the expected loss resulting from adverse economic events, but also the internal capital, to be compared with the supervisory capital set in the plan.

As concerns the supervisory capital adequacy ratios, the core tier 1 (core tier 1 capital/risk weighted assets) and the total capital (total supervisory capital/risk weighted assets) ratios in particular are subject to detailed planning and monitoring both at consolidated level and that of the main individual legal entities.

The management of ratios is performed through intervention on risk weighted assets and capital (core tier 1 capital, tier 2 capital, supervisory capital, etc.), by using partially different approaches.

*Risk Weighted Assets (RWA).* The objective with RWA is to position management of it as close as possible to ordinary operations, in order to put a process of structural improvement in place from which current and future absorption of capital benefits, but which also improves the basic risk profile of the Group at the same time.

*Core tier 1 capital.* Since intervention on the core component of the supervisory capital is generally of an extraordinary nature, the management of this item is performed mainly through careful planning and systematic *ex ante* assessment of the impacts of capital ratios on operations.

*Tier2 and tier 3 capital.* While the management of RWA is performed mainly through ordinary activities and the management of core capital is influenced primarily by extraordinary operations, the optimisation of tier 2 capital can be classified as in a category half way between the two. It involves decisions which affect capital structure in the medium-to-long term. More specifically, particular attention is paid to the maturities of subordinated bonds, with action taken to replace them or add to them in the light of market conditions, the cost of new issues and the impact on capital ratios, on the basis of the eligibility of the instrument.

Finally, in compliance with the new supervisory instructions mentioned, on 31<sup>st</sup> October 2008 the UBI Group filed its first consolidated report on its capital adequacy (ICAAP report) with the Bank of Italy for its position as at 30<sup>th</sup> June 2008. It is due to file its ICAAP report for the position as at 31<sup>st</sup> December 2008 to the supervisory authority by 30<sup>th</sup> April 2009.

## Quantitative information

CAPITAL ADEQUACY	Capital requirement
<b>A. SUPERVISORY CAPITAL</b>	
<b>Credit and counterparty risk</b>	
<i>Standardised approach</i>	
Exposures to or guaranteed by central governments and central banks	-
Exposures to or guaranteed by regional government and local authorities	7.814
Exposures to or guaranteed by non commercial and public sector entities	72.014
Exposures to or guaranteed by multilateral development banks	-
Exposures to or guaranteed by international organisations	-
Exposures to or guaranteed by supervised intermediaries	150.550
Exposures to or guaranteed by corporates	3.278.323
Retail exposures	1.464.243
Exposures secured by real estate property	823.706
Past due exposures	242.370
High risk exposures	61.171

CAPITAL ADEQUACY	Capital requirement
Exposures in the form of covered bonds	-
Short term exposures to supervised intermediaries and corporates	-
Exposures to or secured by OICR (collective investment undertakings)	16.597
Other exposures	315.954
Securitisations	24.127
<b>Total credit and counterparty risk</b>	<b>6.456.869</b>
<b>Market risk</b>	
<i>Standardised approach</i>	
Assets included in the supervisory trading portfolio:	
- position risk	138.343
- supervisory risk	-
- concentration risk	-
Other assets:	
- currency risk	67.461
- position risk in commodities	38
<b>Total market risk</b>	<b>205.842</b>
<i>Operational risk</i>	
Standardised approach	
Basic indicator approach	53.511
Standardised approach	475.124
<b>Advanced measurement approach</b>	-
<b>Total operational risk</b>	<b>528.635</b>
<b>B. SUPERVISORY RATIOS</b>	
<b>Core Tier 1 ratio</b> before specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	7,21%
<b>Core Tier 1 ratio</b> after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	7,09%
<b>Tier 1 ratio</b> (tier 1 capital/risk weighted assets)	7,73%
<b>Total capital ratio</b> [(tier 2 capital+ qualifying tier 3 capital)/risk weighted assets]	11,08%



## Table 5 - Credit risk: general disclosures for all banks

### *Qualitative information*

The classification of the problem loan portfolio complies with supervisory regulations and can be summarised as follows:

- in arrears continuously for more than 180 days;
- restructured positions;
- impaired loans;
- non performing loans.

The term “in arrears continuously for more than 180 days” (past due exposures) refers to exposures other than non performing, impaired and restructured positions which are past due or in arrears for more than 180 days as at the balance sheet date.

“Restructured positions” are exposures for which changes have been made to the original contracted terms and conditions (e.g. rescheduling of the terms, reduction of the debt and/or interest) which gave rise to a loss, because of the deterioration in the financial and economic conditions of the debtor.

“Impaired loans” are exposures towards counterparties in temporary situations of objective difficulty which it is considered can be overcome in an appropriate period of time.

“Non performing loans” are exposures to parties that are insolvent (even if not declared by the courts) or in equivalent conditions, independently of any forecasts of losses made by the bank. This is therefore regardless of the existence of any guarantees or collateral to secure the loans.

The management of problem loans is performed on the basis of the level of risk. It is performed by the Problem Loan Units of individual banks for “loans continuously in arrears for more than 180 days”, for “operationally impaired loans” and “restructured loans”, while “impaired” and “non performing” positions are managed by the Credit Recovery Area of the Parent Bank, where the process of centralising the management of these problem loans was completed in the first quarter of 2008.

Assessment of the appropriateness of impairment recognised is performed on a case by case basis for individual positions to ensure adequate levels of cover for expected losses. The analysis of deteriorated exposures is performed continuously by the single operational units which manage risks and by the Parent Bank. The resolution of difficulties by counterparties is a determining factor for the return of positions to “performing” status. This event occurs principally and above all for accounts which are “continuously in arrears for more than 180 days” and for “operationally impaired” accounts.

The valuation of non performing loans (loans which, according to Bank of Italy definitions, are non performing, impaired, restructured and past due) is performed on a case-by-case basis.

The method for determining the write-downs to be made to non performing loans is based on discounting expected future cash flows for principal and interest, taking account of any guarantees attached to positions and of any advances received. The basic elements for determining the present value of cash flows are the identification of the estimated receipts, the relative maturity dates and the discount rate to apply. The magnitude of the loss is equal to the difference between the recognised value of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

The procedures employed for calculating impairment losses on non performing loans involve valuation of the financial and capital position of debtors and individual guarantors. They take account of the following:

- the existence of real estate or other property on which claims may be made, net of any other existing liens;
- the ability to repay debts considering them as a whole together with the resources available to meet the relative commitments.

The analysis is conducted using data acquired from mortgage and land registers, the *centrale dei rischi* (central credit register), filed financial statements, information obtained from third parties and the documentation presented by borrowers and guarantors.

As concerns non performing loans, the main situations encountered are as follows:

- creditor actions:
  - bankruptcy, forced administration, extraordinary administration;
  - composition with creditors;
- real estate property foreclosures;
- moveable property foreclosures;
- ordinary revocation action (fraudulent transfer).

Net impairment losses are recognised on a case by case basis, taking account of the potential amounts recoverable according to calculations made by the Credit Recovery Area.

At each balance sheet date or when interim reports are prepared, any objective evidence that a financial asset or group of financial assets has suffered impairment in value is assessed. This circumstance occurs when it is probable that the bank may not be able to collect amounts due on the basis of the original contracted conditions or, for example, in the presence of:

- significant financial difficulties of the issuer or debtor;
- an infringement of the contract such as default or failure to pay interest or repay principal;
- the lender, because of the economic or legal factors relating to the financial difficulties of the debtor, granting a concession to the latter which the lender would not otherwise have considered;
- the probability of the beneficiary declaring procedures for loan restructuring;
- the disappearance of an active market for that financial asset due to financial difficulties;
- available data which indicate a substantial decrease in expected future cash flows for a similar group of financial assets since the time of the initial recognition of those assets, although the decrease cannot yet be identified with the single financial assets of the group.

The valuation of performing loans relates to portfolios for which no objective evidence of impairment exists and which are therefore valued collectively, by grouping them in homogeneous risk classes.

The calculation methodologies used for Network Banks are different from those used by the main Product Companies of the Group. More specifically the Network Banks apply methodologies for loans to customers based on Probability of Default (PD) and (LGD) Loss Given Default, estimates of which were recently updated following the IT integration process completed in October. Further refinements and updates will take place in the first half of 2009, on the basis of work plans defined as part of the Basel 2 project in order to comply with the requirements contained in the new supervisory instructions for banks.

The approach currently used for those Product Companies most subject to credit risk is that based on deterioration rates (Centrobanca, B@nca 24/7 and UBI Leasing) and on external estimates of LGD (internal estimates in the case of UBI Leasing). In order to better reflect current uncertainty on credit markets, it was decided to prudentially refine the methodological approach for Centrobanca and B@nca 24/7 by using deterioration rates based on a definition of default which included changes in classification between performing, impaired and non performing. For UBI Leasing, which still uses a more limited definition of default based on non performing loans only, it is planned to broaden the definition of default in 2009, with a similar correction applied to the LGD parameter.

## Quantitative information

### Gross credit exposures, by principal types of exposure

	GROSS CREDIT EXPOSURES						Total
	Non performing loans	Impaired loans	Restructured exposures	Past due exposures	Country risk	Other assets	
1. Financial assets held for trading	3.814	870	-	268	59.282	2.295.701	2.359.935
2. Available-for-sale financial assets	-	-	94	-	-	3.979.978	3.980.072
3. Held-to-maturity financial assets	-	-	-	-	-	1.630.844	1.630.844
4. Loans to banks	72	-	-	-	33.358	2.866.027	2.899.457
5. Loans to customers	1.861.450	1.374.687	142.212	211.148	6.041	94.158.897	97.754.435
6. Financial assets at fair value	-	-	-	-	326.397	133.760	460.157
7. Financial assets held for disposal	-	-	-	-	-	13.439	13.439
8. Hedging derivatives	-	623	-	3	20	791.752	792.398
<b>Total (T)</b>	<b>1.865.336</b>	<b>1.376.180</b>	<b>142.306</b>	<b>211.419</b>	<b>425.098</b>	<b>105.870.398</b>	<b>109.890.737</b>

### Distribution by geographical areas of exposures to customers, by principal types of exposure

	DISTRIBUTION BY GEOGRAPHICAL AREAS OF EXPOSURES TO CUSTOMERS, BY PRINCIPAL TYPES OF EXPOSURE									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.
<b>A. On balance sheet exposures</b>										
A.1 Non performing loans	1.818.209	817.746	29.089	22.416	19.260	3.757	117	-	533	148
A.2 Impaired loans	1.351.361	1.139.065	22.511	13.380	62	57	-	-	1.803	1.060
A.3 Restructured exposures	140.965	101.746	765	764	-	-	-	-	478	142
A.4 Past due exposures	211.255	201.819	161	160	-	-	-	-	-	-
A.5 Other transactions	96.033.612	95.601.691	2.929.834	2.925.206	906.777	906.226	22.114	22.106	384.129	384.129
<b>Total</b>	<b>99.555.402</b>	<b>97.862.067</b>	<b>2.982.360</b>	<b>2.961.926</b>	<b>926.099</b>	<b>910.040</b>	<b>22.231</b>	<b>22.106</b>	<b>386.943</b>	<b>385.479</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Non performing loans	12.523	8.738	1	1	-	-	-	-	-	-
B.2 Impaired loans	51.369	46.216	-	-	-	-	-	-	-	-
B.3 Other impaired assets	16.657	16.094	-	-	-	-	-	-	-	-
B.4 Other exposures	14.818.098	14.791.143	871.554	871.371	209.258	209.240	340	340	330	330
<b>Total</b>	<b>14.898.647</b>	<b>14.862.191</b>	<b>871.555</b>	<b>871.372</b>	<b>209.258</b>	<b>209.240</b>	<b>340</b>	<b>340</b>	<b>330</b>	<b>330</b>
<b>Total (T)</b>	<b>114.454.049</b>	<b>112.724.258</b>	<b>3.853.915</b>	<b>3.833.298</b>	<b>1.135.357</b>	<b>1.119.280</b>	<b>22.571</b>	<b>22.446</b>	<b>387.273</b>	<b>385.809</b>

## Distribution by geographical areas of exposures to banks, by principal types of exposure

	DISTRIBUTION BY GEOGRAPHICAL AREAS OF EXPOSURES TO BANKS, BY PRINCIPAL TYPES OF EXPOSURE									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.
<b>A. On balance sheet exposures</b>										
A.1 Non performing loans	22	20	50	45	-	-	-	-	-	-
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Other transactions	3.522.704	3.515.604	763.533	763.533	79.590	79.590	9.585	9.585	64.066	64.066
<b>Total</b>	<b>3.522.726</b>	<b>3.515.624</b>	<b>763.583</b>	<b>763.578</b>	<b>79.590</b>	<b>79.590</b>	<b>9.585</b>	<b>9.585</b>	<b>64.066</b>	<b>64.066</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	700	700	-	-	-	-	-	-
B.4 Other exposures	4.196.491	4.192.491	800.413	800.413	84.513	84.513	28.318	28.318	10.287	10.287
<b>Total</b>	<b>4.196.491</b>	<b>4.192.491</b>	<b>801.113</b>	<b>801.113</b>	<b>84.513</b>	<b>84.513</b>	<b>28.318</b>	<b>28.318</b>	<b>10.287</b>	<b>10.287</b>
<b>Total (T)</b>	<b>7.719.217</b>	<b>7.708.115</b>	<b>1.564.696</b>	<b>1.564.691</b>	<b>164.103</b>	<b>164.103</b>	<b>37.903</b>	<b>37.903</b>	<b>74.353</b>	<b>74.353</b>

## Distribution by economic sector of exposures, by principal types of exposure

	DISTRIBUTION BY ECONOMIC SECTOR OF EXPOSURES, BY TYPE OF COUNTER PARTY											
	Governments and Central Banks		Other public authorities		Financial companies		Insurance companies		Non financial companies		Other	
	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.
<b>A. On balance sheet exposures</b>												
A.1 Non performing loans	-	-	412	233	36.330	8.578	129	96	1.150.691	556.818	679.752	278.343
A.2 Impaired loans	-	-	2.263	2.128	34.179	23.592	-	-	857.541	721.070	481.740	406.772
A.3 Restructured exposures	-	-	-	-	1.708	1.206	-	-	132.819	97.420	7.680	4.026
A.4 Past due exposures	-	-	45	45	1.474	1.447	-	-	108.486	102.516	101.411	97.971
A.5 Other exposures	1.687.483	1.687.333	845.885	845.885	8.287.838	8.270.726	142.695	142.660	51.278.693	51.044.110	38.029.641	38.011.557
<b>Total</b>	<b>1.687.483</b>	<b>1.687.333</b>	<b>848.605</b>	<b>848.291</b>	<b>8.361.529</b>	<b>8.305.549</b>	<b>142.824</b>	<b>142.756</b>	<b>53.528.230</b>	<b>52.521.934</b>	<b>39.300.224</b>	<b>38.798.669</b>
<b>B. Off-balance sheet exposures</b>												
B.1 Non performing loans	-	-	-	-	12	12	-	-	12.219	8.863	293	266
B.2 Impaired loans	-	-	-	-	1.970	1.941	-	-	47.263	41.880	2.166	2.154
B.3 Other impaired assets	-	-	-	-	575	572	-	-	12.962	12.410	3.090	2.951
B.4 Other exposures	16.589	16.589	1.040.366	1.040.366	1.657.535	1.655.932	56.211	56.205	12.080.412	12.057.970	1.046.843	1.045.458
<b>Total</b>	<b>16.589</b>	<b>16.589</b>	<b>1.040.366</b>	<b>1.040.366</b>	<b>1.660.092</b>	<b>1.658.457</b>	<b>56.211</b>	<b>56.205</b>	<b>12.152.856</b>	<b>12.121.123</b>	<b>1.052.392</b>	<b>1.050.829</b>
<b>Total (T)</b>	<b>1.704.072</b>	<b>1.703.922</b>	<b>1.888.971</b>	<b>1.888.657</b>	<b>10.021.621</b>	<b>9.964.006</b>	<b>199.035</b>	<b>198.961</b>	<b>65.681.086</b>	<b>64.643.057</b>	<b>40.352.616</b>	<b>39.849.498</b>

## Distribution by residual contractual maturity of the entire portfolio, by type of exposure

DISTRIBUTION BY RESIDUAL CONTRACTUAL MATURITY OF THE PORTFOLIO										
	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Indeterminate maturity
<b>On-balance sheet assets</b>	<b>30.887.916</b>	<b>572.500</b>	<b>690.983</b>	<b>2.674.593</b>	<b>4.536.203</b>	<b>3.324.317</b>	<b>5.050.406</b>	<b>27.043.445</b>	<b>25.199.415</b>	<b>1.890.536</b>
A.1 Government securities	0	0	0	0	196.537	370.290	53.775	1.906.207	787.935	0
A.2 Listed debt securities	52	181	0	4.286	0	960	13.243	503.644	616.445	0
A.3 Other debt securities	8.332	0	0	23.752	52.218	52.154	35.915	619.903	1.085.619	999
A.4 Units in OICR (collective investment instruments)	635.620	0	0	0	0	0	0	0	0	0
A.5 Financing	30.243.912	572.319	690.983	2.646.555	4.287.448	2.900.913	4.947.473	24.013.691	22.709.416	1.889.537
- Banks	527.887	206.907	148.730	327.502	128.930	218.078	93.753	102.752	65.293	3.988
- Customers	29.716.025	365.412	542.253	2.319.053	4.158.518	2.682.835	4.853.720	23.910.939	22.644.123	1.885.549
<b>On-balance sheet liabilities</b>	<b>44.164.829</b>	<b>2.056.836</b>	<b>991.961</b>	<b>3.588.244</b>	<b>4.760.629</b>	<b>4.449.414</b>	<b>6.936.658</b>	<b>15.933.829</b>	<b>9.461.157</b>	<b>136.896</b>
B.1 Deposits	43.065.872	1.216.589	71.708	819.594	395.148	165.411	252.213	72.832	28.686	48.337
- Banks	896.674	959.941	3.032	410.307	164.157	56.240	122.727	68.670	28.315	2
- Customers	42.169.198	256.648	68.676	409.287	230.991	109.171	129.486	4.162	371	48.335
B.2 Debt securities	812.266	245.757	416.229	2.117.752	3.487.031	4.089.516	6.641.898	15.487.190	8.990.009	57.068
B.3 Other liabilities	286.691	594.490	504.024	650.898	878.450	194.487	42.547	373.807	442.462	31.491
<b>Off-balance sheet transactions</b>	<b>-1.939.280</b>	<b>-109.831</b>	<b>80.223</b>	<b>-116.281</b>	<b>63.224</b>	<b>19.977</b>	<b>52.654</b>	<b>362.917</b>	<b>1.219.019</b>	<b>37.599</b>
C.1 Financial derivatives with exchange of principal	0	531	-6.658	698	13.197	-4.926	-51.522	-764	0	0
- Long positions	0	263.624	452.071	1.887.782	713.669	84.936	653.953	131.802	0	0
- Short positions	0	263.093	458.729	1.887.084	700.472	89.862	705.475	132.566	0	0
C.2 Deposits and loans receivable	54.056	-20.614	0	0	-4.757	-5.945	0	0	0	0
- Long positions	54.056	0	0	0	0	0	0	0	0	0
- <b>Short positions</b>	0	20.614	0	0	4.757	5.945	0	0	0	0
C.3 Irrevocable commitments to disburse funds	-1.993.336	-89.748	86.881	-116.979	54.784	30.848	104.176	363.681	1.219.019	37.599
- Long positions	2.359.503	215.772	86.881	28.829	116.399	56.816	139.860	758.758	2.117.896	71.978
- Short positions	4.352.839	305.520	0	145.808	61.615	25.968	35.684	395.077	898.877	34.379



## Distribution by economic sector of deteriorated exposures and impairment

DISTRIBUTION BY ECONOMIC SECTOR OF EXPOSURES, BY TYPE OF COUNTER PARTY																							
Governments and Central Banks				Other public authorities				Financial companies				Insurance companies				Non financial companies				Other			
Gross Exp.	Specific impairment	Portfolio impairment	Net exp.	Gross Exp.	Specific impairment	Portfolio impairment	Net exp.	Gross Exp.	Specific impairment	Portfolio impairment	Net exp.	Gross Exp.	Specific impairment	Portfolio impairment	Net exp.	Gross Exp.	Specific impairment	Portfolio impairment	Net exp.	Gross Exp.	Specific impairment	Portfolio impairment	Net exp.
<b>A. On balance sheet exposures</b>																							
<b>A.1 Non performing loans</b>																							
-	-	-	-	412	170	-	233	36.330	27.752	-	8.578	129	33	-	96	1.150.691	593.873	-	556.818	679.752	401.409	-	278.343
<b>A.2 Impaired loans</b>																							
-	-	-	-	2.263	135	-	2.128	34.179	10.587	-	23.592	-	-	-	-	857.541	136.471	-	721.070	481.740	74.968	-	406.772
<b>A.3 Restructured exposures</b>																							
-	-	-	-	-	-	-	-	1.708	502	-	1.206	-	-	-	-	132.819	35.385	14	97.420	7.680	3.654	-	4.026
<b>A.4 Past due exposures</b>																							
-	-	-	-	45	-	-	45	1.474	27	-	1.447	-	-	-	-	108.486	5.970	-	102.516	101.411	3.440	-	97.971
<b>A.5 Other exposures</b>																							
1.687.483	-	180	1.687.333	845.885	-	-	845.885	8.287.838	-	17.112	8.270.726	142.695	-	35	142.660	51.278.693	-	234.383	51.044.310	38.029.641	-	18.084	38.011.557
<b>Total</b>	<b>1.687.483</b>	<b>-</b>	<b>180</b>	<b>1.687.333</b>	<b>848.605</b>	<b>314</b>	<b>848.291</b>	<b>8.361.829</b>	<b>38.868</b>	<b>17.112</b>	<b>8.308.849</b>	<b>142.824</b>	<b>33</b>	<b>35</b>	<b>142.786</b>	<b>53.828.230</b>	<b>771.699</b>	<b>234.697</b>	<b>52.521.934</b>	<b>39.300.224</b>	<b>483.471</b>	<b>18.084</b>	<b>38.798.669</b>
<b>B. Off balance sheet exposures</b>																							
<b>B.1 Non performing loans</b>																							
-	-	-	-	-	-	-	-	12	-	-	12	-	-	-	-	12.219	3.356	-	8.863	293	27	-	266
<b>B.2 Impaired loans</b>																							
-	-	-	-	-	-	-	-	1.970	29	-	1.941	-	-	-	-	47.263	5.383	-	41.880	2.166	12	-	2.154
<b>B.3 Other impaired assets</b>																							
-	-	-	-	-	-	-	-	575	3	-	572	-	-	-	-	12.962	552	-	12.410	3.090	139	-	2.951
<b>B.4 Other exposures</b>																							
16.589	-	-	16.589	1.040.366	-	-	1.040.366	1.657.535	-	1.603	1.655.932	56.211	-	6	56.205	12.080.412	-	22.442	12.057.970	1.046.843	-	1.385	1.045.458
<b>Total</b>	<b>16.589</b>	<b>-</b>	<b>16.589</b>	<b>1.040.366</b>	<b>-</b>	<b>-</b>	<b>1.040.366</b>	<b>1.660.092</b>	<b>32</b>	<b>1.603</b>	<b>1.658.487</b>	<b>56.211</b>	<b>-</b>	<b>6</b>	<b>56.205</b>	<b>12.162.856</b>	<b>9.291</b>	<b>22.442</b>	<b>12.121.123</b>	<b>1.092.392</b>	<b>178</b>	<b>1.385</b>	<b>1.090.829</b>
<b>Total (T)</b>	<b>1.704.072</b>	<b>-</b>	<b>180</b>	<b>1.703.922</b>	<b>1.888.971</b>	<b>314</b>	<b>1.888.657</b>	<b>10.021.621</b>	<b>38.900</b>	<b>18.715</b>	<b>9.964.006</b>	<b>199.035</b>	<b>33</b>	<b>41</b>	<b>198.961</b>	<b>65.681.086</b>	<b>780.990</b>	<b>257.039</b>	<b>64.643.057</b>	<b>40.382.616</b>	<b>483.649</b>	<b>19.469</b>	<b>39.849.498</b>

## Distribution by geographical area of deteriorated exposures to customers and impairment

	DISTRIBUTION BY GEOGRAPHICAL AREA OF EXPOSURES AND IMPAIRMENT											
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment
<b>A. On balance sheet exposures</b>												
A.1 Non performing loans	1.818.209	1.000.463	29.089	6.673	19.260	15.503	117	117	533	385	1.867.208	1.023.141
A.2 Impaired loans	1.351.361	212.296	22.511	9.131	62	5	-	-	1.803	743	1.375.737	222.175
A.3 Restructured exposures	140.965	39.219	765	1	-	-	-	-	478	336	142.208	39.556
A.4 Past due exposures	211.255	9.436	161	1	-	-	-	-	-	-	211.416	9.437
A.5 Other transactions	96.033.612	431.921	2.929.834	4.628	906.777	551	22.114	8	384.129	-	100.276.466	437.108
<b>Total</b>	<b>99.555.402</b>	<b>1.693.335</b>	<b>2.982.360</b>	<b>20.434</b>	<b>926.099</b>	<b>16.059</b>	<b>22.231</b>	<b>125</b>	<b>386.943</b>	<b>1.464</b>		
<b>B. Off-balance sheet exposures</b>												
B.1 Non performing loans	12.523	3.785	1	-	-	-	-	-	-	-	12.524	3.785
B.2 Impaired loans	51.369	5.153	-	-	-	-	-	-	-	-	51.369	5.153
B.3 Other impaired assets	16.657	563	-	-	-	-	-	-	-	-	16.657	563
B.4 other exposures	14.818.098	26.955	871.554	183	209.258	18	340	-	330	-	15.899.580	27.156
<b>Total</b>	<b>14.898.647</b>	<b>36.456</b>	<b>871.555</b>	<b>183</b>	<b>209.258</b>	<b>18</b>	<b>340</b>	<b>-</b>	<b>330</b>	<b>-</b>		
<b>Total (T)</b>	<b>114.454.049</b>	<b>1.329.791</b>	<b>3.853.915</b>	<b>20.617</b>	<b>1.135.357</b>	<b>16.077</b>	<b>22.571</b>	<b>125</b>	<b>387.273</b>	<b>1.464</b>		

## Distribution by geographical area of deteriorated exposures to banks and impairment

	DISTRIBUTION BY GEOGRAPHICAL AREA OF EXPOSURES AND IMPAIRMENT									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment	Gross Exp.	Impairment
<b>A. On balance sheet exposures</b>										
A.1 Non performing loans	22	2	50	5	-	-	-	-	-	-
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Other transactions	3.522.704	7.100	763.533	-	79.590	-	9.585	-	64.066	-
<b>Total</b>	<b>3.522.726</b>	<b>7.102</b>	<b>763.583</b>	<b>5</b>	<b>79.590</b>	<b>-</b>	<b>9.585</b>	<b>-</b>	<b>64.066</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	700	-	-	-	-	-	-	-
B.4 other exposures	4.196.491	4.000	800.413	-	84.513	-	28.318	-	10.287	-
<b>Total</b>	<b>4.196.491</b>	<b>4.000</b>	<b>801.113</b>	<b>-</b>	<b>84.513</b>	<b>-</b>	<b>28.318</b>	<b>-</b>	<b>10.287</b>	<b>-</b>
<b>Total (T)</b>	<b>7.719.217</b>	<b>11.102</b>	<b>1.564.696</b>	<b>5</b>	<b>164.103</b>	<b>-</b>	<b>37.903</b>	<b>-</b>	<b>74.353</b>	<b>-</b>

## Changes in total net impairment losses for deteriorated exposures to customers

CHANGES IN TOTAL NET IMPAIRMENT LOSSES					
	Non performing loans	Impaired loans	Restructured exposures	Past due exposures	Country risk
<b>A. Total initial net impairment</b>	<b>-818.763</b>	<b>-148.928</b>	<b>-16.022</b>	<b>-13.287</b>	<b>-269</b>
<b>B. Increases</b>	<b>-497.877</b>	<b>-171.459</b>	<b>-27.887</b>	<b>-12.349</b>	<b>-295</b>
B.1 impairment losses	-408.372	-143.555	-24.019	-8.396	-293
B.2 transfers from other categories of impaired exposures	-55.293	-6.348	-3.623	-915	-
B.3 Other increases	-34.212	-21.556	-245	-3.038	-2
- changes for business combination transactions	-	-	-	-	-
- other changes	-34.212	-21.556	-245	-3.038	-2
<b>C. Decreases</b>	<b>259.478</b>	<b>99.579</b>	<b>4.256</b>	<b>16.199</b>	<b>269</b>
C.1 write-backs as a result of valuation	-9.218	6.515	189	1.189	264
C.2 write-backs for payments received	70.886	28.684	242	1.963	5
C.3 write-offs	190.718	9.354	42	-	-
C.4 transfers to other categories of impaired exposures	1.188	54.091	3.783	7.117	-
C.5 other decreases	5.904	935	-	5.930	-
- changes for business combination transactions	-	-	-	-	-
- other changes	5.904	935	-	5.930	-
<b>Q. Impairment totals</b>	<b>-1.057.162</b>	<b>-220.808</b>	<b>-39.653</b>	<b>-9.437</b>	<b>-295</b>

## Changes in total net impairment losses for deteriorated exposures to banks

CHANGES IN TOTAL NET IMPAIRMENT LOSSES					
	Non performing loans	Impaired loans	Restructured exposures	Past due exposures	Country risk
<b>A. Total initial net impairment</b>	<b>-10</b>	-	-	-	<b>-134</b>
<b>B. Increases</b>	-	-	-	-	-
B.1 impairment losses	-	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-	-
B.3 Other increases	-	-	-	-	-
- changes for business combination transactions	-	-	-	-	-
- other changes	-	-	-	-	-
<b>C. Decreases</b>	<b>3</b>	-	-	-	<b>132</b>
C.1 write-backs as a result of valuation	3	-	-	-	129
C.2 write-backs for payments received	-	-	-	-	3
C.3 write-offs	-	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-	-
C.5 other decreases	-	-	-	-	-
- changes for business combination transactions	-	-	-	-	-
- other changes	-	-	-	-	-
<b>Q. Impairment totals</b>	<b>-7</b>	-	-	-	<b>-2</b>



## Table 6 - Credit risk: disclosures for portfolio subject to the standardized approach and specialized lending and equity exposures subject to IRB approaches

### Qualitative information

The UBI Banca Group uses the following external agencies for those portfolios for which weighted exposures are calculated according to the standardised approach:

- Lince;
- Moody's Investors Service.

The portfolios for which official ratings are used by UBI Banca are listed below, along with the agencies selected and the respective nature of the ratings:

Portfolios	ECA/ECAI	Nature of the rating (*)
Exposures to central governments and central banks	Moody's Investors Service	Solicited/Unsolicited
Exposures to international organisations	Moody's Investors Service	Solicited
Exposures to multilateral development banks	Moody's Investors Service	Solicited/Unsolicited
Exposures to businesses and other counterparties	Moody's Investors Service	Solicited
	Lince	Unsolicited
Exposures to OICR (collective investment undertakings)	Moody's Investors Service	Solicited

(\*) *Solicited or unsolicited*

Portfolios	ECA/ECAI
Positions towards securitisations with short term ratings	Moody's Investors Service
Positions towards securitisations other than those with short term ratings	Moody's Investors Service

### Quantitative information

Distribution of exposures by credit quality class and by supervisory class of activity: standardised approach (\*).

SUPERVISORY PORTFOLIO	Credit quality step	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from the supervisory capital
<b>Exposures to or guaranteed by central governments and central banks</b>		<b>5.406.356</b>	<b>5.428.349</b>	<b>2.245</b>
	0%	5.406.356	5.428.349	
<b>Exposures to or guaranteed by regional government and local authorities</b>		<b>796.369</b>	<b>852.093</b>	
	20%	796.369	843.904	
	0%	-	8.188	
<b>Exposures to or guaranteed by non commercial and public sector entities</b>		<b>2.414.527</b>	<b>2.892.741</b>	
	20%	1.211.099	1.223.217	
	10%	1.195.034	1.195.034	
	0%	8.393	474.490	
<b>Exposures to or guaranteed by multilateral development banks</b>		-	-	
<b>Exposures to or guaranteed by international organisations</b>		-	-	
<b>Exposures to or guaranteed by supervised intermediaries</b>		<b>13.547.256</b>	<b>17.045.575</b>	<b>31.284</b>
	0%	3.859.092	7.090.588	
	20%	8.679.525	8.943.462	
	50%	410.968	410.968	
	10%	597.671	600.556	
<b>Exposures to or guaranteed by corporates</b>		<b>86.876.457</b>	<b>92.044.871</b>	
	20%	7.556.306	7.612.392	
	50%	23.927.792	24.205.977	
	10%	54.884.192	55.224.840	
	15%	416.455	416.455	
	0%	91.712	4.585.209	
<b>Retail exposures</b>		<b>33.849.028</b>	<b>39.962.404</b>	
	75%	33.849.026	33.837.995	
	0%	2	6.124.409	
<b>Exposures secured by real estate property</b>		<b>25.220.703</b>	<b>25.244.026</b>	
	50%	10.212.638	10.212.638	
	35%	15.008.065	15.008.065	
	0%	-	23.323	
<b>Past due exposures</b>		<b>2.531.360</b>	<b>2.578.007</b>	
	50%	18.283	18.283	
	10%	1.248.668	1.248.668	



SUPERVISORY PORTFOLIO	Credit quality step	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from the supervisory capital
	15			
	0%	1.263.338	1.283.211	
	0			
	%	1.070	27.844	
<b>High risk exposures</b>		<b>509.756</b>	<b>509.756</b>	
<b>Exposures in the form of covered bonds</b>		-	-	
<b>Short term exposures to supervised intermediaries and corporates</b>		-	-	
<b>Exposures to OICR (collective investment undertakings)</b>		<b>277.641</b>	<b>277.641</b>	
	10			
	0%	277.641	277.641	
<b>Other exposures</b>		<b>5.540.543</b>	<b>5.540.543</b>	<b>434.634</b>
	0%	765.361	765.361	
	20			
	%	275.488	275.488	
	10			
	0%	4.499.695	4.499.695	
<b>Securitisations</b>		<b>195.620</b>	<b>195.620</b>	

(\*) The table gives banking group exposures subject to credit risk – standardised approach. The exposures are given by credit quality class and by supervisory class and they are determined in accordance with prudential supervisory rules. The column “exposures deducted from supervisory capital” gives the exposures not considered in the calculation of risk weighted assets, because they are deducted directly from the supervisory capital.



## Table 8 – Risk mitigation techniques

### *Qualitative information*

#### **Policies and processes with regard to both on- and off-balance sheet “netting” with information on the extent to which the Bank resorts to netting**

The UBI Banca Group does not use netting processes to offset positive and negative items for exposures subject to credit risk in its commercial portfolio, neither on the balance sheet nor for off-balance sheet items. However, the Group does apply policies to reduce counterparty risk – which involve netting and collateralisation arrangements – both for credit and financial derivative instruments and also for repurchase agreements, with reference to institutional counterparties.

This is performed through special contracts which regulate repurchase agreement transactions, termed Global Master Repurchase Agreements (GMRAs), and OTC derivatives contracts, termed International Swaps and Derivatives Association agreements (ISDA agreements), together with Credit Support Annexes (CSAs). The GMRAs contain special margin lending clauses designed to cover exposure as each individual transaction is presented. The CSAs are attachments to ISDAs which serve the purpose of regulating the exchange of collateral to support derivatives transactions, in order to contain counterparty risk. Both the ISDAs and the CSAs constitute predetermined general contracts – unless the parties wish to introduce specific clauses – in common use as the market standard for regulating the transactions they refer to. When a CSA is signed the parties to it agree to post collateral with the creditor equal to the part in excess of the mark-to-market threshold of the exposure. The exposure itself is periodically recalculated to assess the appropriateness of the collateral posted.

#### **Policies and processes for the valuation and management of collateral**

In order to ensure that general and specific requirements are met for recognition of collateral for prudential purposes in accordance with Bank of Italy Circular No. 263 of 27/12/06, the UBI Group performed a series of activities and formed a number of working groups which have had impacts that cut across various areas.

Compliance with regulations was achieved by analysing processes for the management of different types of collateral, detecting gaps between existing processes and operating practices and regulatory instructions and finally by designing new processes to comply with the new framework.

That analysis was followed by activity to implement organisational solutions and to adopt IT tools to manage collateral, on the basis of the processes defined, at all stages of collateral management (acceptance, valuation and monitoring) and to ensure accurate and timely monitoring of compliance with all requirements over time.

The following aspects were incorporated in and added to Group regulations and practices:

- admissibility/acceptance of collateral;
- revaluation and monitoring of the value of collateral;
- verification of the absence of a significant correlation between a debtors' ability to repay and the collateral.

More specifically, the relative internal regulations are constantly updated, with the specification of the criteria for the admissibility of each general type of collateral and the procedures to follow to monitor those criteria over time.

The acceptance of mortgage collateral is dependent on Account Managers and central units of Network Banks compiling and approving specific check lists containing questions that enable the formal accuracy of the mortgage documents acquired by the staff who process the mortgage to be verified.

Compliance with the regulations governing the process ensures:

- the presence of an appraisal and the value of the appraisal on file;
- verification of the absence of a correlation between a debtors' ability to repay and the cash flows generated by the property posted as collateral;
- full details of the property or properties on file;
- entry on file of all significant information relating to the collateral.

Once it is accepted, mortgage collateral is considered admissible, with a consequent mitigating effect recognised when capital requirements are calculated.

Starting from 1<sup>st</sup> January 2009, for new mortgage transactions, the values acquired from appraisals of single properties posted as collateral for loans are revalued automatically every six months, on the basis of statistical indices (on the basis of appreciation and depreciation coefficients, that differ according to the type of property and the general geographical area). Mortgage collateral for transactions arising before that date are revalued according to the updated value of the surface areas calculated by Nomisma (economic research institute).

In cases of significant loss of value, the process furnishes Account Managers with a list of the properties whose value has been impaired. In these cases a new appraisal is required. If the new appraisal detects a significant loss of value on the mortgaged property, the collateral is recognised only on the amount of the loans up to the lower value measured.

In order to ensure constant and accurate valuation of collateral over time, mortgage collateral is considered inadmissible in the absence of an up-to-date appraisal or if the predetermined grace period has expired.

With specific reference to admissibility requirements for real estate properties on which there are significant exposures,<sup>5</sup> a new appraisal must be requested by Account Managers every three years starting from the date of the last appraisal. The process includes special alarms which result in the issue in advance of a list of scheduled appraisals and those overdue.

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<sup>5</sup> The *New regulations for the prudential supervision of banks* issued by the Bank of Italy state that “the valuation of properties must nevertheless be reviewed at least every three years by an independent appraiser for exposures of greater than three million euro or equal to five percent of the supervisory capital of the bank”.

In order to ensure compliance with the process, special first level controls are put in place in the units in the network banks responsible for the oversight and monitoring of credit quality. These periodically check appraisal updates and if necessary they remind Account Managers to request new appraisals. There are also second level controls consisting of the production of periodic reports to the competent units in the Parent Bank.

The absence of a significant correlation between a debtors' ability to repay and the relative collateral is established by the valuation performed when the mortgage collateral is accepted on file by the Account Manager.

A special process is in place for cases where an Account Manager, when revising credit authorisations or in any other circumstance, detects the appearance or disappearance of a significant correlation. The process involves the approval by the competent organisational unit of a proposal to change the valuation previously recorded on file.

Finally, a further requirement for the admissibility of collateral is the presence of fire insurance on the property posted as collateral. Special processes exist for monitoring regular payment of the premiums on the insurance policies along with a reminder process with the relative update of the information regarding the presence of insurance cover.

Similarly to what has been said for mortgage collateral, financial collateral is considered admissible for credit risk mitigation purposes if the following minimum requirements are met:

- acceptance on file, subject to Account Managers and central units of Network Banks compiling and approving specific check lists containing questions that enable the formal accuracy of the documents to be verified;
- periodic revaluation of the *fair value* of the collateral;
- the absence of a significant correlation between a debtors' ability to repay and the collateral.

The fair value of collateral is available on a daily basis. It is loaded on file automatically by software which automatically checks the original value against the updated value. A special alarm detects and signals pledges which have incurred a loss of current market value with respect to the original value (net of any haircuts), greater than a preset threshold. Current credit regulations in force provide official procedures to be followed if the impairment in the value of a pledge is greater than the predetermined threshold. The Account Managers may ask for the collateral to be increased until it reaches the original amount accepted, net of haircuts (as in any case permitted by clauses in the contract), or alternatively they may set a new loan process in motion, to be submitted to Loan Approval Units, to proportionally reduce the credit secured by the collateral in order to protect the Bank against risk.

Compliance with the requirement concerning an absence of correlation, for the purposes of risk mitigation, is verified automatically by the software employed which monitors and reports, on the basis of the details of the debtor and the issuer of the security.

Collateral is considered admissible for credit risk mitigation purposes when no matches are detected between the data on the issuer of the security and the data on the debtor and other counterparties belonging to the same group of companies as the debtor. If matches are detected, then the collateral is not considered admissible for credit risk mitigation purposes.

### **Description of the main types of collateral accepted by the Bank**

The main types of collateral accepted by the Bank area as follows:

- real estate mortgage;
- pledge.

In the case of mortgage collateral, a distinction is made between specially regulated “land” mortgage loans and ordinary mortgage loans with regard to the amount of the loan, which in the former case must comply with limits set in relation to the value or the cost of the assets used as collateral.

Pledges represent the second general class of collateral used and different possible types of pledge exist within the Group depending on the instrument which is used as the collateral. They are as follows:

- pledges of dematerialised financial instruments such as for example government securities, bonds and shares in listed companies, customer portfolio managements, bonds of the Group, etc.;
- pledges of material securities, e.g. valuables and/or sums deposited on current accounts or bearer or named savings accounts, certificates of deposit, units in mutual funds, shares and bonds issued by unlisted companies;
- pledges on insurance policies;
- pledges of quotas held in limited liability companies, which by law must be formed by a notarial deed and are subject to registration.

A pledge on the value of financial instruments is performed using defined valuation criteria and special “haircuts” which reflect the variability in the value of the security pledged. In the case of financial instruments denominated in foreign currency, the “haircut” applied for the volatility of the exchange rate must be added to that for the volatility of the security.

As concerns pledges on rights arising from insurance policies, these may only be pledged for life insurance policies for which the regulations expressly allow the possibility of a pledge in favour of the Bank and only if determined conditions are met (e.g. once the time limit for exercising reimbursement rights has expired, policies which pay only in “case of death” must be excluded, and so forth). Special valuation criteria are also defined for insurance policies.

### **The principal types of guarantor and counterparty in credit derivatives business and their credit quality**

The counterparties in credit derivative transactions are banks and national and international financial institutes with high investment grade credit ratings.

The remaining positions in derivative instruments (CDS – Credit Default Swaps) outstanding as at 31<sup>st</sup> December 2007 on capitalisation certificates issued by insurance companies were closed in 2008.

### **Information on market or credit risk concentrations with regard to the credit risk mitigation instruments employed**

As concerns market or credit risk concentrations for the credit risk mitigation instruments employed, a predominant role is played among the personal guarantees recognised within the standardised approach, by those of the *Fondo di Garanzia* (guarantee fund) managed by MedioCredito Centrale. The guarantees granted by other admissible guarantors are for

amounts which do not exceed 25 million euro for each group of companies, while they exceed 10 million euro in four cases and are for lower amounts in all other cases.

Securities issued by the Italian Ministry of the Economy play a predominant role among financial collateral recognised under the standardised approach. Securities issued by major Italian banking groups represent some of the largest of the other securities recognised in terms of size. In one single case the loans secured amount to 47 million euro; in two cases they are greater than 20 million euro, while in all other cases they are less than 20 million euro.

### **Quantitative information**

EXPOSURES BACKED BY COLLATERAL AND PERSONAL GUARANTEES		
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and central banks	-	21.993
Exposures to or guaranteed by regional government and local authorities	8.188	47.535
Exposures to or guaranteed by non commercial and public sector entities	466.097	12.118
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	615.427	2.882.892
Exposures to or guaranteed by corporates	4.493.497	674.918
Retail exposures	6.113.375	-
Exposures secured by real estate property	23.323	-
Past due exposures	26.774	19.873
High risk exposures	-	-
Exposures in the form of covered bonds	-	-
Short term exposures to supervised intermediaries and corporates	-	-
Exposures to OICR (collective investment undertakings)	-	-
Other exposures	-	-
Securitisations	-	-





## Table 9 - Counterparty risk

### *Qualitative information*

In order to quantify the market value of rights to credit that arise in favour of the Bank from derivatives business, the UBI Group currently uses the present value method, which estimates the cost that the Bank should incur to find another party willing to take on the contractual obligations of the originally contracted counterparty, if this becomes insolvent. The present value is the sum of the cost of replacement, given the market value of the derivative, if it is positive, and the future credit exposure, which estimates the probability that in the future the value of the contract, if positive, may increase or, if negative, may transform into a creditor position. The future credit exposure is calculated by multiplying the nominal amount for each contract by different percentages based on the residual duration and the characteristics of the contract.

The UBI Group intends in future to obtain authorisation from Bank of Italy to use internal EPE models (Expected Positive Exposure) to estimate counterparty risk after first satisfying the organisational and quantitative requirements contained in supervisory regulations for that purpose.

A description is given below of the credit authorisation procedures employed when derivatives contracts are entered into (for derivatives sold to customers and those entered into with institutional counterparties) and also of the procedures for the measurement and management of exposure to counterparty risk.

### **Derivatives business with customers**

Customers who wish to purchase OTC derivatives are granted a line of credit equal to the maximum credit risk the Group wishes to bear for a single counterparty. The portion of the credit line not used may be revoked. A credit line for each single contract is granted for commodities and OTC derivatives entered into with private individual retail customers.

A general contract for derivatives contracts must be signed for trading with customers. The existence of a single contract for interest rate, currency and commodities derivatives containing netting clauses makes it possible to offset all debtor and creditor positions resulting from transactions with a customer against each other and this therefore reduces the exposure to the customers. This contract also rigorously regulates procedures for informing customers of changes in their exposure over time. The amount of the credit line granted is equal to at least the credit equivalent (the maximum amount in question multiplied by a weighting factor which differs according to the type of product and the residual life of the transaction). The credit equivalents calculated for derivatives contracts on currencies and interest rates differ according to the type of product and its residual life. For commodities derivatives, the credit equivalent must be estimated specifically for each contract on the basis of the type of underlying. Products and their relative credit equivalents are revised at least annually.

The maximum commitment for each contract is calculated as the greater of the mark-to-market of the derivative, as determined by the front office system, and the credit equivalent calculated beforehand, which represents a prudential estimate of the potential exposure. The mark-to-market calculated daily must be monitored continuously by the customer's Account Manager and if it reaches 80% of the credit equivalent, the Credit Area is informed immediately. If the mark-to-market becomes negative at levels close to or greater than the authorised credit (the credit equivalent), the Bank may request additional security or proceed to early cancellation of the contract.

Customer credit lines are monitored daily by Network Banks on the basis of data acquired from the front office system.

A list of positions with negative mark-to-market greater than 500 thousand euro is sent quarterly (it is planned to perform this reporting on a monthly basis in the near future) to the general managers of the Network Banks and of Centrobanca, to the Legal Affairs, Audit and Credit areas of the Parent Bank and to the Compliance Staff unit, for their information, with analysis of financial risk and credit, legal and operational aspects and appropriate action undertaken in the different areas to prevent difficulties occurring or to manage them.

### **Derivatives business with institutional counterparties**

The guidelines for defining the criteria for assessing the credit quality of institutional counterparties attribute key importance to the ratings assigned by the major credit rating agencies Standard & Poor's, Moody's and Fitch when maximum credit limits are set, in accordance with the provisions of "Basel 2" and best practices on international markets. Consideration of the medium-to-long term rating assigned to counterparties is flanked by additional objective factors, fundamental to risk analysis, such as membership of a group of companies and/or bodies of international standing, significant international classifications and additional official economic or market information.

Each counterparty is granted a single maximum limit, that may be used for a series of transactions including those in derivatives. The maximum limits set are normally reviewed annually.

The maximum limit granted to a counterparty for transactions in derivatives is calculated on the basis of appropriate weighting coefficients. The use is measured on the mark-to-market of the derivative plus an add on, as calculated by the Group's front office system.

Trading in derivatives is subject to signing an ISDA arrangement with the counterparty with an associated Credit Support Annex, which specifically governs the netting arrangement between the parties and reduces the exposure towards the counterparty concerned.

As part of the Group's risk assumption policies, the Management Board of UBI Banca has approved the following overall limits on derivatives transactions to ensure adequate distribution of risk in terms of:

- a *total weighted exposure limit* for the UBI Group towards institutional counterparties and those resident in countries at risk, for all types of transaction with those parties;
- a *quality constraint* on specific portfolios, in terms of distribution of the total limit by counterparty or country rating class;
- a *concentration limit*, consisting of an operational limit on amounts that may be granted to single counterparties or countries, which differs according to the rating class;
- a *propagation limit* which restricts the distribution of margins available under an umbrella credit authorisation;

- definition of *permitted transactions* and the relative weightings;
- definition of *admissible collateral* and the haircuts applicable;
- a *maximum limit* in terms of the degree of risk for institutional counterparties.

The International Area submits a monthly report to the Credit Area and the Risk Management Area on the outstanding credit lines with institutional counterparties, on the basis of information received from the Finance Area and from subsidiary companies for the transactions for which they are responsible. Second level controls are performed by the Credit Area and the Credit Quality Monitoring Oversight Service, which submits a quarterly report to the Credit Committee, and also by the Credit Risk Management Service which performs overall analyses at portfolio level.

Trading in derivatives is subject to signing an ISDA agreement with the counterparty with an associated Credit Support Annex,<sup>6</sup> which specifically governs the netting arrangements and the exchange of collateral between the parties and thereby reduces the exposure towards the counterparty concerned. The signing of this contract also governs the posting of “add-on” collateral with the creditor party that is equal to the amount in excess of the mark-to-market threshold.

The effectiveness of a CSA may be affected if the credit rating of the counterparty is downgraded, because a lower rating will result in a lower MTA threshold and therefore also in a lower value for the collateral posted.

Finally UBI Banca has issued guarantees on behalf of Group originators of securitisation transactions in order to ensure the soundness of the financial structure. Clauses in the guarantee explicitly allow the possibility, should UBI Banca be downgraded, for it to be replaced either with a guarantee from another bank with a higher rating or by the deposit of collateral for the same amount of the guarantee.

### Quantitative information

Categories of transactions	Supervisory trading portfolio		Other transactions	
	on a single item	on a basket of items	on a single item	on a basket of items
	Notional amount	Notional amount	Notional amount	Notional amount
<b>1. Protection purchases</b>	-	-	-	-
1.1 With exchange of principal	-	-	-	-
- TROR	-	-	-	-
- CDS	-	-	-	-
- other	-	-	-	-
<b>1.2 Without exchange of principal</b>	-	-	-	-
- TROR	-	-	-	-
- CDS	-	-	-	-
- other	-	-	-	-
<b>Total A</b>	-	-	-	-

<sup>6</sup> See Table 8 for further details.

Categories of transactions	Supervisory trading portfolio		Other transactions	
	on a single item	on a basket of items	on a single item	on a basket of items
	Notional amount	Notional amount	Notional amount	Notional amount
<b>2. Protection sales</b>	<b>65.000</b>	-	-	-
2.1 With exchange of principal	65.000	-	-	-
- TROR	-	-	-	-
- CDS	65.000	-	-	-
- other	-	-	-	-
<b>2.2 Without exchange of principal</b>	-	-	-	-
- TROR	-	-	-	-
- CDS	-	-	-	-
- other	-	-	-	-
<b>Total B</b>	<b>65.000</b>	-	-	-

Counterparties/Underlying elements	Debt securities and interest rates			Equity instruments and share indices			Exchange rates and gold			Other values				
	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure	Settled	Future exposure
<b>A. Supervisory trading portfolio</b>														
A.1 Governments and central banks	-	-	-	-	-	-	-17.166	-	2.200	-	-	-	-	-
A.2 Public authorities	-210	-	206	-	-	-	-	-	-	-	-	-	-	-
A.3 Banks	-193.796	-	95.262	-1.825	-	2.933	-155.478	-	36.749	-2.338	-	820	-	-
A.4 Financial companies	-23.910	-	8.998	-	-	792	-6.839	-	653	-	-	-	-	-
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6 Non financial companies	-178.354	-	30.416	1	-	-	-19.282	-	1.812	-1.395	-	367	-	-
A.7 Other	-25.063	-	8.035	-	-	6	-1.607	-	266	-	-	-	-	-
<b>Total A</b>	<b>-421.333</b>	<b>-</b>	<b>142.917</b>	<b>-1.824</b>	<b>-</b>	<b>3.731</b>	<b>-200.372</b>	<b>-</b>	<b>41.680</b>	<b>-3.733</b>	<b>-</b>	<b>1.187</b>	<b>-</b>	<b>-</b>
<b>B. Banking portfolio:</b>														
B.1 Governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Public authorities	-	-	-	-	-	-	-24	-	3	-	-	-	-	-
B.3 Banks	-476.099	-	74.374	-21.599	-	103.728	-17	-	367	-	-	-	-	-
B.4 Financial companies	-38.625	-	2.930	-	-	244.245	-6.410	-	455	-	-	-	-	-
B.5 Insurance companies	-	-	-	-	-	306.641	-	-	-	-	-	-	-	-
B.6 Non financial companies	-	-	-	-	-	17	-63.812	-	4.268	-	-	-	-	-
B.7 Other	-	-	-	-	-	59.077	-317.921	-	21.291	-	-	-	-	-
<b>Total B</b>	<b>-514.724</b>	<b>-</b>	<b>77.304</b>	<b>-21.599</b>	<b>-</b>	<b>713.708</b>	<b>-388.184</b>	<b>-</b>	<b>26.384</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

CREDIT EQUIVALENT

**STANDARDISED APPROACH**

**IRB APPROACH**

	<b>STANDARDISED APPROACH</b>	<b>IRB APPROACH</b>
Derivatives contracts	2.098.955	
Securities financing transactions and long term settlement transactions	14.810.246	
Cross product netting agreements		

## Table 10 - Securitisation transactions

### Qualitative information

Strategically, securitisations form part of a policy on the one hand to expand lending by simultaneously freeing up part of the supervisory capital relating to the amounts transferred and on the other hand to constitute an important medium-to-long term funding instrument.

Law No. 130/99 “Measures on the securitisation of loans” introduced the possibility into the national legislation of performing securitisation transactions by using specially formed Italian registered companies (termed Special Purpose Entities - SPEs). Five companies in the Group have taken advantage of this law for the following securitisations: UBI Finance 2, Lombarda Lease Finance 2, Lombarda Lease Finance 3, Lombarda Lease Finance 4, UBI Lease Finance 5, Albenza 2 Società per la Cartolarizzazione Srl – Orio Finance nr 2 plc, Albenza 3 Società per la Cartolarizzazione Srl – Orio Finance nr 3 plc, Sintonia Finance, 24-7 Finance.

Furthermore, in the first half of 2008 the authorisation formalities for a programme to issue covered bonds pursuant to article 7 *bis* of the law just mentioned, Law No. 130/1999, were completed by the Parent Bank, UBI Banca. This programme, which was presented at the beginning of July on a road show in major European financial centres, is for maximum issues of 10 billion euro. The bonds, which have already been given a “triple A” preliminary rating by the agencies Standard & Poor’s, Moody’s and Fitch Ratings will be listed on the London Stock Exchange.

No issuances of these instruments have been performed for the moment as a result of the continuing difficult conditions on markets. UBI Banca intends to monitor the situation carefully in order to take advantage of any opportunities for funding that may arise in 2009.

Securitisation transactions performed within the UBI Banca Group were closed during 2008 as follows:

- on 15<sup>th</sup> August 2008 the Albenza Srl transaction was closed down in advance in accordance with contracts. The right to repurchase loans, held under contract by UBI Banca Scpa, was transferred to UBI Banca Popolare di Bergamo Spa which recognised the loans transferred in its financial statements (53.476.606 euro). The relative servicing activity therefore closed down on the same date;
- on 28<sup>th</sup> October 2008, the Lombarda Mortgage 1 securitisation was closed down in advance because the originator (UBI Banco di Brescia) exercised its option under the contract to repurchase all the loans held in portfolio, for a total amount of 144.695.461 euro and recognised them within its asset portfolio. Consequently on receipt of the sales price the special purpose entity redeemed all the securities issued;
- to complete the information, the Albenza 2 Srl transaction was also closed down in advance on 15<sup>th</sup> January 2009 following the same procedures and along the same lines reported for the Albenza Srl transaction.

## **Securitisations: characteristics**

### **UBI Finance 2**

Following the conclusion of Lombarda Mortgage 1 transaction, the special purpose entity was renamed UBI Finance 2 Srl in December 2008 for a new securitisation by UBI Banco di Brescia, which, however, was concluded in the first few months of 2009. On 13<sup>th</sup> January 2009 a contract was signed for the sale of the loan portfolio consisting of 2.093.238.616,49 euro of performing loans to small to medium size enterprises, while the issuance of securitisation securities, all purchased by the originator (UBI Banco di Brescia), took place on 27<sup>th</sup> February 2009. The main characteristics of the UBI Finance 2 securities issued in 2009 are as follows:

- class A securities (senior tranches): nominal amount 1.559.500.000,00 euro at floating rate, assigned the highest rating by Fitch. These securities will be made available to the Parent Bank, UBI Banca, by means of repurchase agreements to be used as collateral in repo transactions with the ECB or to guarantee intraday transactions with the Bank of Italy;
- class B securities (junior tranches): nominal amount 519.850.000,00 euro with no rating and with a yield equal to the additional return on the transaction, which allow the Bank to benefit from the excess spread on the underlying portfolios.

### **Lombarda Lease Finance 2**

The Lombarda Lease Finance 2 securitisation was performed by means of a number of interconnected contracts, with the following structure:

- on 01/10/2002 a contract was signed for the transfer without recourse by the originator (UBI Leasing S.p.A.) of the principal of implicit performing loans recognised in the accounts as at 01/10/2002 relating to leasing contracts, against payment of the nominal value of the loans transferred by the SPE (Lombarda Lease Finance 2 S.r.l.);
- the amount of the loans transferred was 610.007.863 euro;
- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee;
- on 23/10/2002 Lombarda Lease Finance 2 S.r.l. issued notes with different redemption characteristics to fund the operation;
- class A-B-C “senior and mezzanine” notes subscribed by institutional investors;
- class D “Junior” securities subscribed by the originator.

### **Lombarda Lease Finance 3**

The Lombarda Lease Finance 3 securitisation was performed by means of a number of interconnected contracts, with the following structure:

- on 11/06/03 a contract was signed for the transfer without recourse by the originator (UBI Leasing S.p.A.) of the principal of implicit performing loans recognised in the accounts as at 11/06/03 relating to leasing contracts, against payment of the nominal value of the loans transferred by the SPE (Lombarda Lease Finance 3 S.r.l.);
- the amount of the loans transferred was 650.529.119 euro;



- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee
- on 30/06/04 Lombarda Lease Finance 3 S.r.l. issued notes with different redemption characteristics to fund the operation;
- class A1-A2-A3-B-C “senior and mezzanine” notes subscribed by institutional investors;
- class D “Junior” securities subscribed by the originator.

#### **Lombarda Lease Finance 4**

The Lombarda Lease Finance 4 securitisation was performed by means of a number of interconnected contracts, with the following structure:

- on 11/05/05 a contract was signed for the periodic transfer without recourse by UBI Leasing to Lombarda Lease Finance 4 S.r.l. (“Lombarda Lease Finance”) of loans relating to leasing contracts, against payment of the nominal amount of the loans transferred by the SPE (Lombarda Lease Finance 4 S.r.l.). On 19/10/05, UBI leasing transferred to LLF4, under the transfer contract signed, loans relating to leasing contracts for an amount equal to the loans transferred which had expired;
- the amount of the loans transferred in the first transfer was 1.100.007.686 euro and the amount for the first transfer scheduled under the “revolving” programme was 63.637.298 euro.
- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee;
- on 15/06/2005 Lombarda Lease Finance 4 S.r.l. issued notes with different redemption characteristics to fund the operation;
- class A-B-C “senior and mezzanine” notes subscribed by institutional investors;
- class D “Junior” securities subscribed by the originator.

#### **UBI Lease Finance 5**

The UBI Lease Finance 5 securitisation was performed by means of a number of interconnected contracts, with the following structure:

- on 13/11/08 a contract was signed for the transfer without recourse by UBI Leasing to UBI Lease Finance 5 S.r.l. (“UBI Lease Finance 5”) of the principal of implicit performing loans recognised in the accounts as at 31/10/2008 relating to leasing contracts, against payment of the nominal amount of the loans transferred by the SPE (UBI Lease Finance 5 S.r.l.);
- the amount of the loans transferred was 4.024.051.893,21 euro;
- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee;
- on 28/11/09 UBI Lease Finance 5 S.r.l. issued notes with differing redemption characteristics;
- class A-B “senior and junior” notes subscribed by the originator.

## Albenza 2

The securitisation Albenza 2 Società per la Cartolarizzazione S.r.l. (of the revolving type) was performed in 2000 on performing loans resulting from mortgages granted to private individuals resident in Italy. The transfer contract was structured as follows:

- the transfer without recourse of the loans to the special purpose entity Albenza 2 Società per la Cartolarizzazione S.r.l., in which the UBI Banca Group holds an interest, amounting to 315.515.000 euro;
- funding of the operation by the issue of a single Albenza 2 Società per la Cartolarizzazione S.r.l. bond (unrated);
- the bond was purchased by BPB International Finance Plc (liquidated in 2004) and securitised again with the assistance of the Irish registered SPE Orio Finance nr. 2 plc

## Orio Finance nr.2

The Orio Finance nr 2 plc securitisation was performed in 2001 on the securities present in the BPB International Finance plc portfolio amounting to 316.000.000 euro, on the Albenza 2 notes already mentioned, together with other MBS securities (Holmes Funding nr 1 plc; Holmes Funding nr 2 plc). The transfer contract was structured as follows:

- transfer of securities to the special purpose vehicle Orio Finance nr 2 plc, in which the UBI Banca Group holds no interest;
- funding of the operation by the issue of bonds divided into three classes:
  - class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,280% for an amount of 307.000.000 euro, assigned ratings AAA (S&P) and Aaa (Moody's);
  - class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,75% for an amount of 24.000.000 euro, assigned ratings A (S&P) and A2 (Moody's);
  - class C securities (junior securities): floating rate bonds equal to the Euribor three month + 1,00% , for an amount of 22.000.000 euro (unrated).
- the different types were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C bonds were recognised in the trading portfolio of UBI Banca and were eliminated in the consolidation against the junior securities recognised within liabilities in the balance sheet of Orio Finance nr 2 plc.

## Albenza 3

The securitisation Albenza 3 Società per la Cartolarizzazione S.r.l. was performed in 2001 on performing loans resulting from mortgages granted to private individuals resident in Italy. The transfer contract was structured as follows:

- the transfer without recourse of the loans to the special purpose entity Albenza 3 Società per la Cartolarizzazione S.r.l., in which the UBI Banca Group holds an interest amounting to 389.532.000 euro;
- funding of the operation by the issue of a single Albenza 3 Società per la Cartolarizzazione S.r.l. bond (unrated);
- the bond was purchased by BPB International Finance Plc (liquidated in 2004) and securitised again with the assistance of the Irish registered SPE, Orio Finance nr. 3 plc.

### Orio Finance nr.3

The Orio Finance nr 3 plc securitisation was performed in 2002 on the securities present in the BPB International Finance plc portfolio amounting to 390.000.000 euro, on the Albenza 3 notes already mentioned, together with other MBS securities (Holmes Funding nr 1 plc; Holmes Funding nr 2 plc). The transfer contract was structured as follows:

- transfer of securities to the special purpose entity Orio Finance nr 3 plc., in which the UBI Banca Group holds no interest;
- funding of the operation by the issue of bonds divided into three classes:
  - class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,260%, for an amount of 427.200.000 euro, assigned ratings AAA (S&P) and Aaa (Moody's);
  - class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,70% for an amount of 17.800.000 euro, assigned ratings A (S&P) and A2 (Moody's);
  - class C securities (junior securities): floating rate bonds equal to the Euribor three month + 1,00% , for an amount of 21.600.000 euro (unrated).
- the different types were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C bonds were recognised in the trading portfolio of UBI Banca S.c.p.a., and were eliminated in the consolidation against the junior securities recognised within liabilities in the balance sheet of Orio Finance nr 3 plc.

### Sintonia Finance s.r.l.

The Sintonia Finance s.r.l. securitisation is of the multi-originator type performed on 23<sup>rd</sup> December 2002 on performing loans, 67% of which were residential mortgages granted to private individuals and the remainder were commercial mortgage loans granted to businesses resident in Italy. The transfer contract was structured as follows:

- the transfer without recourse of loans amounting to 166.313.107 euro to the special purpose entity Sintonia Finance s.r.l., in which the UBI Group holds no interest;
- funding of the operation by the issue of bonds by Sintonia Finance s.r.l. divided into three classes:
  - class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,45% for an amount of 302.790.000 thousand euro, assigned ratings AAA (S&P) and AAA (Fitch);
  - class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,60% for an amount of 21.040.000 thousand euro, assigned ratings AA (S&P) and AA (Fitch);
  - class C securities (junior securities): fixed rate 2,00%, bonds, for an amount of 17.383.000 thousand euro.
- the different types were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C Bonds were all purchased by the two originators, of which 7.984.000 by Centrobanca, and they were eliminated in the consolidated financial statements against the liability recognised in the balance sheet of the SPE.

## 24-7 Finance

The 24-7 Finance securitisation was performed in 2008 on:

- performing loans resulting from mortgages granted to private individuals resident in Italy, secured by a prime grade mortgages on residential properties located in Italy all fully built;
- performing loans resulting from salary backed loans to private individuals resident in Italy, secured by a “deducted for non payment” clause and by a loan loss insurance policy;
- performing loans resulting from personal loans and dedicated loans to private individuals resident in Italy.

The transfer contract was structured as follows:

- the transfer without recourse of the loans to the special purpose entity 24-7 Finance in which UBI Banca holds a 10% interest;
- funding of the operation by the issue of bonds divided according to the sub-transaction as follows:

- mortgages:

class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,02% for an amount of 2.279.250.000 euro, assigned a rating Aaa (Moody's);

class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 225.416.196 euro.

- salary backed loans:

class A securities (senior securities): floating rate bonds equal to the Euribor three month for an amount of 722.450.000 euro, assigned rating Aaa (Moody's);

class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 113.728.307 euro.

- consumer loans:

class A securities (senior securities): floating rate bonds equal to the Euribor six months + 0,35% for an amount of 2.128.250.000 euro assigned ratings Aaa (Moody's);

class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 435.940.122 euro.

As at 31<sup>st</sup> December 2008, ordinary lines of liquidity existed granted by the Parent Bank to the special purpose entities Orio Finance Nr.2 Plc and Orio Finance Nr.3 Plc for a total of 10,8 million euro, but never drawn on. Ordinary lines of liquidity have also been granted by Banca 24-7 to the entity 24-7 Finance for a total of 66,6 million euro, which have been fully drawn on.

### **Securitisations: entities and roles**

The entities of the UBI Banca Group involved in the securitisation operations and the respective roles played are listed below:

## UBI Finance 2

Originator	UBI Banco di Brescia S.p.A.
Issuer	UBI Finance 2 S.r.l.
Servicer	UBI Banca S.c.p.a.
Subservicer	UBI Banco di Brescia S.p.A.
Collection Account Bank	UBI Banca S.c.p.a.
Investment Account Bank	The Bank of New York Mellon
Cash Manager	The Bank of New York Mellon
Quotaholder	UBI Banca S.c.p.a.

## Lombarda Lease Finance 2

Originator	UBI Leasing S.p.A.
Issuer	Lombarda Lease Finance 2 S.r.l.
Servicer	UBI Leasing S.p.A.
Collection Account Bank	UBI Banco di Brescia, Luxembourg Branch
Investment Account Bank	UBI Banco di Brescia, Luxembourg Branch
Cash Manager	UBI Banco di Brescia, Luxembourg Branch
Class D Notes Depository	UBI Banco di Brescia
Quotaholder	UBI Banca S.c.p.a.

## Lombarda Lease Finance 3

Originator	UBI Leasing S.p.A.
Issuer	Lombarda Lease Finance 3 S.r.l.
Servicer	UBI Leasing S.p.A.
Collection Account Bank	UBI Banco di Brescia, Luxembourg Branch
Investment Account Bank	UBI Banco di Brescia, Luxembourg Branch
Cash Manager	UBI Banco di Brescia, Luxembourg Branch
Class D Notes Depository	UBI Banco di Brescia
Quotaholder	UBI Banca S.c.p.a.

## Lombarda Lease Finance 4

Originator	UBI Leasing S.p.A.
Issuer	Lombarda Lease Finance 4 S.r.l.
Servicer	UBI Leasing S.p.A.
Collection Account Bank	UBI Banco di Brescia, Luxembourg Branch
Investment Account Bank	UBI Banco di Brescia, Luxembourg Branch
Cash Manager	UBI Banco di Brescia, Luxembourg Branch
Quotaholder	UBI Banca S.c.p.a.

## UBI Lease Finance 5

Originator	UBI Leasing S.p.A.
Issuer	UBI Lease Finance 5 S.r.l.
Servicer	UBI Leasing S.p.A.
Investment Account Bank	The Bank of New York Mellon
Cash Manager	The Bank of New York Mellon
Calculation Agent	The Bank of New York Mellon
Account Bank	The Bank of New York S.A. Italian Branch

### **Albenza 2 Società per la Cartolarizzazione S.r.l.**

Originator	UBI Banca Popolare di Bergamo S.p.A.
Issuer	Albenza 2 Società per la Cartolarizzazione S.r.l.
Servicer	UBI Banca S.c.p.a.
Collection Account Bank	UBI Banca Popolare di Bergamo S.p.A.
Calculation Agent	Meliorbanca S.p.A.

### **Albenza 3 Società per la Cartolarizzazione S.r.l.**

Originator	UBI Banca Popolare di Bergamo S.p.A.
Issuer	Albenza 3 Società per la Cartolarizzazione S.r.l.
Servicer	UBI Banca S.c.p.a.
Collection Account Bank	UBI Banca Popolare di Bergamo S.p.A.
Calculation Agent	Centrobanca S.p.A.

### **Orio Finance nr 2 plc**

Originator	UBI Banca (ex BPB Inte Fin – Dublin)
Issuer	Orio Finance nr 2 plc
Servicer	Citibank N.A..
Collection Account Bank	Citibank N.A.
Cash Manager	Citibank N.A.

### **Orio Finance nr 3 plc**

Originator	UBI Banca (ex BPB Inte Fin – Dublino)
Issuer	Orio Finance nr 3 plc
Servicer	Citibank N.A..
Collection Account Bank	Citibank N.A.
Cash Manager	Citibank N.A.

### **Sintonia Finance**

Originator	Multioriginator – The originator belonging to the UBI Group is Centrobanca S.p.A.
Issuer	Sintonia Finance s.r.l.
Servicer	Centrobanca S.p.A.
Collection Account Bank	Centrobanca S.p.A.
Investment Account Bank	Citibank N.A. London Branch
Cash Manager	Citibank N.A. London Branch

### **24-7 Finance S.r.l.**

Originator	B@nca 24-7 S.p.A.
Issuer	24-7 Finance s.r.l
Servicer	B@nca 24-7 S.p.A.
Quotaholder	UBI Banca S.c.p.a.
Collection Account Bank	The Bank of New York
Cash Manager	The Bank of New York - London Branch
Calculation Agent	The Bank of New York - London Branch
Investment Account Bank	The Bank of New York
Class D Notes Depository	Monte Titoli

It was decided to outsource corporate servicing to KPMG Fides for these securitisations described above: UBI Finance 2, Lombarda Lease Finance 2, Lombarda Lease Finance 3, Lombarda Lease Finance 4 and UBI Lease Finance 5. A professional firm of consultants was appointed for the remaining securitisations with the exception of 24-7 Finance for which servicing was performed by the originator itself (Banca 24/7).

It was decided not to outsource IT and accounting operations related to servicer activities. Continuous cash collection activities were performed by the originators making use, amongst other things, of the main Group accounting system. This was also useful for reconstructing movements in the accounts of the securitisation companies and therefore for providing them with the information needed by the corporate servicers for preparing financial statements.

In order to ensure continuity and effectiveness in the performance of their servicer functions, appropriate technical and organisational units were created to monitor the various phases of the securitisation process. Accounting and reporting systems were designed, which took account of the need to be able to reconstruct all transactions at any moment.

The major part of the management of securitisations is performed by the Finance Function, the Management Control Function, the Risks Area and the Mortgage Back Office Function. The roles and tasks relating to the performance of the various operational phases of servicing and to monitoring performance figures were defined in those units.

A set of reports monitoring each individual securitisation operation is prepared quarterly for senior management, with half year reports for the Board of Directors and the Board of Statutory Auditors.

In compliance with regulatory guidelines, the Internal Audit Function performs its activities to monitor securitisation operations, with particular reference to servicer activities, for compliance with Law No. 130/99, with the company prospectuses and the contracts entered into and it reports the results of periodic monitoring half yearly to the Management Board and to the Board of Statutory Auditors

All the securitisations are hedged by swap contracts where the main objective is to stabilise the flow of interest generated by the securitised portfolio and to protect the special purpose entity from interest rate risk.

Swap contracts were concluded for each securitisation between the respective SPEs and the respective swap counterparties who, in order to be able to “close” the risk with the originators, signed contracts identical in form but opposite in their effects with UBI Banca which in turn renegotiated further mirror swaps with the respective originators. The only particular case was the Sintonia Finance securitisation which Centrobanca S.p.A. closed directly, without going through the Parent Bank, hedging the risk by means of a swap contract.

### ***Securitisations: methodologies for calculating exposures***

The UBI Banca Group uses the standardised approach to calculate capital requirements for securitisation transactions.

### ***Securitisations: accounting policies***

The accounting policies pursued for recognising securitisation are based on the rules for the derecognition from the balance sheet of assets and liabilities previously recognised, in compliance with IAS/IFRS international accounting standards and IAS 39 in particular.

The derecognition of financial assets from the balance sheet is subject to a process of verification reported in IAS 39, which requires examination of the separate items of the assets subject to derecognition. With total derecognition, the entire amount for the asset transferred

is written off the balance sheet with any difference between the carrying amount and the sales price recognised in the income statement. The necessary conditions for the full derecognition of a financial asset are the expiration of the contractual rights to receive cash flows from it, or in other words the transfer of the rights to receive the cash flows from the asset to a counterparty outside the Group. Also, the derecognition of a financial assets is subject to verification that all the risks and rewards deriving from ownership of them have been effectively transferred. If all the risks and rewards have been transferred, then the asset transferred is derecognised and the rights and obligations relating to the transfer are recognised separately.

In cases where securitisations do not satisfy the requirements for derecognition, the assets subject to securitisation remain on the balance sheet of the transferer. The bank is required to recognise a liability corresponding to the amount received in payment for the transfer and to subsequently recognise all the income accruing on the asset and also all the expenses accruing on the liability.



## Quantitative information

### Securitisations: positions for own and third party securitisations

Quality of underlying assets/Exposures	On balance sheet exposure						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
<b>A. With own underlying assets:</b>																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. With underlying assets of others:</b>																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	174.620	174.620	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

### Securitisations: positions for third part securitisations by type of asset securitised and by type of exposure

Type of underlying assets/Exposures	On balance sheet exposure						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs	Carrying amount	Impairment losses/w write-backs
<b>CBO INVESTMENT JERSEY LTD</b>																		
Securities	44.311	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Securitisation INPS (NATIONAL INSURANCE INSTITUTE) 19 TV - Company SCCI</b>																		
ABS Securities	40.101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Securitisation INPS (NATIONAL INSURANCE INSTITUTE) 18 TV - Company SCCI</b>																		
ABS Securities	90.208	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**Securitisations: positions by financial asset portfolio and type**

Exposure/portfolio	Trading	At fair value	Available-for-sale	Held-to-maturity	Loans	31/12/2008
<b>1. On balance sheet exposures</b>	<b>44.311</b>	<b>0</b>	<b>130.309</b>	<b>0</b>	<b>0</b>	<b>174.620</b>
- Senior	44.311	-	130.309	-	-	174.620
- Mezzanine	-	-	-	-	-	-
- Junior	-	-	-	-	-	-
<b>2. Off-balance sheet exposures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Senior	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-
- Junior	-	-	-	-	-	-

**Securitisations: total amount of the securitised assets underlying the junior securities or other forms of lending support**

Assets/Amounts	Traditional securitisations	Synthetic securitisations
<b>A. Own underlying assets:</b>		
<b>A.1 Subject to full derecognition</b>		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
<b>A.2 Subject to partial derecognition</b>		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
<b>A.3 Not derecognised</b>		
1. Non performing loans	-	-
2. Impaired loans	-	-
3. Restructured exposures	-	-
4. Past due exposures	-	-
5. Other assets	-	-
<b>B. Underlying assets of others:</b>		
B.1 Non performing loans	-	-
B.2 Impaired loans	-	-
B.3 Rescheduled exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

**Securitisations: type of exposure by weighting bands**

SECURITISATIONS: TYPE OF EXPOSURE BY WEIGHTING STEPS (STANDARDISED APPROACH)							
<b>Own securitisations</b>	<b>20%</b>	<b>50%</b>	<b>100%</b>	<b>350%</b>	<b>1250%</b>	<b>1250% unrated</b>	<b>TOTAL</b>
Traditional						21.000	21.000
Synthetic							-
<b>TOTAL OWN SECURITISATIONS</b>	-	-	-	-	-	<b>21.000</b>	<b>21.000</b>
<b>Third party securitisations</b>	<b>20%</b>	<b>50%</b>	<b>100%</b>	<b>350%</b>	<b>1250%</b>	<b>1250% unrated</b>	<b>TOTAL</b>
Traditional	174.620						174.620
Synthetic							-
<b>TOTAL THIRD PARTY SECURITISATIONS</b>	<b>174.620</b>	-	-	-	-	-	<b>174.620</b>

**Securitisations: Servicer activity – payments received on securitised loans and redemptions of securities issued by the special purpose entity**

Servicer	Special purpose entity	Securitized assets (end of period figure)		Payments received on loans during year		Percentage of securities redeemed (the end of period figure)					
		Impaired assets	Performing assets	Impaired assets	Performing assets	Senior		Mezzanine		Junior	
						Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
UBI Banca Scpa	Albenza Srl	-	-	-	61.222	-	1	-	-	-	-
UBI Banca Scpa	Albenza 2 Società per la cartolarizzazione Srl	2.050	63.497	44	18.359	0	1	-	-	-	-
UBI Banca Scpa	Albenza 3 Società per la cartolarizzazione Srl	913	75.005	14	29.744	-	1	-	-	-	-
UBI Banco di Brescia Spa	Lombarda Mortgage Finance Srl	-	-	2.842	172.697	-	1	-	1	0	1
UBI Banca Scpa	UBI Finance 2 Srl	-	-	-	-	-	-	-	-	-	-
Centrobanca Spa	Sintonia Finance Srl	3.470	37.789	174	13.845	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 1 Srl	-	-	-	-	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 2 Srl	1.955	62.484	453	46.486	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 3 Srl	2.352	99.679	790	53.856	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 4 Srl	16.243	529.711	3.209	266.628	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 5 Srl	-	3.866.031	16	209.442	-	-	-	-	-	-
Banca 24/7 Spa	24-7 Finance Srl	1.142	5.727.617	-	547.104	-	-	-	-	-	-

**Securitisations: financial assets transferred not derecognised**

	Financial assets held for trading			Financial assets at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Lending to banks			Lending to customers			Total 31/12/2008	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
<b>A. On-balance sheet assets</b>	<b>556.295</b>	<b>231.339</b>	<b>254.312</b>				<b>127.969</b>	<b>783.491</b>	<b>907.199</b>	<b>632.304</b>	<b>687.187</b>	<b>988.263</b>	-	-	-	<b>543.822</b>	-	-	<b>3.562.407</b>	
1. Debt securities	556.295	231.339	254.312	-	-	-	127.969	783.491	907.199	632.304	687.187	988.263	-	-	-	-	-	-	3.018.585	
2. Equity instruments	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	
3. O.I.C.R. (collective investment instruments)	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	
4. Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	543.822	-	-	543.822	
5. Impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>B. Derivative instruments</b>	-	-	-	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	-
<b>31/12/2008</b>	<b>556.295</b>	<b>231.339</b>	<b>254.312</b>	-	-	-	<b>127.969</b>	<b>783.491</b>	<b>907.199</b>	<b>632.304</b>	<b>687.187</b>	<b>988.263</b>	-	-	-	<b>543.822</b>	-	-	<b>3.562.407</b>	

**Legend:**

A = Financial assets transferred and fully recognised (carrying amount)

B = Financial assets transferred and partially recognised (carrying amount)

C = Financial assets transferred and partially recognised (entire amount)



## Table 12 – Operational risk

### *Qualitative information*

Following the entrance into force of the *New regulations for the prudential supervision of banks* (Bank of Italy Circular No. 263/06), the UBI Banca Group adopted the traditional standardised approach (TSA) in the current year in combined use with the basic indicator approach (BIA) for the calculation of capital requirements on operational risks.

The capital requirement calculated using the TSA is the product of the multiplication of gross income (the “significant indicator” consisting of item 120 on the mandatory income statement in the consolidated financial statements pursuant to Bank of Italy circular No. 262 of 22<sup>nd</sup> December 2005) separated into regulatory lines of business, by the “beta” coefficients defined in the supervisory regulations (see Bank of Italy Circulars No. 263/06 and No. 155/91).

The significant indicator for the supervisory lines of business is extrapolated from management accounting data, by applying classification criteria defined by internal regulations in compliance with supervisory instructions.

With the BIA on the other hand, the capital requirement is the product of the multiplication of total gross income by the “alfa” coefficient defined in the supervisory regulations.





## Table 13 - Equity exposures: disclosures for banking book positions

### Qualitative information

Equity investments recognised within item 100 on the balance sheet are held to achieve the business objectives of the UBI Banca (accepting deposits and lending in its various forms, both directly and through subsidiaries, both with regard to registered shareholders and to others).

Equity investments recognised within item 40 on the balance sheet (AFS portfolio), on the other hand, are held mainly for the purpose of participating in the economic and social life of the local communities which the UBI Banca Group serves, in order to assist and encourage the development of local economies. The remaining equity investments and other investments in equity capital are held for strategic purposes, to consolidate institutional relationships or for financial investment purposes.

### Accounting policies

Capital instruments included in the banking book are recognised on the balance sheet within *available-for-sale financial assets* (shares and units in O.I.C.R. – collective investment instruments – other than hedge funds) and within *financial assets at fair value* (units in hedge funds acquired after 1<sup>st</sup> July 2007).

Available-for-sale financial assets are initially recognised at fair value. Subsequent to initial recognition, these assets continue to be recognised at fair value with changes in fair value recognised in shareholders' equity – except for impairment of value which is recognised through profit or loss – until the financial asset is derecognised (at which time the total profit or loss previously recognised in shareholders' equity must be recognised through profit and loss). After the first impairment of the value of a financial asset, each additional impairment of the fair value is always recognised through profit or loss. However an increase in fair value subsequent to an impairment is always recognised in equity.

Financial assets designated at fair value are also initially recognised at fair value. These assets continue to be measured at fair value subsequently also, with changes recognised through profit or loss.

### Measurement of the fair value of financial instruments

The fair value used for measuring the value of financial instruments is determined on the basis of the hierarchy reported below.

#### Quotations taken from active markets (level 1):

the valuation is at the market price of the instrument, i.e. the price quoted. A market is defined as active when the prices quoted reflect normal market transactions, are regularly and readily available and if those prices represent actual and regular market trading.

#### Valuation methods based on observable market inputs (level 2):

these methods are used when the instrument to be valued is not quoted on an active market. The valuation of the financial instrument is based on prices inferred from market quotations for similar assets or by using valuation techniques for which all the significant factors – credit spreads and liquidity spreads – are inferred from observable market variables. Although this is the application of a valuation technique, there is no element of discretion in the resulting price, because all the parameters used are drawn from markets and the calculation methods used replicate quotations existing on active markets.

Valuation methods based on non observable market parameters (level 3):

these methods consist of determining the price of an unlisted financial instrument by making substantial use of significant parameters not inferred from markets and which therefore involve the use of estimates and assumptions made by management.

## Quantitative information

CONSOLIDATED	Carrying amounts		Fair Value		Market value	Gains/losses realised		Unrealised gains/losses		Unrealised gains/losses included within the tier 1/supplementary capital	
	Listed	Unlisted	Listed	Unlisted	Listed	Profits	Losses	Gains	Losses	Profits	Losses
<b>A. Equity instruments</b>	<b>20.342</b>	<b>14.446</b>	<b>20.342</b>	<b>14.444</b>	<b>20.342</b>	<b>14.043</b>	<b>9.100</b>	<b>7.349</b>	<b>928</b>	-	-
A.1 Shares	16.946	14.277	16.946	14.275	16.946	14.043	9.100	7.349	97	-	-
A.2 Innovative capital instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Other equity instruments	3.396	169	3.396	169	3.396	-	-	-	832	-	-
<b>B. O.I.C.R. (collective investment instruments)</b>	<b>474.803</b>	<b>111.960</b>	<b>474.803</b>	<b>112.140</b>	<b>474.803</b>	<b>14.695</b>	<b>132.587</b>	<b>4.637</b>	<b>22.126</b>	-	-
<b>B.1 Italian registered</b>	<b>33.165</b>	<b>100.197</b>	<b>33.165</b>	<b>100.197</b>	<b>33.165</b>	-	<b>3.686</b>	<b>2.585</b>	<b>20.239</b>	-	-
- harmonized open-ended	-	39.445	-	39.445	-	-	-	1.226	-	-	-
- non harmonized open-ended	-	4.800	-	4.800	-	-	-	95	295	-	-
- closed	14.646	45.592	14.646	45.592	14.646	-	14	933	19.009	-	-
- reserved	-	3.535	-	3.535	-	-	-	238	601	-	-
- speculative	18.519	6.826	18.519	6.826	18.519	-	3.673	94	334	-	-
<b>B.2 Other EU countries</b>	<b>85.897</b>	<b>1.393</b>	<b>85.897</b>	<b>1.393</b>	<b>85.897</b>	<b>3.329</b>	<b>19.766</b>	<b>2</b>	<b>1.613</b>	-	-
- harmonized open-ended	42.913	79	42.913	79	42.913	2.642	9.326	2	1	-	-
- non harmonized open-ended	32.677	-	32.677	-	32.677	686	6.778	-	-	-	-
- closed	10.308	1.314	10.308	1.314	10.308	-	3.662	-	1.612	-	-
<b>B.2 Other non EU countries</b>	<b>355.741</b>	<b>10.370</b>	<b>355.741</b>	<b>10.550</b>	<b>355.741</b>	<b>11.366</b>	<b>109.134</b>	<b>2.050</b>	<b>274</b>	-	-
- open-ended	324.342	5.189	324.342	5.189	324.342	10.430	96.165	1.580	274	-	-
- closed	31.399	5.181	31.399	5.361	31.399	936	12.969	470	-	-	-
<b>TOTAL</b>	<b>495.145</b>	<b>126.405</b>	<b>495.145</b>	<b>126.583</b>	<b>495.145</b>	<b>28.738</b>	<b>141.687</b>	<b>11.986</b>	<b>23.055</b>	-	-



## Table 14 - Interest rate risk on positions in the banking book

### *Qualitative information*

Interest rate risk arises from changes in interest rates which have the following effects:

- on net interest income and consequently on the profits of the bank (cash flow risk);
- on the net present value of assets and liabilities, which has an impact on the present value of future cash flows (fair value risk).

As already reported in the Table 1 section, exposure to interest rate risk is measured by using gap analysis and sensitivity analysis models on all those financial instruments, assets and liabilities, not included in the trading book, in accordance with supervisory regulations.

Sensitivity analysis of economic value, which includes an estimate of the impacts resulting from early repayment of mortgages and long term loans, is accompanied by sensitivity analysis of net interest income which focuses on changes in profits in the following twelve months. The estimate of the change in net interest income includes an estimate of the impact of reinvesting/refinancing maturing interest flows and the effect connected with the elasticity and viscosity of demand deposits. Both types of analysis are performed by hypothesising a parallel shock of +/-100 and +/-200 basis points on the yield curve.

The Group completed an analysis in the last quarter of 2008 of the phenomenon of early repayments of loans designed to identify a curve which matches the dynamics of the phenomenon more closely. The results of the analysis will be used as input for models to measure exposure, which will replace the indicators currently used during 2009.

Measurement, monitoring and reporting of interest rate risk exposure is performed at consolidated and individual level by the Risk Management Area of the Parent Bank, which performs the following on a monthly basis:

- a sensitivity analysis designed to measure changes in the value of assets on the basis of parallel shocks on interest rate levels for all the time buckets of the curve;
- a simulation of the impact on net interest income for the current year by means of a static gap analysis (i.e. assuming that the positions remain constant during the period), considering different hypotheses for the elasticity of on-demand items.

Exposure of the Group to interest rate risk and measures designed to modify it are examined periodically by the UBI Finance Committee.

### Quantitative information

The exposure of the UBI Group to interest rate risk, measured in terms of sensitivity in a scenario of a parallel shift in interest rates of +100 bp, amounted to approximately -277,19 million euro as at 31<sup>st</sup> December 2008.

The total level of exposure includes an estimate of the impact of the early repayment of loans (approximately +200 million euro in terms of sensitivity) and also the contribution (approximately +110 million euro in terms of sensitivity) of transactions to hedge loans granted by Group member companies, entered into after the end of the year, in order to comply with the limits set at individual company level by the Financial Risk Policy.

In detail, the core sensitivity originated by the network banks amounted to approximately -65 million euro, while approximately -8 million euro is attributable to the activities of Centrobanca, Banca 24-7 and UBI Leasing. In accordance with the strategic policy of centralising interest rate risk management, the Parent Bank contributes approximately -169 million euro to consolidated exposure, attributable principally to its hedging of the exposure of Group member companies. In fact UBI Banca operates as the sole counterparty for Group member companies in hedging derivatives contracts and, if necessary, it then closes the positions on the market on the basis of positioning with respect to the limits set by the Financial risk Policy and expected scenarios for future interest rate trends.

PARALLEL SHIFT IN THE YIELD CURVE			
Scenario	Currency	Impact on economic value	Impact on net interest income
<b>+100 bp</b>	EUR	-280,37	79,98
	Other non significant currencies	3,18	0,35
<b>TOTAL +100 BP</b>		<b>-277,19</b>	<b>80,33</b>
<b>-100 bp</b>	EUR	313,26	60,73
	Other non significant currencies	-3,18	-0,35
<b>TOTAL -100 BP</b>		<b>310,07</b>	<b>60,38</b>

NOTE. Non significant currencies are those which account for more than 5 percent of the assets or liabilities in the banking portfolio.

RISK INDICATORS

**Annual average**

**+200 bp**

Impact on economic value/Tier I 5,50%

Impact on economic value/Supervisory capital 4,00%

**-200 bp**

Impact on economic value/Tier I 6,31%

Impact on economic value/Supervisory capital 4,56%

**End of period values**

**+200 bp**

Impact on economic value/Tier I 9,30%

Impact on economic value/Supervisory capital 6,50%

**-200 bp**

Impact on economic value/Tier I 12,50%

Impact on economic value/Supervisory capital 8,71%

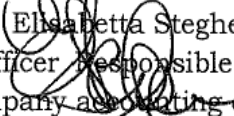
(amounts in millions of euro)





## **Declaration of the senior officer responsible for preparing corporate accounting documents**

The undersigned, Elisabetta Stegher, as the senior officer responsible for preparing the company 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 law on financial intermediation), that the information contained in this disclosure is reliably based on the records contained in corporate documents and accounting records.

  
Elisabetta Stegher  
Senior Officer responsible for preparing  
the company accounting documents