Pillar 3 disclosures

as at 31st December 2011

UBI Banca
UNIONE DI BANCHE ITALIANE

Joint stock co-operative company
Registered office: Bergamo, Piazza Vittorio Veneto 8
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent of the Unione di Banche Italiane Banking Group
Share capital as at 31st December 2011: euro 2,254,366,897.50 fully paid up

www.ubibanca.it

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Introduction

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

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

This document provides information relating to the UBI Group as at 31st December 2011. The Group does not use internal systems for the calculation of capital requirements relating to Pillar 1 risks. Consequently, the tables required for banks authorised to use internal models have not been prepared.

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

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

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

For full information, the information published relates to the supervisory consolidation, which consists of those entities subject to banking consolidation for supervisory purposes. Any differences with respect to other sources (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).

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

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 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 a sustainable value creation approach to the definition of 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 Area is also responsible for supervising capital and assessing 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 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 assessment 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 established quantitative methods have been identified, which lead to the determination of internal capital[1] or for which useful quantitative thresholds or limits can be defined which, combined with qualitative measurements, allow allocation and monitoring processes to be defined;
      - concentration risk;
      - interest rate risk;
      - business risk;
      - equity risk;
      - fixed asset risk.

      By convention measurable risks also include those risks for which, although no well established approaches exist for the estimate of internal capital, operational limits of a quantitative nature, for which there is a consensus in the literature, can be set to measure, monitor and mitigate them. These risks are:
      - liquidity risk;
      - structural liquidity risk;

   b. *non measurable*, for which policies and measures for control, reduction or mitigation are considered more appropriate because no established approaches exist for the measurement of internal capital that are useful for allocation purposes:
      - securitisation risk;
      - compliance risk;
      - reputational risk;
      - residual risk;
      - strategic risk.

First Pillar Risks

Credit risk

Credit risk is the risk of incurring losses resulting from the default of a counterparty with whom a position of credit exposure exists.

Risk management strategies and processes

The strategies, policies and instruments for the assumption and management of credit risk are defined by the Risk Management Area of the Parent in co-operation with the Credit and Credit Recovery Macro Area and with support and co-ordination of the relative specialist units. There is a particular focus in the formulation of policies to manage credit risk on maintaining an

[1] See Table 4 for a definition of internal capital.

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 management policies are to support local economies, families, businessmen, professionals and small-to-medium sized 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 continuing and difficult current economic situation, the Bank is ensuring that the economy has adequate access to credit by participating, amongst other things, in "Agreements" stipulated between the Italian Banking Association, the Ministry of Finance and trade associations, while preserving the quality of its assets and by employing an extremely selective approach to "non core" exposures.

With regard to "business" customers in particular, lending rules have been formulated and are being followed for the disbursement and management of loans, which in operational terms translate into action which ranges from the development to the containment of exposures. These rules are based on a number of drivers as follows:

- internal counterparty rating (average weighted rating for Groups of companies), linked to the degree of protection provided by any accessory guarantees there may be;
- degree of engagement of the UBI Group with the counterparty or Group of companies;
- the economic sector to which the counterparty or Group of companies belongs with a view to:
  – the level of sector risk;
  – the overall level of concentration of the UBI Group in the individual economic sector (with verification also of the concentration at individual bank or company level).

The credit risk management policies in place as at 31st December 2011 are given below.

- *Credit Risk Management Policy*, which unifies regulations for the management of different types of credit risk, previously contained in separate policies. This therefore resulted in a common approach to the assumption of risk and procedures to manage it and it standardised risk indicators, while taking account of the specifics of each class of risk. The policy gives details of limits and it regulates the procedures for assuming risk for the following types of risk:
  - credit risk (including counterparty risk) can be divided into the following two types:
    - credit risk relating to business with ordinary customers, with a specific focus on: i) credit risk relating to Centrobanca's business involving structured finance; ii) credit risk relating to Centrobanca's private equity business;
    - credit risk relating to business with institutional customers and with ordinary customers resident in high risk countries;
  - concentration risk (previously governed by a specific policy).

- *Policy for the distribution of mortgage loans through brokers*: this 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.
- *The policy on the portability, renegotiation, substitution and early repayment of mortgages for direct customers of the network banks*, contains the UBI Group guidelines for portability (in both directions), the renegotiation (including the rescheduling of instalments as regulated by the agreement between the Ministry of the Economy and

Finance and the Italian Banking Association), the substitution and early repayment (partial or total) of mortgages. It is designed (by setting minimum standards of service amongst other things) to minimise times required, conditions and related costs and also to equip the Group with appropriate processes and instruments to manage the relative risks (credit, operational and reputation).

- *Policy on the portability, renegotiation, substitution and early repayment of brokered mortgages* which sets, for this specific type of business, maximum time limits for responding to customers for which the necessary monitoring process must be put in place.
- *Risk-adjusted policy*, which defines a process to formulate and implement risk-adjusted pricing approaches for various products which involve the assumption of credit risk;

Structure and organisation of the relative risk management function

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

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

The characteristics of that organisational model ensure strong standardisation between the units of the Parent and the corresponding units in the network banks, with consequent linearity in the processes and the optimisation of information flows. Loan granting activity is also differentiated by customer segment (retail/private banking/corporate and institutional) and specialised by the status of the loan: "performing" (managed by retail, private banking and corporate lending units) and "default" (managed by problem loan units).
Furthermore, with regard to banks, the introduction of decentralised Local Credit Units to support retail branches and corporate banking and private banking units, ensures effective co-ordination and liaison between units operating on their respective markets. The Parent oversees policy management, overall portfolio monitoring, the refinement of assessment systems, problem loan management and compliance with regulations through the Credit and Credit Recovery, Risk Control, Strategic Development and Planning and the Parent and Group Audit Macro Areas.
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, the Parent 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 is responsible for granting, changing and renewing operational limits on the basis of proposals from 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 for combinations of a) amounts of authorised credit and b) determined internal rating classes. It is the Parent'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 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 of UBI Banca to issue a prior non binding opinion in those cases where Credit Authorisation Regulations require it. The Portfolio Policy and Quality Service in the UBI Banca Credit and Credit Recovery Macro-Area 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.

Furthermore an "arrears management" system is operational, designed to preserve and protect customer relationships through the prompt resolution of lending irregularities (late repayments/unauthorised overdrafts) detected on performing private individual and "small economic operator" customers by providing centralised support contact with customers to normalise problem loan positions.

The Risk Management Area is located in the Risk Control Macro Area and it performs the following through its Credit Risk Service:

- 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 with the Rating Desk and the Major Borrowers Rating units in that same Area, 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 distribution by rating class, LGD and Expected Loss, rates of loan deterioration 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 Centrobanca and loan impairment 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 with the Commercial Macro Area and with the Planning and Management Control Area 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;
- it monitors the extent to which regulatory provisions are covered by internal rating models;
- it co-ordinates activities for the development and maintenance of internal rating processes and systems.

Finally, the Risk Policies Service forms part of the Risk Management Area and it formulates policies for the assumption and management of risk, including credit risk.

More specifically, the Service formulates the operational details of policies by preparing regulations to implement them and also detailed documents, both for the Parent and for single banks and companies, which illustrate aspects relating to the definition, use, monitoring and reporting of risk in relation to compliance with the guidelines and the indicators that are set. These documents are implemented by the organisational units of Group entities, which must have a knowledge of the risk profile and the risk management policies defined by the senior management of the Parent and which must contribute, each within the scope of their responsibilities, to the implementation, consistent with the reality of their companies, of the risk management strategies and policies decided by the senior management of the Parent.

Finally, the Service also provides specialist support for the operational implementation of the policies and regulations for them, concerning the assumption and management of credit risk and it periodically monitors their consistency with Group operations, and proposes corrective action if necessary.

The Area then 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. As concerns the production and distribution of products which involve the assumption of credit risk by Group member companies, it participates, together with the Commercial Macro Area, in the definition of the relative convention agreements.

Scope of application and characteristics of the risk measurement and reporting systems

The set of models which constitute the internal rating system (IRB) of the Group are managed by the Risk Management Area and by the Credit Area.

The system at present 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. However, a mainly judgemental model for major borrowers (i.e. groups of companies with authorised credit of greater than €20 million) was discontinued from July 2011. 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.

As part of the Basel 2 project activities, which involve an initial validation on the network banks and Centrobanca limited to the "businesses" supervisory portfolio, estimates were performed on a new generation of rating and LGD estimation models for that portfolio, following, amongst other things, discussions with the Supervisory Authority.

The main features of this new generation of rating models are as follows:

- the revision of the credit risk segmentation, which defines which model is applied to each counterparty;
- the development of a new quantitative component, which uses internal models for the analysis of the financial component, abandoning the use of a model furnished by an external provider;
- the development of new software engines to integrate the different components of quantitative analysis;
- the development of new qualitative questionnaires;
- a different procedure for incorporating information on the group of companies to which a counterparty belongs within automatic rating models;
- a different procedure for updating ratings designed to ensure an optimum mix between the need to incorporate up-to-date information and maintain a low level of volatility.

Estimates were performed with regard to LGD on the new models for the network banks, based, amongst other things, on econometric estimate factors and used both from a management and regulatory viewpoint. Centrobanca estimate models were also subjected to detailed revision, which involved not only an update of the historical data series employed, but also a revision of the clusters and underlying assumptions, with a conservative orientation.

Credit processes within the network banks work with information channelled from the rating system as described in detail below.

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 and by the expected loss, while they are managed using *Pratica Elettronica di Fido* (electronic credit authorisation) software. The credit ratings are used, amongst other things, to monitor loans 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 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 quarterly to the Boards of Directors of the individual network banks. For the network banks and Centrobanca the reports describe distributions by internal rating classes, LGD and expected loss and for the network banks they also 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.

Hedging and risk mitigation policies

The Group employs standard risk mitigation techniques used in the banking sector by acquiring collateral 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. Prudent "haircuts" are applied to the estimated value of collateral depending on the type of security.

In order to ensure that general and specific requirements are met for recognition of collateral, as part of its credit risk mitigation techniques (CRM) (in accordance with Bank of Italy Circular No. 263 of 27/12/2006 and subsequent updates), for prudent purposes the UBI Group has performed the following:

- redefined credit processes relating to the acquisition and management of collateral. With particular regard to mortgages, in network banks it is 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 acquisition of the relative information, including notarial information (details of registrations), essential for guarantees to be accepted;
- acquired, for existing mortgages, all the information required to ensure that they are admissible, in line with the provisions of Basel 2 in terms of specific requirements.

Organisational and IT procedures were consolidated in 2011 for the management of collateral, based on set processes to approve, value and monitor them.

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 is defined as the risk that a counterparty to a transaction involving financial instruments defaults before the transaction itself is settled.

The UBI Group holds derivative financial instruments for both hedging and for trading purposes and enters into derivative contracts with a large variety of underlyings (interest rates, exchange rates, commodities), with both institutional and other customers.

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.

See Table 9 for further information on counterparty risk.

Market risk

Market risk is the risk of changes in market value or in financial instruments held due to unexpected changes in market conditions and the credit rating of the issuer.

Risk management strategies and processes

The guidelines for the assumption and monitoring of market risk in the UBI Banca Group are defined in the *Policy to Manage Financial Risks of the UBI Banca Group* and in the relative documents to implement it (*Regulations and document setting operational limits*) with particular reference to market risk on the trading book and to interest rate, currency and liquidity risks on the banking book.

Within 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. The following are defined for each portfolio of the Group:

- mission,
- maximum loss limit,
- VaR limit,
- possible limits on the type of financial instruments permitted,
- possible limits on composition.

Consistent with the limits set by the policy, the Document setting operational limits defines operational limits for the trading book of the UBI Group in 2011, both at general level and for counterparties and single portfolios.

The main operational limits for the trading book of the UBI Group for 2011 (including the reallocations and the new limits defined in the second half of the year) are given below.

• maximum loss for the UBI Group trading book	€110.47 million
• early warning threshold on maximum acceptable loss (MAL)	70% MAL
• one day VaR limit for the UBI Group trading book	€18.21 million
• *early warning threshold* on VaR	80% VaR

Observance of the limits set for each portfolio is monitored daily.

Structure and organisation of the relative risk management function

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

Financial risks are monitored daily by the Financial Risks Service in the Risk Management Area by calculating the VaR for all the portfolios held by the UBI Banca Group classified as part of the trading book, and this is completed by actual and theoretical backtesting. The levels of VaR and MAC (maximum acceptable loss) are monitored for portfolios on which limits are set and overshoots are reported, in compliance with the Financial Risk Policy and regulations.

Scope of application and characteristics of the risk measurement and reporting systems

The summary indicator used to assess the exposure of the Bank to financial risks is that of the value at risk. This is a statistical measure which gives an estimate of the loss that could occur following adverse changes in risk factors. The VaR of the UBI Banca Group is measured using a confidence interval 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 VaR gives the "threshold" of the daily loss which, on the basis of probability hypotheses could only be exceeded in 1% of cases.

The method used for calculating VaR is that of historical simulation. With this approach the portfolio is revalued by applying all the changes in risk factors recorded in the two previous years (500 observations). The values thus obtained are compared with the present value of the portfolio to give a hypothetical series of gains or losses. The VaR corresponds to the sixth worst result (confidence interval of 99%) of those obtained.

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 an actual P&L calculated by the front office systems of the Group. Retrospective tests consider changes in the value of the portfolio resulting from the front office systems of the Group, determined on day t with respect to positions present at t-1. The actual P&L is generated from all the transactions opposite in sign to the initial position for a total amount less than or equal to the total of the position t-1 without considering transactions of the same sign as the initial position that may have arisen during the day.

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 Financial Risk Policy and regulations.

In addition to the above reports, an analysis document is prepared 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

Operational risk is defined as the risk of loss resulting from inadequate or failed procedures, human resources and internal systems or from exogenous events. This type of risk includes loss resulting from fraud, human error, business disruption, system failure, non performance of contracts and natural disasters. This definition includes the legal risk of losses resulting from violations of laws and regulations and from contractual or non contractual responsibilities or from other litigation, but it does not include reputational and strategic risk.

Risk management strategies and processes

When formulating its policy to manage operational risk, the UBI Banca Group placed a particular focus on maintaining an appropriate risk profile that is consistent with the propensity to risk 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[2] 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. 263/06, the UBI Banca Group has adopted 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 commenced the procedures for the authorisation by the supervisory authority for the use of an "advanced measurement approach" (AMA) internal model in combined use with the TSA and BIA approaches which should be completed by 17th June 2012.

Structure and organisation of the relative risk management function

The organisational model for the management of operational risks is based on a combination of components based on the responsibilities assigned and the specific position occupied in the organisation chart, both centralised and decentralised, consistent with the federal, multi-functional and integrated structure of the Group. In this context the Parent performs the

[2] 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.

functions of management, co-ordination and control, and the supervision of business functions, which includes supporting the activities of network banks and product companies in their core businesses, and it supplies common support services either directly or through subsidiaries.

The design of the organisational structure is differentiated and based on the size and operational complexity of each entity in the Group: Parent, service company, commercial banks, product companies. Centralised responsibilities, each within the scope of their functions, are assigned to the following:

– the **Operational Risks Committee** is the policy making and governance body which oversees the general process of operational risk management. Its composition, functional rules, duties and powers are governed by the General Corporate Regulations;

– **Operational Risks Service**: as the unit responsible for the general system of operational risk management, it plans develops and maintains methods for the detection, measurement and monitoring of operational risk and it verifies the effectiveness of measures to mitigate operational risk and of the relative reporting systems. It is also responsible for policy setting, co-ordination and control of the overall system at Group level;

– the **Methods and Models Service** is the unit responsible for calculating capital requirements for the legal entities of the Group which intend to adopt advanced approaches on the basis of validation instructions received from the Models and Processes Validation Service and other internal and external bodies according to the case. This service forms part of the Operational Risk Service;

– the **Models and Processes Validation Service**: as a function that is independent of persons or units involved in the development of risk management and measurement systems, it is responsible for the continuous assessment of the quality of the operational risk management system and its compliance over time with legislation and regulations, operational requirements and market demands. Its activities include verification of the reliability of capital requirement calculations and tests of the use of the measurement system in decision making processes and in the management of operational risks (use tests);

– the **Risk Policies Service** is the unit responsible for formulating and revising the "Operational Risk Policy of the UBI Banca Group". It is also involved in assessing and taking out insurance policies to mitigate operational risk following procedures contained in the Insurance Risk Management Regulations.

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

– **Operational Risk Officer** (ORO): these are responsible within their legal entities (Parent – network banks – product companies) for implementing the overall framework for the management of operational risks as defined by Group policies and the respective regulations to implement it;

– **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 entities to which they belong. In the legal entities to which they belong these officers also support and co-ordinate the Risk Champions and Risk Owners who liaise with those involved in the operational risk management system;

- **Risk Champion** (RC): operationally responsible for supervising operational risk management (loss data collection – LDC – and self risk assessment) 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 loss events (LDC), both actual and/or potential, which occur 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.

Scope of application and characteristics of the risk measurement and reporting systems

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, almost a loss (a "near miss") or a profitable event. 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, operational context factors and significant internal control system 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 the AMA and the standardised methods. The measurement of operational risk using the AMA system is performed using an extreme value theory (EVT) approach, based on all of the three sources of information described above (internally detected operational losses [LDC], assessment of potential exposure to risk [self risk assessment] and operational losses incurred in the national banking sector [DIPO]).

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 and of the main legal entities in the Group 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 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.

Hedging and risk mitigation policies

The UBI Banca Group has taken out adequate insurance policies to cover the principal transferable operational risks with due account taken of supervisory regulations (Bank of Italy Circular No. 263/2006). The policies were taken out by UBI Banca Scpa 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.

Concentration risk can be divided into two types:

- single name concentration risk;
- sector concentration risk.

Algorithms can be used to calculate a measure of internal capital for concentration risk designed to take account of the higher sensitivity of a more concentrated portfolio to the default of a single customer (or group of related customers).

More specifically the approach suggested by Circular No. 263/2006, which involves the calculation of Granularity Adjustment (GA) can be used for the calculation of internal capital for single name concentration risk. For sector concentration risk, use is made of the methodology developed by the Italian Banking Association, which measures the impacts on internal capital caused by changes in sector concentration, as measured by the Herfindahl (Hs) index. The Group produces additional stress testing measurements, obtained by using 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 control and management of structural interest rate risk - fair value and cash flow – is performed in a centralised manner by the Parent within the framework, defined annually, of the *Policy to Manage Financial Risks of the UBI Banca Group*, which identifies measurement methods and models and limits or early warning thresholds in relation to net interest income and the economic value of the Group.

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

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

Sensitivity analysis on economic value, which includes an estimate of the impacts resulting from early repayment of mortgages and long term loans, is accompanied by an estimate of the variation in net interest income. Both types of analysis are performed by hypothesising a shock of a parallel rise in the yield curve of 100 basis points. The calculation of sensitivity on economic value is for items to maturity only and is performed by including impacts resulting from the early repayment and renegotiation of mortgages and loans. The analysis of the impact on net interest income is over a time horizon of twelve months, with account taken of both the variation in the profit on demand items (inclusive of viscosity phenomena) and that variation for items to held to maturity.

The management of interest rate risk also includes monitoring specific and macro hedges using derivative financial instruments for fixed and mixed rate 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:

- for net commission income, excluding performance fees, earnings at risk (EaR) is calculated by applying a parametric approach;
- for performance fees, the capital at risk is equal to the value recorded during the year.

Business risk is subjected to stress tests which are tools used to identify and manage situations that might result in extraordinary losses. To achieve this, possible decreases in net commissions are analysed according to three different levels of severity.

Equity risk

Equity risk is defined as the risk of losses incurred in equity investments that are not fully consolidated on a line-by-line basis.

The portfolio considered contains all the equity investments held by the Group in companies outside the Group, which is to say in companies that are not included in the consolidation and where the total percentage equity interest held is less than an absolute majority of the share capital.

Internal capital for equity risk is estimated using a method similar to that employed for market risk. More specifically, the internal method used by the Group employs a market-based approach to equity applied to a long-term historical data series.

The tool used to measure it is Value at Risk (VaR), which quantifies the maximum potential loss resulting from decreases in the fair value of equity investments, over a quarterly time horizon with a confidence interval of 99.95%.

The ICAAP Service performs stress tests by hypothesising a shock to share prices solely for significant listed equity investments of the Group, at three levels of severity.

Fixed asset risk

Fixed asset risk is defined as the *risk of changes in the value of the tangible fixed assets of the Group.*

Securitisation risk

Securitisation risk is defined as the risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk.

This risk relates to securitisations in which the Group is the originator, both for conventional and synthetic securitisations.

The management and mitigation of securitisation risks are performed by applying a specific internal policy (Securitisation Risk Policy), set at Group level, which specifies the process for the approval of new securitisations. It ensures that minimum internal requirements are verified by all the units involved at the Parent and in the network banks and product companies involved in the securitisation.

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).

Activities in the UBI Group to identify, assess, monitor and report on compliance with specific laws, regulations and procedures, and also the methodologies used for those areas defined in the compliance risk management policy, are performed by the Compliance Area, which from within the Risk Control Macro Area, reports directly to the CRO to the CEO and to the Supervisory Board.

The Compliance Area, in line with Bank of Italy and Consob supervisory regulations, assesses the adequacy and effectiveness of internal procedures in order to prevent the violation of self and variously regulated rules and regulations. The principal duties of the Compliance Area are as follows:

- the continuous identification of regulations that apply to the Bank and the measurement and assessment of their impact on corporate processes and procedures;
- proposals to make organisational and procedural modifications designed to ensure adequate management of non compliance risks identified;
- direct reporting to the corporate bodies and organisational units involved (operational risk management and internal audit);

- verification of the effectiveness of organisational changes (to operational and commercial units, processes and procedures) recommended for the prevention of non compliance risks.

In order to achieve its aims, the Compliance Function forms part of the system of internal controls – as part of functions to monitor the management of second level risks or controls. Its objective is to "contribute to the definition of non compliance risk measurement and assessment methodologies, to identify appropriate procedures for the prevention of the risks detected and to propose the adoption of those procedures". Also, given its across-the-board, pervasive nature and the degree to which non compliance risk is distributed with regard to the operations of the Group, the risk is addressed using an *ex-ante* approach, i.e. making use of activities oriented primarily towards the prevention and elimination of the risk rather than to mitigate it. The Compliance Area exercises its responsibility primarily by means of specific "compliance processes", running across organisational units and it makes use of specialist expertise (legal, organisational, risk, technological, human resource, audit, etc.) for the proper and effective implementation of those processes made available in "specialist compliance units" located in the different companies of the Group.

The organisational model described briefly below, consists of a "**mixed, distributed organisational structure**", existing on different hierarchical levels and co-ordinated by the Compliance Area of the Parent with the intention of "bringing the compliance process within the sphere of the unit". It comprises the following roles:

- <u>Chief of the Parent and Group Compliance Area</u>, the head of the specialist unit named the Compliance Area;

- <u>Compliance Contact</u> in all the Network Banks and Group member companies with a "simple" organisational structure;

- <u>Compliance Chief (or Compliance Officer for companies operating abroad)</u> in all Group member companies with a "complex" structure, where compulsory in accordance with legislation and regulations;

- <u>Specialist Unit</u>, responsible for contributing to compliance processes on specialist matters in single regulatory areas;

- <u>Operational Compliance Units</u> (organisation, legal affairs, IT, training, etc.).

The regulatory duties of the Compliance Function are designed to ensure the management of non compliance risk, with the following aims:

- to guarantee compliance with regulations by corporate processes and therefore appropriate conduct by all personnel;

- to ensure that the interests of customers and investors' interests are protected;

- to co-operate in the policy to establish relations of trust with stakeholders.

In this perspective, the Compliance Function reports directly on an operational basis to the Management Board and the Supervisory Board and also to them through the Internal Control Committee. These bodies must receive systematic and periodic reports which will give them a broad view of the degree of compliance with the relevant regulations in organisational units and operating processes.

Any indication of significant violations or irregularities concerning compliance are promptly reported to those bodies, together with information on corrective action to be undertaken and reports on implementation of that action and the results achieved.

The Compliance Area, which exercises second level controls in the Internal Control System works in close co-operation with both the Risk Management Area and the Parent and Group Audit Macro Area.

In this organisational position, it is also subject to control by the Internal Audit Function, which is responsible for periodically verifying the adequacy and effectiveness of the Compliance Function.

While relationship dynamics will in any case drive actual demands for communication, the Compliance Function co-operates actively with Risk Management, with which it shares methodologies of non compliance risk analysis and assessment and all elements useful for identifying and assessing at-risk activities on which annual programmes and operating procedures are based for the management and prevention of risk in which the Compliance Function takes part.

Co-operation is similarly very close with the Parent and Group Audit Macro Area, which provides consultation designed to ensure the uniformity of the organisational model employed and the consistency of compliance procedures with the internal audit assessment model.

The current model involves reciprocal reporting between the two functions which are also required to inform each other promptly, whenever events of a serious nature occur.

Liquidity risk and structural liquidity risk

Liquidity risk is defined in the UBI Group as the risk of the failure to meet payment obligations which can be caused either by an inability to raise funds or by raising them at higher than market costs (funding liquidity risk), or the presence of restrictions on the ability to sell assets (market liquidity risk) with losses incurred on capital account.

Structural liquidity risk is defined as the risk resulting from a mismatch between the sources of funding and lending.

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

The general principles on which liquidity management within the Group is based are as follows:

- the adoption of a centralised management system run by Group Treasury;
- diversification of the sources of funding and limits on exposure to institutional counterparties;
- protection of Group capital in liquidity crisis situations;
- a proper financial balance between assets and liabilities;
- a proper level of eligible and/or liquid assets, sufficient to meet liquidity requirements even under stress conditions.

The reference framework for the measurement, monitoring and management of exposure to liquidity risk is defined annually as part of the *Policy to Manage Financial Risks of the Group* and the relative *Regulations to implement it and the document setting operational limits* approved by the corporate governance bodies.

Corporate risk policies are supplemented by a *contingency funding plan* (CFP), an emergency plan for liquidity management, the main aim of which is to protect the Bank's assets in situations of liquidity drainage, by putting in place crisis management strategies and procedures to find sources of funding in cases of emergency.

In 2011 both the system for monitoring liquidity risk and the relative structural balance between assets and liabilities was revised in order to incorporate the developments and recommendations of the international process in progress to revise the regulations governing liquidity risk.

These documents contain detailed rules for the pursuit and maintenance of an adequate degree of diversification in the sources of funding and a proper structural balance between the sources and uses of funds for the network banks and the product companies, through the pursuit of co-ordinated and efficient funding and lending policies.

The following are responsible for liquidity risk management:

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

The system for the management of liquidity risk defined by the *Policy to Manage Financial Risks* of the UBI Banca Group and supplemented by the *Contingency Funding Plan* is based on a system of early warning thresholds and limits consistent with the general principles on which liquidity management within the Group is based.

More specifically, liquidity risk is managed by means of the measurement, monitoring and management of the expected liquidity requirement, using a net liquidity balance model of analysis at consolidated level, supplemented with stress tests designed to assess the Group's ability to withstand crisis scenarios characterised by an increasing level of severity.

The net liquidity balance is obtained from the daily liquidity ladder by comparing expected cash flow projections with counterbalancing capacity over a time horizon of up to three months. The cumulative sum of expected cash flows and of the counterbalancing capacity, for each time bucket, quantifies liquidity risk measured under different stress scenarios.

The objectives of stress tests are to measure the vulnerability of the Group to exceptional but plausible events and they provide a better assessment of exposure to liquidity risk, the systems for mitigating and monitoring them and the length of the survival period under hypotheses of adverse scenarios. The following risk factors that can alternatively affect the cumulative imbalance of cash inflows and outflows or the liquidity reserve are considered in the definition of stress scenarios, divided into base stress and internal scenarios:

- wholesale funding risk: shortage of unsecured and secured funding on the institutional market;
- retail funding risk: volatility of on demand liabilities relating to ordinary customers and redemptions of own securities;
- off balance sheet liquidity risk: use of margins available on irrevocable credit lines;
- market liquidity risk: fall in the value of securities which constitute a liquidity reserve and an increase in the margins requested for positions in financial derivative instruments.

Monitoring the level of cover to meet expected liquidity requirements through an adequate reserve of liquidity is accompanied by daily monitoring of exposure on the interbank market.

Limits and early warning thresholds are set for the two indicators mentioned and a contingency funding plan is triggered if they are exceeded.

In compliance with supervisory provisions, the system for the management of liquidity risk employed by the Group also involves monitoring sources of funding both at consolidated and individual company level, by using a system of indicators. In this respect specific thresholds are set both for the maximum level of funding from institutional markets, considered more volatile under stress conditions, and the minimum levels of cover for lending activity with funding from ordinary customers or with medium to long-term funding from institutional customers.

Finally the management of structural balance is performed by using models which measure the degree of stability of liabilities and the degree of liquidity of assets in order to mitigate risk associated with the transformation of maturities within a tolerance threshold considered acceptable by the Group. The model employed by the Group to monitor structural balance is designed to incorporate the general lines currently being defined in the process to revise supervisory regulations for liquidity risk with specific reference to medium to long-term indicators.

Measurement of the degree of stability of liabilities and the degree of liquidity of assets is based principally on criteria of residual life and on the classification of the counterparties which contribute to the definition of the weightings of assets and liabilities.

Finally the Group reports its liquidity position to the Bank of Italy on a daily basis, consisting of the net liquidity balance over a three month time horizon, following standard procedures set by that supervisory authority. The liquidity position is supplemented, on request by the Bank of Italy, on a weekly basis with the following information:

- the principal maturities, forecast over a time horizon of twelve months, both on the institutional and the retail market, with details according to the type of funding instrument (e.g. bond issues, repurchase agreements, commercial paper);
- details of assets available for refinancing transactions with the central bank and of liquid assets;
- the main providers of funds on the interbank market.

Reputational risk

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

The manifestation of that risk results from interaction between reputational factors and variables, such as the environment, brands and image and communication processes. Details are given as follows:

- *the environment*. Its impact on the Group's image and reputation depends primarily on the intensity of the Group's external relations with other markets, and possible functions of a public nature, and in general with a social and economic context in which there is a growing demand for transparency and responsibility;

- *brand and image.* The magnitude of damage to reputation is proportional to both the investment that the Group has made in its identity and its products and services and to the importance of its brand and image to relations with customers, in a context of growing competitive pressures and increasingly more complex markets;

- *communication processes*. The magnitude of damage to reputation is conditioned by the possibility of communication through internal and external channels and also by the multiplication of communication channels, some of which are beyond any real control.

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

Since 2010, the Group has adopted an Ethics Code, which incorporates the Group Charter of Values and makes reference to the universal principles of the Global Compact. It defines the manner in which UBI Banca and the companies in the Group intend to pursue their mission and act in dealings with their various stakeholders, by basing their management and operating activities on observance of moral and legal obligations contained in the code. The document identifies significant stakeholders in the Bank's activities, defines general ethical principles and standards of conduct in dealings with stakeholders and it gives details for the implementation and monitoring of the Code itself.

Residual risk

Residual risk is defined as the risk of incurring losses resulting from the unforeseen ineffectiveness of established methods of mitigating credit risk used by the Group.

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

Although no estimate of internal capital is made for residual risk, a quantitative indication is calculated of the different types of instrument for mitigating credit risk by supervisory asset class and type of exposures covered (performing and in default).

Strategic risk

Strategic risk is defined as the current or future risk of a fall in profits or in capital resulting from changes in the operating context, inadequate decision-making, failure to react to changes in a competitive environment.

Strategic risk in the narrow sense of positioning, relates to failures associated with structural changes, characterised that is by discontinuities. The risk factor may be an inadequate new corporate strategy (new markets, new products, new customers, corporate structure, etc.) or a wrong decision to continue with existing strategies in the face of substantial changes in the market. On the other hand, in the absence of structural breaks with the past, the fundamental characteristics of the operating context are assumed to be stable and not to generate strategic risks.

The approach to the assessment of this risk forms part of the strategic planning process for the components of large projects, which are innovative with respect to tried and tested policies and which have an impact on relations with the Group's markets.

The Group has put specific organisational measures in place to mitigate strategic risk by constantly monitoring progress in the implementation of projects and the achievement of financial and operating objectives and by verifying that these are consistent with the Group Business Plan.

Strategic risk is monitored continuously with regard to the implementation of the Business Plan and on request when the Business Plan is prepared or revised, or under specific conditions where major changes in operations occur.

Table 2 - Scope of application

Qualitative information

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

The supervisory scope of consolidation includes:

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

The supervisory 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. Furthermore, following the amendments made by the Bank of Italy to the rules for the preparation of banking financial statements[3], some of the information present in the financial statements relates to the supervisory scope of consolidation and is not therefore different from that used for Pillar 3.

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[4], as no capital insufficiencies existed at consolidated level as at 31st December 2011 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 and supervisory purposes. There have been no changes to the scope of consolidation compared to 31st December 2010, except for a few changes in the percentage of shares owned and some streamlining of the portfolio.

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[3] Bank of Italy Circular No. 262/05 “Banking financial statements: presentations and compilation rules”, update of 18th November 2009.

[4] 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 purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
A.1 Line-by-line consolidated companies							
1. Unione di Banche Italiane Scpa - UBI Banca	Bergamo				Line-by-line	Line-by-line	Bank
2. Albenza 3 Srl	Milan				Line-by-line	RWA	Financial
3. B@nca 24-7 Spa	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
4. Banca Carime Spa	Cosenza	1	UBI Banca Scpa	92.833%	Line-by-line	Line-by-line	Bank
5. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa	74.244%	Line-by-line	Line-by-line	Bank
			Banco di Brescia Spa	8.716%			
6. Banca Lombarda Preferred Capital Company LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
7. Banca Lombarda Preferred Securities Trust	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
8. UBI Banca Private Investment Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
9. Banca Popolare Commercio e Industria Capital Trust	Delaware (USA)	1	BPCI Funding Llc - USA	100.000%	Line-by-line	Line-by-line	Financial
10. Banca Popolare Commercio e Industria Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
11. Banca Popolare Commercio e Industria Spa	Milan	1	UBI Banca Scpa	75.077%	Line-by-line	Line-by-line	Bank
12. Banca Popolare di Ancona Spa	Jesi (AN)	1	UBI Banca Scpa	92.934%	Line-by-line	Line-by-line	Bank
13. Banca Popolare di Bergamo Spa	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
14. Banca Regionale Europea Spa	Cuneo	1	UBI Banca Scpa	74.944%	Line-by-line	Line-by-line	Bank
15. Banco di Brescia Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
16. Banco di San Giorgio Spa	Genoa	1	UBI Banca Scpa	38.193%	Line-by-line	Line-by-line	Bank
			Banca Regionale Europea Spa	57.500%			
17. Banque de Depots et de Gestion Sa	Lausanne (Switzerland)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Bank
18. BDG Singapore Pte Ltd	Singapore	1	Banque de Depots et de Gestion Sa	100.000%	Line-by-line	Line-by-line	Financial
19. BPB Capital Trust	Delaware (USA)	1	BPB Funding Llc - USA	100.000%	Line-by-line	Line-by-line	Financial
20. BPB Funding LLC	Delaware (USA)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
21. BPB Immobiliare Srl	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumen-tal
22. UBI Leasing Spa	Brescia	1	UBI Banca Scpa	79.996%	Line-by-line	Line-by-line	Financial
			Banca Popolare di Ancona Spa	18.997%			
23. Barberini Sa	Brussels (Belgium)	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
24. Prestitalia Spa	Rome	1	Banca 24-7 Spa	100.000%	Line-by-line	Line-by-line	Financial
25. UBI Factor Spa	Milan	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
26. Centrobanca Spa	Milan	1	UBI Banca Scpa	94.271%	Line-by-line	Line-by-line	Bank
			Banca Popolare di Ancona Spa	5.471%			
27. Centrobanca Sviluppo Impresa SGR Spa	Milan	1	Centrobanca Spa	100.000%	Line-by-line	Line-by-line	Financial
28. Coralis Rent Srl	Milan	1	UBI Banca Scpa	100.000%	Line-by-line	RWA	Other
29. 24-7 Finance Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
30. Invesclub srl in liquidazione	Milan	1	IW Bank Spa	100.000%	Line-by-line	Line-by-line	Financial
31. Investnet International Spa	Milan	1	IW Bank Spa	100.000%	Line-by-line	Line-by-line	Financial
32. IW Bank Spa	Milan	1	UBI Banca Scpa	65.039%	Line-by-line	Line-by-line	Bank
			Centrobanca Spa	23.496%			
33. UBI Finance 3	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
34. UBI Finance CB 2 Srl	Milan		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
35. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
36. UBI Management Company Sa	Luxembourg	1	UBI Pramerica Sgr Spa	100.000%	Line-by-line	Line-by-line	Financial
37. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
38. UBI Finance Srl	Milan	1	UBI Banca Scpa	60.000%	Line-by-line	Line-by-line	Financial
39. Orio Finance Nr. 3 Plc	Dublin (Ireland)				Line-by-line	RWA	Financial
40. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumen-tal
41. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	1	Line-by-line	Line-by-line	Financial
42. Silf - Società Italiana Leasing e Finanziamenti Spa	Cuneo	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
43. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Instrumen-tal
44. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100.000%	Line-by-line	Line-by-line	Financial
45. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa	0.90603	Line-by-line	Line-by-line	Bank
			Banco di Brescia Spa	5.852%			
			Banco di San Giorgio Spa	0.173%			
			Banca Popolare di Bergamo Spa	3.372%			
46. UBI Insurance Broker Srl	Bergamo	1	UBI Banca Scpa	100.000%	Line-by-line	RWA	Other
47. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	65.000%	Line-by-line	Line-by-line	Financial
48. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10.000%	Line-by-line	Line-by-line	Financial
49. UBI Sistemi e Servizi Scpa	Brescia	1	UBI Banca Scpa	70.845%	Line-by-line	Line-by-line	Instrumen-tal
			Banca Popolare di Bergamo Spa	2.960%			
			Banco di Brescia Spa	2.960%			
			Banca Popolare Commercio e Industria Spa	2.960%			
			Banca Popolare di Ancona Spa	2.960%			
			Banca Carime Spa	2.960%			

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
			Banca Regionale Europea Spa	2.960%			
			Banco di San Giorgio Spa	1.480%			
			Banca di Valle Camonica Spa	1.480%			
			UBI Banca Private Investment Spa	1.480%			
			Centrobanca Spa	1.480%			
			UBI Pramerica Sgr Spa	1.480%			
			Prestitalia Spa	0.074%			
			Banca 24-7 Spa	1.480%			
			IW Bank Spa	0.074%			
			Silf Spa	0.074%			
			UBI Insurance Broker Srl	0.074%			
			UBI Factor Spa	0.740%			
50. UBI Trustee Sa	Luxembourg	1	UBI Banca International Sa	100.000%	Line-by-line	Line-by-line	Financial
A.2 Companies consolidated using the equity method							
1. Arca SGR Spa	Milan	3	UBI Banca Scpa	23.124%	Equity method method	Deducted from Sup. Cap.	Financial
			Banca Popolare di Ancona Spa	3.584%			
2. Aviva Assicurazioni Vita Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method method	Deducted from Sup. Cap.	Insurance
3. Aviva Vita Spa	Milan	3	UBI Banca Scpa	50.000%	Equity method method	Deducted from Sup. Cap.	Insurance
4. Capital Money Spa	Milan	3	UBI Banca Scpa	20.671%	Equity method method	Deducted from Sup. Cap.	Financial
5. By You Spa	Milan	3	UBI Banca Scpa	10.000%	Equity method method	RWA	Financial
6. Polis Fondi SGR	Milan	3	UBI Banca Scpa	19.600%	Equity method method	Deducted from Sup. Cap.	Financial
7. Lombarda China Fund Management Co.	Shenzen (China)	3	UBI Banca Scpa	49.000%	Equity method method	Deducted from Sup. Cap.	Financial
8. Lombarda Vita Spa	Brescia	3	UBI Banca Scpa	40.000%	Equity method method	Deducted from Sup. Cap.	Insurance
9. Prisma Srl	Milan	3	UBI Banca Scpa	20.000%	Equity method method	Deducted from Sup. Cap.	Other
10. SF Consulting Srl	Mantua	3	UBI Banca Scpa	35.000%	Equity method method	RWA	Other
11. Sider Factor Spa	Milan	3	UBI Factor Spa	27.000%	Equity method method	Deducted from Sup. Cap.	Financial
12. Sofipo Fiduciarie Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30.000%	Equity method method	Deducted from Sup. Cap.	Financial
13. SPF Studio Progetti Finanziari Srl	Rome	3	Banca Popolare di Ancona Spa	25.000%	Equity method method	RWA	Other
14. UBI Assicurazioni Spa	Milan	3	UBI Banca Scpa	49.999%	Equity method method	Deducted from Sup. Cap.	Insurance
15. UFI Servizi Srl	Rome	3	Prestitalia Spa	23.167%	Equity method method	RWA	Other

Key

Type of relationship

1 = Majority of voting rights in ordinary general meetings

2 = Joint control

3 = Significant influence

Quantitative information

In 2011 the subsidiaries UBI Leasing and Banco di San Giorgio both increased their share capital by €60 million and €20 million respectively in order to make up for shortfalls recorded as at 31st December 2010 in relation to supervisory capital requirements. Following those operations, the total capital ratio as at 31st December 2011 was 6.66% for UBI Leasing and 8.90% for Banco di San Giorgio.

Table 3 - Supervisory capital structure

Qualitative information

Supervisory capital is calculated on the basis of capital amounts and profit determined by applying IFRS in accordance with Circular No. 263/06 (*New regulations for the prudent supervision of banks*) and Circular No. 155/91 (*Instructions for compiling supervisory capital reports and capital ratios*) both issued by the Bank of Italy, as amended by the 11th update of 31st January 2012 and by the 14th update of 21st December 2011, respectively.

The updates to the circulars just mentioned incorporate changes introduced by Directive 2010/76/EC (known as CRD III), designed mainly to increase the capital requirements for the trading portfolio and for resecuritisations and to make the reviews of bank's remuneration policies by supervisory authorities more incisive. Finally the last update (11th of 31st January 2012) revised the conditions by which the Bank of Italy authorises the redemption and repurchase of instruments which qualify for inclusion in the supervisory capital which, amongst other things, no longer include a replacement obligation.

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 expenses. 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 one capital and tier two capital net of "prudential filters[5]" and some deductions. In detail:

- Tier one 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 available for distribution as dividends and other forms of distribution and positive prudent filters of tier one capital and instruments subject to transition provisions (grandfathering). Treasury shares held in portfolio, goodwill, other intangible fixed assets, prior and current year losses, other negative items and negative prudent filters for tier one capital (termed negative elements of tier one capital) are deducted from the total of the items mentioned previously (termed positive elements of tier one capital). The algebraic sum of the positive and negative components of the tier one capital constitutes the "tier one capital before items to be deducted". The tier one capital is constituted by the

[5] Prudent 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 IFRS.
With regard to those prudent 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 instruments (inclusive of collective investment instruments) and debt instruments. For each of these aggregates, if the reserve in question is negative it reduces the tier one capital and if it is positive the tier two capital is increased by 50% of the reserve.

difference between the "tier one capital before items to be deducted" and "items to be deducted from tier one capital".

- The tier two capital comprises – with some limits on eligibility for inclusion – the fair value reserves, non innovative and innovative capital instruments not included in the tier one capital, hybrid capital instruments, tier two subordinated liabilities, other positive elements and positive prudential filters (termed positive elements of tier two capital). Other negative items and negative tier two prudential filters (termed negative elements of tier two 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 the tier 1 capital + tier 2 capital, deducting only that part that exceeds it) of banks, financial companies and electronic money companies (to which the following is added: innovative and non innovative capital instruments, hybrid capital instruments and the subordinated instruments issued by them regardless of the portfolio in which they are classified) 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").

The tier one capital is fully eligible for inclusion in the supervisory capital. As concerns innovative and non innovative capital instruments, the overall limit on eligibility for inclusion is to be raised to 50% (with a specific limit of 15% for innovative instruments with incentives for early redemption or with a contractual maturity and 35% for non innovative instruments with no early redemption incentives. Finally up to 50% of non innovative capital instruments is eligible for inclusion which are contractually convertible into ordinary shares, either automatically[6] or by request of the Bank of Italy).

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

In accordance with the supervisory regulations in force, the innovative equity instruments issued by the UBI Group – which were issued prior to 31.12.2010 – shall continue to be included in the tier one capital until 31.12.2020, according to the "grandfathering" clause contained in Circular No. 263/06 (TITLE I- Chapter 2). Subsequently they will be subject to the following limits: a) up to 20% of the tier one capital gross of deductions (including the instruments in question) until 31.12.2030; b) up to 10% of the tier one capital gross of deductions (including the instruments in question) until 31.12.2040.

Grandfathering instruments also include the savings and privileged shares of Banca Regionale Europea, included in the share capital of non-controlling shareholders. The exclusion of those instruments will result in a decrease in the core capital of approximately €36 million.

The table below summarises the main contractual characteristics of the innovative instruments which are included in the calculation of tier one capital and also of the hybrid

[6] Automatic conversion occurs when, as a result of losses, the supervisory capital falls below the total capital requirement or a higher level set by the Bank of Italy.

capitalisation instruments and the tier two subordinated liabilities which contribute to tier two capital.

The Group has no subordinated debt eligible for inclusion in tier three.

	ISSUER	TYPE OF ISSUE			COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2011	AMOUNT ELIGIBLE FOR INCLUSION
TIER ONE CAPITAL	**BPB CAPITAL TRUST**	**Innovative equity instruments**	1	2001/perpetual - mixed rate - Currency euro ISIN XS0123998394	Until 14-2-2011 fixed rate at 8.364%; from 15-2-2011 variable rate Euribor 3M + 5.94%.	perpetual	(*)	227.436	229.649	227.436
	BANCA LOMBARDA PREFERRED SECURITIES TRUST		2	2000/perpetual - mixed rate - Currency euro ISIN XS0108805564	Until 9-3-2010 fixed rate of 8.17%; from 10-3-2010 to 9-3-2011 variable rate Euribor 3M + 3.375%; from 10-3-2011 variable rate Euribor 3M + 5.94%.	perpetual	(*)	124.636	125.143	124.636
	BPCI CAPITAL TRUST		3	2001/perpetual - mixed rate - Currency euro ISIN XS0131512450	Until 26-6-2011 fixed rate of 9.00%; from 27-6-2011 variable rate Euribor 3M + 5,94%.	perpetual	(*)	101.388	101.929	101.388
TIER TWO CAPITAL	**UNIONE DI BANCHE ITALIANE**	**Ordinary subordinated bond issues (Lower Tier 2)**	4	2011/2018 - mixed rate ISIN IT0004767742 - Currency euro	Quarterly fixed rate 6.25% until 2014 and subsequently variable Euribor 3M +1%.	18-11-2018		221.598	219.055	221.598
			5	2010/2017 - fixed rate ISIN IT0004645963 - Currency euro Listed on MOT (electronic bond market)	Half year fixed rate 4.30%.	5-11-2017	Redemption by repayment schedule at constant annual rates from 5-11-2013	400.000	397.740	400.000
			6	2004/2014 - variable 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		110.068	109.105	66.587
			7	2004/2014 - variable 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		137.059	136.248	83.413
			8	2008/2015 - variable rate ISIN IT0004424435 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 0.85%.	28-11-2015	Redemption by fixed rate annual amortisation schedule from 28-11-2011	479.519	474.739	479.519
			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 30-10-2013	211.650	211.988	211.000
			10	2009/2016 - variable rate ISIN IT0004457187 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 1.25%.	13-3-2016	Redemption by fixed rate annual amortisation schedule from 13-3-2012	211.992	209.976	211.992
			11	2009/2019 - mixed rate ISIN IT0004457070 Currency euro - Listed on MOT (electronic bond	Half year fixed rate 4.15% until 2014; subsequently variable Euribor 6M + 1.85%.	13-3-2019	13-3-2014	370.000	383.886	370.000
			12	2009/2016 - variable rate ISIN IT0004497068 - Currency euro Listed on MOT (electronic bond market)	Quarterly Euribor 3M + 1.25%.	30-6-2016	Redemption by fixed rate annual amortisation schedule from 30-6-2012	156.837	154.915	156.837
			13	2009/2019 - mixed rate ISIN IT0004497050 Currency euro - Listed on MOT (electronic bond	Half year fixed rate 4% until 2014; subsequently variable Euribor 6M + 1.85%.	30-6-2019	30-6-2014	365.000	370.940	365.000
			14	2010/2017 - fixed rate ISIN IT0004572878 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 3.10%.	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	300.000	309.378	300.000
			15	2010/2017 - variable rate ISIN IT0004572860 - Currency euro Listed on MOT (electronic bond market)	Half year variable rate Euribor 6M + 0.40%	23-2-2017	Redemption by fixed rate annual amortisation schedule from 23-2-2013	152.587	151.473	152.587
			16	2011/2018 - fixed rate ISIN IT0004718489 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 5.50%.	16.6.2018	Redemption by fixed rate annual amortisation schedule from 16-6-2014	400.000	412.217	400.000
			17	2011/2018 - fixed rate ISIN IT0004723489 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 5.40%	30-6-2018	Redemption by fixed rate annual amortisation schedule from 30-6-2014	400.000	412.473	400.000
	BANCA POPOLARE DI BERGAMO	**Hybrid capitalisation instruments (Upper Tier 2)**	18	2001/2012 - variable rate ISIN IT0003210074 - Currency euro - Listed on MOT (electronic bond	Quarterly Euribor 3M + 0.80%	18-6-2012	No provision	250.000	250.191	250.000
	BANCA CARIME	**Hybrid capitalisation instruments (Upper Tier 2)**	19	2002/2012 - fixed rate 6% ISIN IT0003302863 - Currency euro	Half yearly fixed rate 6%	25-6-2012	No provision	164.000	164.261	163.597
TOTAL as at 31/12/2011								**4.783.770**	**4.825.306**	**4.685.590**
TOTAL as at 31/12/2010								**4.174.630**	**4.177.319**	**4.124.179**

(*) Subsequent to the early redemption dates, the securities are callable every three months.

Quantitative information

Use was made by the UBI Banca Group in the calculation of supervisory capital as at 31st December 2011 – in compliance with provisions issued by the Bank of Italy in May 2010[7] – of the possibility of completely neutralising the impacts on supervisory capital of gains and losses recognised in the fair value reserves relating to government securities issued by EU member states held in the "available-for-sale financial assets" portfolio. This approach is in addition to that already contained in regulations, which requires losses to be deducted entirely from supervisory capital and gains to be only partially included. The option in question has been applied across the board by all members of the banking group from 30th June 2010.

Operations on capital

Increase in the share capital

In the spring of 2011, UBI Banca performed a large increase in its share capital of one billion euro in order to anticipate changes underway in the regulatory context and, thanks to the traditional solidity of the Group, also to grasp opportunities for endogenous growth. A summary is given below of the stages of the operation announced on 28th March 2011.

13th May 2011

The Management Board, after receiving authorisation from the Supervisory Board, passed a resolution to implement the authorisation conferred on it by the Shareholders' Meeting of 30th April 2011 to increase the share capital, in more than one issuance and for payment in cash, by a maximum amount of one billion euro inclusive of the share premium with option rights for shareholders and holders of the convertible bonds "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*". It also provided for the presentation of a prospectus to the Consob (Italian securities market authority) for prior authorisation to publish it.

1st June 2011

The governing bodies of the bank decided to issue a maximum number of 262,580,944 ordinary shares with a par value of €2.50 each, of the same class as those in issue and with normal dividend entitlement, to be offered as an option to shareholders and to the holders of the convertible bonds "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*", at a price of €3.808 per share, inclusive of a share premium of €1.308, for a maximum nominal amount of €656,452,360 and for a total maximum amount (inclusive of the share premium) of €999,908,234.75.
The shares were offered at a ratio of eight new shares for every 21 shares owned and/or every 21 "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*" convertible bonds owned. The subscription price was calculated by applying a discount of approximately 22.43% on the

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

theoretical ex-rights price of UBI Banca shares, calculated on the basis of the official stock market price on 1st June 2011. Following the issue of authorisation from the Consob (memorandum No. 11050124), the prospectus was published in accordance with the law and made available to the public at the registered offices of the Bank, on the corporate website (www.ubibanca.it) and on the Borsa Italiana website (www.borsaitaliana.it). It was filed with the Consob on 3rd June 2011.

5th June 2011

In implementation of Art. 7 of the regulations for the "*Warrant azioni ordinarie UBI Banca 2009/2011*" warrants an adjustment to the exercise price was announced following the increase in the share capital. The price for the exercise of the warrants fell from €12,30 per share to €11,919 per share.

6th-24th June 2011 (rights offer period)

6th-17th June 2011 (option rights are traded)

During the rights offer period, 636,120,051 rights were exercised and therefore a total of 242,331,448 shares were subscribed (92.3% of the total shares offered) for a total amount of €922,798,153.98. Also the Banca del Monte di Lombardia Foundation and the Cassa Risparmio di Cuneo Foundation received authorisation from the Ministry of the Economy and participated in the share capital increase by exercising all the option rights due to them. At the end of the period, 53,154,927 rights for the subscription of 20,249,496 shares (7.7% of the shares offered) had not been exercised for a total amount of €77,110,080.77.

4th-7th July 2011 (offer period of option rights not exercised)

In compliance with paragraph three of article 2441 of the Italian Civil Code, the unexercised rights were offered on the stock exchange. In the first five days of the offer (4th July 2011), all the 53,154,927 unexercised options rights were sold through Mediobanca at an auction price of €0.04, with proceeds for UBI Banca of €2,126,197.08, recognised within the share premium reserve.

11th July 2011

At the end of the period for the subscription of unexercised rights, 5,706,984 shares (2.17% of the total newly issued shares offered) were subscribed, for a total of €21,732,195.07. Therefore. 14,542,512 shares (5.54% of the shares offered) remained that had not been subscribed for a total amount of €55,377,885.70, which on the following 18th July were made available to the underwriting syndicate[3], in accordance with the underwriting agreement signed on 1st June 2011. The increase in the share capital of €999,908,234.75, which was fully subscribed for a total of 262,580,944 new shares was therefore completed on that date.

Conversion of the bond "*UBI 2009/2013 convertibile con facoltà di rimborso in azioni*"

A total of 604 shares were issued against the presentation of bonds for a nominal amount of €7,701 in the period from 10th January 2011 (date from which the right was exercisable) until the date of this report for the exercise of conversion rights held by bondholders in accordance with article 5 of the regulations. More specifically, 240 new ordinary shares were issued on 5th July (in relation to bonds for a nominal amount of €3,060 presented for conversion in June). On 3rd June, 96 shares were issued against requests received in May (for a nominal amount of €1,224 presented), while 268 shares were issued on 3rd March (for a nominal amount of €3,417 in relation to applications presented in February).

Exercise of "*Warrant azioni ordinarie UBI Banca 2009/2011*" warrants

On 30th June 2011, the exercise period came to an end for the warrants which gave the right to subscribe newly issued ordinary shares of UBI Banca (with a par value of €2.50 each) at a conversion ratio of one share for every 20 warrants at an adjusted subscription price of €11,919 per share. In compliance with article four of the regulations for the warrants, following the exercise of 386,180 warrants, 19,309 shares with normal dividend entitlement and of the same class as outstanding shares were made available on 7th July to rights holders. All rights attaching to the warrants which had not been exercised by the expiry date of 30th June 2011 expired and had no validity to all effects and purposes.

Repurchase of treasury shares

In implementation of a shareholders' resolution of 30th April 2011, which involved the purchase of treasury shares to be assigned to the senior management of the Group as part of the Group incentive schemes, on 12th and 13th July 2011 UBI Banca proceeded to repurchase 1,200,000 treasury shares on the market (corresponding to the maximum number purchasable) at an average price of €3.6419 per share for a total amount of €4.37 million, less than the total maximum amount set in the shareholders' authorisation (€5.5 million). The purchase transactions were performed on the regulated market in compliance with the limits set in the shareholders' resolution, by the provisions of the law and EC Directive 2273/2003 and by admissible market practices. UBI Banca currently holds 1,200,000 treasury shares (0.13% of the share capital).

Repurchase of tier one capital instruments

Finally, in the first quarter of 2012, UBI Banca launched a public tender offer to purchase the entire amount of the Group's outstanding tier one instruments (preference shares), offering 80% of the nominal amount.

The offer, authorised by the Bank of Italy, took place as follows:

• the "institutional offer" for qualified Italian and international investors [as defined by Art. 34-*ter*, paragraph 1, letter b) of the issuers' regulations] took place between 7th and 16th February 2012. It was held under an exemption regime in accordance with the laws and regulations governing public purchase and exchange offers. In addition to the price, those accepting the offer were paid interest accruing up to the settlement date (22nd February);

• the "retail offer" on the other hand took place between 24th February and 12th March 2012 in accordance with Art. 102 and following of the consolidated finance act. It was destined to preference shareholders resident or domiciled in Italy who are not qualified investors. This offer, authorised by the Consob (Italian securities market authority) with Resolution No. 18111 of 22nd February 2012, was on the securities in issue on conclusion of the institutional offer. In this case too, those accepting the offer were paid interest accruing up to the payment date (16th March);

The total amount in terms of the nominal amount of the securities repurchased under the offer was €109.022 million accounting for approximately 24% of the nominal amount in issue before the beginning of the offer. In terms of impacts on the income statement and the balance sheet, following the offer the UBI Banca Group recognised a net profit of approximately €15.8 million (€21.8 million before tax) in the first quarter of 2012, corresponding to approximately two basis points in terms of the core tier one ratio, calculated on the basis of risk weighted assets as at 30th September 2011. The repurchase will also result in a decrease in interest expense of over €7 million annually.

European Banking Authority (EBA) recommendations on capital

In view of the substantial increase in systemic risk caused by the sovereign debt crisis in the euro area, as part of a broader package of measures approved by the European Council, on 26th October the European Banking Authority (EBA) decided to create an exceptional and temporary capital "buffer" for the banking system in the area. This buffer, to be created using primary quality capital, is not designed to meet losses on sovereign debt, but is of a prudent nature, intended to reassure markets of the ability of banks to withstand shocks, by maintaining adequate levels of capital.

More specifically, banks are requested to recapitalise to a level where their core tier one ratio reaches 9% by the end of June 2012. This is to be achieved principally through the use of private sector funds (share capital increases of the highest quality, retained profits, restrictions on company bonuses, etc.).

The possible extra capital requirement was calculated on the basis of balance sheet figures as at 30th September 2011. The underlying methodology for the exercise was set out in advance by the EBA, in order to ensure uniform implementation in all the 71 European banks participating in it.

The final results of the exercise, conducted in co-operation with the competent national authorities were disclosed on 8th December 2011: the total recapitalisation requested at European level should amount to €114.7 billion, including €15.4 billion relating to four of the five Italian banking groups involved, one of which is UBI Banca. On the basis of the exercise, UBI Banca has an increased capital requirement amounting to €1,393 million.

The EBA has asked all banks for which the above exercise resulted in increased capital requirements to submit a plan to national supervisory authorities by 20th January 2012 to reach a core tier one ratio of 9% by the end of June 2012.

In consideration of the temporary nature of the requested increase, the UBI Banca plan does not include any possibility of new resort to the market following the substantial operation conducted in the spring of 2011. It relies substantially on the adoption by the end of the first half 2012 of advanced internal models for the calculation of capital requirements on corporate credit risk, on further action to optimise risk weighted assets and on self funding. Any requirement remaining as at 30th June 2012, will be met, if substantial, by the partial conversion of outstanding convertible bonds.

The table below gives details of the items of which the supervisory capital was composed as at 31st December 2011.

COMPOSITION OF THE SUPERVISORY CAPITAL	Data as at 31.12.11	Data as at 31.12.10
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2.722.391	2.076.821
- Share premiums	7.506.086	7.179.155
- Reserves	2.647.826	2.690.200
- Innovative equity instruments and non innovative capital instruments with maturity	-	-
- Non innovative capital instruments:	-	-
- non innovative capital instruments eligible up to 35%	-	-
- non innovative capital instruments eligible up to 50%	-	-
- Instruments subject to transition provisions (grandfathering) (*)	489.191	489.191
- Profit for the period	-	55.844
- 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	579	337
- Total positive elements of tier one capital	**13.366.073**	**12.491.547**
- Negative elements:		
- Treasury shares or quotas	4.375	-
- Goodwill	2.577.055	4.455.047
- Other intangible fixed assets	357.528	780.175
- Loss for the period	1.862.091	-
- 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 creditworthiness	-	-
- Negative reserves for available-for-sale securities	-	-
- Equity instruments and units in O.I.C.R (collective investment instruments).	-	-
- Debt instruments	138.120	34.775
- Cumulative net gains on property, equipment and investment property	-	-
- Capital elements subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other negative filters	-	39.155
- Total negative elements of tier one capital	**4.939.169**	**5.309.151**
- Tier 1 capital before items to be deducted:	**8.426.904**	**7.182.396**
	-	
TIER 1 CAPITAL – ELEMENTS TO BE DEDUCTED	-	
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	-	-
- Shareholdings	20.111	21.944
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with maturity	-	
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	-	-
- Shareholdings	5.060	10.473
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with maturity	-	
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee	-	-
- Shareholdings	-	-
- Non innovative capital instruments	-	-
- Innovative equity instruments and non innovative capital instruments with maturity	-	
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	120.429	97.047
- Subordinated instruments	5.024	5.046
- Excess of expected losses over total impairment losses	-	-
- Expected losses on equity instruments and exposure to OICR (collective investment instruments) where the underlying relates to/is treated as equity instruments	-	
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on DVP transactions	-	-
- Total elements to be deducted	**150.624**	**134.508**
TIER ONE CAPITAL	**8.276.280**	**7.047.888**

COMPOSITION OF THE SUPERVISORY CAPITAL	Data as at 31.12.11	Data as at 31.12.10
TIER 2 CAPITAL		
- Positive elements	-	
- Fair value reserves	121.850	126.879
- Innovative capital instruments and non innovative capital instruments with maturity not eligible for inclusion in tier one capital	-	
- Non innovative capital instruments not eligible for inclusion in tier one capital:	-	
- Non innovative capital instruments eligible up to 35%	-	
- Non innovative capital instruments eligible up to 50%	413.597	
- Hybrid capital instruments	3.818.533	413.597
- Tier 2 subordinated liabilities	-	3.257.121
- Excess of total net impairment losses over expected losses	-	-
- Net gains on equity investments	-	-
- Other positive elements	-	-
- Prudential filters: increases in the supplementary capital:	-	-
- Total positive elements of the supplementary capital	**4.353.980**	**3.797.598**
- Negative elements:		
- Net losses on equity investments	-	-
- Loans	-	-
- Other negative elements	41.046	16.954
- Prudential filters: deductions from supplementary capital	7.860	10.139
- Total negative elements of the supplementary capital	**48.906**	**27.093**
- Supplementary capital before items to be deducted:	**4.305.074**	**3.770.505**
SUPPLEMENTARY CAPITAL – ITEMS TO BE DEDUCTED		
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the investee	20.111	21.944
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the investee	5.060	10.473
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the investee	-	-
- Equity investments in insurance companies:	125.453	102.092
- Excess of expected losses over total impairment losses	-	-
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on DVP transactions	-	-
- Total elements to be deducted	**150.624**	**134.508**
TIER TWO CAPITAL	**4.154.450**	**3.635.996**
ITEMS TO BE DEDUCTED FROM TIER 1 CAPITAL AND TIER 2 CAPITAL	**148.574**	**147.685**
SUPERVISORY CAPITAL	**12.282.154**	**10.536.199**
TIER 3 CAPITAL	**-**	**-**
SUPERVISORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL	**12.282.154**	**10.536.199**

(*) Since 2010 this item has been included within those instruments subject to transitory "grandfathering" provisions. The item includes innovative capital instruments issued before 31.12.2010 (amounting to €453.46 million) and savings and privileged shares issued by Banca Regionale Europea, recognised within non-controlling interests (amounting to €35.7 million).

The increase in the tier one capital is mainly the result of the operation to increase the share capital completed in July 2011. In addition, a negative filter relating to the substitute tax on goodwill[8] was abolished with respect to 31st December 2010 and there were increases in deductions and negative filters, together with a reduction in capital attributable to non-controlling interests.

The increase in tier two capital – of approximately €518 million – was generated almost entirely by changes in subordinated bonds and by the increase in negative filters and deductions. More specifically, the issuance of subordinated liabilities sold to retail customers of the Group (for €1,021 million nominal) more than compensated for issues matured/called/amortised in 2011 (for a total of €460 million). Further changes, attributable

[8] Bank of Italy, Supervisory Bulletin No. 3, March 2011, "Communication of 31st March 2011 – Prudential filter relating to the substitute tax on goodwill", a measure issued as a result of the provisions of the 2010 "thousand extensions" Decree (Art. 2, paragraph 55, Law No. 10/2011, which converted Decree Law No. 225/2010) concerning deferred tax assets.

mainly to filters and deductions, had an aggregate negative impact of approximately €43 million.

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 ICAAP process - Internal Capital Adequacy Assessment Process). 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. The ICAAP process runs along side and integrates the "traditional" process for assessing the match between the supervisory capital and the capital requirement. The supervisory vision of capital adequacy, based on capital ratios resulting from a comparison of supervisory capital (pursuant to Title I of Circular No. 263/2006) with prudential requirements in relation to credit, market and operational risks, known as Pillar One (pursuant to Title II of Circular No. 263/2006), is now flanked by a management vision of capital adequacy based on a comparison of the financial resources that the UBI Group considers can be used to meet the risks assumed and an estimate of the capital absorbed by those risks (inclusive of Second Pillar Risks).

Responsibility for activities relating to the assessment of current and future capital adequacy lies with the ICAAP Service in the Risk Management Area.

The UBI Group places particular attention in the oversight and management of its capital adequacy requirement on the correct balance 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, 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 by subsidiaries. The senior management of the Parent submits proposals to its governing bodies which decide accordingly. The proposals, once approved by the governing bodies of the Parent, are then submitted to the competent bodies of the subsidiaries. In compliance with regulatory constraints and internal objectives, the Parent analyses and co-ordinates capital requirements on the basis of the business plan, the budget and the related risk profiles and it acts as a privileged counterparty in gaining access to capital markets applying an integrated approach to optimising capital strength.

The capital adequacy assessment process commences with the definition and details of the risk profile (risk appetite) of the Group. More specifically, this phase involves the definition of the following: the governance rules with regard to ICAAP; strategic positioning objectives and the translation of these into measurable indicators; capital solidity and its composition; financial balance; the identification of responsibilities for the assumption and management of risk and adequate remuneration of it; monitoring of objectives.

Risk appetite at UBI Banca defines strategic orientations in relation to the measurement of current and future capital adequacy, risk assumption policies and objectives for sustainable growth and the creation of value. 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 following target indicators:

- supervisory measurements – based on the definition of consolidated capital ratios, calculated on the supervisory capital and in relation to First Pillar risks;
- internal measurements – based on a comparison between the available financial resources (or total capital) and the total internal capital;
- medium to long-term liquidity indicators – calculated using models which assess the degree of stability of liabilities and the liquidity of assets; adequate reserves of liquidity – with the maintenance of appropriate reserves of liquidity to meet the Group's commitments in a context of both normal business and stress;
- assessment of market positioning – based on the determination of long-term target ratings or the probability of default that the Bank is implicitly willing to accept;
- controls and IT-organisational structure – based on minimising the potential impacts of risks, pursued by adopting risk management policies, rigorous organisational controls and risk measurement methodologies and mitigation tools, especially in relation to non measurable risks.

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,* or alternatively *Available Financial Resources* (*AFR)* defined as the sum of the 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 objectives 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 internal measurements.

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 Service 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 Service contributes to the preparation of budgets and the Business Plan, by, amongst other things, 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 concerns the supervisory capital adequacy ratios, the core tier one (core tier one 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 by acting on risk weighted assets and capital (core tier one capital, tier two 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 one 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.

Tier two and tier three 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 two 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 supervisory regulations cited, the UBI Group will file its consolidated report on its capital adequacy (ICAAP report) with the Bank of Italy before 30th April 2012, for its position as at 31st December 2011.

The European stress test

UBI Banca, together with four other Italian banks, took part in the 2011 European stress tests conducted by the European Banking Authority (EBA) – in co-operation with the Bank of Italy, the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB) – on 90 banks representing more than 65% of the total assets of the European banking system.
The tests were designed to assess the ability of European banks to resist severe shocks and their degree of capital adequacy if hypothetical stress events occurred under particularly adverse conditions.
The hypotheses and the methodology of the exercise were designed to assess the capital adequacy of banks using a benchmark of a core tier one ratio of 5% and to increase market confidence in the soundness of the banks taking part in the exercise.
The adverse scenario used was defined by the ECB and covered a time horizon of two years (2011-2012). The stress test was conducted assuming that the balance sheets of the banks

had remained unchanged compared to December 2010, without considering the effects of company strategies and/or future management initiatives and it did not constitute a profit forecast of the single banks taking part.
UBI Banca passed the stress test with a level of capitalisation well above the benchmark set [and also above the observation threshold set (5%-6%)], which confirmed the soundness of the Group. In the adverse scenario hypothesised, the core tier one ratio, estimated on the consolidated figures for UBI Banca, would have risen from 7.0% in December 2010 to 7.4% at the end of 2012. This last figure incorporated the effects of the increase in the share capital, which was fully underwritten and announced to the market in a binding manner before 30th April 2011, but excluded the impacts of future action taken to strengthen capital available to management.

Quantitative information

CAPITAL ADEQUACY	Capital requirement 31.12.11	Capital requirement 31.12.10
A. SUPERVISORY CAPITAL		
Credit risk		
Standardised approach		
Exposures to or guaranteed by central governments and banks	15	14
Exposures to or guaranteed by regional government and local authorities	12.234	7.685
Exposures to or guaranteed by non commercial and public sector entities	71.868	76.923
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	205.754	161.756
Exposures to or guaranteed by corporates	3.259.373	3.533.567
Retail exposures	1.201.769	1.293.117
Exposures secured by real estate property	968.830	895.404
Past due exposures	605.336	564.452
High risk exposures	15.381	17.871
Exposures in the form of covered bonds	-	-
Short term exposures to supervised intermediaries and corporates	-	-
Exposures to OICR (collective investment undertakings)	15.763	33.819
Other exposures	281.717	269.451
Securitisations	215	1.696
Total credit risk	**6.638.255**	**6.855.755**
Counterparty risk	108.268	97.170
Total counterparty risk	**108.268**	**97.170**
Market risk		
Standardised approach		
Assets included in the supervisory trading portfolio:		
- position risk	72.461	105.399
of which specific to positions with securitisations	*6.344*	
- concentration risk	-	-
Other assets:		
- regulatory risk	-	-
- currency risk	1.044	1.206
- position risk in commodities	39	32
Total market risk	**73.545**	**106.636**
Operational risk		
Standardised approach		
Basic indicator approach	48.965	49.137
Standardised approach	411.784	440.175
Advanced measurement approach	-	-
Total operational risk	**460.749**	**489.312**
B. SUPERVISORY RATIOS		
Core tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	8,56%	6,95%
Tier 1 ratio (Tier 1 capital/risk weighted assets)	9,09%	7,47%
Total capital ratio [(Tier 2 capital+qualifying tier 3 capital)/risk weighted assets]	13,50%	11,17%

The table above summarises compliance with requirements in terms of ratios. The capital ratios as at 31st December 2011, calculated on the basis of the Basel 2 standardised approach, had increased compared to 31st December 2010. The core tier one ratio was 8.56% (6.95% in December 2010). The tier one ratio rose from 7.47% (in December 2010) to 9.09%, while the total capital ratio stands at 13.50% (11.17% in December 2010).

The rise in all the capital ratios was generated – together with the effects of the share capital increase – by the reduction in risk weighted assets (RWA).

More specifically, the capital requirement for credit risk fell compared to December 2010 by approximately €206 million. This effect was the result of a fall in volumes of business that occurred during the reporting period, which more than offset the other impacts (downgrades in the last quarter of 2011, estimated at a greater requirement of almost €70 million).

With regard to market risk, on the other hand, the fall was of approximately €33 million in the relative capital requirement, attributable to a decrease in the collective risk on debt and equity instruments, which more than compensated for the negative impact of the application of the "Basel 2.5" rules (greater requirements of approximately €4 million). Finally, the decrease in consolidated gross income determined a fall in the capital requirement for operational risk.

Table 5 - Credit risk: general disclosures for all banks

Qualitative information

For the UBI Group the definitions of different classes of "deteriorated" loans, which is to say those exposure which are classified as non-performing loans, impaired loans, restructured exposures and past due exposures are the same as the supervisory definitions published by the Bank of Italy.

In detail, the term "**past due exposures**" refers to exposures other than those classified as non-performing, impaired and restructured positions, which, as at the reporting date, were either past due or in arrears for more than 90 days[9].

"**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.

"**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.

"**Restructured exposures**" 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 have given rise to a loss, because of the deterioration in the financial and economic conditions of the debtor.

In addition to those classes, as defined by the supervisory authority, there remains a type of problem loan in respect of "country risk" for unsecured exposures to institutional and ordinary customers belonging to countries considered as "at risk".

The management of problem loans is performed on the basis of the level of risk. It is performed by the organisational units for the management of problem loans of individual banks and companies for "exposures past due and/or continuously in arrears", for "impaired loans" and "restructured loans". However, the "non-performing" positions of the Network Banks (limited to the positions for which the process to centralise management has been completed) and of Centrobanca (the latter from January 2012) are managed by the Non-Performing Loans Service of the Credit Macro Area and the Credit Recovery Area of the Parent, while for the Product Companies, the management of those positions remains with the organisational units responsible for the management of problem loans. With regard to "impaired" loans, in order to optimise management and solely for operational purposes, these are divided into positions for which it is considered that the temporary situation of objective difficulty can be overcome in a short period of time and the remaining positions, for which it is felt best to disengage from the account with credit recovery out of court over a longer period of time. Additionally, loans past due and/or continuously in arrears are subject to controls to decide, within a maximum

[9] The ninety day limit has been in force since 1st January 2012. The time limit employed as at 31st December 2011 for the exposures in question is 180 days and 90 days for some types of exposure.

operational period of 60 days, whether to reclassify them as either "performing" or into another non-performing loan class.

Assessment of the appropriateness of impairment losses 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. 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 customers with exposures that are past due and/or continuously in arrears and for impaired accounts. The measurement 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 calculating the impairment losses recognised on 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 amount 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: financial statements, mortgage and land registers, the *centrale dei rischi* (central credit register), 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;
  - arrangement with creditors;
- real estate property foreclosures;
- moveable property foreclosures;
- ordinary revocation action (fraudulent transfer clawback).

Net impairment losses are recognised on a case by case basis, taking account of the potential amounts recoverable according to calculations made by the organisational units responsible.

At each reporting date or when interim reports are prepared, any objective evidence that a financial asset or group of financial assets has suffered impairment loss is assessed. This circumstance occurs when it is probable that a company 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 measurement of performing loans relates to portfolios for which no objective evidence of impairment exists and which are therefore measured collectively, by grouping them in homogeneous risk classes.

The calculation methodologies used for the calculation of collective impairment losses on performing loans in the network banks and at Centrobanca are different from those used by the main product companies of the Group.

More specifically a method is employed for loans (and guarantees) to customers in Network Banks and at Centrobanca based on internal estimates of PD (probability of default) associated with internal ratings and estimates of LGD (loss given default). The latter uses operational corrective factors with respect to the parameters used for regulatory purposes. It should be noted that the percentages of impairment resulting from the application of the PD and LGD are also used for “irrevocable commitments of uncertain use” and for guarantees to which the supervisory credit conversion coefficient is also applied.

The approach currently used for those Product Companies most subject to credit risk is that based on impairment rates for loans which uses a broader definition of default that includes changes of classification from performing to impaired, restructured and non-performing classes (B@nca 24/7 and UBI Leasing) and internal estimates of Loss Given Default. As concerns LGD, different internal estimates are used at UBI Leasing for different types of product, while at B@anca 24/7 estimates differentiated by product are used, based on internal data of the bank or (due to the small size of the samples used for estimates) on parameters derived from similar Network Bank products. Special “danger rates” need to be applied to render the definitions of default used for impairment rates and estimates of LGD consistent. For both UBI Leasing and B@nca 24/7, these are estimated on internal data and differentiated by product. Further refinements and updates of parameters were performed within this methodological framework in 2011. They involved an update of the historical data series used to estimate them, the inclusion of new types of exposures (in the property sector with disbursements when work in progress is at an advanced stage for UBI Leasing) and the incorporation of a special treatment which recognises low risk for new disbursements following a structural break in lending policies for some of B@nca 24/7’s products.

Quantitative information

Gross credit exposures, by principal types of exposure

	Banking group					
	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures	Other assets	**Total**
1. Financial assets held for trading	1.169	7.407	1.444	1.957	2.764.813	**2.776.790**
2. Available-for-sale financial assets	-	-	-	-	7.555.581	**7.555.581**
3. Held-to-maturity investments	-	-	-	-	-	**-**
4. Loans to banks	67	-	-	-	6.172.953	**6.173.020**
5. Loans to customers	2.480.569	2.533.660	840.681	424.006	93.431.095	**99.710.011**
6. Financial assets at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedging derivatives	-	83	-	3	1.090.412	**1.090.498**
31/12/2011	**2.481.805**	**2.541.150**	**842.125**	**425.966**	**111.014.854**	**117.305.900**
31/12/2010	**1.940.450**	**2.039.732**	**830.954**	**464.573**	**112.424.746**	**117.700.455**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Non performing loans	4.626.116	2.472.545	23.729	5.805	3.387	2.302	4.532	-	1.134	181	**4.658.898**	**2.480.833**
A.2 Impaired loans	2.786.433	2.487.628	55.922	43.217	72	53	-	-	3.654	3.531	**2.846.081**	**2.534.429**
A.3 Restructured exposures	916.202	824.972	17.466	15.623	46	46	-	-	62	40	**933.776**	**840.681**
A.4 Past due exposures	433.458	423.306	700	700	-	-	45.320	-	-	-	**479.478**	**424.006**
A.5 Other exposures	98.894.363	98.365.627	3.118.941	3.107.134	570.248	569.193	7.778	7.769	194.312	194.281	**102.785.642**	**102.244.004**
TOTAL	**107.656.572**	**104.574.078**	**3.216.758**	**3.172.479**	**573.753**	**571.594**	**57.630**	**7.769**	**199.162**	**198.033**	**111.703.875**	**108.523.953**
B. Off-balance sheet exposures												
B.1 Non performing loans	45.585	36.413	-	-	-	-	-	-	-	-	**45.585**	**36.413**
B.2 Impaired loans	88.885	83.575	-	-	-	-	-	-	-	-	**88.885**	**83.575**
B.3 Other deteriorated assets	69.645	64.858	1.182	1.179	-	-	-	-	-	-	**70.827**	**66.037**
B.4 Other exposures	14.157.672	14.113.728	557.845	557.208	162.715	162.642	8.039	8.039	18.189	18.189	**14.904.460**	**14.859.806**
TOTAL	**14.361.787**	**14.298.574**	**559.027**	**558.387**	**162.715**	**162.642**	**8.039**	**8.039**	**18.189**	**18.189**	**15.109.757**	**15.045.831**
31/12/2011	**122.018.359**	**118.872.652**	**3.775.785**	**3.730.866**	**736.468**	**734.236**	**65.669**	**15.808**	**217.351**	**216.222**	**126.813.632**	**123.569.784**
31/12/2010	**127.068.249**	**124.076.800**	**4.097.000**	**4.057.949**	**780.677**	**763.641**	**35.502**	**31.153**	**224.749**	**222.042**	**132.206.177**	**129.151.585**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Non performing loans	22	20	157	47	-	-	-	-	-	-	**179**	**67**
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.5 Other exposures	3.474.200	3.474.051	3.097.189	3.097.189	309.678	309.678	15.766	15.766	197.712	197.712	**7.094.545**	**7.094.396**
TOTAL	**3.474.222**	**3.474.071**	**3.097.346**	**3.097.236**	**309.678**	**309.678**	**15.766**	**15.766**	**197.712**	**197.712**	**7.094.724**	**7.094.463**
B. Off-balance sheet exposures												
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.2 Impaired loans	-	-	-	-	49	49	-	-	-	-	**49**	**49**
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.4 Other exposures	1.197.891	1.197.882	1.275.197	1.274.867	106.323	106.303	46.487	46.274	18.668	18.588	**2.644.566**	**2.643.914**
TOTAL	**1.197.891**	**1.197.882**	**1.275.197**	**1.274.867**	**106.372**	**106.352**	**46.487**	**46.274**	**18.668**	**18.588**	**2.644.615**	**2.643.963**
31/12/2011	**4.672.113**	**4.671.953**	**4.372.543**	**4.372.103**	**416.050**	**416.030**	**62.253**	**62.040**	**216.380**	**216.300**	**9.739.339**	**9.738.426**
31/12/2010	**2.571.127**	**2.571.094**	**2.006.564**	**2.006.265**	**221.955**	**221.948**	**104.148**	**103.913**	**173.866**	**173.762**	**5.077.660**	**5.076.982**

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

	Governments and Central Banks		Other public authorities		Financial companies		Insurance companies		Non financial companies		Other		TOTAL	
	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
A. On-balance sheet exposure														
A.1 Non performing loans	261	261	3.105	2.154	77.046	14.388	2.116	161	2.999.654	1.694.392	1.586.716	769.477	**4.668.898**	**2.480.833**
A.2 Impaired loans	-	-	2.559	2.278	85.626	55.473	41	36	1.956.553	1.746.126	801.302	730.516	**2.846.081**	**2.534.429**
A.3 Restructured exposures	-	-	8	8	19.856	17.193	-	-	906.077	816.550	7.835	6.930	**933.776**	**840.681**
A.4 Past due exposures	-	-	14.416	14.416	8.013	8.001	-	-	253.838	250.266	157.891	151.323	**434.158**	**424.006**
A.5 Other exposures	8.253.378	8.253.288	880.632	877.449	4.745.999	4.732.133	141.282	141.268	53.111.992	52.785.709	35.652.359	35.454.157	**102.785.642**	**102.244.004**
TOTAL A	**8.253.639**	**8.253.549**	**900.720**	**896.305**	**4.936.540**	**4.827.188**	**143.439**	**141.465**	**59.228.114**	**57.293.043**	**38.206.103**	**37.112.403**	**111.668.555**	**108.523.953**
B. Off-balance sheet exposures													**-**	**-**
B.1 Non performing loans	-	-	-	-	11	11	-	-	45.130	36.222	180	180	**45.321**	**36.413**
B.2 Impaired loans	-	-	526	526	4.339	3.429	-	-	81.818	77.513	2.107	2.107	**88.790**	**83.575**
B.3 Other deteriorated assets	-	-	-	-	197	194	-	-	70.565	65.780	63	63	**70.825**	**66.037**
B.4 Other exposures	316.218	316.218	1.273.224	1.271.216	723.273	722.094	450.038	450.024	11.030.406	11.010.715	1.111.301	1.089.539	**14.904.460**	**14.859.806**
TOTAL B	**316.218**	**316.218**	**1.273.750**	**1.271.742**	**727.820**	**725.728**	**450.038**	**450.024**	**11.227.919**	**11.190.230**	**1.113.651**	**1.091.889**	**15.109.396**	**15.045.831**
31/12/2011	**8.569.857**	**8.569.767**	**2.174.470**	**2.168.047**	**5.664.360**	**5.552.916**	**593.477**	**591.489**	**70.456.033**	**68.483.273**	**39.319.754**	**38.204.292**	**126.777.951**	**123.569.784**
31/12/2010	**9.886.080**	**9.886.079**	**2.330.407**	**2.329.718**	**6.170.444**	**6.075.029**	**205.234**	**203.543**	**75.366.741**	**73.451.531**	**38.247.271**	**37.205.685**	**132.206.177**	**129.151.585**

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

	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	TOTAL
On-balance sheet assets	**22.744.357**	**1.701.525**	**1.004.539**	**3.950.066**	**6.115.846**	**4.057.858**	**6.678.024**	**28.995.046**	**39.087.711**	**1.937.505**	**116.272.477**
A.1 Government securities	93.971	2	-	10.598	383.648	274.516	929.489	2.685.694	2.864.685	285	7.242.888
A.2 Other debt instruments	61.404	4.804	1.152	299.526	314.983	401.597	352.188	867.249	446.289	236.187	2.985.379
A.3 Units in OICR (collective investment instruments)	229.411	-	-	-	-	-	-	-	-	101	229.512
A.4 Financing	22.359.571	1.696.719	1.003.387	3.639.942	5.417.215	3.381.745	5.396.347	25.442.103	35.776.737	1.700.932	105.814.698
- Banks	2.921.547	126.910	90.673	62.188	740.298	83.051	23.813	324.285	12.169	645.133	5.030.067
- Customers	19.438.024	1.569.809	912.714	3.577.754	4.676.917	3.298.694	5.372.534	25.117.818	35.764.568	1.055.799	100.784.631
On-balance sheet liabilities	**47.610.952**	**1.386.773**	**1.856.167**	**4.195.528**	**5.695.867**	**5.026.924**	**5.143.456**	**33.295.348**	**6.814.115**	**422.913**	**111.448.043**
B.1 Deposits	47.091.809	203.608	266.415	357.837	256.329	146.335	159.881	284.395	3.552	-	48.770.161
- Banks	936.103	19.877	199.968	75.995	28.884	42.249	-	4.599	-	-	1.307.675
- Customers	46.155.706	183.731	66.447	281.842	227.445	104.086	159.881	279.796	3.552	-	47.462.486
B.2 Debt instruments	331.687	94.896	279.817	2.314.166	3.389.415	3.885.145	4.364.728	26.039.590	6.478.105	417.754	47.595.303
B.3 Other liabilities	187.456	1.088.269	1.309.935	1.523.525	2.050.123	995.444	618.847	6.971.363	332.458	5.159	15.082.579
Off-balance sheet transactions	**(501.466)**	**(9.533)**	**(50.972)**	**(17.867)**	**75.588**	**216.106**	**232.852**	**161.045**	**33.067**	**853.725**	**992.545**
C.1 Financial derivatives with exchange of principal	11	(17.048)	(72.064)	58.221	(57.566)	138.155	4.866	(140.948)	(545.357)	690.643	(58.913)
- Long positions	433	765.249	291.101	1.960.739	845.151	693.969	210.532	691.643	1.177	721.999	6.181.993
- Short positions	422	782.297	363.165	1.902.518	902.717	555.814	205.666	832.591	546.534	31.356	6.123.080
C.2 Financial derivatives without exchange of principal	3.390	(943)	(32)	(3.817)	8.878	125	-	-	-	-	(7.601)
- Long positions	540.635	1.047	1.499	39.118	152.934	125	-	-	-	-	735.358
- Short positions	537.245	1.990	1.531	42.935	144.056	-	-	-	-	-	727.757
C.3 Deposits and financing to be received	60.603	-	-	(56.865)	(2.057)	-	-	-	-	-	1.681
- Long positions	60.603	-	-	-	-	-	-	-	-	-	60.603
- Short positions	-	-	-	56.865	2.057	-	-	-	-	-	58.922
C.4 Irrevocable commitments to disburse funds	(575.250)	8.455	14.393	(82.267)	91.382	14.361	171.885	2.695	290.669	142.385	78.708
- Long positions	1.654	8.455	14.393	1.676	91.382	14.361	171.885	2.695	290.669	152.109	749.279
- Short positions	576.904	-	-	83.943	-	-	-	-	-	9.724	670.571
C.5 Financial guarantees issued	9.780	3	6.731	66.861	34.951	63.465	56.101	299.298	287.755	20.697	845.642

Distribution by economic sector of deteriorated exposures and impairment

Exposures/Counterparties	Governments and Central Banks				Other public authorities				Financial companies				Insurance companies				Non financial companies				Other			
	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net exposure
A. On-balance sheet exposure																								
A.1 Non performing loans	261	-	X	261	3.105	(951)	X	2.154	77.046	(62.658)	X	14.388	2.116	(1.955)	X	161	2.999.654	(1.305.262)	X	1.694.392	1.586.716	(817.239)	X	769.477
A.2 Impaired loans	-	-	X	-	2.559	(281)	X	2.278	85.626	(30.153)	X	55.473	41	(5)	X	36	1.956.553	(210.427)	X	1.746.126	801.302	(70.786)	X	730.516
A.3 Restructured exposures	-	-	X	-	8	-	X	8	19.856	(2.663)	X	17.193	-	-	X	-	906.077	(89.527)	X	816.550	7.835	(905)	X	6.930
A.4 Past due exposures	-	-	X	-	14.416	-	X	14.416	8.013	(12)	X	8.001	-	-	X	-	253.838	(3.572)	X	250.266	157.891	(6.568)	X	151.323
A.5 Other exposures	8.253.378	X	(90)	8.253.288	880.632	X	(3.183)	877.449	4.745.999	X	(13.866)	4.732.133	141.282	X	(14)	141.268	53.111.992	X	(326.283)	52.785.709	35.652.359	X	(198.202)	35.454.157
TOTAL A	**8.253.639**	**-**	**(90)**	**8.253.549**	**900.720**	**(1.232)**	**(3.183)**	**896.305**	**4.936.540**	**(95.486)**	**(13.866)**	**4.827.188**	**143.439**	**(1.960)**	**(14)**	**141.465**	**59.228.114**	**(1.608.788)**	**(326.283)**	**57.293.043**	**38.206.103**	**(895.498)**	**(198.202)**	**37.112.403**
B. Off-balance sheet exposures																								
B.1 Non performing loans	-	-	X	-	-	-	X	-	11	-	X	11	-	-	X	-	45.130	(8.908)	X	36.222	444	(264)	X	180
B.2 Impaired loans	-	-	X	-	526	-	X	526	4.339	(910)	X	3.429	-	-	X	-	81.818	(4.305)	X	77.513	2.202	(95)	X	2.107
B.3 Other deteriorated assets	-	-	X	-	-	-	X	-	197	(3)	X	194	-	-	X	-	70.565	(4.785)	X	65.780	65	(2)	X	63
B.4 Other exposures	316.218	X	-	316.218	1.273.224	X	(2.008)	1.271.216	723.273	X	(1.179)	722.094	450.038	X	(14)	450.024	11.030.406	X	(19.691)	11.010.715	1.111.301	X	(21.762)	1.089.539
TOTAL B	**316.218**	**-**	**-**	**316.218**	**1.273.750**	**-**	**(2.008)**	**1.271.742**	**727.820**	**(913)**	**(1.179)**	**725.728**	**450.038**	**-**	**(14)**	**450.024**	**11.227.919**	**(17.998)**	**(19.691)**	**11.190.230**	**1.114.012**	**(361)**	**(21.762)**	**1.091.889**
31/12/2011	**8.569.857**	**-**	**(90)**	**8.569.767**	**2.174.470**	**(1.232)**	**(5.191)**	**2.168.047**	**5.664.360**	**(96.399)**	**(15.045)**	**5.552.916**	**593.477**	**(1.960)**	**(28)**	**591.489**	**70.456.033**	**(1.626.786)**	**(345.974)**	**68.483.273**	**39.320.115**	**(895.859)**	**(219.964)**	**38.204.292**
31/12/2010	**9.886.080**	**(1)**	**-**	**9.886.079**	**2.330.407**	**(464)**	**(225)**	**2.329.718**	**6.170.444**	**(80.124)**	**(15.291)**	**6.075.029**	**205.234**	**(1.555)**	**(136)**	**203.543**	**75.366.741**	**(1.580.247)**	**(334.963)**	**73.451.531**	**38.247.271**	**(836.796)**	**(204.790)**	**37.205.685**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	**Gross exposure**	**impairment**
A. On-balance sheet exposure												
A.1 Non performing loans	4.626.116	(2.153.571)	23.729	(17.924)	3.387	(1.085)	4.532	(4.532)	1.134	(953)	4.658.898	(2.178.065)
A.2 Impaired loans	2.786.433	(298.805)	55.922	(12.705)	72	(19)	-	-	3.654	(123)	2.846.081	(311.652)
A.3 Restructured exposures	916.202	(91.230)	17.466	(1.843)	46	-	-	-	62	(22)	933.776	(93.095)
A.4 Past due exposures	433.458	(10.152)	700	-	-	-	45.320	(45.320)	-	-	479.478	(55.472)
A.5 Other exposures	98.894.363	(528.736)	3.118.941	(11.807)	570.248	(1.055)	7.778	(9)	194.312	(31)	102.785.642	(541.638)
TOTAL	**107.656.572**	**(3.082.494)**	**3.216.758**	**(44.279)**	**573.753**	**(2.159)**	**57.630**	**(49.861)**	**199.162**	**(1.129)**	**111.703.875**	**(3.179.922)**
B. Off-balance sheet exposures												
B.1 Non performing loans	45.585	(9.172)	-	-	-	-	-	-	-	-	45.585	(9.172)
B.2 Impaired loans	88.885	(5.310)	-	-	-	-	-	-	-	-	88.885	(5.310)
B.3 Other deteriorated assets	69.645	(4.787)	1.182	(3)	-	-	-	-	-	-	70.827	(4.790)
B.4 Other exposures	14.157.672	(43.944)	557.845	(637)	162.715	(73)	8.039	-	18.189	-	14.904.460	(44.654)
TOTAL	**14.361.787**	**(63.213)**	**559.027**	**(640)**	**162.715**	**(73)**	**8.039**	**-**	**18.189**	**-**	**15.109.757**	**(63.926)**
31/12/2011	**122.018.359**	**(3.145.707)**	**3.775.785**	**(44.919)**	**736.468**	**(2.232)**	**65.669**	**(49.861)**	**217.351**	**(1.129)**	**126.813.632**	**(3.243.848)**
31/12/2010	**127.068.249**	**(2.991.449)**	**4.097.000**	**(39.051)**	**780.677**	**(17.036)**	**35.502**	**(4.349)**	**224.749**	**(2.707)**	**132.206.177**	**(3.054.592)**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment	Gross exposure	impairment
A. On-balance sheet exposure												
A.1 Non performing loans	22	(2)	157	(110)	-	-	-	-	-	-	179	(112)
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	3.474.200	(149)	3.097.189	-	309.678	-	15.766	-	197.712	-	7.094.545	(149)
TOTAL	**3.474.222**	**(151)**	**3.097.346**	**(110)**	**309.678**	**-**	**15.766**	**-**	**197.712**	**-**	**7.094.724**	**(261)**
B. Off-balance sheet exposures												
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	49	-	-	-	-	-	49	-
B.3 Other deteriorated assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1.197.891	(9)	1.275.197	(330)	106.323	(20)	46.487	(213)	18.668	(80)	2.644.566	(652)
TOTAL	**1.197.891**	**(9)**	**1.275.197**	**(330)**	**106.372**	**(20)**	**46.487**	**(213)**	**18.668**	**(80)**	**2.644.615**	**(652)**
31/12/2011	**4.672.113**	**(160)**	**4.372.543**	**(440)**	**416.050**	**(20)**	**62.253**	**(213)**	**216.380**	**(80)**	**9.739.339**	**(913)**
31/12/2010	**2.571.127**	**(33)**	**2.006.564**	**(299)**	**221.955**	**(7)**	**104.148**	**(235)**	**173.866**	**(104)**	**5.077.660**	**(678)**

Changes in total net impairment losses for deteriorated exposures to customers

Description/categories	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures
A. Total initial net impairment	**(2.112.810)**	**(287.669)**	**(60.577)**	**(14.732)**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**(775.417)**	**(186.573)**	**(51.885)**	**(7.594)**
B.1 impairment losses	(628.757)	(146.702)	(38.580)	(5.445)
B.2 transfers from other categories of deteriorated exposures	(106.308)	(5.623)	(12.791)	(381)
B.3 other increases	(40.352)	(34.248)	(514)	(1.768)
C. Decreases	**467.126**	**307.639**	**21.304**	**18.718**
C.1 unrealised reversals of impairment losses	89.298	19.414	896	6.214
C.2 reversals of impairment losses	74.864	38.973	9.698	2.873
C.3 write-offs	285.856	82	1.521	-
C.4 transfers to other categories of impaired exposures	1.090	184.783	136	8.410
C.5 other decreases	16.018	64.387	9.053	1.221
D. Total closing net impairment	**(2.421.101)**	**(166.603)**	**(91.158)**	**(3.608)**
- of which: exposures transferred not derecognised	-	-	-	-

Changes in total net impairment losses for deteriorated exposures to banks

Description/categories	Non-performing loans	Impaired loans	Restructured exposures	Past due exposures
A. Total initial net impairment	**(109)**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**(4)**	**-**	**-**	**-**
B.1 impairment losses	(5)	-	-	-
B.2 transfers from other categories of deteriorated exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**2**	**-**	**-**	**-**
C.1 unrealised reversals of impairment losses	2	-	-	-
C.2 reversals of impairment losses	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	-	-	-
D. Total closing net impairment	**(112)**	**-**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-

Table 6 - Credit risk: disclosures for portfolios subject to the standardised approach and specialised 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:

- Cerved Group Spa (formerly 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 Cerved Group Spa	Solicited 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

Adoption of advanced models

As part of the programme to validate internal models introduced by the Group some time ago, in October and November 2011 the Bank of Italy carried out an initial survey (pre-validation) of the activities undertaken by the UBI Group in view of the introduction of an internal model for the calculation of capital requirements for credit risk (A-IRB approach) for the Network Banks and Centrobanca for use with the supervisory class termed "Businesses".

Following that action and further progress made on UBI Banca Group projects, on 9th March 2012 the Supervisory Authority officially announced the commencement of final verifications (validation) of conformity of the system to the qualitative and quantitative requirements set by the relative regulations. At the same time, an official application was made by the UBI Banca Group for recognition for supervisory purposes of its internal rating based, credit risk management system.

Authorisation by the Bank of Italy for the use of internal models is expected in time for the supervisory reports to be made as at 30th June 2012.

Quantitative information

Distribution of exposures by credit quality class and by supervisory class of activity: standardised approach[10].

[10] 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.

SUPERVISORY PORTFOLIO	Credit quality step	Data as at 31.12.11 Exposure with credit risk mitigation	Data as at 31.12.11 Exposure without credit risk mitigation	Data as at 31.12.11 Exposures deducted from the supervisory capital	Data as at 31.12.10 Exposure with credit risk mitigation	Data as at 31.12.10 Exposure without credit risk mitigation	Data as at 31.12.10 Exposures deducted from the supervisory capital
Exposures to or guaranteed by central governments and banks		**9.129.768**	**9.588.129**	**2.245**	**9.725.738**	**9.846.801**	**2.245**
	0%	9.128.913	9.587.161		9.725.738	9.846.801	
	20%	855	968				
Exposures to or guaranteed by regional government and local authorities		**1.044.292**	**1.159.716**		**956.273**	**1.002.467**	
	0%	-	27.979		-	5.241	
	20%	1.044.292	1.131.737		956.273	997.226	
Exposures to or guaranteed by non commercial and public sector entites		**2.291.540**	**2.440.284**		**2.583.260**	**2.783.685**	
	0%	-	118.876		6.281	173.882	
	20%	1.056.237	1.056.237		1.356.423	1.389.247	
	50%	118.059	147.927				
	100%	1.117.244	1.117.244		1.220.556	1.220.556	
Exposures to or guaranteed by multilateral development banks		-	-				
Exposures to or guaranteed by international organisations		-	-				
Exposures to or guaranteed by supervised intermediaries		**12.978.307**	**20.813.127**		**13.205.884**	**23.251.993**	
	0%	2.058.768	9.048.348		1.399.859	11.000.668	
	20%	8.060.949	8.352.290		10.942.811	11.388.110	
	50%	1.997.925	2.551.754		191.008	191.008	
	100%	860.665	860.735		672.206	672.206	
Exposures to or guaranteed by corporates		**75.874.684**	**77.460.228**		**82.705.120**	**84.469.456**	
	0%	11.384	605.198		95.444	929.334	
	20%	109.268	268.993		1.079.623	1.360.920	
	35%	1.629	1.854		15.826	16.478	
	50%	23.298.020	23.818.116		22.764.986	23.084.638	
	70%	-	20.332		-	7.313	
	75%	127.037	127.037		97.040	97.040	
	100%	47.020.403	47.311.755		52.783.006	53.104.539	
	150%	5.306.943	5.306.943		5.869.195	5.869.195	
Retail exposures		**28.285.355**	**29.415.442**		**30.586.582**	**32.280.951**	
	0%	11.410	1.137.756		86	1.694.417	
	75%	28.273.945	28.277.686		30.586.496	30.586.535	
Exposures secured by real estate property		**30.633.005**	**30.654.659**		**28.440.443**	**28.455.407**	
	0%	-	21.654		-	14.964	
	35%	21.111.087	21.111.087		19.911.194	19.911.194	
	50%	9.521.918	9.521.918		8.529.249	8.529.249	
Past due exposures		**6.485.419**	**6.535.464**		**5.829.752**	**5.915.293**	
	0%	-	42.633		-	81.680	
	50%	196.311	196.311		17.751	17.751	
	100%	2.866.047	2.866.047		2.226.652	2.230.513	
	150%	3.423.061	3.430.473		3.585.349	3.585.349	
High risk exposures		**128.445**	**128.445**		**32.719**	**32.719**	
	100%	801	801				
	150%	127.644	127.644		32.719	32.719	
Exposures in the form of covered bonds		-	-				
Short term exposures to supervised intermediaries and corporates		-	-				
Exposures to OICR (collective investment undertakings)		**202.788**	**202.788**		**593.717**	**595.877**	
	20%	-	-		-	2.160	
	100%	202.788	202.788		593.717	593.717	
Other exposures		**5.021.693**	**5.021.693**	**447.578**	**5.364.686**	**5.364.686**	**414.457**
	0%	571.702	571.702		594.617	594.617	
	20%	1.159.611	1.159.611		1.733.325	1.733.325	
	100%	3.290.380	3.290.380		3.036.744	3.036.744	
Securitisations		**3.849**	**3.849**		**94.875**	**94.875**	

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 applies policies to reduce counterparty risk through 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 – ISDAs, together with Credit Support Annexes – CSAs). The GMRAs contain special margin lending clauses designed to cover exposure as each individual transaction is presented. Similarly the CSAs, which in fact are attachments to ISDAs, serve the purpose of regulating the exchange of collateral to support derivatives transactions, in order to contain counterparty risk. More specifically, 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. The ISDAs together with the attached CSAs, like the GMRAs, all constitute predetermined general contracts – while the parties are free to negotiate specific clauses to suit their own specific purposes – in common use as the market standard for regulating the transactions they refer to.

Policies and processes for the valuation and management of collateral

In order to ensure that general and specific requirements are met for the 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 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 (if all the necessary requirements, including the payment of a fire and explosion insurance policy with the bank as the beneficiary and the absence of significant relationship between the debtor and the collateral), with a consequent mitigating effect recognised when capital requirements are calculated. In cases in which even just one of the necessary requirements is not met, even if it has been lodged, the collateral is not considered admissible. Nevertheless should a guarantee not be admissible for the purposes of mitigating capital risk this naturally does not affect enforcement of it in the event of default by the counterparty.

Starting from 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 (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, however, are revalued according to the updated values per square metre. Statistical indices and updated values per square metre are furnished by an external economic research specialist.

In cases of significant loss of value, the process requires Account Managers to request a new appraisal. 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[11], a new appraisal must be requested by account managers every

[11] The New regulations for the prudential supervision of banks issued by the Bank of Italy state that "the valuation of properties must in any case 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".

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.

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.

The absence of a significant correlation between a debtors' ability to repay and the value of 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 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 mentioned 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 significant correlation between collateral and ability to repay, 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 are 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 on 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 measurement 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.

No positions in credit derivatives existed as at 31st December 2011.

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 by the Network Banks, 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 Unicredit MedioCredito Centrale, for a nominal amount of approximately €427 million. It is underlined that in addition to the *Fondo di Garanzia* just mentioned, the largest ten issuers of guarantees also include nine supervised intermediaries pursuant to Art.

107 of the Consolidated Banking Act, with guarantees for nominal amounts from €26 million up to a maximum of €127 million.

A predominant role is played in financial collateral recognised under the standardised approach by Italian government securities which guarantee exposures for a nominal amount of more than €750 million. A primary role is also played among other instruments recognised by government securities issued by the German and French republics amounting to €138 million and €86 million, respectively, by securities issued by a major Italian bank amounting to €311 million and by units in monetary investment funds managed by UBI Pramerica SGR amounting to over €73 million.

Quantitative information

EXPOSURES SECURED BY COLLATERAL AND PERSONAL GUARANTEES	Data as at 31.12.2011		Data as at 31.12.2010	
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and banks	-	458.362	-	121.063
Exposures to or guaranteed by regional government and local authorities	27.979	87.445	5.261	40.933
Exposures to or guaranteed by non commercial and public sector entities	118.876	29.867	167.581	32.844
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	7.020.022	814.799	9.593.998	452.111
Exposures to or guaranteed by corporates	594.030	991.513	835.600	928.736
Retail exposures	1.130.087	-	1.694.370	-
Exposures secured by real estate property	21.654	-	14.964	-
Past due exposures	42.633	7.412	81.821	3.721
High risk exposures	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Short term exposures to supervised intermediaries and corporates	-	-	-	-
Exposures to OICR (collective investment undertakings)	-	-	2.160	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-

Table 9 - Counterparty risk

Qualitative information

Counterparty risk constitutes a particular type of credit risk. It is the risk that a counterparty to a transaction involving determined types of financial instruments defaults (credit and financial derivatives sold “over the counter” – OTC, securities financing transactions and transactions with long term settlement) before the transaction itself is settled.

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 would have to incur to find another party willing to take on the contractual obligations of the originally contracted counterparty, if this became 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.

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. The amount used is valued at the mark-to-market value of the derivative.

The amount of the credit line granted must be 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, interest rates and commodities differ according to the type of product and its residual life. Products and their relative credit equivalents are revised at least annually. 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 debtor and creditor positions resulting from transactions with a customer against each other and this therefore reduces the exposure to the customers. The contract also rigorously governs the procedures for informing customers of changes in their exposures and it stipulates that 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. Changes in the exposure must be monitored continuously by the customer's Account Manager. If the use of the credit reaches or exceeds 80% of the amount agreed, the Account Manager must promptly inform the Credit Area of the Network Bank or Centrobanca.

A list of positions with negative mark-to-market greater than €500 thousand is produced monthly by UBISS (with details of amounts for the previous month) and is sent to the General Managers of the Parent, the Network Banks and Centrobanca, to the Risk Management and Compliance Areas, to the Parent and Group Audit, to the Parent Commercial, Credit and Credit Recovery Macro Areas and to the Legal Affairs and Litigation Staff Unit for their information, so that they may analyse financial risk and credit, legal and operational aspects and take appropriate 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.

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

- a maximum limit in terms of the degree of risk (minimum rating) for institutional counterparties and for countries;
- a total weighted exposure limit for the UBI Group, divided by legal entity, towards institutional counterparties and ordinary residents in countries at risk, for all types of transaction with those parties, consisting in turn of;
    - limits in terms of distribution by country risk class and counterparty;
    - concentration limits, consisting of a limit for exposure to a single country and counterparty by class of risk;
    - a propagation limit which restricts the distribution of maximum amounts available for an umbrella credit authorisation or a risk group;

- definition of permitted transactions and the relative weightings;
- definition of admissible collateral and the haircuts applicable.

The Institutional Banking Service submits a monthly report to the Risk Management Area on the outstanding credit lines with institutional counterparties, on the basis of information received from the Finance Macro 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.

Trading in derivatives is subject to signing an ISDA Master Agreement with the counterparty with an associated Credit Support Annex (CSA)[12], which specifically governs the netting arrangements and the exchange of collateral between the parties in order to reduce the exposure towards the counterparty concerned. More specifically the CSA governs the posting of collateral by the creditor party that is equal to the amount in excess of the mark-to-market threshold.

Also the functioning of a CSA may be affected if the credit rating of the counterparty is downgraded, in cases where the CSA itself involves threshold[13] levels and MTAs that are not set in absolute terms, but vary as a function of the rating of the parties from time to time. In these situations a lower rating will result in a lower MTA threshold and therefore also in a lower value for the collateral posted.

Furthermore, almost all the CSAs entered into by UBI involve threshold levels and MTAs that are set at fixed levels.

The downgrades of UBI Banca by Moody's and Fitch in the last part of 2011 in the wake of the lowering of Italy's credit rating had the consequence, amongst other things, of making it necessary to undertake a series of actions on its programme for the issue of covered bonds and on its self- securitisations[14].

In order to prevent probable downgrades of the programme, accounts had to be opened with a third party counterparty (Bank of New York Mellon, also the paying agent) in order to collateralise the swap contracts between UBI Banca and UBI Finance, the special purpose entity for the programme. Margins were paid into these accounts, calculated on the basis of the provisions of the swap contract originally entered into (asset swaps and liability swaps). At the same time, the liquidity accounts of the entity UBI Finance were transferred from UBI Banca International Luxembourg to Bank of New York Mellon, in relation to the minimum rating level requested by the two agencies for the bank used for them. At the end of 2011 the ratings for the programme were "Aaa" for Moody's and "AAA" for Fitch, under review in both cases for possible negative impacts. In the weeks that followed, when further downgrades of the rating were performed on the Republic of Italy and on national banking Groups, the ratings for UBI Banca's covered bond programme were also downgraded: from "Aaa" to "Aa2" by Moody's (16th January 2012) and from AAA to "AA+" by Fitch (8th February 2012). The new ratings were, however, maintained under review for possible negative impacts.

See Table 8 for further details.

[13] **Threshold**: maximum exposure that a party decides to accept towards another, without the protection provided by collateral. It therefore corresponds to the amount above which the obligation to exchange collateral takes effect. The threshold amount may even be set at zero. In this case the maximum credit risk will be equal to the "**minimum transfer amount" (MTA)**, defined as the minimum collateral that is transferred each time.

[14] See Table 10 of these disclosures with regard to action taken on the latter.

Quantitative information

Financial derivatives - Supervisory trading portfolio: notional, end of period and average figures

Underlying assets/type of derivative	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**28.658.326**	**623.007**	**42.886.343**	**2.607.348**
a) Options	7.765.102	-	11.170.173	4.366
b) Swaps	20.893.224	-	31.181.043	-
c) Forwards	-	-	1.628	-
d) Futures	-	623.007	-	2.602.982
e) Other	-	-	533.499	-
2. Equity instruments and share indices	**59.681**	**1.440**	**216.278**	**48.619**
a) Options	59.681	100	211.349	12.001
b) Swaps	-	-	-	-
c) Forwards	-	-	4.929	67
d) Futures	-	1.340	-	36.551
e) Other	-	-	-	-
3. Currencies and gold	**5.342.657**	**-**	**5.530.973**	**-**
a) Options	2.030.499	-	2.240.278	-
b) Swaps	-	-	449.035	-
c) Forwards	3.312.158	-	2.841.660	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**5.785**	**-**	**26.300**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**34.066.449**	**624.447**	**48.659.894**	**2.655.967**
Average amounts	**41.363.171**	**1.640.207**	**57.454.454**	**2.260.184**

Financial derivatives – Banking portfolio: notional, end of period and average figures

For hedging

Underlying assets/type of derivative	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**47.902.850**	**-**	**43.000.261**	**-**
a) Options	5.230.386	-	609.057	-
b) Swaps	42.672.464	-	42.391.204	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**1.128.625**	**-**	**765.847**	**-**
a) Options	-	-	-	-
b) Swaps	1.128.625	-	8.902	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	756.945	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**49.031.475**	**-**	**43.766.108**	**-**
Average amounts	**46.398.792**	**-**	**43.838.242**	**-**

Financial derivatives – Banking portfolio: notional, end of period and average figures

Other derivatives

Underlying assets/type of derivative	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**126.494**	**-**	**36.652**	**-**
a) Options	19.094	-	36.652	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	107.400	-	-	-
2. Equity instruments and share indices	**2.167.983**	**-**	**8.900.492**	**-**
a) Options	2.167.983	-	8.900.492	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**2.294.477**	**-**	**8.937.144**	**-**
Average amounts	**5.615.810**	**-**	**8.480.285**	**-**

Financial derivatives - gross positive fair value: by type of product

Portfolio/type of derivative	Positive fair value			
	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**595.567**	**220**	**495.701**	**888**
a) Options	61.106	35	78.646	20
b) Interest rate swaps	489.384	-	392.669	-
c) Cross currency swaps	23	-	377	-
d) Equity swaps	-	-	-	-
e) Forwards	44.024	-	21.442	1
f) Futures	-	185	-	867
g) Other	1.030	-	2.567	-
B. Banking portfolio - for hedging	**1.090.498**	**-**	**591.127**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1.010.954	-	560.918	-
c) Cross currency swaps	-		-	
d) Equity swaps	-		-	
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	79.544	-	30.209	-
C. Banking portfolio - other derivatives	**1.199**	**-**	**17.552**	**-**
a) Options	1.199	-	17.552	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
f) Other	-	-	-	-
Total	**1.687.264**	**220**	**1.104.380**	**888**

Financial derivatives - gross negative fair value: by type of product

Portfolio/type of derivative	Negative fair value			
	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**624.066**	**187**	**528.939**	**1.191**
a) Options	49.123	-	57.498	-
b) Interest rate swaps	522.968	-	447.098	-
c) Cross currency swaps	47	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	50.889	-	21.698	-
f) Futures	-	187	-	1.191
g) Other	1.039		2.645	
B. Banking portfolio - for hedging	**1.739.685**	**-**	**1.228.056**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1.739.328	-	1.226.673	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	357	-	1.383	-
C. Banking portfolio - other derivatives	**1.413**	**106**	**15.030**	**-**
a) Options	1.413	-	15.030	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	106	-	-
Total	**2.365.164**	**293**	**1.772.025**	**1.191**

Over the counter financial derivatives: supervisory trading portfolio – notional amounts, gross positive and negative fair values by counterparty
contracts not covered by clearing agreements

Contracts not covered by clearing agreements	Governments and central banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	23.264	20.143.364	1.179.250	-	6.264.316	1.048.132
- positive fair value	-	1	174.824	11.708	-	313.739	11.911
- negative fair value	-	10	508.864	20.585	-	2.758	2.064
- future exposure	-	81	127.820	7.751	-	17.290	744
2) Equity instruments and share indices							
- notional amount	-	-	7.383	-	-	-	52.298
- positive fair value	-	-	440	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	443	-	-	-	623
3) Currencies and gold							
- notional amount	-		3.043.069	1.134.983	278	1.145.733	18.594
- positive fair value	-	-	40.365	31.007	7	10.402	134
- negative fair value	-	-	69.483	3.223	-	15.825	297
- future exposure	-	-	25.920	10.482	3	7.120	185
4) Other securities							
- notional amount	-	-	2.891	-	-	2.894	-
- positive fair value	-	-	627	-	-	402	-
- negative fair value	-	-	581	-	-	376	-
- future exposure	-	-	289	-	-	289	-

Over the counter financial derivatives: banking portfolio – notional amounts, gross positive and negative fair values by counterparty
contracts not covered by clearing agreements

Contracts not covered by clearing agreements	Governments and central banks	Other public authorities	Banks	Financial companies	Insurance companies	Non financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	45.074.401	2.929.896	3.350	3.500	18.197
- positive fair value	-	-	979.431	31.523	-	-	-
- negative fair value	-	-	1.561.291	178.037	-	-	-
- future exposure	-	-	264.425	16.749	-	-	-
2) Equity instruments and share indices							
- notional amount	-	-	734.697	337.925	773.818	170.670	150.873
- positive fair value	-	-	1.199	-	-	-	-
- negative fair value	-	-	-	-	-	-	1.414
- future exposure	-	-	56.516	29.396	33.854	17.059	5.876
3) Currencies and gold							
- notional amount	-	5.743	-	26.377	-	79.062	1.017.443
- positive fair value	-	254	-	2.228	-	5.294	71.768
- negative fair value	-	16	-	-	-	34	306
- future exposure	-	57	-	264	-	794	10.216
4) Other securities							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

Residual maturity of over the counter financial derivatives: notional amounts

Underlying asset/Residual maturity	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Supervisory trading portfolio	**17.323.748**	**9.639.788**	**7.102.913**	**34.066.449**
A.1 Financial derivatives on debt instruments and interest rates	12.006.703	9.548.710	7.102.913	28.658.326
A.2 Financial derivatives on equity instruments and share indices	7.416	52.265	-	59.681
A.3 Financial derivatives on exchange rates and gold	5.303.844	38.813	-	5.342.657
A.4 Financial derivatives on other securities	5.785	-	-	5.785
B. Banking portfolio	**10.646.479**	**27.344.997**	**13.334.476**	**51.325.952**
B.1 Financial derivatives on debt instruments and interest rates	9.324.889	26.094.128	12.610.327	48.029.344
B.2 Financial derivatives on equities and share indices	192.965	1.250.869	724.149	2.167.983
B.3 Financial derivatives on exchange rates and gold	1.128.625	-	-	1.128.625
B.4 Financial Derivatives on other securities	-	-	-	-
Total 31/12/2011	**27.970.227**	**36.984.785**	**20.437.389**	**85.392.401**
Total 31/12/2010	**39.158.581**	**32.975.936**	**29.228.629**	**101.363.146**

Credit derivatives: end of period and average notional amounts

No transactions in credit derivatives were performed in 2011.

Over the counter credit derivatives - gross negative fair value: by type of product

No outstanding transactions in credit derivatives existed as at 31st December 2011.

Residual maturity of over the counter credit derivatives: notional amounts

No outstanding transactions in credit derivatives existed as at 31st December 2011.

Counterparty risk - credit equivalent

	31.12.11		31.12.10	
	CREDIT EQUIVALENT		CREDIT EQUIVALENT	
	STANDARDISED APPROACH	IRB APPROACH	STANDARDISED APPROACH	IRB APPROACH
Derivatives contracts	2.530.526		1.648.790	
Securities financing transactions and long term settlement transactions	8.533.419		11.608.788	
Cross product netting agreements				

Table 10 – Securitisation transactions

Qualitative information

Objectives of the Bank with regard to securitisation activities

Own securitisations

The "own" securitisations of the UBI Group are of the following two types:

i) conventional securitisations of the assets of Group member companies which allow direct access to capital markets, with the objective of narrowing the liquidity gap between medium-to-long term lending and short term funding, diversifying the sources of financing at a competitive cost of funding and reducing risk assets calculated for the purposes of solvency ratios, without excluding the originator (transferor) from the management of customer relationships;

ii) conventional securitisations of own assets in order to generate assets eligible as collateral for refinancing with the European Central Bank (termed self-securitisations). These transactions, which are structured in exactly the same way as those in the preceding point i), are performed to strengthen the liquidity position of the Group, in compliance with internal policies, in order to maintain a high level of counterbalancing capacity.

Law No. 130/99 "Measures on the securitisation of loans" introduced the possibility into national legislation of performing securitisation transactions using specially formed Italian registered companies (termed special purpose entities), which allow an entity to acquire funding by securitising part of the assets which it owns. Generally the assets (usually loans) recognised in the balance sheet of an entity are transferred to an SPE, which issues securities sold on the market in order to fund the purchase and pay back the amount received to the transferor. The redemption and return on the securities issued depend on the cash flows generated by the loans transferred. In conventional securitisation transactions of its own assets, designed to generate assets eligible as collateral, UBI fully subscribes two tranches of the securities issued by the SPE in order to finance the purchase of the loans. The senior securities assigned a rating are listed and can be used for refinancing operations with the ECB.

Four companies in the Group took advantage of Law No. 130/99 for the following securitisations: UBI Finance 2 Srl, UBI Finance 3 Srl, Lombarda Lease Finance 4 Srl, UBI Lease Finance 5 Srl, Albenza 3 Società per la Cartolarizzazione Srl – Orio Finance nr 3 plc, 24-7 Finance Srl.

On 25th November 2011, the Sintonia Finance Srl securitisation was wound up in advance. The originators (Centrobanca Spa and Banca Popolare di Cremona) exercised their option under the contract to repurchase all the loans held in portfolio (the amount recognised in the books of Centrobanca was €19.3 million) and on receipt of the purchase price the special purpose entity fully redeemed the notes issued.

However, own securitisations, eliminated when consolidating the accounts, still exist amounting to €29.9 million, down compared to €39.3 million twelve months before, mainly the result of the early redemption of Sintonia Finance (in the Centrobanca AFS portfolio amounting to €7.2 million at the end of 2010). They were composed as follows:

- Lombarda Lease Finance 4 (ABS instruments classified within the available-for-sale financial assets of UBI Banca) amounting to €3.9 million (€5.8 million);

- Orio Finance (RMBS instruments held by the Parent and classified within financial assets held for trading), amounting to €5 million (€5.3 million);

- Lombarda Lease Finance 4 amounting to €21 million, classified within loans and receivables and held by UBI Leasing (unchanged compared to December 2010).

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The downgrade's by Moody's and Fitch, performed in the last quarter of 20011 in the wake of the lowering of Italy's credit rating, had the consequence, amongst other things, of making it necessary to restructure the securitisations originated and held on the books as owned by the Group ("self-securitisations"), in order to ensure continuity to the investments of the special purpose entities without compromising the eligibility of the senior notes issued.

More specifically, on the one hand the ratings on the financial instruments invested in by the special purpose entities had to be redefined and on the other hand collateral had to be lodged on behalf of those entities for the swaps which back those securitisations, where UBI Banca is a direct counterparty.

The new ratings assigned did not compromise their eligibility for refinancing operations with the European Central Bank. The only exception to this was the B@nca 24-7 consumer loan securitisation, which remains ineligible because it has only one of the two ratings required by the ECB.

The downgrade of UBI Banca's ratings by Fitch in 2010 made it necessary to take action again with further restructuring of the three securitisations rated by Fitch (UBI Finance 2, UBI Finance 3 and UBI Lease Finance 5).

The action described above helped to reduce the linkage between the securitisations in question with the Parent, UBI Banca, making them much less vulnerable to possible further downgrades caused by changes in the Parent's rating.

In 2009 the UBI Group set a specific policy for the management of securitisation risk in compliance with supervisory regulations (Circular No. 263/06). Briefly, the policy sets out the minimum internal requirements for the approval of new securitisations and outlines the process which guarantees control by the competent units of the Parent and the competent units of the Network Banks or Group Companies involved in the transaction. Table 1 of this disclosure document may also be consulted in this respect.

Third party securitisation transactions

As an investor the UBI Group holds a residual position in instruments relating to securitisations (ABS and other structured credit products) with a market value of €0.3 million as at 31st December 2011, which was classified within financial assets held for trading.

More specifically direct investment in the instruments in question consisted exclusively of ABS instruments for a total of €0.3 million relating to the subsidiary UBI Banca International, with the underlying mainly of European origin (€0.5 million in December 2010).

In the second half of 2011, ABS instruments were redeemed for a total of €89.1 million (classified within available-for-sale financial assets), relating to the senior tranche of INPS (national insurance institute) securitisations, in addition to structured credit products for a total of €2.6 million (classified within financial assets held for trading in the UBI Banca International portfolio). No direct investments exist in securities backed by commercial mortgages (CMBS).

Securitisations: characteristics

UBI Finance 2

The **UBI Finance 2 Srl** transaction, which performs the Banco di Brescia Spa securitisation, was concluded in the first few months of 2009. On 13th January 2009 the contract for the transfer of a loan portfolio was signed, which consisted of €2,093,238,616.49 of performing loans to small-to-medium sized businesses, while the issuance of the relative securities – fully subscribed by the originator Banco di Brescia – was performed on 27th February 2009.

The main characteristics of the UBI Finance 2 securities issued in 2009 are as follows:

- class A notes (senior tranches): nominal amount €1,559,500,000.00 at floating rate, were made available to the Parent, UBI Banca, by means of repurchase agreements, to be used as collateral in refinancing transactions with the ECB or to guarantee intraday transactions with the Bank of Italy. Following the action described above, the notes were downgraded by Moody's from “Aaa” to “Aa3” and by Fitch from “Aaa” to “A-”;
- class B notes (junior tranches): nominal amount €519,850,000.00 with no rating and with a yield equal to the additional return on the transaction, which allows the originator, Banco di Brescia, to benefit from the excess spread on the underlying portfolios.

UBI Finance 3

In the second half of 2011 a new securitisation transaction was performed by transferring loans to small to medium-sized enterprises, classified as performing and held by the subsidiary Banca Popolare di Bergamo Spa, to the special purpose entity **UBI Finance 3 Srl**.

The transaction was performed in two stages:

- the transfer of the loans by the originator Banca Popolare di Bergamo to the special purpose entity UBI Finance 3 on 6th December 2010, for an amount of approximately €2.8 billion;
- the issuance of securities by UBI Finance 3 (performed in July 2011). Following the action described above, the notes were downgraded by Moody's from “Aaa” to “Aa3” and by Fitch from “Aaa” to “A-”.

When the loans were transferred, servicing and sub-servicing contracts were signed by which UBI Banca as the Parent performs the role of servicer, while the collection of payments and managing relations with customers for the securitised assets has been delegated to the originator, Banca Popolare di Bergamo, as the sub-servicer (here too, except for those positions reclassified as non-performing, which will be handled by the Credit Area of the Parent).

Lombarda Lease Finance 4

The **Lombarda Lease Finance 4 Srl** 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 the UBI Leasing Spa to the special purpose entity (SPE) Lombarda Lease Finance 4 Srl (LLF4) of loans relating to leasing contracts, against payment of the nominal value of the loans transferred by the SPE (LLF4). On 19/10/05, UBI Leasing Spa transferred to LLF4, under the transfer contract signed, loans relating to lease 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 and the amount for the first transfer scheduled under the “revolving” programme was €63,637,298;
- collection of the repayments was managed by the “originator” as the “servicer” of the transaction on specific mandate of the transferee;
- on 15/06/05 LLF4 issued notes with different redemption characteristics to fund the transaction;
- 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 Srl** 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 Spa to the special purpose entity (SPE) UBI Lease Finance 5 S.r.l. (LF5) of the principal of implicit performing loans recognised in the accounts as at 31/10/2008 relating to lease contracts, against payment of the nominal amount of the loans transferred by the SPE;
- the amount of the loans transferred was €4,024,051,893.21;
- collection of the repayments was managed by the “originator” as the “servicer” of the transaction on specific mandate of the transferee;
- on 28/11/09 LF5 issued notes with differing redemption characteristics;
- class A-B “senior and junior” notes subscribed by the originator. Following the action described above, the notes were downgraded by Moody's from “Aaa” to “Aa3” and by Fitch from “Aaa” to “A-”.

Albenza 3

The securitisation **Albenza 3 Società per la Cartolarizzazione Srl** 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 SPE Albenza 3 Società per la Cartolarizzazione Srl, in which €389,532,000 is not held by the UBI Banca Group;
- funding of the operation by the issue of a single Albenza 3 Società per la Cartolarizzazione Srl note (unrated);
- the note 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 and 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 SPE 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 notes (senior notes): floating rate notes equal to the Euribor three month + 0.260% for an amount of €427,200,000;
    - class B notes (mezzanine notes): floating rate notes equal to the Euribor three month + 0.70% for an amount of €17,800,000;
    - class C notes (junior securities): floating rate notes equal to the Euribor three month + 1.00%, for an amount of €21,600,000;
- the different classes were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C notes were recognised within the trading portfolio of UBI Banca Scpa and were eliminated in the consolidation against the junior securities recognised within liabilities in the balance sheet of Orio Finance nr 3 plc.

24-7 Finance

The **24-7 Finance Srl** 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 Srl in which UBI Banca Spa holds a 10% interest;
- funding of the transaction by the issue of notes divided according to the sub-transaction as follows:
    - mortgages:
      class A notes (senior notes): floating rate notes equal to the Euribor three month +0.02 % for an amount of €2,279,250,000. Following the action described above, the senior notes were downgraded by Moody's from "Aaa" to "Aa3", while the DBRS "A high" rating was confirmed;

      class D securities (junior securities): bonds with a yield equal to the "additional return", for an amount of €225,416,196;

    - salary backed loans:
      class A notes (senior notes): floating rate notes equal to the Euribor three month for an amount of €722,450,000;

class D securities (junior securities): bonds with a yield equal to the "additional return", for an amount of €113,728,307;

- consumer loans:

  class A notes (senior notes): floating rate bonds equal to the Euribor six month +0.35% for an amount of €2,128,250,000. The securities were downgraded by Moody's from "Aaa" to "Aa2", while operations were suspended for the assignment of a second rating.

  class D securities (junior securities): bonds with a yield equal to the "additional return", for an amount of €435,940,122.

On 20th December 2011, the entire salary backed loan securitisation was wound up with the consequent repurchase of the loans by Banca 24/7 for a total of €298,451,078.94 (equal to the entire residual debt). Consequently, on receipt of the sales price the special purpose entity redeemed all the securities issued.

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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 entered into for each securitisation between the respective special purpose entities 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 following constituted exceptions to that practice: the UBI Lease Finance 5, UBI Finance 2 and UBI Finance 3 transactions, where the special purpose entity entered into swap contracts directly with UBI Banca (which then renegotiated mirror swaps with the originators UBI Leasing, UBI Banco Brescia and Banca Popolare Bergamo).

Ordinary lines of liquidity existed as at 31st December 2011 granted by the Parent to the special purpose entity Orio Finance Nr.3 Plc for a total of five million euro, but not drawn on (also not drawn on as at 31st December 2010). Ordinary lines of liquidity were also granted by B@nca 24-7 to the entity 24-7 Finance Srl for a total of €227.4 million, fully drawn on (€37.3 million, also fully drawn on, at the end of 2010). Following the downgrade of the UBI Group by the rating agencies Moody's and Fitch, on 6th and 12th October 2011 respectively, UBI Banca made a liquidity facility available for UBI Finance 2 amounting to €16.3 million and for UBI Finance 3 amounting to €28 million.

Securitisations: entities and roles

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

UBI Finance 2

Originator	UBI Banco di Brescia Spa
Issuer	UBI Finance 2 Srl
Servicer	UBI Banca Scpa
Subservicer	UBI Banco di Brescia Spa
Collection Account Bank	UBI Banca Scpa
Investment Account Bank	The Bank of New York Mellon
Cash Manager	The Bank of New York Mellon
Quotaholder	UBI Banca Scpa

UBI Finance 3

Originator	UBI Banca Popolare di Bergamo Spa
Issuer	UBI Finance 3 Srl
Servicer	UBI Banca Scpa
Subservicer	UBI Banca Popolare di Bergamo Spa
Collection Account Bank	UBI Banca Scpa
Investment Account Bank	The Bank of New York Mellon
Cash Manager	The Bank of New York Mellon
Quotaholder	UBI Banca Scpa

Lombarda Lease Finance 4

Originator	UBI Leasing Spa
Issuer	Lombarda Lease Finance 4 Srl
Servicer	UBI Leasing Spa
Collection Account Bank	UBI Banca International Sa
Investment Account Bank	UBI Banca International Sa
Cash Manager	UBI Banca International Sa
Quotaholder	UBI Banca Scpa

UBI Lease Finance 5

Originator	UBI Leasing Spa
Issuer	UBI Lease Finance 5 Srl
Servicer	UBI Leasing Spa
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 Sa Italian Branch

Albenza 3

Originator	UBI Banca Popolare di Bergamo Spa
Issuer	Albenza 3 Società per la Cartolarizzazione Srl
Servicer	UBI Banca Scpa
Collection Account Bank	UBI Banca Popolare di Bergamo Spa
Calculation Agent	Centrobanca Spa

Orio Finance 3

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

24-7 Finance

Originator	B@nca 24-7 Spa
Issuer	24-7 Finance Srl
Servicer	B@nca 24-7 Spa
Quotaholder	UBI Banca Scpa
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 TMF Management Italy Srl for these securitisations described above: UBI Finance 2, UBI 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 corporate servicing was performed by Zenith Service.

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 main units responsible for the management of securitisations are located in the Finance, Administration and Operational Control and Risk Control Macro Areas. The roles and tasks relating to the performance of the various operational phases of servicing and to monitoring performance data were defined in those units. More specifically, a set of quarterly reports are prepared to monitor each individual securitisation transaction.

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 by the group for loan securitisations comply with IAS 39 rules concerning the derecognition of assets and liabilities.

Under those rules when all the risks and rewards pertaining to the transferor are transferred, then the assets transferred are derecognised in the financial statements of the transferor against recognition of the payment received and also recognition of any loss or gain on the transfer transaction.

Otherwise, if the conditions of the IAS 39 rules are not satisfied, then the transferor does not derecognise the assets, but recognises a liability to the transferee against the payment received, without therefore recognising any loss or gain realised on the transfer transaction. The assets transferred therefore remain in the same accounting class in which they were already recognised and they are therefore measured on the basis of the rules for that class.

When loans are securitised, these are not derecognised in the financial statements of the transferor in cases where the originator transfers a part of its own loans to the SPE, subscribing the junior class securities issued by the SPE and thereby remaining exposed to the risks and to the rewards of the assets transferred.

The securitisation transactions performed by the UBI Group subsequent to 1st January 2004 did not meet the conditions of the IAS 39 rules for derecognition and they have therefore been recognised following the procedures just described. For those transactions which took place before 1st January 2004, the Group took advantage of the exemption allowed by IFRS 1 on first time adoption and consequently this involved derecognition of the assets transferred.

Quantitative information

Securitisations: positions for own and third party securitisations

Quality of underlying assets/Exposures	On-balance sheet exposures						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
A. With own underlying assets:																		
a) Deteriorated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying assets of others:																		
a) Deteriorated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Type of underlying assets/Exposures	On-balance sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals	Carrying amount	Impairment losses/reversals
A.1 CBO INVESTMENT JERSEY LTD																		
Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Cartolarizzazione INPS 19 TV - Società SCCI	-	-																
ABS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Cartolarizzazione INPS 18 TV - Società SCCI	-	-	-															
ABS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Cordusio RMBS Securitisation Srl	-	-																
RMBS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Cordusio RMBS 3 UBCasa 1 Srl	-	-																
RMBS instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisations: positions by financial asset portfolio and type

Exposure/portfolio	Trading	At fair value	Available-for-sale	Held-to-maturity	Loans	31/12/2011	31/12/2010
1. On-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**89.051**
- Senior	-	-	-	-	-	-	89.051
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- 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
A. Own underlying assets:		
A.1 Subject to full derecognition		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.2 Subject to partial derecognition		
1. Non performing loans	-	X
2. Impaired loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.3 Not derecognised		
1. Non performing loans	-	-
2. Impaired loans	-	-
3. Restructured exposures	-	-
4. Past due exposures	-	-
5. Other assets	-	-
B. Underlying assets of others:		
B.1 Non performing loans	-	-
B.2 Impaired loans	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

Securitisations: type of exposure by weighting bands (standardised approach)

SECURITISATIONS: TYPE OF EXPOSURE BY WEIGHTING BANDS (STANDARDISED APPROACH)

Own securitisations	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional							-
Synthetic							-
TOTAL OWN 31.12.11	-	-	-	-	-	-	-
TOTAL OWN 31.12.10	-	-	-	-	-	-	-

Third party securitisations	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional	1.447		2.402				**3.849**
Synthetic							-
TOTAL OWN 31.12.11	**1.447**	-	**2.402**	-	-	-	**3.849**
TOTAL OWN 31.12.10	**94.875**	-	-	-	-	-	**94.875**

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

Servicer	Special purpose entity	Securitised assets (end of period figure)		Payments received on loans during year		Percentage of securities redeemed (end of period figure)					
						Senior		Mezzanine		Junior	
		Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets	Deteriorated assets	Performing assets
UBI Banca Scpa	Albenza 3 Società per la cartolarizzazione Srl	968	22.151	281	14.007	-	-	-	-	-	-
UBI Banca Scpa	UBI Finance 2 Srl	-	-	-	-	-	-	-	-	-	-
UBI Banca Scpa	UBI Finance 3 Srl	-	-	-	-	-	-	-	-	-	-
Centrobanca Spa	Sintonia Finance Srl	-	-	626	3.940	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 3 Srl	-	-	-	-	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 4 Srl	17.002	143.037	3.207	84.016	-	-	-	-	-	-
UBI Leasing Spa	UBI Lease Finance 5 Srl	155.460	3.752.687	5.748	814.923	-	-	-	-	-	-
B@nca 24/7 Spa	24-7 Finance Srl	-	-	-	-	-	-	-	-	-	-

Securitisations: financial assets transferred not derecognised

	Financial assets held for trading			Financial assets at fair value			Available-for-sale financial assets			Held-to-maturity investments			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2011	31/12/2010
A. On-balance sheet assets	**1.137.977**	**-**	**-**	**-**	**-**	**-**	**3.490.868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4.628.845**	**8.316.151**
1. Debt instruments	1.137.977						3.258.552	-	-	-	-	-	-	-	-	-	-	-	4.396.529	8.316.151
2. Equity instruments							232.316	-	-	X	X	X	X	X	X	X	X	X	232.316	-
3. O.I.C.R. (collective investment undertakings)	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Deteriorated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
31/12/2011	**1.137.977**	**-**	**-**	**-**	**-**	**-**	**3.490.868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4.628.845**	**-**
of which deteriorated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31/12/2010	**1.771.525**	**-**	**-**	**-**	**-**	**-**	**6.544.626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8.316.151**
of which deteriorated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

The UBI Banca Group has employed the traditional standardised approach (TSA) in combined use with the basic indicator approach (BIA) since 2008 for the calculation of capital requirements on operational risk (see Bank of Italy Circular No. 263 of 27/12/2006 relating to the new prudential supervisory regulations for banks).

The capital requirement calculated according to the standardised approach (TSA) is the product of the multiplication of gross income (the "significant indicator" consisting of item 120 in the mandatory income statement in the consolidated financial statements pursuant to Bank of Italy circular No. 262 of 22nd December 2005), divided into supervisory lines of business, by the "beta" coefficients defined in the supervisory regulations (see Bank of Italy circulars No. 263 of 27th December 2006 and No. 155 of 18th December 1991). The significant indicator for the supervisory lines of business was extrapolated from management accounting data, by applying classification criteria defined by internal regulations in compliance with supervisory instructions.

The capital requirement according to the basic indicator approach (BIA) is calculated by multiplying total gross income by the "alpha" coefficient defined by supervisory regulations.

Adoption of advanced models

In 2011 procedures were set in motion by the Supervisory Authority for the examination (pre-validation) of activities undertaken by the UBI Group for the use of the advanced internal method for the calculation of the capital requirement for operational risks (the advanced measurement approach – AMA) – in combined use with the traditional standardised approach (TSA) and the basic indicator approach (BIA).

On 15th December 2011 a formal application was submitted by the UBI Banca Group for the adoption of the AMA approach for the calculation of capital requirements on operational risk. The scope of application would include the Parent, the nine network banks, Centrobanca and UBI Sistemi e Servizi.

In response to the application that had been submitted, on 3rd February 2012 the Supervisory Authority officially commenced the final inspections (validation) into compliance of the system for the measurement and management of operational risk (AMA) with the qualitative and quantitative requirements set by the relative regulations.

Authorisation by the Bank of Italy for the use of advanced models is expected in time for the supervisory reports to be made as at 30th June 2012.

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 UBI Banca (accepting deposits and lending in all 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 in 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 1st July 2007) and in the case of instruments held in companies subject to significant influence by the UBI Group, within equity investments.

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 equity, except for impairment losses which are recognised through profit or loss until the financial asset is derecognised, at which time the total profit or loss previously recognised in equity must be recognised through profit and loss. After an impairment 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 must be recognised in equity.

Financial assets designated at fair value 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 through profit and loss.

Equity investments are initially recognised at cost, inclusive of any costs directly attributable to the instrument itself. Subsequently, these equity investments are valued using the equity method, which involves adjusting the carrying amount on the basis of the percentage of the equity held in the company. Differences between the value of the equity investment and the equity of the company attributable to the Group are therefore included in the carrying amount of the equity investment. If signs exist to suggest that the value of the investment may have been impaired, then an estimate is made of the recoverable amounts of the investment itself, with account taken of future cash flows that the investment may be able to generate, including the amount arising from the final disposal of the investment. If that amount is less than the carrying amount, then the difference is recognised through profit and loss. Subsequent to that write-down, if the causes which led to the impairment no longer exist, the resulting increase in value is also recognised through profit and loss.

Quantitative information

	carrying amount		fair value		market value		gains/losses/income/expenses realised and impairment		unrealised gains/losses recognised in the balance sheet	
	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3
Financial assets at fair value:										
- equity instruments	-	-	-	-	-	X	-	-	X	X
- OICR units (collective investment instruments)	104.846	21.328	104.846	21.328	104.846	X	(33.402)	(5.447)	X	X
Available-for-sale financial assets:										
- equity instruments	251.226	135.407	251.226	135.407	251.226	X	(109.299)	(2.031)	(2.321)	47.699
- OICR units (collective investment instruments)	39.064	62.280	39.064	62.280	39.064	X	(4.260)	(1.318)	(3.185)	(2.942)

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).

The control and management of interest rate risk is performed in a centralised manner by the Parent within the framework defined annually of a Financial Risks Policy which identifies measurement methods and models and limits or early warning thresholds concerning net interest income and the sensitivity of the economic value of the Group.

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 (fair value risk) includes an estimate of the impacts resulting from the early repayment of mortgages and long term loans, regardless of whether early repayment options are contained in the contracts.

Sensitivity analysis of net interest income (cash flow risk) focuses on changes in profits over a time horizon of twelve months calculated in scenarios of parallel shocks on the reference interest rate curve. 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 on demand items. The elasticities and delays in adjusting contracted interest rates are differentiated by commercial segment and customer class. Measurement, monitoring and reporting of interest rate risk exposure is performed at consolidated and individual level by the Risk Management Area of the Parent, 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 demand deposits.

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 Group to interest rate risk, measured in terms of core sensitivity measured on a scenario of a increase in interest rates of +100 bp, on items as at 31st December 2011, amounted to approximately -€243.78 million (-€346.38 million as at 31st December 2010 and -€329.63 million as at 30th June 2011), equal to 1.99% of the consolidated supervisory capital as at 31st December 2011, compared to a limit of -€420 million set on that aggregate by the 2011 Policy to Manage Financial Risks and an early warning threshold on that same indicator of -€350 million.
The total level of exposure includes an estimate of the impact of the early repayment of loans (approximately +€180.55 million in terms of sensitivity) and also the effect of structural ALM action taken using derivatives – even if subject to a capital requirement for market risk – with the objective of acting on the individual sensitivity of Group companies.
In detail, the core sensitivity originated by the network banks amounted to approximately -€30.71 million, while approximately -€34.18 million is attributable to the activities of the product companies. The Parent contributes a total of approximately -€170.94 million, including -€26.35 million from structural and sensitivity action relating to 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 Policy to Manage Financial Risks and expected scenarios for future interest rate trends.
Sensitivity analysis of net interest income focuses on changes in profits resulting from a parallel shock on the yield curve measured over a time period of 12 months. The overall determination of exposure contributes to the analysis of the viscosity of on-demand items. The exposure of the UBI Group to interest rate risk, estimated in terms of an impact on net interest income of an increase in reference interest rates of 100 bp, amounted to +€€81.94 million as at 31st December 2011.

PARALLEL SHIFT IN THE YIELD CURVE (figures in millions of euro)

Scenario	Currency	Impact on economic value	Impact on net interest income
+100 BP	EUR	-245,03	76,67
	Other currencies (significant)*	1,25	5,27
TOTAL +100 BP		**-243,78**	**81,94**
-100 BP	EUR	316,81	-121,20
	Other currencies (significant)*	1,42	-13,02
TOTAL -100 BP		**318,23**	**-134,22**

NOTE.
Significant currencies are those which account for more than five percent of the assets or liabilities in the banking portfolio.

RISK INDICATORS

Annual average

+200 bp

Impact on economic value/Tier 1	6,90%
Impact on economic value/Supervisory capital	4,65%

-200 bp

Impact on economic value/Tier 1	11,74%
Impact on economic value/Supervisory capital	7,91%

End of period values

+200 bp

Impact on economic value/Tier 1	5,66%
Impact on economic value/Supervisory capital	3,81%

-200 bp

Impact on economic value/Tier 1	
Impact on economic value/Supervisory capital	8,92%
	6,01%

Table 15 – Remuneration systems and practices

Qualitative information

Introduction - The history of the legislation

In March 2011, the Bank of Italy issued new supervisory provisions concerning the remuneration and incentive policies and practices of banks and banking groups as part of procedures to implement EU regulations.
The provisions take account of guidelines and criteria agreed internationally in response to the crisis as follows: the principles and standards adopted by the Financial Stability Board; the methodologies formulated by the Basel Committee for Banking Supervision; the European Commission Recommendation for remuneration in the financial sector; the guidelines issued by the Committee of European Banking Supervisors – CEBS (European Banking Authority – EBA since 1st January 2011) in implementation of specific measures contained in the directive. These best practices and approaches developed at international level provide a set of guidelines and interpretations to be used by banks in adopting the measures laid down and by the Bank of Italy in guiding and targeting its monitoring activities. Given their importance in EU legislation, the key contents of the CEBS Guidelines have been included within the supervisory provisions and have, therefore, been incorporated within Italian legislation as mandatory rules for banks. Consistent with the EU approach, the supervisory provisions form an integral part of corporate governance and organisation rules, lying within a broader regulatory system which includes specific rules for listed companies and for investment services and activities.

The governance of decision-making processes

The process for the measurement of capital adequacy, which commences with the definition and analysis of the Group's risk appetite[15], defines strategic Group policies in relation to the measurement of current and future capital adequacy, risk assumption and management policies, sustainable growth objectives and value creation. Those objectives are also pursued through the governance of remuneration and incentive schemes, where the aim is to improve the UBI Banca Group's ability to maintain capital levels appropriate to the risks assumed and levels of liquidity needed to fund the activities undertaken over a multi-year planning period and through sound and prudent management.
In view of the above, an overall picture is given below of the internal regulations adopted by the UBI Banca Group for remuneration and incentives policies and of their history which commenced with the approval by the Supervisory Board of a 2011 remuneration policy document and has recently reached the approval of detailed technical documents relating to primary legislation.
In a meeting of 25th February 2011, on the basis of a proposal submitted by the Remuneration Committee, the Supervisory Board of UBI Banca approved the document "Remuneration and

[15] Table 4 of this disclosure document may be consulted for further information.

incentive policies" (hereinafter also the "Policy") for the UBI Group. This policy updated the scope of application of the Policy in terms of those persons to whom the supervisory rules for the most important "risk taker" personnel apply ("top management" and the "highest management level of the control functions"). The Supervisory Board used the Policy to regulate remuneration policies for the Management Board and the remuneration plans for "top management" and the "highest management level of the control functions". It provided for the use of financial instruments for these personnel and defined an incentive scheme whereby a portion of the bonuses due are deferred and where financial instruments are used with the grant of shares in the Parent, to be submitted to the following shareholders meeting of UBI Banca for approval. In that same meeting the Supervisory Board also approved indicators to be used as the conditions which trigger the 2011 incentive scheme remuneration as follows:

- Group core tier one ratio (an indicator of capital stability) [16];
- Group net stable funding ratio (liquidity indicator)[17];
- Economic value added – EVA[18] (or where this is not available, PCOBT - profit on continuing operations before tax[19]) at single company level; the same indicator at consolidated level for the Parent and UBI Sistemi e Servizi (a risk-adjusted measure of profitability).

The compliance of the policy approved by Supervisory Board with subsequent supervisory provisions issued by the Bank of Italy on 30th March 2011, was verified by the Remuneration Committee and the Board itself in view of the shareholders meeting of 30th April 2011.
In the shareholders meeting, the Supervisory Board provided shareholders with the required information on remuneration and incentive systems and practices with the report on the remuneration and incentive policies of the UBI Group. In this context, in his report on the specific item on the agenda of the shareholders meeting, the Senior Deputy Chairman of the Supervisory Board gave further details of the information contained in the report, and more specifically he provided the meeting with figures for remuneration paid in the previous year, in various forms, disaggregated by role and function and he furnished the number of beneficiaries. The shareholders meeting of UBI Banca held on 30th April 2011 approved the proposal submitted by the Supervisory Board to set remuneration policies for the members of the Management Board and to pay part of the variable component of the remuneration for "top management" and the "highest management level of the control functions" in the form of financial instruments through the grant of ordinary shares of the Parent UBI Banca as provided for under the remuneration policies of UBI Banca and the Group.
The Policy was subsequently adopted by the Boards of Directors of Group member companies, when detailed incentive schemes to implement the Policy were approved at the same time and personnel were then informed through normal internal communication channels.
In a meeting held on 29th June 2011, on the basis of a proposal submitted by the Remuneration Committee, the Supervisory Board approved amendments made to the regulations of the Remuneration Committee in order to comply with supervisory provisions

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[16] The Group core tier one ratio is a measure of the capitalisation of the Bank. It is the ratio of the tier one capital net of innovative financial instruments and the total risk weighted assets.
[17] The Group net stable funding ratio is a measure of the structural equilibrium of the bank. It is the ratio of funding (liabilities) to weighted lending (assets), which takes account of the stability of the liabilities and the degree of liquidity of the assets. The indicator is designed to monitor and contain risk associated with maturity transformation within a tolerance threshold considered acceptable by the Group.
[18] Economic value added – EVA is a risk adjusted measure of performance, an expression of the value generated after all the factors of production have been remunerated, inclusive of the cost of risk capital calculated for Pillar 2 types of risk using an internal capital approach.
[19] Pre-tax profit on continuing operations is an income statement measurement of profit net of impairment losses on loans and on other assets and liabilities and net of provisions for risks and charges.

and at the same time they incorporated provisions introduced by the new text of article seven of the Corporate Governance Code for Listed Companies recommended by Borsa Italiana.
In order to implement the remuneration and incentive policies of the UBI Group, in a meeting held on 26th July 2011 the Management Board approved a standard text of the regulations entitled "2011 Management By Objectives Incentive Scheme – Top Management", which included the scheme for the "Highest management level of the control functions". In that same meeting the Management Board also formulated a proposal for submission to the Supervisory Board on the criteria to be used to calculate the bonus targets for "top management" and "the highest management level of the control functions". In a meeting held on 27th July 2011, the Supervisory Board in agreement with the Remuneration Committee acknowledged the formulation of regulations by the Management Board and approved the criteria to be used to calculate the bonus targets for "top management" and "the highest management level of the control functions". In that same meeting the Supervisory Board, in agreement with the Remuneration Committee, also approved an update to the conditions which trigger the 2011 incentive schemes, incorporating the figure for the "net stable funding ratio" contained in the Policy to Manage Financial Risks, as a result of the approval of the UBI Group 2013 – 2015 Business Plan.
In order to calculate the above, the Supervisory Board and the Remuneration Committee were assisted by the independent consulting company European House Ambrosetti and by the following internal functions: Human Resources, Risk Management, Planning and Management Control, and Compliance.

The Remuneration Committee

The Remuneration Committee, an internal committee of the Supervisory Board, is composed of the following:

- Alessandro Pedersoli – as the Chairman[20]
- Giuseppe Calvi;
- Alberto Folonari;
- Giuseppe Lucchini;
- Toti S. Musumeci.

The Remuneration Committee is governed by special regulations which determine its responsibilities and functioning in compliance with legal, regulatory and by-law provisions.
The Remuneration Committee formulates the following:

- recommendations for decisions which the Supervisory Board must submit to the shareholders for approval concerning the following: setting the remuneration for members of the Supervisory Board; setting policies for the remuneration of the Management Board; remuneration and incentive policies for the corporate bodies of Group companies and for company officers, employees and associate workers not bound to companies by employee contracts;
- the expression of opinions on the consistency of resolutions on remuneration and incentives with policy as approved by the Supervisory Board.

The Committee performs advisory functions and makes recommendations concerning remuneration for senior management as specified by article 26 of the Consolidated Banking Act and the relative regulations to implement it and for the officers of the internal control function. It also has advisory duties with regard to setting the remuneration criteria for key personnel, which in the UBI Banca Group comprises senior management as defined in the remuneration and incentive policies of the UBI Banca Group.

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[20] Following the resignation of Alessandro Pedersoli from the Supervisory Board on 11th April 2012, Giuseppe Calvi, already a member of the Committee, was appointed Chairman, while the resigning member he was replaced by Giorgio Perolari.

The committee also carries out those duties assigned to it by the provisions of the supervisory authority with regard to the remuneration and incentive policies and practices of banks and banking groups. The remuneration committee was provided with the information and gained access to corporate functions needed for the performance of its duties. The Committee is permitted to retain outside consultants to assist it in determining matters as required by the regulations.
The Remuneration Committee met nine times in 2011, concentrating mainly on the following fields:

- remuneration and incentive policies for employees and associate workers not bound to companies by employee contracts: updating the Group Policy, with assessment work and the submission of recommendations to the Supervisory Board for the formulation of share based incentive schemes to be submitted to shareholders;
- update of remuneration policies for the management board and the governing bodies and company officers of subsidiaries: assessment work and the submission of recommendations to the Supervisory Board;
- examination of: the report to shareholders on Group remuneration and incentive policies; the proposal for setting remuneration policies for members of the Management Board and the share based incentive scheme for the Parent, UBI Banca;
- examination of the Control Functions' report on regulatory compliance of the Group remuneration and incentive policies;
- amendments to the Regulations of the Remuneration Committee in relation to the update on 30th March 2011 of supervisory authority provisions concerning remuneration and incentive policies in banks;
- regulations for the 2010 MBO incentive scheme for senior management: assessment work and the submission of recommendations to the Supervisory Board;
- verification of the trigger conditions and the performance objectives for the 2010 incentive scheme;
- verification of the incentive scheme for the Group asset management company;
- assessment work and the submission of recommendations to the Supervisory Board to verify the consistency of the remuneration recommended by the Management Board for the management bodies and senior management of subsidiaries with Group remuneration policies;
- verification of the consistency of the 2011 bonus scheme with Group remuneration policies;
- verification of the state of compliance with new supervisory authority provisions;
- verification of the performance of 2011 incentive schemes;
- verification of remuneration for control functions: benchmarking analysis.

Three meetings have already been held in 2012.

Corporate and control functions

Corporate and control functions, according to their respective responsibilities, perform a role of primary importance, working together to ensure the adequacy, regulatory compliance and proper functioning of the remuneration policies and practices adopted.

Human Resources Function

The Human Resources Function provides the Remuneration Committee with all information necessary and appropriate to its proper functioning and it ensures correct and adequate implementation of schemes to implement incentive and remuneration policies. It is also responsible, in co-operation with other functions of the Bank, for the accurate and effective communication of policies and the means to implement them as well as for prompt reporting on them.

The Risk Management Function

The Risk Management Function is involved in the process of defining remuneration policies in order to provide support in assessing their consistency with the risk mitigation and long-term objectives of the Bank and the UBI Banca Group, and with the maintenance of capital and liquidity requirements.

This contribution helps to ensure that the incentive schemes take due account of all the risks assumed by the Bank in accordance with UBI Banca Group' s existing procedures.

The Compliance Function

During the definition of remuneration policies, the Compliance Function assesses compliance of those policies with regulations. It verifies, amongst other things, that the corporate incentive schemes meet the objectives of compliance with the legislation and regulations, the Corporate By-Laws and any ethical codes or other standards of conduct applicable to the Bank, in order to ensure appropriate mitigation of legal and reputational risks, which are primarily linked to relations with customers. It provides indications of possible areas for improvement to achieve closer compliance of the policies and schemes to implement them with current legislation.

The Audit Function

At least once a year, the Internal Audit Function verifies the procedures used to ensure that remuneration practices comply with approved policies and the applicable legislation and regulations, and it reports its findings and any irregularities to the relevant corporate bodies and functions for the adoption of any necessary corrective measures.

The results of the verifications conducted are reported annually to shareholders, as shown in the relative report.

The remuneration of governing bodies

In accordance with the Policy, the fees of members of the governing bodies of the UBI Banca Group are structured with a ceiling set by that of the Chairman of the Management Board, which is set at the same level as that of the Chairman of the Supervisory Board (the amount of which is approved by shareholders). Traditional “attendance tokens” have been incorporated as part of the fixed remuneration. Executive board members may receive forms of remuneration linked to results, while all the other members of the governing bodies of the Group receive no variable remuneration.

No guaranteed bonuses or leaving bonuses exist for members of corporate bodies. The remuneration set for board members who are employees of the UBI Banca Group holding positions in a Group bank or company is incorporated in their remuneration and is therefore paid back to the company concerned.

Remuneration policies for employees

Supervisory provisions require banks to perform thorough assessments to identify categories of personnel whose work may have a significant impact on the risk appetite of the bank. The process of identifying groups of personnel has been designed on the basis of appropriate organisational assessments, the impact on risks and the salary levels in question.

The following personnel groups have been identified in the light of that process:

- “top” management;
- personnel involved in control functions;
- other senior managers;
- other employees.

Further classification of the composition of the first two groups is performed in compliance with Bank of Italy supervisory provisions as reported in the table below:

Table 1: details of personnel groupings: "Top Management" and "Highest management level of the control functions"

Number of positions	31.12.2011
Chief Executive Officer UBI	1
General Manager UBI	1
Other Executive Board Members and General Managers	19
Managers of main lines of business	89
Managers of highest level of control functions	18
TOTAL	**128**

Employee remuneration packages are composed as follows:

- fixed remuneration;
- variable remuneration;
- benefits.

Supervisory provisions relating to deferment and the use of financial instruments for the variable performance-related component have been applied to “top management” and the “highest management level of the control functions”.

Fixed remuneration

The remuneration policies of the UBI Banca Group are based on key principles, consistent with those adopted generally by the Group in the management and development of human resources. They can be summarised as the principles of fairness, competitiveness, meritocracy and consistency over time.

The adoption of these cornerstones requires a methodological approach and structured management instruments. An annual assessment process is employed for management positions which results in the assignment of a value to each role that is representative of the complexity of the position. This enables (i) comparison between the level of remuneration for the position considered and the market for positions of similar complexity (external consistency) and (ii) an assessment of the balance between the complexity of the role and the relative level of remuneration within the UBI Banca Group (internal consistency).

The following are taken into account in assessing the proper performance of the functions of each role:

- individual performance[21];
- the level of skills acquired[22];
- direct knowledge of the individual;
- measurement of the level of motivation;
- availability of internal reports;
- with particular reference to managerial positions, performance of the company with respect to the principal operating and balance sheet KPIs, taken from the financial statements.

In order to identify adequate Group remuneration with respect to the market, in 2011 remuneration analyses and comparisons were performed on all personnel with the assistance of consulting firms independent of the Remuneration Committee and the use of sector

[21] Where possible by means of performance assessment of result objectives achieved individually.

[22] Where possible through the use of skills assessments, namely assessment of the level of skills and abilities possessed with respect to the role covered.

remuneration surveys. A particular focus was placed on Group management using benchmarking analysis on a specific "panel" of companies in the sector.
In addition to that comparative "panel", specific benchmarks for the private banking, asset management and leasing sectors were also used.

Variable remuneration

Variable remuneration also includes the following instruments:

- incentive schemes;
- commercial "contests";
- one-off bonuses;
- retention and attraction tools such as job security and non competition agreements;
- company bonuses.

Incentive schemes and commercial "contests" are linked to performance measurement, while one-off bonuses, agreements and company bonuses are dependent on other parameters such as professionalism and track record excellence, length of service and collective bargaining agreements.
Further details of the performance-related, variable component of remuneration are given below.

Performance-related, variable remuneration
The 2011 incentive schemes have been formulated on the basis of the following guidelines;

- they have been designed to support value generation by Group companies and to reward the achievement of risk-adjusted objectives, while maintaining adequate capital levels and liquidity, through the identification of specific trigger conditions;
- the parameters identified are mainly quantitative and measurable, sometimes based on qualitative aspects and normally also related to levels of satisfaction by "external and internal customers". They are not solely of a commercial and financial nature, and take account of aspects related to individual skills and capacities;
- the objectives underlying the incentive mechanisms for personnel who sell financial products and instruments do not consider direct connections with single services or products, but relate more generally to areas or sectors of activity and categories of services or products. More generally, those linked to banking or insurance products and services, were defined with consideration of the need to pursue and safeguard proper relations with customers and to comply with regulations and legislation in force;
- bonuses are related to the complexity of the role and results achieved at individual, team, company and Group level, with gradual access to them in order to prevent conduct subject to the risk of "moral hazard";
- a predetermined maximum limit is set based on the principle of a balance between fixed and variable components of remuneration;
- a specific budget is allocated, to prevent setting limits on the Bank's capacity to maintain capital levels adequate to meet the risks assumed;
- a set of regulations have been drawn up for each of the groups in receipt of variable remuneration ("top management", the "highest management level of the control functions", other senior managers, other personnel) with information designed to ensure full and immediate comprehension of the relative schemes;

- particular treatments such as guaranteed bonuses[23] have been excluded and personnel are also excluded from bonus schemes if regulations or company rules are violated, as ascertained by the imposition of disciplinary penalties.

The following was performed with regard to "top management" and the "highest management level of the control functions" in line with Bank of Italy supervisory instructions:

- deferment of payment of a portion (according to the role occupied) of between 40% and 60% of bonuses;
- the grant of financial instruments (shares of the listed Parent, UBI Banca) for a portion equal to at least 50% of variable remuneration, setting an adequate period of personnel retention for this, in order to align the incentives to the Bank's medium to long-term interests.

For further clarity, the Table 2 below gives details of how performance-related, variable remuneration is paid in terms of deferment and payment using financial instruments for "top management" and for the "highest management level of the control functions".

Table 2 - Means of payment for 2011 Incentive Scheme: "Top Management" and "Managers of highest level of control functions"

	Up-front portion		Deferred portion	
	Cash	Shares (1)	Cash	Shares (2)
Chief Executive Officer and General Manager UBI Banca	20%	20%	30%	30%
Other "Top Management" and "Managers of highest level of control functions"	30%	30%	20%	20%

(1) Subject to a two year retention period
(2) Subject to a one year retention period

The 2011 Policy has also defined average indications in terms of a theoretical "pay mix" of fixed and variable remuneration according to the role, the type of business and the relative market. The Table 3 gives details of the composition.

Table 3 - Fixed and variable, performance related pay: average "pay-mix"

	Fixed remuneration	Variable, performance related remuneration
Chief Executive Officer UBI Banca	50%	50%
General Manager UBI Banca	65%	35%
Other Executive Board Members and General Managers	74%	26%
Managers of main lines of business	83%	17%
Highest management level of the control functions	85%	15%

The following common objectives have been assigned to "top management", with a different impact dependent on the type of role[24]:

- EVA – Economic Value Added – at Group level;
- EVA – Economic Value Added – at company level;
- PCOBT – profit from continuing operations before tax – at company level;
- core income[25] – at company level;

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[23] Without prejudice to exceptions allowed by legislation and regulations limited to the first year of employment.
[24] For further information, the specific definitions are given in Attachment 2 of the 2012 Remuneration and incentives policies.

- customer satisfaction score[26] – at company level.

For personnel belonging to corporate control functions, the scheme has been designed on the basis of specific objectives related to the position occupied and the risks managed, for which a bonus is paid when they have been met. Financial or economic objectives are excluded but as with all other personnel, specific conditions for implementation, linked to operational, financial and/or capital parameters are applied.
More specifically, as with "top management", the same deferment procedures and grant of financial instruments have been used for the "highest management level of the control functions".
In order to ensure adequate levels of capital stability and liquidity and the value generation capability of the Group or companies over the long term, the deferred portion may be paid upon the achievement of adequate performance over the deferral period, taking into account the cumulative annual budget targets for the company EVA indicator.
The 2011 incentive schemes are triggered for all personnel groups involved upon satisfaction of the conditions (i) to ensure capital stability and liquidity as defined in the documents policy entitled "Risk appetite and value creation in the UBI Banca Group: interpretation and governance" and in the "*Policy to Manage Financial Risks of the Group*" and (ii) to ensure the value generation capability of the Group and its companies as follows:

- Group core tier one ratio (an indicator of capital stability) ;
- Group net stable funding ratio (liquidity indicator);
- Economic value added – EVA (or where this is not available, PCOBT - profit on continuing operations before tax) at single company level; the same indicator at consolidated level for the Parent and UBI Sistemi e Servizi (a risk-adjusted measure of profitability).

The 2011 capital stability and liquidity objectives were achieved and therefore the conditions to trigger incentive schemes were met at Group level.
The conditions for the payment of bonuses were not met for individual companies, the Parent and UBI Sistemi e Servizi due to the failure to achieve the EVA objective at consolidated level.
However, the conditions were met for eight banks, including one foreign bank, for the asset management company and for two minor companies, because they achieved the EVA objective (or, where not available, the POCBT objective) at individual company level.
Two commercial "contest" schemes were also triggered in 2011 for the Group network banks[27] and for the company IWBank. The first was designed to increase structural growth in financial wealth, consistent with the objectives to pursue adequate levels of Group liquidity, while the second was to support the commercial and customer care objectives of the company.

Benefits

In addition to that which is already required under the National Labour Contract, wage packets paid to personnel also include benefits which are awarded on the basis of internal fairness and external competitiveness, consistent with the need to meet the demands of the various categories of employees.
In 2011 specially regulated supplementary collective pension, health and insurance plans, infancy welfare services and a meals canteen services, sports and recreational activities and discounts on products and services provided by the bank were provided to protect the health and welfare of personnel, in compliance with Group policies.

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[25] Core income: an income statement measurement, calculated as the sum of net interest income and net commission income.
[26] Customer satisfaction: a summary measure of customer satisfaction, based on the results of a survey entitled the "Consultation Project", carried out with assistance from a specialist research institute.
[27] Banca Popolare di Bergamo, Banco di Brescia, Banca Popolare Commercio e Industria, Banca Carime, Banca Popolare di Ancona, Banca Regionale Europea, Banco di San Giorgio, Banca di Valle Camonica.

Criteria governing procedures for the provision of company cars for business and personal use and guest accommodation to assist with geographical mobility and personnel management in the Group were also established and regulated.

Post-employment benefit

Group remuneration policies normally exclude forms of post-employment benefit which exceed those contained in collective labour contracts. Where exceptions are made, any individual agreements are submitted to the Remuneration Committee for the relative decisions.

2012 remuneration and incentive policies

On 28th March 2012, the Supervisory Board, in consultation with the Remuneration Committee, reviewed and set new remuneration and incentive policies for the Group, on the same basis of those pursued in 2011.
Significant changes made to remuneration policies compared to 2011 are as follows:

- update of the composition of the “top management” and “highest management level of the control functions” groups in relation to recent organisational changes;
- greater and more detailed specification of some components of remuneration comprised within variable remuneration and benefits.

The remuneration policies set in 2011, which introduced the grant of financial instruments accounting for at least 50% of the variable remuneration of “top management” and the “highest management level of the control functions” will be continued in 2012, with the use of shares in the Parent, UBI Banca, to pay the variable component of remuneration and the same approach employed in the previous year with a retention period will be used again, in order to align incentives with the Bank's medium to long-term interests.
The budget for the 2012 incentive schemes contains a significant reduction of approximately 30% in the bonus pool compared to the amount allocated the year before.

Quantitative information

Basic concepts of remuneration

Reference is made to the quantitative information given in this section to provide basic details of remuneration.

The quantitative information contains the following:

- fixed remuneration, defined as annualised remuneration paid to 31st December 2011, payment of which is guaranteed. This includes amounts specified by contract (salary, normal increases, various indemnities, amounts above trade union rates, etc.) and any other sum, however it may be guaranteed, in addition to that provided for by the national collective labour contract. Overtime is excluded;
- performance-related variable remuneration with particular reference to the 2011 incentive schemes, calculated on an accruals basis on figures that are not final and not yet paid. This figure is subject to minor changes;
- the procedures for the payment of “top management” and the “highest management level of the control functions”, on the basis of the results of the incentive schemes mentioned in the preceding point, divided in terms of up-front payments in cash and in shares (payment of which is not subject to deferral conditions) and deferred quotas in cash and in shares.

The quantitative information on the supervisory bodies the Chief Executive Officer and the General Manager of UBI Banca, given in table 7 contains the following:

- fixed remuneration for the position (column 1);
- remuneration for attendance on committees (column 2);
- variable non equity remuneration (cash) divided into "bonuses and other incentives", which include 2011 incentive scheme payments calculated on an accruals basis on figures that are not final and not yet paid relating to the up-from component, any one-off payments, company bonuses and "share of profits", not paid (column 3);
- non monetary benefits which include insurance policies, pension funds and any other benefits such as cars, guest accommodation, according to the taxable income criterion (column 4);
- other remuneration, such as job security and non competition agreements, provisions made for deferred remuneration, length of service bonuses and other residual items (column 5);
- the total for the above items (column 6);
- the fair value of equity remuneration (shares), not reported for 2011, because 2011 incentive schemes were not triggered at the level of UBI Banca Scpa (column 7);
- end of term of office or of employment relationship indemnity (column 8) set aside or due during 2011.

In Table 8, amounts have only been entered in column (4) for "other bonuses" in which bonuses for the year not explicitly included in schemes defined before hand are reported, because 2011 incentive schemes were not triggered at the level of UBI Banca and no prior year incentive schemes existed.

Agreements concerning remuneration for start and end of employment relationships

A new payment of €20,000 gross for the start of an employment relationship was made in 2011, with specific reference to the "top management" and "highest management level of the control functions". However, no payments were made for end of employment relationships.

A non competition obligation remuneration agreement exists with the Chief Executive Officer.

Payment of a special fee is to be paid to the General Manager of UBI Banca, *Dott.* Graziano Caldiani, following the termination of his employee contract with effect from 30th April 2012. This fee is due on the basis of a specific job security agreement signed in 2002.

Three job-security agreement agreements have been signed with members of the "top management" group.

No end of employment relationship payments were made in 2011 relating to deferment mechanisms.

In order to retain personnel in the "top management" and in the "highest management level of the control functions" groups, rights on portions of incentive scheme bonuses that have vested, but not yet been paid shall only be conserved where retirement requirements have been met (length of service, old age), while the right to assess on a case by case basis is reserved, as a function of the moment in time when the termination of the relationship takes place. This also applies in the event of the death of the beneficiary (in this case to the benefit of the legitimate heirs). Payment of portions that have vested shall be made on the scheduled date of payment, subject to verification that the performance conditions have been satisfied.

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Quantitative information by name is given for the management and supervisory functions and also for the Chief Executive Officer and the General Manager of UBI Banca. Because there is no total remuneration for other key management personnel that is greater than the highest remuneration paid to the persons mentioned in the first point, aggregate information is given, with the number of persons given in place of the names.

Expenses incurred at consolidated level for the remuneration of directors and statutory auditors for the financial year 2011 amounted to approximately €19 million, accounting indicatively for 1.35% of personnel expense.

a) Quantitative information by area of activity and category of personnel

The table below gives the total fixed remuneration by type of personnel and general area of activity.

Table 4 - Group fixed remuneration (1)

(employee personnel as at 31/12)

	Group		UBI Banca		Banks (2)		Other companies (3)	
Figures in thousands of euro	Number of persons	2011	Number of persons	2011	Number of persons	2011	Number of persons	2011
Other Executive Board Members and General Managers	18	5.126	-	-	14	4.188	4	938
Managers of main lines of business	81	14.213	26	4.972	46	7.592	9	1.649
Managers of highest level of control functions	17	2.560	14	2.153	2	278	1	128
Other senior managers	315	36.365	75	8.704	186	21.598	54	6.063
Other employees	18.595	831.197	1.132	57.403	14.890	658.945	2.573	114.849
TOTAL	**19.026**	**889.460**	**1.247**	**73.231**	**15.138**	**692.601**	**2.641**	**123.627**

(1) Company costs and other expense items not considered a part of fixed remuneration are excluded (e.g. overtime, travelling allowances and expense refunds, etc.).
The figures for fixed remuneration are for 98% of UBI Group personnel. The 2% not considered relate to personnel not served by the UBIS-Personnel Administration service.

(2) Banca Popolare di Bergamo Spa, Banco di Brescia Spa, Banca Popolare Commercio e Industria Spa, Banca Regionale Europea Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Banca di Valle Camonica Spa, Banco di San Giorgio Spa, UBI Banca Private Investment Spa, Centrobanca Spa, B@nca 24-7 Spa, IW Bank Spa, Banque de Depots et de Gestion Sa, UBI Banca International Sa
(3) UBI Sistemi e Servizi SCpA, UBI Leasing Spa, UBI Factor Spa, UBI Pramerica SGR Spa, Prestitalia Spa, UBI Insurance Broker Srl, UBI Fiduciaria Spa, Silf Spa, BPB Immobiliare Srl, UGI Gestione Fiduciarie Sim Spa, Centrobanca Sviluppo Impresa SGR Spa, Coralis Rent Srl, S.B.I.M Spa

Table 5 gives an estimate of the number of beneficiaries and the amount or performance-related remuneration paid through incentive schemes, divided by type of personnel and areas of activity. It is calculated on the basis of preliminary figures and is subject to minor modifications.

Table 5 - Estimate of 2011 Incentive Schemes (1):

(employee personnel)

	Group		UBI Banca		Banks (2)		Other companies (3)	
Figures in thousands of euro	Number of beneficiaries	2011	Number of beneficiaries	2011	Number of beneficiaries	2011	Number of beneficiaries	2011
Other Executive Board Members and General Managers	4	307	- -		4	307	- -	
Managers of main lines of business	27	1.053	- -		26	773	1	280
Managers of highest level of control functions	2	37	- -		1	5	1	32
Other senior managers	117	946	- -		109	717	8	229
Other employees	3.909	6.558	- -		3.697	4.435	212	2.123
TOTAL	**4.059**	**8.901**	**0**	**0**	**3.837**	**6.237**	**222**	**2.664**

(1) Company costs are excluded
(2) Banca Popolare di Bergamo Spa, Banco di Brescia Spa, Banca Popolare Commercio e Industria Spa, Banca Regionale Europea Spa, Banca Popolare di Ancona Spa, Banca Carime Spa, Centrobanca Spa, UBI Banca International Sa
(3) UBI Pramerica SGR Spa, UBI Insurance Broker Srl, Centrobanca Sviluppo Impresa SGR Spa

Table 6 regarding payment methods gives a summary of the composition of performance-related variable remuneration accruing in 2011 for the whole Group in terms of deferment and financial instruments for “top management” and the “highest management level of the Control Functions” groups of personnel.

Table 6 - Estimate of final figures for means of payment for 2011 Incentive Schemes[1]: "Top Management" and "Managers of highest level of control functions"

Figures in thousands of euro	Number of beneficiaries	Up-front portion		Deferred portion	
		Cash	Shares	Cash	Shares
Other Executive Board Members and General Managers	4	149	68	45	45
Managers of main lines of business	27	316	316	211	211
Highest management level of the control functions	2	11	11	7	7
TOTAL	**33**	**476**	**395**	**263**	**263**

(1) Company costs are excluded

The total bonus for commercial "contest" schemes triggered in 2011 is estimated at approximately €1,080,000 gross, on the basis of preliminary figures subject to minor modifications.

One-off payments made in 2011 amounted to approximately €2,390,000 gross, of which €71,000 gross paid to eight persons belonging to the "top management" and the "highest management level of the Control Functions" personnel groups.

b) Quantitative information on the management and supervisory bodies and on the Chief Executive Officer and the General Manager of UBI Banca.

No stock option plans currently exist and also the conditions for the payment of the performance-related variable components ("Incentive schemes") in 2011 were not met and no other financial instruments granted in prior years exist.

Table 7 - (Amounts given in euro)

Name and Surname	Position	Period in which position was occupied	Date on which appointment ends	Fixed remuneration	Remuneration for attendance on committees	Non equity variable remuneration		Non monetary benefits	Other remuneration	Total	Fair value of equity remunerat-ion	Indemnity for end of term of office or end of employment relationship
						Bonuses and other incentives	Share of profits					
Faissola Corrado	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Chairman of the Supervisory Board			500.000						500.000		
	- Member of the Supervisory Board			100.000						100.000		
	- Chairman of Appointments Committee				= =							
	TOTAL			600.000						600.000		
Calvi Giuseppe	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Senior Deputy Chairman of the Supervisory Board			250.000						250.000		
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Appointments Committee				= =							
	- Member of the Remuneration Committee				= =							
	TOTAL			350.000						350.000		
Folonari Alberto	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Deputy Chairman of the Supervisory Board			75.000						75.000		
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Appointments Committee				= =							
	- Member of the Remuneration Committee				= =							
	TOTAL			175.000						175.000		
Mazzoleni Mario	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Deputy Chairman of the Supervisory Board			75.000						75.000		
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Appointments Committee				= =							
	TOTAL			175.000						175.000		
Albertani Battista	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Bazoli Giovanni	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Appointments Committee				= =							
	TOTAL			100.000						100.000		
Bellini Luigi	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Internal Control Committee				50.000					50.000		
	TOTAL			100.000	50.000					150.000		
Cattaneo Mario	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Internal Control Committee				50.000					50.000		
	- Member of the Accounts Committee				50.000					50.000		
	TOTAL			100.000	100.000					200.000		

Name and Surname	Position	Period in which position was occupied	Date on which appointment ends	Fixed remuneration	Remuneration for attendance on committees	Non equity variable remuneration: Bonuses and other incentives	Non equity variable remuneration: Share of profits	Non monetary benefits	Other remuneration	Total	Fair value of equity remunerat-ion	Indemnity for end of term of office or end of employment relationship
Fidanza Silvia	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Related Parties Committee				= =							
	TOTAL			100.000						100.000		
Fontana Enio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Garavaglia Carlo	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Appointments Committee				= =							
	- Chairman of the Accounts Committee				100.000					100.000		
	TOTAL			100.000	100.000					200.000		
Gusmini Alfredo	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Internal Control Committee				50.000					50.000		
	TOTAL			100.000	50.000					150.000		
Gussalli Beretta Pietro	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Lucchini Giuseppe	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Remuneration Committee				= =							
	TOTAL			100.000						100.000		
Lucchini Italo	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Internal Control Committee				50.000					50.000		
	TOTAL			100.000	50.000					150.000		
Manzoni Federico	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Secretary			50.000						50.000		
	- Member of the Accounts Committee				50.000					50.000		
	- Chairman of the Related Parties Committee				= =							
	TOTAL			150.000	50.000					200.000		
Musumeci Toti S.	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Remuneration Committee				= =							
	Total UBI Banca remuneration			100.000						100.000		
	Aviva Vita:	01.01/31.12	AGM 2012									
	- Chairman of the Board of Directors			58.000						58.000		
	- Director			10.000						10.000		
	Total Aviva Vita remuneration			68.000						68.000		
	Aviva Assicurazioni Vita:	01.01/31.12	AGM 2014									
	- Director			10.000						10.000		
	Total Aviva Assicurazioni Vita remuneration			10.000						10.000		
	TOTAL			178.000						178.000		
Orlandi Sergio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Member of the Accounts Committee				50.000					50.000		
	- Member of the Related Parties Committee				= =							
	TOTAL			100.000	50.000					150.000		
Pedersoli Alessandro	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Chairman of the Remuneration Committee				= =							
	TOTAL			100.000						100.000		
Perolari Giorgio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Pivato Sergio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	- Chairman of the Internal Control Committee				100.000					100.000		
	TOTAL			100.000	100.000					200.000		
Sestini Roberto	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Zannoni Giuseppe	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Supervisory Board			100.000						100.000		
	TOTAL			100.000						100.000		
Zanetti Emilio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Chairman of the Management Board			500.000						500.000		
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			650.000						650.000		
	BANCA POPOLARE DI BERGAMO:	01.01/31.12	AGM 2014									
	- Chairman			113.812						113.812		
	- Director			40.000						40.000		
	- Executive Committee				14.144					14.144		
	- Attendance "tokens"			1.250						1.250		
	Total Banca Popolare di Bergamo remuneration			155.062	14.144					169.206		
	TOTAL			805.062	14.144					819.206		
Pizzini Flavio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Deputy Chairman of the Management Board			130.238						130.238		
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			280.238						280.238		
	BANCO DI BRESCIA:	01.01/31.12	AGM 2014									
	- Director			40.000						40.000		
	- Executive Committee				14.038					14.038		
	- Attendance "tokens"			1.500						1.500		
	Total Banco di Brescia compensation			41.500	14.038					55.538		
	UBI SISTEMI E SERVIZI:	01.01/31.12	AGM 2012									
	- Deputy Chairman of the Board of Directors			60.000						60.000		
	- Director			5.000						5.000		
	- Executive Committee				10.000					10.000		
	- Attendance "tokens"			3.500						3.500		
	Total UBI Sistemi e Servizi remuneration			68.500	10.000					78.500		
	UBI BANCA INTERNATIONAL:	01.01/31.12	AGM 2014									
	- Chairman of the Board of Directors			15.000						15.000		
	- Director			15.000						15.000		
	Total UBI Banca International remuneration			30.000						30.000		
	PRISMA SRL:	01.01/31.12	AGM 2013									
	- Chairman of the Statutory Board of Auditors			4.520						4.520		
	Total Prisma remuneration			4.520						4.520		
	TOTAL			424.758	24.038					448.796		
Massiah Victor	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Senior manager			652.301		2.185		113.207	(*) 136.313,28	904.006		
	- Chief Executive Officer			500.000						500.000		
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			1.302.301		2.185		113.207	(*) 136.313,28	1.554.006		
	(°) **BANCO DI BRESCIA:**	01.01/31.12	AGM 2014									
	- Director											
	- Attendance "tokens"											
	Total Banco di Brescia compensation											
	(°) **BANCA POPOLARE DI BERGAMO:**	01.01/31.12	AGM 2014									
	- Director											
	- Executive Committee (from 1/1 to 10/4)											
	- Attendance "tokens"											
	Total Banca Popolare di Bergamo remuneration											
	(°) **CENTROBANCA: Director**	01.01/31.12	10/01/2014									
	- Director											
	Total Centrobanca remuneration											
	(°) **LOMBARDA VITA:**	01.01/10.01	10/01/2011									
	- Director											
	Total Lombarda Vita remuneration											
	TOTAL			1.302.301		2.185		113.207	(*) 136.313,28	1.554.006		

Name and Surname	Position	Period in which position was occupied	Date on which appointment ends	Fixed remuneration	Remuneration for attendance on committees	Non equity variable remuneration: Bonuses and other incentives	Non equity variable remuneration: Share of profits	Non monetary benefits	Other remuneration	Total	Fair value of equity remunerat-ion	Indemnity for end of term of office or end of employment relationship
Auletta Armenise Giampiero	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCA POPOLARE DI BERGAMO:	01.01/10.04	10/04/2011									
	- Director			11.050						11.050		
	- Attendance "tokens"			750						750		
	Total Banca Popolare di Bergamo remuneration			11.800						11.800		
	BANCA POPOLARE COMMERCIO INDUSTRIA:	01.01/31.12	AGM 2014									
	- Deputy Chairman (from 06/04)			14.712						14.712		
	- Director			32.479						32.479		
	- Executive Committee				12.562					12.562		
	- Attendance "tokens"			2.000						2.000		
	Total Banca Popolare Commercio Industria remuneration			49.192	12.562					61.753		
	BANCA CARIME:	01.01/31.12	AGM 2014									
	- Senior Deputy Chairman of the Board of Directors			38.667						38.667		
	- Director			32.667						32.667		
	- Member of the Executive Committee				12.667					12.667		
	- Attendance "tokens"			750						750		
	Total Carime remuneration			72.083	12.667					84.750		
	BANCA POPOLARE DI ANCONA:	01.01/31.12	AGM 2014									
	- Director			32.548						32.548		
	- Executive Committee				12.530					12.530		
	- Attendance "tokens"			1.500						1.500		
	Total Banca Popolare di Ancona remuneration			34.048	12.530					46.578		
	TOTAL			317.123	37.758					354.881		
Camadini Giuseppe	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCO DI BRESCIA:	01.01/31.12	AGM 2014									
	- Director			40.000						40.000		
	- Attendance "tokens"			750						750		
	Total Banco di Brescia compensation			40.750						40.750		
	BANCA DI VALLE CAMONICA:	01.01/31.12	AGM 2014									
	- Director			21.396						21.396		
	- Attendance "tokens"			750						750		
	Total Banca Valle Camonica remuneration			22.146						22.146		
	BANCA REGIONALE EUROPEA:	01.01/11.04	11.04.2011									
	- Deputy Chairman of the Board of Directors			16.813						16.813		
	- Director			8.407						8.407		
	- Executive Committee				= =					= =		
	Total BRE Banca compensation			25.220						25.220		
	TOTAL			238.116						238.116		
Cera Mario	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCA POPOLARE COMMERCIO INDUSTRIA:	01.01/31.12	AGM 2014									
	- Chairman of the Board of Directors (from 06/04)			66.206						66.206		
	- Deputy Chairman of the Board of Directors (from 01/01 to 05/04)			13.014						13.014		
	- Director			32.479						32.479		
	- Executive Committee				12.562					12.562		
	- Attendance "tokens"			1.750						1.750		
	Total Banca Popolare Commercio Industria remuneration			113.449	12.562					126.011		
	IW BANK:	01.01/31.12	AGM 2012									
	- Chairman of the Board of Directors			60.000						60.000		
	- Director			10.000						10.000		
	Total IW Bank remuneration			70.000						70.000		
	TOTAL			333.449	12.562					346.011		
Frigeri Giorgio	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCA 24/7:	01.01/31.12	AGM 2013									
	- Director			10.000						10.000		
	Total Banca 24/7 remuneration			10.000						10.000		
	CENTROBANCA SVILUPPO IMPRESA SGR:	01.01/31.12	AGM 2014									
	- Chairman of the Board of Directors			8.000						8.000		
	- Director			10.000						10.000		
	Total Centrobanca Sviluppo Impresa SGR remuneration			18.000						18.000		
	UBI PRAMERICA SGR SPA:	01.01/31.12	AGM 2014									
	- Chairman of the Board of Directors			39.474						39.474		
	- Director			10.526						10.526		
	Total UBI Pramerica SGR remuneration			50.000						50.000		
	CENTROBANCA:	01.01/31.12	AGM 2014									
	- Deputy Chairman of the Board of Directors			30.000						30.000		
	- Director			30.000						30.000		
	Total Centrobanca remuneration			60.000						60.000		
	IW BANK:	01.01/31.12	AGM 2012									
	- Director			10.000						10.000		
	Total IW Bank remuneration			10.000						10.000		
	UBI SISTEMI E SERVIZI:	01.01/31.12	AGM 2012									
	- Director			5.000						5.000		
	- Executive Committee				10.000					10.000		
	- Attendance "tokens"			3.250						3.250		
	Total UBI Sistemi e Servizi remuneration			8.250	10.000					18.250		
	TOTAL			306.250	10.000					316.250		
Gola GianLuigi	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	TOTAL			150.000						150.000		
Lupini Guido	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCA POPOLARE DI BERGAMO:	01.01/31.12	AGM 2014									
	- Deputy Chairman of the Board of Directors (from 1/1 to 10/04 and from 25/10)			17.508						17.508		
	- Director			40.000						40.000		
	- Executive Committee				14.144					14.144		
	- Attendance "tokens"			1.250						1.250		
	Total Banca Popolare di Bergamo remuneration			58.758	14.144					72.901		
	TOTAL			208.758	14.144					222.901		
Moltrasio Andrea	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	CENTROBANCA:	09.04/31.12	AGM 2014									
	- Chairman of the Board of Directors			73.151						73.151		
	- Director			21.945						21.945		
	Total Centrobanca remuneration			95.096						95.096		
	TOTAL			245.096						245.096		
Polotti Franco	**UBI BANCA:**	01.01/31.12	AGM 2013									
	- Member of the Management Board			150.000						150.000		
	Total UBI Banca remuneration			150.000						150.000		
	BANCO DI BRESCIA:	01.01/31.12	AGM 2014									
	- Chairman of the Board of Directors (from 07/04)			73.077						73.077		
	- Director			40.000						40.000		
	- Executive Committee				14.038					14.038		
	- Attendance "tokens"			1.250						1.250		
	Total Banco di Brescia compensation			114.327	14.038					128.365		
	TOTAL			264.327	14.038					278.365		
Caldiani Graziano	**UBI BANCA:**	01.01/31.12	30/04/2012									
	- General Manager			599.244		2.185		32.717	(**) 13.930,73	648.077		1.100.000
	Total UBI Banca remuneration			599.244		2.185		32.717	(**) 13.930,73	648.077		1.100.000
	(°) **UBI SISTEMI E SERVIZI:**	01.01/31.12	AGM 2012									
	- Director											
	- Attendance "tokens"											
	Total UBI Sistemi e Servizi remuneration											
	TOTAL			599.244		2.185		32.717	(**) 13.930,73	648.077		1.100.000
12 Key management personnel (°)		01.01/31.12	The positions have no termination date	2.371.898		21.849		343.257	(***) 91.723,79	2.828.728		

(°) The remuneration relating to *dott.* Victor Massiah, *dott.* Caldiani and to key management personnel does not include that relating to any posts held by them in other companies in the Group because this is paid directly to UBI Banca.

(*) of which €100,000.08 for a non competition agreement, €36,152.60 of provisions for deferred remuneration and €160.60 for other items.

(**) provisions for deferred remuneration.

(***) Of which €40,000.22 for job security agreement, €19,149.00 for length of service bonus, €21,348.80 of provisions for deferred remuneration and €11,225.77 for other items.

c) Cash incentive schemes for members of the management and supervisory bodies and for general management and other key management personnel

Table 8

Name and Surname	Position	Scheme	Bonus for the year			Prior year bonuses			Other Bonuses
			Payable/Paid	Deferred	Deferment period	No longer payable	Payable/Paid	Still deferred	
Massiah Victor	*- Chief Executive Officer of UBI BANCA*	01.01/31.12	-	-	-	-	-	-	2.185
Caldiani Graziano	*- General Manager of UBI Banca*	01.01/31.12	-	-	-	-	-	-	2.185
Key management personnel		01.01/31.12	-	-	-	-	-	-	21.849
Total			-	-	-	-	-	-	26.219

(Amounts given in euro)

Statement of the senior officer responsible for the preparation of corporate accounting documents

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

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

Bergamo, 28th April 2012