Pillar 3 Disclosures

as at 31st December 2010

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 2010: Euro 1.597.864.755,00 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 2010. 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;
      - property 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;
      - reputation 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.

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 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 appropriate risk/yield

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

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 current difficult economic situation, while conserving the credit quality of its assets, 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.

Specific credit policies are pursued with regard to the corporate and small business markets to guide and grow the credit portfolio in terms of geographical area, economic sector and credit rating class. Credit policies act to support the distribution network in evaluating the attractiveness of business with a view to value creation in particular areas and sectors and with particular counterparties and in assessing the creditworthiness of counterparties.

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

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

The credit risk management policies in place as at 31st December 2010 are given below.

- *Credit Risk 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 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 pricing policy,* which defines a process to formulate and implement risk-adjusted pricing approaches for various products which involve the assumption of credit risk.

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 Loan Approval Centres;
  - Branches;
  - Corporate Banking Units (CBUs);
  - Private Banking Units (PBUs).

The characteristics of that organisational model not only ensure strong standardisation between the units of the Parent and the corresponding units in the Network Banks, with consequent linearity in the processes and the optimisation of information flows, but they also provide a clear separation between commercial and credit functions. Loan granting activity is also differentiated by customer segment (retail/private 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, the introduction of decentralised Local Approval Centres (LACs) in the banking area to support retail branches and units for private banking customers guarantees effective co-ordination and liaison between different units operating on the various markets. The Parent 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 euro, 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 proposal of the UBI Credit Area after first consulting the UBI Credit Committee.
The banks and companies of the Group must also request a prior, consultative, non binding opinion from the Parent 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 Credit Quality Management and Monitoring Service in the Credit Area of UBI Banca is responsible for coordinating 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" model was introduced in 2010 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.

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.

Furthermore, 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. In 2010 the quarterly report to the Network Banks was broadened to include a special section on the monitoring of policies (monitoring the level of Expected Loss and the distribution of loans by class of risk) for each Network Bank.

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

More specifically, the Service formulates the operational details of policies by preparing regulations to implement them which define 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 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.

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, and a mainly judgemental model for major borrowers (i.e. groups of companies with authorised credit of greater than 20 million euro). Automatic models summarise ratings statistically on the basis of the following risk factors appropriately calibrated according to the type of counterparty or model:

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

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

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, a series of activities were performed designed to bring a new generation of rating and LGD estimation models into operation in 2011 for that portfolio. This was also the result of interaction 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.

With regard to LGD, the parameters for operational use were updated in December 2010 and a supervisory model was developed for parallel running in 2011.

As concerns rating models that are currently being constructed, the periodic update of PD (probability of default) estimates was performed for all models (except for the Major Borrowers model which will be abandoned in 2011).

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

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

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

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

- higher rating override;
- lower rating override.

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

The Group employs standard risk mitigation techniques used in the banking sector by acquiring security such as properties and financial instruments as well as personal guarantees from counterparties for some types of loan. Determination of the total amount of credit that can be granted to a given customer and/or group of companies to which the customer belongs takes account of special criteria for assigning weightings to the different categories of risk and to guarantees. 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 generally put firmly in place in 2010 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.

The guidelines for the assumption and monitoring of market risk in the UBI Group are defined in the Policy and the Regulations for Financial Risk Management.

The management of market risk is centred in general in the Finance Area of the Parent. 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.

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;
- type of financial instruments permitted;
- possible limits on composition.

The main operational limits for the trading book of the UBI Group for 2010, 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 119,67 million euro
- one day VaR limit for the UBI Group trading book 21,61 million euro
- early warning levels on maximum cumulative loss (MCL) 70% MCL
- early warning levels on VaR 80% VaR

The measurement of risk for individual portfolios and/or globally for the trading book is integrated with stress testing and backtesting. Observance of the limits set for each portfolio is monitored daily.

The summary measurement used to assess the exposure of the Bank to interest rate, exchange rate, equity, credit spread, commodities and volatility risks is that of the value at risk (VaR). It is a statistical measurement used to estimate the loss that might 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. This retrospective test considers 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.

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 MCL (maximum cumulative loss) are monitored for portfolios on which limits are set and overshoots are reported, in compliance with the Financial Risk Policy and regulations. Detailed reports on total VaR and VaR by risk factor for each portfolio are produced weekly with end of period data, along with the qualitative and quantitative limits set by the Financial Risk Policy and regulations.

In addition to the daily and weekly reports just described, 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.

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. It has also started activities to apply to the Bank of Italy for authorisation to use an internal "advanced measurement approach" (AMA) in combined use with the TSA and BIA approaches (partial AMA, where "partial" is intended as the adoption of the AMA approach on some lines of business or Group entities only), currently adopted for management purposes only.

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[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.

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 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;

- the **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, coordinating 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.

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 an AMA and a standardised approach. 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.

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 monitoring and measurement of structural interest rate risk - from fair value and from cash flow – is performed by the Risk Management Area of the Parent and extends to include all interest rate sensitive banks and companies in the Group with material exposure.

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 on all those financial instruments, assets and liabilities, not included in the trading book, in accordance with supervisory regulations.

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

The Risk Management Area also monitors specific and macro hedges using derivative financial instruments for fixed 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 the equity portfolio.

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 99,93%.

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.

Property risk

Property risk is defined as the *risk of changes in the value of the Group's property assets.*

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 risks relate securitisations in which the Group is the originator, both for traditional 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.

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 laws, regulations and procedures, and also the methodologies used, are performed by the Compliance Area, which from within the Risk Control Macro Area, reports directly to the Chief Executive Officer 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 constitutes a permanent, separate and autonomous unit in 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 special 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 the risk resulting from inadequate matching of maturities for assets and liabilities.

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 Financial Risks Policy of the UBI Group and the relative regulations approved by the corporate governance bodies. 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 objective of the liquidity management model adopted by the Group is also to standardise both the procedures for taking action and the criteria for identifying economic conditions across all Group member companies, identifying a priori any specific exceptions there may be.

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.

The system for the management of liquidity risk defined by Financial Risk Policy 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.

The following is subject to measurement, monitoring and management both at consolidated and individual company level:

- the composition of the sources of funding and the level of exposure to institutional counterparties;
- cash flow projections and the sources of funding at future dates for short term liquidity over a time horizon of up to three months;
- the level of eligible and/or liquid assets to meet Group liquidity requirements;
- the structural balance between assets and liabilities.

A structured system of continuous monitoring of net interbank debt was introduced in the fourth quarter of 2008, both at consolidated and individual company level, in order to be able to promptly take the action necessary to comply with limits set by internal 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 measurement and monitoring of liquidity risk is structured in the UBI Group in accordance with policies and the principles concerning the diversification of the sources of funding, short term liquidity management, structural liquidity management and the contingency funding plan (CFP).

The following factors are monitored and subject to periodic reporting:

- the centralised treasury position and the financial statement aggregate, "Net interbank debt";
- the current position and trends for eligible and/or liquid assets;
- the maturity ladder for net maturing balances over a short term time horizon, to which the triggering of the CFP is linked;
- the expected trend for net interbank debt over the course of the financial year;
- the composition of sources in terms of types and counterparties;
- balances of maturity transformation rules;
- indicators of liquidity requirement coverage.

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

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

Liquidity risk reporting prepared by the Risk Management Area is for the UBI Group. 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.

The *Financial Risk Management Policy* approved for 2011 and the relative regulations giving details of operational limits significantly revised both the system for monitoring liquidity risk and that for structural balance between assets and liabilities, in order to incorporate the developments and recommendations of the international process in progress to revise the regulations governing liquidity risk.

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 over a time horizon of 30 days, supplemented with stress tests designed to assess the Group's ability to withstand crisis scenarios characterised by an increasing level of severity. In detail, the net liquidity balance, which represents the Group's ability to meet its expected commitments over a determined time horizon is measured in a normal going concern context, supplemented by stress tests. It 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 regulatory 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 statement of financial position 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.

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. Limits and thresholds are linked to these indicators in order to verify their consistency and sustainability over time – with respect to the current and expected liquidity requirement of the Group – and their consistency with the level of dependence on institutional markets considered acceptable by the Group.

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, which replaces the maturity transformation rule method, 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.

Reputational risk

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

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

In 2010 the Group 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 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 charateristics 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 constantly monitor market changes and operating performance and to verify their consistency with the Group Business Plan, in order to mitigate strategic risk.

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 prudential scope of consolidation (referred to as the banking group), as defined by the supervisory regulations in force.

The prudential scope of consolidation includes:

- banks, financial and other operating companies that are directly or indirectly controlled by the Parent 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 prudential scope of consolidation used in this disclosure document differs from the statutory accounting scope of consolidation (determined by IAS/IFRS standards): this circumstance may generate differences between the sets of data presented in this document and those presented in the consolidated annual report for the same year. 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 prudential scope of consolidation and is not therefore different from that used for Pillar Three.

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 exist at consolidated level as at 31st December 2010 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 2009, 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	Banking
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	Banking
4. Banca Carime Spa	Cosenza	1	UBI Banca Scpa	92,832%	Line-by-line	Line-by-line	Banking
5. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa	74,244%	Line-by-line	Line-by-line	Banking
			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	Banking
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	Banking
12. Banca Popolare di Ancona Spa	Jesi (AN)	1	UBI Banca Scpa	92,898%	Line-by-line	Line-by-line	Banking
13. Banca Popolare di Bergamo Spa	Bergamo	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Banking
14. Banca Regionale Europea Spa	Cuneo	1	UBI Banca Scpa	74,944%	Line-by-line	Line-by-line	Banking
15. Banco di Brescia Spa	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Banking
16. Banco di San Giorgio Spa	Genoa	1	UBI Banca Scpa	36,194%	Line-by-line	Line-by-line	Banking
			Banca Regionale Europea Spa	57,333%			
17. Banque de Depots et de Gestion Sa	Lausanne (Switzerland)	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Banking
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	Instrumental
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	Barberini Sa	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	92,382%	Line-by-line	Line-by-line	Banking
			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. FinanzAttiva Servizi Srl	Bergamo	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
31. Invesclub Srl	Milan	1	IW Bank Spa	100,000%	Line-by-line	Line-by-line	Financial
32. Investnet International Sa	Luxembourg	1	IW Bank Spa	100,000%	Line-by-line	Line-by-line	Financial
33. Investnet Italia Sarl	Milan	1	IW Bank Spa	100,000%	Line-by-line	Line-by-line	Financial
34. IW Bank Spa	Milan	1	UBI Banca Scpa	55,274%	Line-by-line	Line-by-line	Banking
			Centrobanca Spa	23,496%			
35. UBI Finance 3	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
36. Lombarda Lease Finance 3 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
37. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
38. UBI Management Company Sa	Luxembourg	1	UBI Pramerica Sgr Spa	100,000%	Line-by-line	Line-by-line	Financial
39. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
40. UBI Finance Srl	Milan	1	UBI Banca Scpa	60,000%	Line-by-line	Line-by-line	Financial
41. Orio Finance Nr. 3 Plc	Dublin (Ireland)				Line-by-line	RWA	Financial
42. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
43. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	100,000%	Line-by-line	Line-by-line	Financial
44. Silf - Società Italiana Leasing e Finanziamenti Spa	Cuneo	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
45. Sintonia Finance Srl	Milan				Line-by-line	RM	Financial
46. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
47. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
48. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa	90,603%	Line-by-line	Line-by-line	Banking
			Banco di Brescia Spa	5,852%			
			Banco di San Giorgio Spa	0,173%			
			Banca Popolare di Bergamo Spa	3,372%			
49. UBI Insurance Broker Srl	Bergamo	1	UBI Banca Scpa	100,000%	Line-by-line	RWA	Other
50. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	65,000%	Line-by-line	Line-by-line	Financial
51. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
52. UBI Sistemi e Servizi Scpa	Brescia	1	UBI Banca Scpa	70,919%	Line-by-line	Line-by-line	Instrumental
			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%			

			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	1,554%			
			UBI Assicurazioni Spa	1,480%			
			Banca 24-7 Spa	1,480%			
			Silf Spa	0,074%			
			UBI Insurance Broker Srl	0,074%			
			UBI Factor Spa	0,740%			
53. UBI Trustee	Luxembourg	1	UBI Banca International Sa	100,000%	Line-by-line	Line-by-line	Financial
A.2 Proportionately consolidated companies							
1. UBI Trust Company Ltd	Jersey (Great Britain)	2	UBI Banca International SA	99,998%	Proportionate	Proportionate	Financial
2. By You Spa	Milan	2	UBI Banca Scpa	40,000%	Proportionate	Proportionate	Financial
3. By You Piemonte Srl	Ciriè (TO)	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
4. By You Mutui Srl	Milan	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
5. By You Liguria Srl	Genoa	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
6. By You Adriatica Srl	Bologna	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
7. Polis Fondi SGR Spa	Milan	2	UBI Banca Scpa	9,800%	Proportionate	Proportionate	Financial
8. Sintesi Mutuo Srl	Naples	2	By You Mutui Srl	100,000%	Proportionate	Proportionate	Financial
A.3 Companies consolidated using the equity method							
1. Arca SGR Spa	Milan	3	UBI Banca Scpa	23,124%	Equity Method	Deducted from Sup. Cap.	Financial
			Banca Popolare di Ancona Spa	3,584%			
2. Aviva Assicurazioni Vita Spa	Milan	3	UBI Banca Scpa	49,999%	Equity Method	Deducted from Sup. Cap.	Insurance
3. Aviva Vita Spa	Milan	3	UBI Banca Scpa	50,000%	Equity Method	Deducted from Sup. Cap.	Insurance
4. Capital Money Spa	Milan	3	UBI Banca Scpa	20,460%	Equity Method	Deducted from Sup. Cap.	Financial
5. Ge.Se.Ri. Spa in liquidazione	Cuneo	3	Banca Regionale Europea Spa	95,000%	Equity Method	Deducted from Sup. Cap.	Financial
6. H&C Spa in liquidazione	Milan	3	Centrobanca Spa	49,080%	Equity Method	RWA	Other
7. Lombarda China Fund Management Co.	Shenzen (China)	3	UBI Banca Scpa	49,000%	Equity Method	Deducted from Sup. Cap.	Financial
8. Lombarda Vita Spa	Brescia	3	UBI Banca Scpa	40,000%	Equity Method	Deducted from Sup. Cap.	Insurance
9. Prisma Srl	Milan	3	UBI Banca Scpa	20,000%	Equity Method	Deducted from Sup. Cap.	Other
10. SF Consulting Srl	Mantova	3	UBI Banca Scpa	35,000%	Equity Method	RWA	Other
11. Sider Factor Spa	Milan	3	UBI Factor Spa	27,000%	Equity Method	Deducted from Sup. Cap.	Financial
12. Sofipo Fiduciarie Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30,000%	Equity Method	Deducted from Sup. Cap.	Financial
13. SPF Studio Progetti Finanziari Srl	Rome	3	Banca Popolare di Ancona Spa	25,000%	Equity Method	RWA	Other
14. Tex Factor Spa in liquidazione	Milan	3	UBI Factor Spa	20,000%	Equity Method	Deducted from Sup. Cap.	Financial
15. UBI Assicurazioni Spa	Milan	3	UBI Banca Scpa	49,999%	Equity Method	Deducted from Sup. Cap.	Insurance
16. UFI Servizi Srl	Rome	3	Prestitalia Spa	23,167%	Equity Method	RWA	Other

Key

Type of relationship

1 = Majority of voting rights in ordinary general meetings

2 = Joint control

3 = Significant influence

Quantitative information

As at 31st December 2010, the capital of the subsidiaries UBI Leasing and Banco di San Giorgio was below the supervisory capital requirements according to supervisory regulations. The shortfalls in question were caused by an increase in risk weighted assets (RWA) due to credit risk, attributable to the entrance into force of new risk weighting coefficients in relation to the Cerved rating (former Lince) and the application of supervisory provisions designed to limit the reduced weighting for property collateral in the case of property companies[5].

In order to restore the levels of capitalisation needed to support future growth in lending, and above all to comply with the supervisory ratio required by both the supervisory regulations and the risk appetite of the Group, decisions were taken to increase the share capital by 60 million euro (UBI Leasing) and 20 million euro (Banco di San Giorgio) and if necessary to issue lower tier two subordinated liabilities.

[5] See Table 4 in this respect.

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 7th update of 28th January 2011 and by the 13th update of 9th February 2011, respectively.

The updates to the Circulars cited implement amendments to Directives 2006/48 and 2006/49 (the "CRD") approved in 2009 and proposed by the European Commission in the autumn of 2008 ("CRD II"). These redefine the notion of "capital" (included without limits in the supervisory capital and limited de facto to common shares only) and strengthen the capital quality of innovative and non innovative capital instruments, above all in the flexibility of the payments and the ability to absorb losses. The application of the new criteria results in the exclusion of savings and privileged shares from the core capital as it is regulated at present (cf below for the repercussions of this provision on the UBI Group).

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 the supplementary capital (tier two), net of "prudential filters" [6] 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

[6] Prudent filters are corrections made to equity items in the statement of financial position 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.

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 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, hybrid capital instruments, tier two subordinated liabilities, other positive elements and positive prudent filters (termed positive elements of tier two capital). Other negative items and negative tier two prudent 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[7] 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.

As concerns innovative capital instruments held by the UBI Group, those issued prior to 31.12.2010 will 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 euro.

[7] 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.

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 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	IFRS AMOUNT 31.12.2010	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL
Tier one capital	**BPB CAPITAL TRUST**	**Innovative capital instruments**	1	2001/perpetual - mixed rate ISIN XS0123998394 Currency euro	Until 2010 fixed rate of 8,364% and subsequently floating rate Euribor 3 months + 4,60%	perpetual	Call 15-02-2011	227.436	244.087	227.436
	BANCA LOMBARDA PREFERRED SECURITIES TRUST		2	2000/perpetual - mixed rate ISIN XS0108805564 Currency euro	Until 2010 fixed rate of 8,17% and subsequently floating rate with Euribor 3 months +3,375	perpetual		124.636	126.905	124.636
	BPCI CAPITAL TRUST		3	2001/perpetual - mixed rate ISIN XS0131512450 Currency euro	9,00% until 10th year Euribor 3 months + 5,40% from year 11	perpetual	Call 27-06-2011	101.388	106.899	101.388
Tier two capital	**UNIONE DI BANCHE ITALIANE**	**Ordinary subordinated bond issues (Lower Tier II)**	4	2006/2016 - floating rate EMTN ISIN XS0259653292 Currency euro	Quarterly Euribor 3M + 0,50% for years 1-5 Euribor 3M + 1,10% for years 6-10	30-06-2016	Call 30-06-2011	154.750	154.488	154.393
			5	2010/2017 - fixed rate ISIN IT0004645963 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 4,30%	05-11-2017		400.000	380.789	400.000
			6	2004/2014 - floating rate ISIN IT0003754949 Currency euro	Half year Euribor 6M + 0,125% for years 1-5 Euribor 6M + 0,725% for years 6-10	23-12-2014	23-12-2009	110.609	109.477	88.783
			7	2004/2014 - floating rate ISIN IT0003723357 Currency euro	Half year Euribor 6M + 0,125% for years 1-5 Euribor 6M + 0,725% for years 6-10	22-10-2014	22-10-2009	138.246	136.930	111.217
			8	2008/2015 - floating rate ISIN IT0004424435 Currency euro	Quarterly Euribor 3M + 0,85%	28-11-2015		599.399	591.835	599.399

		9	2006/2018 - floating rate EMTN ISIN XS0272418590 Currency euro	Quarterly Euribor 3M + 0,50% for years 1-7 Euribor 3M + 1,10% for years 8-12	30-10-2018	Call 31-10-2013	211.650	211.754	211.000
		10	2006/2016 - floating rate EMTN ISIN XS0278107999 Currency euro	Quarterly Euribor 3M + 0,40% for years 1-5 Euribor 3M + 1,00% for years 6-10	19-12-2016	19-12-2011	136.100	136.070	135.914
		11	2009/2016 - floating rate ISIN IT0004457187 Currency euro	Quarterly Euribor 3M + 1,25%	13-03-2016	Redemption by amortisation schedule at constant annual instalments from 13/03/2012	211.992	208.919	211.992
		12	2009/2019 - mixed rate ISIN IT0004457070 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 4,15% until 2014 and subsequently floating Euribor 6M + 1,85%	13-03-2019	13-03-2014	370.000	381.946	370.000
		13	2009/2016 - floating rate ISIN IT0004497068 Currency euro - Listed on MOT(electronic bond market)	Quarterly Euribor 3M + 1,25%	30-06-2016	Redemption by amortisation schedule at constant annual instalments from 30/06/2012	156.837	154.171	156.837
		14	2009/2019 - mixed rate ISIN IT0004497050 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 4% until 2014 and subsequently variable Euribor 6M + 1,85%	30-06-2019	30-06-2014	365.000	366.191	365.000
		15	2010/2017 - fixed rate ISIN IT0004572878 Currency euro - Listed on MOT (electronic bond market)	Half year fixed rate 3,10%	23-02-2017		300.000	301.729	300.000

			16	2010/2017 - floating rate ISIN IT0004572860 Currency euro - Listed on MOT (electronic bond market)	Half year floating rate Euribor 6 months + 0,40%	23-02-2017		152.587	150.469	152.587
	BANCA POPOLARE DI BERGAMO	**Hybrid capitalisation instruments (Upper Tier II)**	17	2001/2012 - floating rate ISIN IT0003210074 Currency euro listed in Milan	Quarterly Euribor 3M + 0,80%	18-06-2012	No provision	250.000	250.161	250.000
	BANCA CARIME	**Hybrid capitalisation instruments (Upper Tier II)**	18	2002/2012 - fixed rate 6% ISIN IT0003302863 Currency euro	Half yearly fixed rate 6%	25-06-2012	No provision	164.000	164.499	163.597
TOTAL as at 31/12/2010								**4.174.630**	**4.177.319**	**4.124.179**
TOTAL as at 31/12/2009								**4.011.699**	**4.061.145**	**4.009.276**

As reported in a press release of 22nd December 2010, the UBI Banca Group will not proceed to redeem innovative capital instruments still in issue (ISIN XS0123998394, XS0108805564 and XS0131512450), because the regulatory framework governing the composition and quality of supervisory capital will only become fully clear when Basel three recommendations are implemented in national regulations. On the basis of currently available indications, the outstanding capital instruments will remain eligible for inclusion in tier one capital until the end of 2012. Subsequently, when the capital assumptions on which those issuances were made are no longer valid, the Group will consider whether to proceed to redeem them.

Quantitative information

Use was made by the UBI Banca Group in the calculation of supervisory capital as at 31st December 2010 – in compliance with provisions issued by the Bank of Italy in May 2010[8] – 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.

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

COMPOSITION OF THE SUPERVISORY CAPITAL	as at 31.12.2010	as at 31.12.2009
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2.076.821	2.033.305
- Share premiums	7.179.155	7.186.217
- Reserves	2.690.200	2.529.985
- *Innovative capital instruments(*)*		453.460
- Innovative capital 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 transision provisions (grandfathering) (**)	489.191	
- Profit for the period	55.844	69.876
- 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	337	662
- Total positive elements of tier 1 capital	**12.491.547**	**12.273.505**
- Negative elements:		
- Treasury shares or quotas	-	-

[8] 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.

- goodwill	4.455.047	4.447.566
- Other intangible fixed assets	780.175	808.440
- Loss for the period	-	-
- Other negative elements:	-	-
- net impairment losses on loans	-	-
- net impairment of supervisory amounts relating to the "trading portfolio for supervisory purposes"	-	-
- other	-	-
- Prudential filters: deductions from tier 1 capital	-	-
- Fair value option: changes in its credit worthiness	-	-
- Negative reserves on available-for-sale securities	-	-
- Equity instruments and units in O.I.C.R (collective investment instruments).	-	-
- Debt instruments	34.775	11.028
- 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	47.878
- Total negative elements of tier 1 capital	**5.309.151**	**5.314.911**
- Tier 1 capital before items to be deducted	**7.182.396**	**6.958.594**

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 entity invested in	-	-
- Shareholdings	21.944	21.581
- Non innovative capital instruments	-	-
- Innovative capital 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 entity invested in	-	-
- Shareholdings	10.473	11.307
- Non innovative capital instruments	-	-
- Innovative capital instruments and non innovative capital instruments with maturity		
- Hybrid capital instruments	-	-
- Subordinated instruments	-	2.007
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the entity invested in	-	-
- Shareholdings	-	-
- Non innovative capital instruments	-	-
- Innovative capital instruments and non innovative capital instruments with maturity		
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	97.047	101.776
- Subordinated instruments	5.046	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	**134.508**	**141.717**
TIER ONE CAPITAL	**7.047.888**	**6.816.877**

TIER 2 CAPITAL		
- Positive elements		
- Fair value reserves	126.879	143.987
- 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%		
- Hybrid capital instruments	413.597	763.592
- Tier 2 subordinated liabilities	3.257.121	2.792.224
- 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	**3.797.598**	**3.699.802**
- Negative elements:		
- Net losses on equity investments	-	-
- Loans	-	-
- Other negative elements	16.954	5.788
- Prudential filters: deductions from supplementary capital	10.139	10.978
- Total negative elements of tier 2 capital	**27.093**	**16.765**
- Tier 2 capital before items to be deducted	**3.770.505**	**3.683.037**

TIER 2 CAPITAL – ITEMS TO BE DEDUCTED		
- Shares held in banks and financial companies equal to or greater than 20% of the share capital of the entity invested in	21.944	21.581
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the entity invested in	10.473	13.314
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the entity invested in	-	-
- Equity investments in insurance companies:	102.092	106.821
- 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	**134.508**	**141.717**
Tier two capital	**3.635.996**	**3.541.320**

ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 CAPITAL	**147.685**	**155.642**
SUPERVISORY CAPITAL	**10.536.199**	**10.202.556**
TIER 3 CAPITAL	**-**	**-**
SUPERVISORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL	**10.536.199**	**10.202.556**

(*) In 2010 the item was reclassified as instruments subject to transition provisions (grandfathering) (**)

(**) As reported under qualitative information, the item includes innovative capital instruments issued before 31.12.2010 (amounting to 453,46 million) and savings and privileged shares of Banca Regionale Europea, included in the share capital of non-controlling shareholders (amounting to 35,7 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 within the Group for activities relating to the assessment of current and future capital adequacy lies with the ICAAP Service in the Risk Management Area.

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

The capital adequacy assessment process commences with the definition and details of the risk profile (risk appetite) of the Group. This represents the starting point because it contributes to the definition of strategic orientations in relation to the assessment of current and future capital adequacy, risk assumption and management policies, sustainable growth objectives and value creation. More specifically this phase involves the definition of: the governance rules with regard to ICAAP; the strategic positioning objectives and the translation into measurable indicators; capital solidity and its composition; the identification of responsibilities for the assumption and management of risk and adequate remuneration of it; monitoring of objectives.

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

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

The procedures for defining the UBI Group's risk appetite are based on the 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;
- assessment of market positioning – based on the determination of 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;
- *Available Financial Resources* (*AFR) or* total capital 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 2011, for its position as at 31st December 2010.

Quantitative information

CAPITAL ADEQUACY	Capital requirement 31.12.10	Capital requirement 31.12.09
A. SUPERVISORY CAPITAL		
Credit and counterparty risk		
Standardised approach		
Exposures to or guaranteed by central governments and central banks	14	5
Exposures to or guaranteed by regional government and local authorities	7.695	7.431
Exposures to or guaranteed by non commercial and public sector entities	77.507	75.262
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	181.080	177.850
Exposures to or guaranteed by corporates	3.603.839	2.974.894
Retail exposures	1.297.006	1.157.160
Exposures secured by real estate property	895.404	1.019.326
Past due exposures	566.513	434.908
High risk exposures	17.871	22.180
Exposures in the form of covered bonds	-	-
Short term exposures to supervised intermediaries and corporates	-	-
Exposures to OICR (collective investment undertakings)	34.847	15.875
Other exposures	269.451	269.588
Securitisations	1.696	35.638
Total credit and counterparty risk	**6.952.925**	**6.190.116**
Market risk		
Standardised approach		
Assets included in the supervisory trading portfolio:		
- position risk	105.399	115.873
- supervisory risk	-	-
- concentration risk	-	-
Other assets:		
- currency risk	1.206	27.175
- position risk in commodities	32	37
Total market risk	**106.636**	**143.086**
Operational risk		
Standardised approach		
Basic indicator approach	49.137	47.273
Standardised approach	440.175	473.685
Advanced measurement approach	**-**	**-**
Total operational risk	**489.312**	**520.959**

B. SUPERVISORY RATIOS

Core Tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	6,95%	7,43%
Tier 1 ratio (tier 1 capital/risk weighted assets)	7,47%	7,96%
Total capital ratio [(Tier 2 capital+ qualifying tier 3 capital)/risk weighted assets	11,17%	11,91%

The contraction in all the supervisory ratios has been generated mainly by changes in risk weighted assets, while supervisory capital increased.

A substantial increase in RWA occurred – of approximately 9,5 billion euro – because of credit risk attributable to factors reported here. The first negative impact was the result of the entrance into force of new risk weighting coefficients for the Cerved (former Lince) rating which involved an increase in RWA of approximately 4,5 billion euro. The second negative impact is attributable to the application of supervisory provisions designed to limit the reduced weighting of mortgage collateral for[9] property companies, which resulted in an increase in RWA of approximately 3,7 billion euro. Those impacts were accompanied by an increase in risk weighted assets due to growth in lending to customers.

The reduction in the capital requirement for market risk was due mainly to the disappearance of currency risk, following a decrease in net currency positions below 2% of supervisory capital. Finally, the decrease in consolidated gross income determined a fall in the capital requirement for operational risk.

[9] The reasoning behind that provision is that the property used as collateral does not meet one of the requirements for the admissibility of property used as collateral to mitigate risk. Since the sale and/or the rental of properties to third parties constitutes the main business of property companies, in these cases the requirement that the ability of a debtor to pay must not depend on the cash flows generated by the property posted as collateral but on the ability of the debtor to repay debt by drawing on other sources of income is not met.

Table 5 - Credit risk: general disclosures for all banks

Qualitative information

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

- exposures past due and/or continuously in arrears;
- restructured positions;
- impaired loans;
- non-performing loans.

The term **"exposures past due and/or in arrears continuously**" 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 180 days; for some types of exposures, the supervisory regulations replace that period with a time limit of 90 days.

"Restructured positions or 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.

"**Impaired loans** or **impaired positions**" are exposures towards counterparties in temporary situations of objective difficulty which it is considered can be overcome in an appropriate period of time.

Finally, **"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.

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 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 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;
    - composition 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 Banca 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 Banca 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 2010. 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 Banca 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	2.200	8.014	2.462	5.093	2.548.219	**2.565.988**
2. Available-for-sale financial assets	-	-	-	-	9.642.477	**9.642.477**
3. Held-to-maturity investments	-	-	-	-	-	**-**
4. Loans to banks	68	-	-	-	3.079.096	**3.079.164**
5. Loans to customers	1.938.182	2.031.718	828.492	459.480	96.563.827	**101.821.699**
6. Financial assets at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	591.127	**591.127**
31/12/2010	**1.940.450**	**2.039.732**	**830.954**	**464.573**	**112.424.746**	**117.700.455**
31/12/2009	**1.332.217**	**1.845.860**	**438.397**	**916.994**	**104.308.695**	**108.842.163**

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-statement of financial position exposure												
A.1 Non-performing loans	4.008.916	1.934.061	16.172	1.673	19.741	3.255	4.343	-	2.803	176	**4.051.975**	**1.939.165**
A.2 Impaired loans	2.278.034	2.003.629	40.034	26.838	151	102	-	-	1.331	1.312	**2.319.550**	**2.031.881**
A.3 Restructured exposures	871.484	812.602	17.502	15.831	51	51	-	-	32	8	**889.069**	**828.492**
A.4 Past due exposures	460.931	446.296	13.424	13.327	-	-	-	-	-	-	**474.355**	**459.623**
A.5 Other exposures	104.147.322	103.637.023	2.870.075	2.861.234	615.560	615.060	16.116	16.110	201.980	201.947	**107.851.053**	**107.331.374**
TOTAL	**111.766.687**	**108.833.611**	**2.957.207**	**2.918.903**	**635.503**	**618.468**	**20.459**	**16.110**	**206.146**	**203.443**	**115.586.002**	**112.590.535**
B. Off-statement of financial position exposures												
B.1 Non-performing loans	55.889	46.123	-	-	-	-	-	-	-	-	**55.889**	**46.123**
B.2 Impaired loans	99.752	92.127	1.708	1.702	-	-	-	-	-	-	**101.460**	**93.829**
B.3 Other impaired assets	90.805	84.803	591	591	-	-	-	-	-	-	**91.396**	**85.394**
B.4 Other exposures	15.055.116	15.020.136	1.137.494	1.136.753	145.174	145.173	15.043	15.043	18.603	18.599	**16.371.430**	**16.335.704**
TOTAL	**15.301.562**	**15.243.189**	**1.139.793**	**1.139.046**	**145.174**	**145.173**	**15.043**	**15.043**	**18.603**	**18.599**	**16.620.175**	**16.561.050**
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**
31/12/2009	**115.225.934**	**112.901.629**	**4.009.648**	**3.974.214**	**907.528**	**893.984**	**29.546**	**25.263**	**372.596**	**371.504**	**120.545.252**	**118.166.594**

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-statement of financial position exposure												
A.1 Non-performing loans	22	20	155	48	-	-	-	-	-	-	**177**	**68**
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	**-**	**-**
A.5 Other exposures	2.289.193	2.289.171	1.421.572	1.421.559	143.735	143.735	22.159	22.159	128.133	128.133	**4.004.792**	**4.004.757**
TOTAL	**2.289.215**	**2.289.191**	**1.421.727**	**1.421.607**	**143.735**	**143.735**	**22.159**	**22.159**	**128.133**	**128.133**	**4.004.969**	**4.004.825**
B. Off-statement of financial position exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	**-**	**-**
B.4 Other exposures	281.912	281.903	584.837	584.658	78.220	78.213	81.989	81.754	45.733	45.629	**1.072.691**	**1.072.157**
TOTAL	**281.912**	**281.903**	**584.837**	**584.658**	**78.220**	**78.213**	**81.989**	**81.754**	**45.733**	**45.629**	**1.072.691**	**1.072.157**
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**
31/12/2009	**5.118.715**	**5.118.668**	**2.015.046**	**2.011.470**	**211.643**	**211.643**	**34.975**	**34.975**	**126.096**	**126.096**	**7.506.475**	**7.502.852**

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-statement of financial position exposure														
A.1 Non-performing loans	-	-	312	262	76.062	17.921	1.667	112	2.637.666	1.349.012	1.336.268	571.858	**4.051.975**	**1.939.165**
A.2 Impaired loans	1	-	2.475	2.061	55.436	34.780	-	-	1.659.641	1.456.997	601.997	538.043	**2.319.550**	**2.031.881**
A.3 Restructured exposures	-	-	-	-	18.129	17.409	-	-	867.864	808.042	3.076	3.041	**889.069**	**828.492**
A.4 Past due exposures	-	-	-	-	47	41	-	-	350.469	344.019	123.839	115.563	**474.355**	**459.623**
A.5 Other exposures	9.776.149	9.776.149	1.011.951	1.011.789	5.421.123	5.412.689	169.481	169.427	56.566.995	56.250.839	34.905.354	34.710.481	**107.851.053**	**107.331.374**
TOTAL A	**9.776.150**	**9.776.149**	**1.014.738**	**1.014.112**	**5.570.797**	**5.482.840**	**171.148**	**169.539**	**62.082.635**	**60.208.909**	**36.970.534**	**35.938.986**	**115.586.002**	**112.590.535**
B. Off-statement of financial position exposures													-	-
B.1 Non-performing loans	-	-	-	-	38	38	-	-	55.639	45.901	212	184	**55.889**	**46.123**
B.2 Impaired loans	-	-	-	-	6.567	5.966	-	-	93.285	86.341	1.608	1.522	**101.460**	**93.829**
B.3 Other impaired assets	-	-	-	-	12	12	-	-	91.208	85.213	176	169	**91.396**	**85.394**
B.4 Other exposures	109.930	109.930	1.315.669	1.315.606	593.030	586.173	34.086	34.004	13.043.974	13.025.167	1.274.741	1.264.824	**16.371.430**	**16.335.704**
TOTAL B	**109.930**	**109.930**	**1.315.669**	**1.315.606**	**599.647**	**592.189**	**34.086**	**34.004**	**13.284.106**	**13.242.622**	**1.276.737**	**1.266.699**	**16.620.175**	**16.561.050**
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**
31/12/2009	**4.354.690**	**4.354.689**	**2.167.209**	**2.166.218**	**6.253.349**	**6.152.244**	**269.308**	**267.431**	**72.041.595**	**70.613.710**	**35.459.101**	**34.612.302**	**120.545.252**	**118.166.594**

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-statement of financial position assets	**24.892.065**	**1.042.603**	**839.498**	**4.039.647**	**5.672.359**	**3.465.390**	**9.368.494**	**30.217.053**	**39.283.680**	**3.324.260**	**122.145.049**
A.1 Government securities	62	-	-	-	70.912	426.105	3.302.537	1.442.396	4.408.715	-	9.650.727
A.2 Other debt instruments	322.317	9.681	13.776	124.304	16.508	32.777	62.708	2.769.772	679.189	3.912	4.034.944
A.3 Units in OICR (collective investment instruments)	274.291	-	-	-	-	-	-	-	-	8	274.299
A.4 Financing	24.295.395	1.032.922	825.722	3.915.343	5.584.939	3.006.508	6.003.249	26.004.885	34.195.776	3.320.340	108.185.079
- Banks	1.390.907	153.125	47.468	1.623.952	388.521	67.659	191.909	176.649	33.163	7.632	4.080.985
- Customers	22.904.488	879.797	778.254	2.291.391	5.196.418	2.938.849	5.811.340	25.828.236	34.162.613	3.312.708	104.104.094
	-	-	-	-	-	-	-	-	-	-	
On-statement of financial position liabilities	**45.442.973**	**9.598.331**	**2.030.274**	**5.218.044**	**6.693.767**	**5.024.846**	**5.450.191**	**23.107.086**	**9.251.001**	**441.393**	**112.257.906**
B.1 Deposits	45.183.571	1.279.662	230.432	848.574	823.878	365.807	66.591	46.135	3.453	5.586	48.853.689
- Banks	333.478	577.312	30.422	476.140	588.252	344.952	50.218	4.634	-	-	2.405.408
- Customers	44.850.093	702.350	200.010	372.434	235.626	20.855	16.373	41.501	3.453	5.586	46.448.281
B.2 Debt instruments	39.536	478.106	545.563	2.230.708	3.739.336	4.387.976	5.317.995	22.369.775	8.748.224	435.807	48.293.026
B.3 Other liabilities	219.866	7.840.563	1.254.279	2.138.762	2.130.553	271.063	65.605	691.176	499.324	-	15.111.191
	-	-	-	-	-	-	-	-	-	-	
Off-statement of financial position transactions	**938.234**	**(269.836)**	**12.493**	**(1.606.867)**	**(3.174.755)**	**(4.640.660)**	**(9.396.766)**	**(634.621)**	**(4.957.693)**	**553.610**	**(23.176.861)**
C.1 Financial derivatives with exchange of principal	(10)	13.334	10.167	4.468	(24.277)	82.868	(34.835)	(335.309)	(2.475.938)	2.764.485	(4.953)
- Long positions	54	514.858	1.795.181	364.377	584.730	524.007	291.530	825.740	418.620	3.395.320	8.714.417
- Short positions	64	501.524	1.785.014	359.909	609.007	441.139	326.365	1.161.049	2.894.558	630.835	8.709.464
C.2 Financial derivatives without exchange of principal	11.879	(162.407)	258	(1.663.361)	(3.177.428)	(4.681.716)	(8.650.797)	435	-	-	18.323.137
- Long positions	460.110	3.021	2.006	47.302	95.774	146.539	308.857	435	-	-	1.064.044
- Short positions	448.231	165.428	1.748	1.710.663	3.273.202	4.828.255	8.959.654	-	-	-	19.387.181
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(112.753)	(120.788)	-	(4.206)	(22.862)	(75.513)	(810.690)	(598.469)	(2.726.760)	(2.219.399)	(6.691.440)
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	112.753	120.788	-	4.206	22.862	75.513	810.690	598.469	2.726.760	2.219.399	6.691.440
C.5 Financial guarantees issued	1.039.118	25	2.068	56.232	49.812	33.701	99.556	298.722	245.005	8.524	1.832.763

Distribution by economic sector of deteriorated exposures and impairment losses

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-statement of financial position exposure																								
A.1 Non performing loans	-	-	X	-	312	(50)	X	262	76.062	(58.141)	X	17.921	1.667	(1.555)	X	112	2.637.666	(1.288.654)	X	1.349.012	1.336.268	(764.410)	X	571.858
A.2 Impaired loans	1	(1)	X	-	2.475	(414)	X	2.061	55.436	(20.656)	X	34.780	-	-	X	-	1.659.641	(202.644)	X	1.456.997	601.997	(63.954)	X	538.043
A.3 Restructured exposures	-	-	X	-	-	-	X	-	18.129	(720)	X	17.409	-	-	X	-	867.864	(59.822)	X	808.042	3.076	(35)	X	3.041
A.4 Past due exposures	-	-	X	-	-	-	X	-	47	(6)	X	41	-	-	X	-	350.469	(6.450)	X	344.019	123.839	(8.276)	X	115.563
A.5 Other exposures	9.776.149	X	-	9.776.149	1.011.951	X	(162)	1.011.789	5.421.123	X	(8.434)	5.412.689	169.481	X	(54)	169.427	56.566.995	X	(316.156)	56.250.839	34.905.354	X	(194.873)	34.710.481
TOTAL A	**9.776.150**	**(1)**	**-**	**9.776.149**	**1.014.738**	**(464)**	**(162)**	**1.014.112**	**5.570.797**	**(79.523)**	**(8.434)**	**5.482.840**	**171.148**	**(1.555)**	**(54)**	**169.539**	**62.082.635**	**(1.557.570)**	**(316.156)**	**60.208.909**	**36.970.534**	**(836.675)**	**(194.873)**	**35.938.986**
B. Off-statement of financial position exposures																								
B.1 Non performing loans	-	-	X	-	-	-	X	-	38	-	X	38	-	-	X	-	55.639	(9.738)	X	45.901	212	(28)	X	184
B.2 Impaired loans	-	-	X	-	-	-	X	-	6.567	(601)	X	5.966	-	-	X	-	93.285	(6.944)	X	86.341	1.608	(86)	X	1.522
B.3 Other deteriorated assets	-	-	X	-	-	-	X	-	12	-	X	12	-	-	X	-	91.208	(5.995)	X	85.213	176	(7)	X	169
B.4 Other exposures	109.930	X	-	109.930	1.315.669	X	(63)	1.315.606	593.030	X	(6.857)	586.173	34.086	X	(82)	34.004	13.043.974	X	(18.807)	13.025.167	1.274.741	X	(9.917)	1.264.824
TOTAL B	**109.930**	**-**	**-**	**109.930**	**1.315.669**	**-**	**(63)**	**1.315.606**	**599.647**	**(601)**	**(6.857)**	**592.189**	**34.086**	**-**	**(82)**	**34.004**	**13.284.106**	**(22.677)**	**(18.807)**	**13.242.622**	**1.276.737**	**(121)**	**(9.917)**	**1.266.699**
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**
31/12/2009	**4.354.690**	**(1)**	**-**	**4.354.689**	**2.167.209**	**(290)**	**(701)**	**2.166.218**	**6.253.349**	**(80.224)**	**(20.881)**	**6.152.244**	**269.308**	**(1.548)**	**(329)**	**267.431**	**72.041.595**	**(1.139.133)**	**(288.752)**	**70.613.710**	**35.451.528**	**(641.220)**	**(198.006)**	**34.612.302**

Distribution by geographical area of deteriorated exposures to customers and impairment

	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-statement of financial position exposure												
A.1 Non-performing loans	4.008.916	(2.074.855)	16.172	(14.499)	19.741	(16.486)	4.343	(4.343)	2.803	(2.627)	4.051.975	(2.112.810)
A.2 Impaired loans	2.278.034	(274.405)	40.034	(13.196)	151	(49)	-	-	1.331	(19)	2.319.550	(287.669)
A.3 Restructured exposures	871.484	(58.882)	17.502	(1.671)	51	-	-	-	32	(24)	889.069	(60.577)
A.4 Past due exposures	460.931	(14.635)	13.424	(97)	-	-	-	-	-	-	474.355	(14.732)
A.5 Other exposures	104.147.322	(510.299)	2.870.075	(8.841)	615.560	(500)	16.116	(6)	201.980	(33)	107.851.053	(519.679)
TOTAL	**111.766.687**	**(2.933.076)**	**2.957.207**	**(38.304)**	**635.503**	**(17.035)**	**20.459**	**(4.349)**	**206.146**	**(2.703)**	**115.586.002**	**(2.995.467)**
B. Off-statement of financial position exposures												
B.1 Non-performing loans	55.889	(9.766)	-	-	-	-	-	-	-	-	55.889	(9.766)
B.2 Impaired loans	99.752	(7.625)	1.708	(6)	-	-	-	-	-	-	101.460	(7.631)
B.3 Other impaired assets	90.805	(6.002)	591	-	-	-	-	-	-	-	91.396	(6.002)
B.4 Other exposures	15.055.116	(34.980)	1.137.494	(741)	145.174	(1)	15.043	-	18.603	(4)	16.371.430	(35.726)
TOTAL	**15.301.562**	**(58.373)**	**1.139.793**	**(747)**	**145.174**	**(1)**	**15.043**	**-**	**18.603**	**(4)**	**16.620.175**	**(59.125)**
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)**
31/12/2009	**115.225.934**	**(2.324.305)**	**4.009.648**	**(35.434)**	**907.528**	**(13.544)**	**29.546**	**(4.283)**	**372.596**	**(1.092)**	**120.545.252**	**(2.378.658)**

Distribution by geographical area of deteriorated exposures to banks and impairment

	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-statement of financial position exposure												
A.1 Non-performing loans	22	(2)	155	(107)	-	-	-	-	-	-	177	(109)
A.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	2.289.193	(22)	1.421.572	(13)	143.735	-	22.159	-	128.133	-	4.004.792	(35)
TOTAL	**2.289.215**	**(24)**	**1.421.727**	**(120)**	**143.735**	**-**	**22.159**	**-**	**128.133**	**-**	**4.004.969**	**(144)**
B. Off-statement of financial position exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	281.912	(9)	584.837	(179)	78.220	(7)	81.989	(235)	45.733	(104)	1.072.691	(534)
TOTAL	**281.912**	**(9)**	**584.837**	**(179)**	**78.220**	**(7)**	**81.989**	**(235)**	**45.733**	**(104)**	**1.072.691**	**(534)**
31/12/2010	**2.571.127**	**(33)**	**2.006.564**	**(299)**	**221.955**	**(7)**	**104.148**	**(235)**	**173.866**	**(104)**	**5.077.660**	**(678)**
31/12/2009	**5.118.715**	**(47)**	**2.015.046**	**(3.576)**	**211.643**	**-**	**34.975**	**-**	**126.096**	**-**	**7.506.475**	**(3.623)**

Changes in total net impairment losses for deteriorated exposures to customers

Description/categories	Non-performing loans	Impaired loans	Rescheduled exposures	Past due exposures
A. Total initial net impairment	**(1.420.141)**	**(362.559)**	**(40.785)**	**(21.748)**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**(1.159.795)**	**(232.749)**	**(41.096)**	**(11.702)**
B.1 impairment losses	(708.256)	(167.855)	(17.492)	(7.561)
B.2 transfers from other categories of impaired exposures	(175.644)	(6.013)	(12.165)	(597)
B.3 other increases	(275.895)	(58.881)	(11.439)	(3.544)
C. Decreases	**467.126**	**307.639**	**21.304**	**18.718**
C.1 reversals of impairment losses as a result of valuation	89.298	19.414	896	6.214
C.2 reversals of impairment losses for payments received	74.864	38.973	9.698	2.873
C.3 full impairment losses	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 impairment	**(2.112.810)**	**(287.669)**	**(60.577)**	**(14.732)**
- of which: exposures transferred not derecognised	-	-	-	-

Changes in total net impairment losses for deteriorated exposures to banks

Description/categories	Non-performing loans	Impaired loans	Rescheduled exposures	Past due exposures
A. Total initial net impairment	**(107)**	**(3.471)**	**-**	**-**
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	**(4)**	**-**	**-**	**-**
B.1 impairment losses	(4)	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**2**	**3.471**	**-**	**-**
C.1 reversals of impairment losses as a result of valuation	2	-	-	-
C.2 reversals of impairment losses for payments received	-	-	-	-
C.3 full impairment losses	-	-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases	-	3.471	-	-
D. Total impairment	**(109)**	**-**	**-**	**-**
- 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

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.

		as at 31.12.2010			as at 31.12.2009		
SUPERVISORY PORTFOLIO	**Credit quality step**	**Exposure with credit risk mitigation**	**Exposure without credit risk mitigation**	**Exposures deducted from the supervisory capital**	**Exposure with credit risk mitigation**	**Exposure without credit risk mitigation**	**Exposures deducted from the supervisory capital**
Exposures to or guaranteed by central governments and central banks		**9.725.738**	**9.846.801**	**2.245**	**5.673.597**	**5.684.127**	**2.245**
	0%	9.725.738	9.846.801		5.673.296	5.683.826	
	20%	-	-		301	301	
Exposures to or guaranteed by regional government and local authorities		**956.273**	**1.002.467**		**794.519**	**842.214**	
	0%	-	5.241		-	5.234	
	20%	956.273	997.226		794.519	836.980	
Exposures to or guaranteed by non commercial and public sector entities		**2.583.260**	**2.783.685**		**2.612.685**	**2.714.899**	
	0%	6.281	173.882		4.005	99.262	
	20%	1.356.423	1.389.247		1.295.165	1.302.121	
	100%	1.220.556	1.220.556		1.313.515	1.313.515	
Exposures to or guaranteed by multilateral development banks		-	-		-	-	
Exposures to or guaranteed by international organisations		-	-		-	-	
Exposures to or guaranteed by supervised intermediaries		**18.736.968**	**32.090.099**	**-**	**14.525.549**	**22.685.246**	**5.670**
	0%	6.930.943	19.838.775		4.543.333	12.510.019	
	20%	10.942.811	11.388.110		9.356.714	9.549.656	
	50%	191.008	191.008		126.738	126.738	
	100%	672.206	672.206		498.763	498.833	
Exposures to or guaranteed by corporates		**82.705.120**	**84.469.456**		**81.942.975**	**82.901.811**	
	0%	95.444	929.334		12.276	683.970	
	20%	1.079.623	1.360.920		6.733.795	6.781.237	
	35%	15.826	16.478				
	50%	22.764.986	23.084.638		23.076.204	23.315.905	
	70%	-	7.313				
	75%	97.040	97.040				

	100%	52.783.006	53.104.539		50.692.500	50.692.500	
	150%	5.869.195	5.869.195		1.428.199	1.428.199	
Retail exposures		**30.586.582**	**32.280.951**		**28.557.555**	**30.166.640**	
	0%	86	1.694.417		-	1.609.085	
	75%	30.586.496	30.586.535		28.557.555	28.557.555	
Exposures secured by real estate property		**28.440.443**	**28.455.407**		**31.646.963**	**31.674.602**	
	0%	-	14.964		-	27.639	
	35%	19.911.194	19.911.194		19.952.448	19.952.448	
	50%	8.529.249	8.529.249		11.694.515	11.694.515	
Past due exposures		**5.829.752**	**5.915.293**		**4.805.575**	**4.895.358**	
	0%	-	81.680		-	89.783	
	50%	17.751	17.751		35.357	35.357	
	100%	2.226.652	2.230.513		2.540.641	2.540.641	
	150%	3.585.349	3.585.349		2.229.577	2.229.577	
High risk exposures		**32.719**	**32.719**		**184.830**	**184.830**	
		32.719	32.719		184.830	184.830	
Exposures in the form of covered bonds		-	-		-	-	
Short term exposures to supervised intermediaries and corporates		-	-		-	-	
Exposures to OICR (collective investment undertakings)		**593.717**	**595.877**		**218.762**	**218.762**	
	20%	-	2.160				
	100%	593.717	593.717		218.762	218.762	
Other exposures		**5.364.686**	**5.364.686**	**414.457**	**5.081.722**	**5.081.722**	**431.160**
	0%	594.617	594.617		732.492	732.492	
	20%	1.733.325	1.733.325		1.135.187	1.135.187	
	100%	3.036.744	3.036.744		3.214.044	3.214.044	
Securitisations		**94.875**	**94.875**		**206.130**	**206.130**	

Table 8 – Risk mitigation techniques

Qualitative information

Policies and processes with regard to both on- and off-statement of financial position "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 statement of financial position nor for off-statement of financial position 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 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, with a consequent mitigating effect recognised when capital requirements are calculated.

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 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

[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".

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 correlation, for the purposes of risk mitigation, is verified automatically by the software employed which monitors and reports, on the basis of the details of the debtor and the issuer of the security.
Collateral is considered admissible for credit risk mitigation purposes when no matches are detected between the data on the issuer of the security and the data on the debtor and other counterparties belonging to the same group of companies as the debtor. If matches are detected, then the collateral is not considered admissible for credit risk mitigation purposes.

Description of the main types of collateral accepted by the bank

The main types of collateral accepted by the bank 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 2010,

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 240 million euro. It is underlined that in addition to the *Fondo di Garanzia* just mentioned the largest ten issuers of guarantees also include eight supervised intermediaries pursuant to Art. 107 of the Consolidated Banking Act, with guarantees for nominal amounts from 15 million euro up to a maximum of 77 million euro each and a regional government with guarantees for a nominal amount of 14 million euro.

A predominant role is played among financial collateral recognised under the standardised approach, by Italian government securities which guarantee exposures for a nominal amount of more than 400 million euro. Units of monetary funds managed by UBI Pramerica SGR amounting to over 70 million euro, followed by securities issued by banks and listed companies, which guarantee exposures of approximately 38 million euro and 22 million euro respectively, represent some of the largest of the other securities recognised in terms of size.

Quantitative information

EXPOSURES BACKED BY COLLATERAL AND PERSONAL GUARANTEES	31.12.2010		31.12.2009	
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and central banks	-	121.063	-	10.530
Exposures to or guaranteed by regional government and local authorities	5.261	40.933	5.234	42.460
Exposures to or guaranteed by non commercial and public sector entities	167.581	32.844	95.257	6.956
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	9.593.998	3.759.133	4.226.164	3.933.533
Exposures to or guaranteed by corporates	835.600	928.736	671.547	287.289
Retail exposures	1.694.370	-	1.609.085	-
Exposures secured by real estate property	14.964	-	27.639	-
Past due exposures	81.821	3.721	89.783	-
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 and interest rates differ according to the type of product and its residual life. For commodities derivatives, the credit equivalent must be estimated specifically for each contract on the basis of the type of underlying. Products and their relative credit equivalents are revised at least annually. 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 Department of the Network Bank or Centrobanca.

A list of positions with negative mark-to-market greater than 500 thousand euro is produced monthly by UBISS (with details of amounts for the previous month) and is sent to the General Managers of the Network Banks and of Centrobanca to the Risk Management and Compliance Areas, to the Parent and Group Audit and to the Parent Credit and Credit Recovery Macro Areas for their information, with analysis of financial risk and credit, legal and operational aspects and appropriate action undertaken in the different areas to prevent difficulties occurring or to manage them.

Derivatives business with institutional counterparties

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

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

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

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 and thereby reduces 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.

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 levels[13] 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.

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

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[12] 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.

Quantitative information

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

Underlying /Type of derivative	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**42 886 343**	**2 607 348**	**61 564 678**	**1 767 200**
a) Options	11 170 173	4 366	22 914 562	813
b) Swaps	31 181 043	-	38 182 339	-
c) Forward	1 628	-	-	-
d) Futures	-	2 602 982	-	1 766 387
e) Other	533 499	-	467 777	-
2. Equity instruments and share indices	**216 278**	**48 619**	**152 748**	**97 201**
a) Options	211 349	12 001	152 748	1
b) Swaps	-	-	-	-
c) Forwards	4 929	67	-	-
d) Futures	-	36 551	-	97 200
e) Other	-	-	-	-
3. Currencies and gold	**5 530 973**	**-**	**4 518 308**	**-**
a) Options	2 240 278	-	1 466 234	-
b) Swaps	449 035	-	492 850	-
c) Forward	2 841 660	-	2 559 224	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**26 300**	**-**	**13 281**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**48 659 894**	**2 655 967**	**66 249 015**	**1 864 401**
Average amounts	**57 454 454**	**2 260 184**	**61 880 900**	**2 270 680**

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

For hedging

Underlying /type of derivative	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**43 000 261**	**-**	**42 724 918**	**-**
a) Options	609 057	-	1 053 566	-
b) Swaps	42 391 204	-	41 671 352	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**3 705**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	3 705	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**765 847**	**-**	**1 181 753**	**-**
a) Options	-	-	-	-
b) Swaps	8 902	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	756 945	-	1 181 753	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**43 766 108**	**-**	**43 910 376**	**-**
Average amounts	**43 838 242**	**-**	**37 248 541**	**-**

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

Other derivatives

Underlying /type of derivative	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**36 652**	**-**	**70 920**	**-**
a) Options	36 652	-	70 920	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	**8 900 492**	**-**	**7 938 327**	**-**
a) Options	8 900 492	-	7 938 327	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**14 180**	**-**
a) Options	-	-	14 180	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**8 937 144**	**-**	**8 023 427**	**-**
Average amounts	**8 480 285**	**-**	**8 758 442**	**-**

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

Portfolios/type of derivative	POSITIVE FAIR VALUE			
	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**495 701**	**888**	**687 568**	**582**
a) Options	78 646	20	72 006	5
b) Interest rate swaps	392 669	-	588 499	-
c) Cross currency swaps	377	-	-	-
d) Equity swaps	-	-	-	
e) Forward	21 442	1	24 995	
f) Futures	-	867	-	577
g) Other	2 567	-	2 068	-
B. Banking portfolio - for hedging	**591 127**	**-**	**633 263**	**-**
a) Options	-	-	132	-
b) Interest rate swaps	560 918	-	625 177	-
c) Cross currency swaps	-			
d) Equity swaps	-			
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	30 209	-	7 954	-
C. Banking portfolio - other derivatives	**17 552**	**-**	**34 681**	**-**
a) Options	17 552	-	34 681	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-		
d) Equity swaps	-	-		
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1 104 380**	**888**	**1 355 512**	**582**

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

Portfolios/type of derivative	NEGATIVE FAIR VALUE			
	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	**528 939**	**1 191**	**712 874**	**3 960**
a) Options	57 498	-	60 670	4
b) Interest rate swaps	447 098	-	625 005	-
c) Cross currency swaps	-	-	1 611	-
d) Equity swaps	-	-	-	
e) Forwards	21 698	-	24 280	
f) Futures	-	1 191	-	3 015
g) Other	2 645		1 308	941
B. Banking portfolio - for hedging	**1 228 056**	**-**	**927 319**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1 226 673	-	898 104	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	1 383	-	29 215	-
C. Banking portfolio - other derivatives	**15 030**	**-**	**29 918**	**-**
a) Options	15 030	-	29 918	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-		
d) Equity swaps	-	-		
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1 772 025**	**1 191**	**1 670 111**	**3 960**

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 securities and interest rates							
- notional amount	-	26 049	22 813 517	11 421 762	-	7 032 228	1 592 787
- positive **fair value**	-	15	202 760	17 229	-	203 483	10 152
- negative **fair value**	-	10	430 106	25 634	-	8 693	2 283
- future exposure	-	125	148 327	197 313	-	53 028	6 698
2) Equity instruments and share indices							
- notional amount	-	-	131 456	4 929	-	-	79 893
- positive **fair value**	-	-	435	114	-	-	-
- negative **fair value**	-	-	-	862	-	-	-
- future exposure	-	-	8 035	300	-	-	-
3) Currencies and gold							
- notional amount	-		3 054 695	1 192 733	608	1 269 169	13 768
- positive **fair value**	-	-	35 531	12 031	2	12 845	310
- negative **fair value**	-	-	48 118	2 254	2	10 106	150
- future exposure	-	-					
4) Other values							
- notional amount	-	-	20 227	900	-	5 173	-
- positive **fair value**	-	-	414	46	-	334	-
- negative **fair value**	-	-	366	34	-	321	-
- future exposure	-	-		-	-		-

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 securities and interest rates							
- notional amount	-	-	41.097.528	1.921.059	-	-	18.326
- positive **fair value**	-	-	539.239	21.679	-	-	-
- negative **fair value**	-	-	1.098.536	128.137	-	-	-
- future exposure	-	-	313.286	21.188	-	-	-
2) Equity instruments and share indices							
- notional amount	-	-	2.318.467	2.198.251	4.068.758	282	314.734
- positive **fair value**	-	-	17.549	3	-	-	-
- negative **fair value**	-	-	13.301	-	-	-	1.729
- future exposure	-	-	110.408	214.195	390.068	23	22.488
3) Currencies and gold							
- notional amount	-	-	-	5.358	-	106.820	653.669
- positive **fair value**	-	-	-	455	-	3.859	25.895
- negative **fair value**	-	-	-	23	-	210	1.150
- future exposure	-	-	-	54	-	1.068	6.537
4) Other values							
- notional amount	-	-	-	-	-	-	-
- positive **fair value**	-	-	-	-	-	-	-
- negative **fair value**	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

Residual maturity of over the counter financial derivatives: notional amounts

Underlying elements/Residual maturity	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Supervisory trading portfolio	**23 217 987**	**13 904 663**	**11 537 244**	**48 659 894**
A.1 Financial derivatives on debt instruments and interest rates	17 621 184	13 727 915	11 537 244	42 886 343
A.2 Financial derivatives on equities and share indices	208 895	7 383	-	216 278
A.3 Financial derivatives on exchange rates and gold	5 361 608	169 365	-	5 530 973
A.4 Financial derivatives on other values	26 300	-	-	26 300
B. Banking portfolio	**15 940 594**	**19 071 273**	**17 691 385**	**52 703 252**
B.1 Financial derivatives on debt instruments and interest rates	13 445 361	17 123 363	12 468 189	43 036 913
B.2 Financial derivatives on equities and share indices	1 729 614	1 947 910	5 222 968	8 900 492
B.3 Financial derivatives on exchange rates and gold	765 619	-	228	765 847
B.4 Financial derivatives on other values	-	-	-	-
Total 31/12/2010	**39 158 581**	**32 975 936**	**29 228 629**	**101 363 146**
Total 31/12/2009	**47 044 306**	**41 790 546**	**29 347 966**	**118 182 818**

Credit derivatives: end of period and average notional amounts

	Supervisory trading portfolio		Banking portfolio	
Categories of transactions	**on a single item**	**on a basket of items**	**on a single item**	**on a basket of items**
	Notional amount	**Notional amount**	**Notional amount**	**Notional amount**
1. Protection purchases	**-**	**-**	**-**	**-**
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2010	**-**	**-**	**-**	**-**
Total 31/12/2009	**-**	**-**	**-**	**-**
Average amounts	**-**	**-**	**-**	**-**
1. Protection purchases	**-**	**-**	**-**	**-**
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2010	**-**	**-**	**-**	**-**
Total 31/12/2009	**-**	**-**	**-**	**-**
Average amounts		**-**	**-**	**-**

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

Portfolios/type of derivative	Negative fair value	
	31/12/2010	31/12/2009
A. Supervisory trading portfolio	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
B. Banking portfolio	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**-**	**-**

Residual maturity of over the counter credit derivatives: notional amounts

Underlying elements/Residual maturity	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Supervisory trading portfolio	-	-	-	-
A.1 Credit derivatives with "qualified reference obligation"				
A.2 Credit derivatives with "non qualified reference obligation"				
B. Banking portfolio	-	-	-	-
B.1 Credit derivatives with "qualified reference obligation"				
B.2 Credit derivatives with "non qualified reference obligation"				
Total 31/12/2010	-	-	-	-
Total 31/12/2009		-		-

Counterparty risk - credit equivalent

	31.12.10 CREDIT EQUIVALENT		31.12.09 CREDIT EQUIVALENT	
	STANDARDISED APPROACH	IRB APPROACH	STANDARDISED APPROACH	IRB APPROACH
Derivatives contracts	1 656 041		1 718 849	
Securities financing transactions and long term settlement transactions	16 712 802		11 588 483	
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) traditional 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) traditional 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 statement of financial position 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 traditional 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.

Five companies in the UBI Group have taken advantage of Law No. 130 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, Sintonia Finance Srl and 24-7 Finance Srl.

On 30th July 2010, the Lombarda Lease Finance 3 securitisation was closed down in advance because the originator (UBI leasing Spa) exercised its option under the contract to repurchase all the loans held in portfolio for a total amount of 47.515.716,70 euro and recognised them within its asset portfolio. Consequently on receipt of the sales price the special purpose entity redeemed all the securities issued.

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 positions in instruments relating to securitisations (ABS and other structured credit products), although the volume of the outstanding investments – both in the banking and the trading book – represents 0,07% of its consolidated assets (net of impairment losses).

In detail, direct investments in these instruments are as follows:

- ABS instruments totalling 0,5 million euro (recognised within financial assets held for trading), belonging to the subsidiary UBI Banca International, with underlying assets mainly of European origin (2,2 million euro in December 2009);

- other structured credit products totalling 2,6 million euro (classified within financial assets held for trading in the UBI Banca International portfolio) with an investment grade credit rating (2,4 million euro at the end of 2009);

- ABS instruments totalling 89,1 million euro (recognised within available-for-sale financial assets) relating to senior tranches of INPS (national insurance institute) securitisations (128,8 million euro at the end of 2009);

Group exposure to ABS instruments reduced in 2010 following the sale of RMBS instruments for a nominal amount of 49,7 million euro, the redemption of ABS instruments relating to senior tranches of INPS securitisations for a nominal amount of 40 million euro and the sale of ABS instruments – with performing loans originated by banks as the underlying assets – for a nominal amount of five million euro.

No direct investments exist in securities backed by commercial mortgages (CMBS).

The ABS instruments classified within financial assets held for trading relate to trading activity that is subject to risk limits which are monitored daily.

ABS securities recognised within available-for-sale financial assets are eligible for refinancing with the European Central Bank and help strengthen the liquidy position of the Group.

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 euro 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 securities (senior tranches): nominal amount 1.559.500.000,00 euro at floating rate, assigned the highest rating by Fitch. These securities have been 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;
- class B securities (junior tranches): nominal amount 519.850.000,00 euro with no rating and with a yield equal to the additional return on the transaction, which allow the originator, Banco di Brescia, to benefit from the excess spread on the underlying portfolios.

In order to comply with new requirements for the eligibility of securitised instruments as collateral in refinancing operations with the ECB, in the first quarter of 2011 Moody's, the rating agency, was asked to assign a second rating to the class A securities. The rating assigned was Aaa. At present the senior tranche has been assigned the highest ratings by both Fitch and Moody's.

UBI Finance 3

In the second half of 2010 a new securitisation transaction was initiated by transferring loans to small to medium sized enterprises, classified as performing and held by Banca Popolare di Bergamo Spa, to the special purpose entity **UBI Finance 3 Srl.**

The transaction will be completed 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 euro;
- the issue of securities by UBI Finance 3 has not yet taken place.

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). The consideration due to UBI Banca for that activity (performed only in the month of December in 2010) will be paid in 2011 on the first scheduled payment date.

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 euro and the amount for the first transfer scheduled under the "revolving" programme was 63.637.298 euro;
- collection of the repayments was managed by the "originator" as the "servicer" of the 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 to the 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 euro;
- 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 UBI LF5 issued notes with differing redemption characteristics;
- class A-B "senior and junior" notes subscribed by the originator.

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 euro 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 euro 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 securities (senior securities): floating rate bonds equal to the Euribor three month + 0,260% for an amount of 427.200.000 euro, assigned ratings AAA (S&P) and Aaa (Moody's);
  - class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,70% for an amount of 17.800.000 euro, assigned ratings A (S&P) and A2 (Moody's);
  - class C securities (junior securities): floating rate notes equal to the Euribor three month + 1,00% , for an amount of 21.600.000 euro (unrated);
- 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 statement of financial position of Orio Finance nr 3 plc.

Sintonia Finance

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

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

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

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

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

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

- consumer loans:
  class A securities (senior securities): floating rate notes equal to the Euribor six month + 0.35% for an amount of 2.128.250.000 euro, assigned an Aaa rating (Moody's);

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

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 and UBI Finance 2 transactions, where the special purpose entity entered into swap contracts directly with UBI Banca (which then renegotiated mirror swaps with the originators UBI Leasing and UBI Banco Brescia) and the Sintonia Finance securitisation which Centrobanca closed directly, without going through the Parent, hedging the risk by means of a swap contract.

As at 31st December 2010 ordinary credit lines existed granted by the Parent to the special purpose entities Orio Finance nr. 3 Plc for a total of five million euro, but never drawn on. Ordinary credit lines have also been granted by B@nca 24-7 to the entity 24-7 Finance for a total of 37,3 million euro, which have been fully drawn on.

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.
Sintonia Finance	
Originator	Multioriginator – The originator belonging to the UBI Group is Centrobanca Spa
Issuer	Sintonia Finance Srl
Servicer	Centrobanca Spa
Collection Account Bank	Centrobanca Spa
Investment Account Bank	Citibank N.A. London Branch
Cash Manager	Citibank N.A. London Branch
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 major part of the management of securitisations is performed by the Finance, Administration and Management 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 risk weighted 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-statement of financial position 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) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying assets of others:																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	89 051	89 051	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Quality of underlying assets/ Exposures		On-statement of financial position 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	89 051	369																
	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	31/12/2010	31/12/2009
1. On-statement of financial position exposures	-	-	89 051	-	-	89 051	200 722
- Senior	-	-	89 051	-	-	89 051	200 722
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-statement of financial position 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 31.12.2010	-	-	-	-	-	-	-
Total own 31.12.2009	-	-	-	-	-	**21 000**	**21 000**

Third party securitisations	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional	94 875						**94 875**
Synthetic							-
Total others 31.12.2010	**94 875**	-	-	-	-	-	**94 875**
Total others 31.12.2009	**185 130**	-	-	-	-	-	**185 130**

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

Servicer	The special purpose entity	Securitised assets (end of period figures)		Payments received on loans during the year		Percentage of securities redeemed (the end of period figure)					
						Senior		Mezzanine		Junior	
		Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
UBI Banca Scpa	Albenza 3 Società per la cartolarizzazione Srl	1 147	36 294	147	16 729	-	-	-	-	-	-
UBI Banca Scpa	UBI Finance 2 Srl	-	-	-	-	-	-	-	-	-	-
UBI Banca Scpa	UBI Finance 3 Srl	-	-	-	-	-	-	-	-	-	-
Centrobanca Spa	Sintonia Finance Srl	3 827	20 066	342	6 838	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 3 Srl	-	-	2 790	61 493	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 4 Srl	23 036	216 179	4 534	129 397	-	-	-	-	-	-
UBI Leasing Spa	UBI Lease Finance 5 Srl	56 162	2 393 846	1 843	763 852	-	-	-	-	-	-
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	31/12/2010	31/12/2009
A. On-statement of financial position assets	**1 771 525**	**-**	**-**	**-**	**-**	**-**	**6 544 626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 316 151**	**3 297 870**
1. Debt instruments	1 771 525	-	-	-	-	-	6 544 626	-	-	-	-	-	-	-	-	-	-	-	8 316 151	3 297 870
2. Equity instruments	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. O.I.C.R. (collective investment instruments)	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	-	**-**
31/12/2010	**1 771 525**	**-**	**-**	**-**	**-**	**-**	**6 544 626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 316 151**	
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31/12/2009	**306 720**	**-**	**-**	**-**	**-**	**-**	**2 991 150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**3 297 870**
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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.

Table 13 – Equity exposures: disclosures for banking book positions

Qualitative information

Equity investments recognised within item 100 on the statement of financial position 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 statement of financial position (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 statement of financial position 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 statement of financial position	
	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)*	116 208	31 078	116 208	31 078	116 208	X	7 389	(720)	X	X
Available-for-sale financial assets:										
- *equity instruments*	346 586	143 971	346 586	143 971	346 586	X	(39 481)	8 617	9 658	51 304
- *OICR units (collective investment instruments)*	18 313	106 596	18 313	106 596	18 313	X	-	(1 558)	1 441	(4 110)

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 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 2010 amounted to approximately -346,38 million euro (-227,93 million euro as at

31st December 2009 and -290,51 million euro as at 30th June 2010), equal to 3,32% of the consolidated supervisory capital as at 31st December 2010, compared to a limit of -400 million euro set on that aggregate by the Group Financial Risks Policy for 2010 and an early warning threshold on that same indicator of -350 million euro.
The total level of exposure includes an estimate of the impact of the early repayment of loans (approximately +204 million euro 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 (approximately -94,29 million euro).
In detail, the core sensitivity originated by the Network Banks amounted to approximately -92 million euro, while approximately -38 million euro is attributable to the activities of the Product Companies. The Parent contributes a total of approximately -216 million euro, including -117 million euro 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 Financial Risks Policy 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 +68 million euro as at 31st December 2010.

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

Scenario	Currency	Impact on economic value	Impact on net interest income
+100 bp	EUR	-349,01	68,58
	Other non significant currencies	2,63	-0,58
TOTAL + 100 bp		**-346,38**	**68,00**
-100 bp	EUR	426,97	-191,41
	Other non significant currencies	1,61	-1,17
TOTAL – 100 bp		**428,58**	**-192,58**

NOTE. Non 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 I	8,79%
Impact on economic value/Supervisory capital	5,88%
-200 bp	
Impact on economic value/Tier I	-10,35%
Impact on economic value/Supervisory capital	-6,92%
End of period values	
+200 bp	
Impact on economic value/Tier I	8,93%
Impact on economic value/Supervisory capital	5,97%
-200 bp	
Impact on economic value/Tier I	-11,8%
Impact on economic value/Supervisory capital	-7,9%

Declaration of the Senior Officer Responsible for preparing the 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 law on financial intermediation), that the information contained in this disclosure is reliably based on the records contained in corporate documents and accounting records.*

Il Dirigente Preposto alla redazione dei
documenti contabili societari

Elisabetta Stegher

Bergamo, 29th April 2011