

Pillar 3 disclosures

as at 31st December 2009



UBI  **Banca**
UNIONE DI BANCHE ITALIANE

Joint stock co-operative company
Registered office: Bergamo, Piazza Vittorio Veneto 8
Operating offices: Bergamo, Piazza Vittorio Veneto 8; Brescia, Via Cefalonia 74
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
Tax Code, VAT No. and Bergamo Company Registration No. 03053920165
ABI (Italian Banking Association) 3111.2 Register of Banks No. 5678 Register of banking groups No. 3111.2
Parent Bank of the Unione di Banche Italiane Banking Group
Share capital as at 31st December 2009: 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 intermediaries to publish disclosures (the document “Pillar 3 disclosures”) which provide an adequate degree of transparency with regard to risk exposure, monitoring and management and which therefore give particular importance to capital adequacy.

The contents and the procedures for preparing the disclosure, generally referred 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 banks operations and the related risks.

This document provides information relating to the UBI Group as at 31st December 2009. 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 divulge 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 Capital & Policies Area and by the Strategic Development and Planning Macro Area in the disclosure document, which also includes a declaration by the Senior Office Responsible for preparing the company accounting documents.

For completeness of 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 Bank to perform its activities of strategic, management and operational control in an effective and economical manner.

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

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

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

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

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

In compliance with the new regulations for the prudential supervision of banks (Bank of Italy Circular No. 263/2006), the 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 quantitative methods are formulated which lead to the determination of internal capital¹:
 - concentration risk;
 - interest rate risk;
 - business risk;
 - equity risk;
 - property risk.

 - b. *non measurable*, which are subjected to qualitative assessment (policies, control measures, attenuation or mitigation):
 - securitisation risk;
 - compliance risk;
 - liquidity risk²;
 - reputation risk;
 - residual risk;
 - strategic risk.

First Pillar Risks

Credit risk

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

The priorities in the orientation of the Group's credit policies are to support local economies, families, businessmen, professionals and small-to-medium 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.

¹ See Table 4 for a definition of internal capital.

² This includes structural liquidity risk, as defined later in this table. Liquidity risk and structural liquidity risk were included within measurable risks in 2010 because, although no well established approaches exist for the estimate of internal capital, operational limits can be set – quantitative in nature with a broad consensus in the literature – to measure, monitor and mitigate them.

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.

Credit policies have been developed on the basis of:

- macroeconomic forecasts which allow risk and expected growth for 2010 to be assessed for different sectors and geographical areas;
- forecasts of growth in lending from which expected growth rates can be defined for each sub-portfolio, geographical area, sector and rating class;
- a model for identifying the most attractive clusters from a risk and geographical/sector viewpoint.

The credit risk management policies in place as at 31st December 2009 are as follows:

- *credit policy*, which outlines the growth strategy for the Group corporate lending portfolio. Credit risk policies also regulate single name concentration risk (subject to a specific policy since 2008), by setting maximum limits on exposure to a single counterparty in order to limit risks of instability that would arise from high rates of concentration of loans on major borrowers;
- *country and institutional counterparty risk policy*³, which sets out rules and principles for managing credit granted to resident and non resident institutional customers and also to ordinary customers in countries at risk;
- *policy for the distribution of mortgage loans through intermediaries*, which regulates the procedures for the use of external distribution networks for granting mortgages to non captive customers in order to contain potential credit, operational and reputational risks;
- *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 mortgages granted through intermediaries*, which relates to mortgages granted on the basis of standing arrangements between the companies and banks in the Group and specific distribution networks;
- *policy for Centrobanca structured finance transactions*³, which sets specific limits and constraints (especially with regard to rating classes and maturity) for the structured finance transactions of Centrobanca. It combines the achievement of budget targets in terms of volumes disbursed and profitability with appropriate management in terms of concentration and distribution by rating classes;

³ Both policies will form part of *Credit Policy* in 2010.

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

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

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

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

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

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

Furthermore, the introduction of decentralised Local Approval Centres (LACs) in the banking area to support retail branches and units for private banking customers guarantees effective co-ordination and liaison between different units operating on the various markets. The Parent Bank oversees policy management, overall portfolio monitoring, the refinement of assessment systems, problem loan management and compliance with regulations through the Credit 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 Bank must set an operational limit which is the maximum credit that may be authorised for the counterparty at UBI Group level. The Management Board of the Parent Bank is responsible for granting, changing and renewing operational limits on the basis of proposals from the UBI Credit Area after first consulting the UBI Credit Committee.

The banks and companies of the Group must also request a prior, consultative, non binding opinion from the Parent Bank 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 Bank decided to adopt a “focused” model for the management of corporate customers common to more than one Network Bank on the basis of which, briefly:

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

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

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

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

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

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, in co-operation with the Rating Desk and the Major Borrowers Rating units on the Credit Area staff, on the definition of methods for assigning counterparty ratings;

- it produces periodic analyses which illustrate the risk profile of the total lending portfolio and the commercial sub-portfolios at Group level and at the level of individual legal entities, in terms of rates of loan deterioration and distribution by rating class and concentration in the largest customers;
- it develops methods, in co-operation with the Tax and Administration Area, for calculating collective provisions to be recognised in the financial statements on the basis of internal credit ratings for the Network Banks and loan deterioration rates for the other Banks and Product Companies;
- it calculates loan deterioration rates for the Group and defines the relative calculation methods for individual legal entities;
- it works, in co-operation with the Risk Capital & Policies and the Commercial Areas, to provide input parameters (PD, LGD, EAD) for product pricing activities.

More specifically, the Credit Risk Service is responsible for Group reporting on credit risk in order to monitor changes in the risk attached to lending for individual banks and commercial portfolios. The reports are submitted monthly to the Management Board and quarterly to the Boards of Directors of the individual network banks. 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. The departmental reporting process was redesigned in 2009 as part of the Basel 2 project, for which there is also a regulatory section which considers risk management measures together with output data from “parallel running” processing as part of the Basel 2 AIRB approach.

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

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

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

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

As concerns the production and distribution of products which involve the assumption of credit risk by Group member companies, it formulates appropriate methods for performing pricing and it participates, together with the Commercial Macro Area, in defining 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.

At present, the internal rating system 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 sized 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. The calibration of PDs was updated for that model during 2009.

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

- identification of a model for the calculation of counterparty credit ratings;
- assignment of a first loan disbursement rating;
- assignment of a performance rating; ratings are assigned to all counterparties on the basis of operational risk and qualitative and balance sheet variables where present;
- rating change (override): requests are made by account managers and by central credit units of network banks to modify ratings calculated by the system;
- monitoring of ratings: performance ratings are verified with 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. Prudential "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 prudential 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 recovery of the notarial information (details of registrations), essential for guarantees to be accepted;
- recovered, 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. This activity was concluded in 2009 with a substantially positive outcome. Organisational and IT procedures were generally put firmly in place in 2009 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 risk is defined as the risk of default by counterparties with exposures towards the bank on derivatives contracts.

In order to quantify exposure to that risk, the UBI Group currently uses the present value method, which estimates the cost incurred to find another party willing to take on the contractual obligations of the originally contracted counterparty, if this becomes insolvent.

See Table 9 for further information on counterparty risk.

Market risk

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 Parent Bank intervenes in the process of managing and monitoring market risk as follows:

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

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

For the trading book, the monitoring of the consistency of the risk profiles of Group portfolios with respect to risk/return objectives is based on a system of limits which involves the combined use of various indicators and it is subject to daily verification by the Risk Management Area. The following are defined for each portfolio of the Group⁴:

- mission;
- maximum cumulative loss (MCL) limit;
- value at risk (VaR) limit;
- type of financial instruments permitted;
- possible limits on composition;
- possible limits on sensitivity.

The main operational limits for the trading book of the UBI Group are given below:

- maximum cumulative loss (MCL) for the UBI Group trading book: 94,97 million euro
- one day VaR limit for the UBI Group trading book: 16,14 million euro
- early warning level on MCL: 70% of MCL
- early warning level on VaR: 80% of VaR

⁴ The following indicators will be used in 2010: mission, maximum loss limit – divided into max acceptable loss (MAC), maximum impact on capital (MIC) and maximum potential loss (MPL) – a value at risk (VaR) limit, the type of instruments admissible, possible limits on composition.

- maximum cumulative loss (MCL) for investments in hedge funds: 110 million euro
- two month VaR limit for investments in hedge funds: 50 million euro

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

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 monthly and quarterly, which, amongst other things, contains the results of stress tests (theoretical and historical), the figures for the return on the macro portfolios of the trading book, the main movements on portfolios and possible analyses of large exposures.

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

Operational risk

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

- to identify the causes of prejudicial events at the origin of operational losses⁵ 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.

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

⁵ 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 is structured with four levels of responsibility for the individual legal entities of the Group.

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

The Operational Risk Management System of the Group is composed of the following:

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

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

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

Reporting to corporate bodies, the senior management of the Parent Bank and of the main banks and companies 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 (monthly/quarterly) according to requirements of the following: an analysis of data on internal losses and the relative recoveries together with a comparison with external data for the sector nationally; the results of the assessment of risk exposure with the identification of areas of vulnerability; and a description of the action needed to prevent and mitigate risk and of the relative effectiveness.

The UBI Banca Group has taken out adequate insurance policies to cover the principal transferable operational risks with due account taken of prudential 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.

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

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

- single name concentration, which uses a regulatory approach with the calculation of granularity adjustment (GA);
- sector concentration risk, which uses the Italian Banking Association methodology to measure the impacts on internal capital caused by changes in sector concentration, as measured by the Herfindahl (Hs) index. The Group produces additional stress 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 Bank 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 Bank, 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.

Stress tests are tools used to identify and manage situations that might result in extraordinary losses.

Equity risk

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

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

The ICAAP 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 tangible fixed assets of the Group.

Securitisation risk

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

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

Compliance risk

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

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 Bank with the intention of “bringing the compliance process within the sphere of the unit”. It comprises the following roles:

- Chief of the Parent and Group Compliance Area, the head of the specialist unit named the Compliance Area;
- Compliance Contact in all the Network Banks and Group member companies with a “simple” organisational structure;
- Compliance Chief (or Compliance Officer for companies operating abroad) in all Group member companies with a “complex” structure, where compulsory in accordance with legislation and regulations;
- Specialist Unit, responsible for contributing to compliance processes on specialist matters in single regulatory areas;
- Operational Compliance Units (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 – and therefore forms part of risk management control functions – works in close co-operation with 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

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

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

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

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

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

The following are responsible for liquidity risk management:

- The ALMO and Funding 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.

Liquidity risk is managed in practice by defining a dual limit designed to identify the composition of the sources of funding and its appropriateness in terms of the structural balance between assets and liabilities. Liquidity risk is also designed to measure the Group's capacity to meet its liquidity requirements by means of assets eligible as collateral for refinancing and/or which can be liquidated.

The principal objective of monitoring liquidity risk is to ascertain the degree to which the liquidity requirement is met and the level of the diversification of the sources of funding. It is based mainly on accounting and operating data generated monthly and is performed by analysing changes in the balance sheet item "net interbank indebtedness" and in its composition using gap analysis by time buckets with the identification of summary indicators of liquidity.

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

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

With regard to the composition of the sources of funding, a structured system of continuous monitoring of consolidated net interbank indebtedness is employed in order to be able to promptly take the action necessary to comply with limits set by internal policies.

Liquidity management also includes a stress testing programme drawn up by the UBI Banca Group as part of the project for the Second and Third Pillars of the Basel 2 programme. It is designed to measure the effects on liquidity management of specific events (sensitivity analysis) or of the combined changes in a set of economic and financial variables, hypothesising adverse scenarios (scenario analysis).

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

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

The scenarios are divided into three types:

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

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

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

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

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

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

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

tests is calculated for the short term liquidity risk scenarios. Exceeding the early warning thresholds associated with the stress tests may trigger the contingency funding plan.

Reputational risk

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

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

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

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.

Strategic risk

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

Strategic risk is monitored by organisational units: it is assessed on a continuous basis by the Demand Management and Project Monitoring Function and by the Planning and Management Control Area. It is also monitored when the Integration Business Plan is prepared or revised or in particular conditions of operational discontinuity or structural breaks – or alternatively on the request of senior management – by the Risk Capital & Policies Area.

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

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

Table 2 - Scope of application

Qualitative information

The bank to which the Pillar Three disclosure obligations apply is UBI Banca Scpa, the Parent Bank of the co-operative banking group of the same name, listed on the Milan stock exchange and included in the 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 Bank which are subject to full consolidation;
- banks, financial and other operating companies in which an interest of 20% or greater is held, which are subject to proportionate consolidation.

Further prudential supervisory treatment involves the deduction from the supervisory capital of the value of subsidiaries and the addition of the value of the equity investment to the Risk Weighted Assets (RWA).

The prudential scope of consolidation used in this disclosure document differs from the statutory accounting scope of consolidation (determined by IAS/IFRS standards): this circumstance may generate differences between the sets of data presented in this document and those presented in the consolidated annual report for the same year. Furthermore, following the amendments made by the Bank of Italy to the rules for the preparation of banking financial statements⁶, 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 regulations⁷, as no capital insufficiencies exist at consolidated level as at 31st December 2009, 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 2008, except for a few changes in the percentage of shares owned, some further streamlining of the portfolio and the inclusion of a few new companies.

⁶ Bank of Italy Circular No. 262/05 “*Banking financial statements: presentations and compilation rules*”, update of 18th November 2009.

⁷ 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	92,830%	Line-by-line	Line-by-line	Banking
5. Banca di Valle Camonica Spa	Breno (Brescia)	1	UBI Banca Scpa Banco di Brescia Spa	74,244% 8,716%	Line-by-line	Line-by-line	Banking
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	88,111%	Line-by-line	Line-by-line	Banking
12. Banca Popolare di Ancona Spa	Jesi (AN)	1	UBI Banca Scpa	92,853%	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	59,952%	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 Banca Regionale Europea Spa	35,451% 57,333%	Line-by-line	Line-by-line	Banking
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	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
19. BPB Capital Trust	Delaware (USA)	1	BPB Funding Lc - 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 Banca Popolare di Ancona Spa	79,996% 18,997%	Line-by-line	Line-by-line	Financial
23. UBI Pramerica Alternative Investments SGR Spa	Milan	1	UBI Pramerica SGR Spa	96,250%	Line-by-line	Line-by-line	Financial
24. Capitalgest Alternative Investments SGR Spa	Brescia	1	UBI Pramerica SGR Spa	100,000%	Line-by-line	Line-by-line	Financial
25. UBI Factor Spa	Milan	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
26. Centrobanca Spa	Milan	1	UBI Banca Scpa Banca Popolare di Ancona Spa	92,351% 5,471%	Line-by-line	Line-by-line	Banking
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	Mercato Impresa Spa	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	Milan	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
31. Gestioni Lombarda Suisse Sa	Lugano (Switzerland)	1	Banque de Depots et de Gestion Sa	100,000%	Line-by-line	Line-by-line	Financial
32. Invesclub Srl	Milan	1	Twice SIM Spa	100,000%	Line-by-line	Line-by-line	Other
33. Investnet International Sa	Luxembourg	1	IW Bank Spa	100,000%	Line-by-line	Line-by-line	Financial
34. Investnet Italia Sarl	Milan	1	Investnet International Sa	100,000%	Line-by-line	Line-by-line	Other
35. IW Bank Spa	Milan	1	UBI Banca Scpa Centrobanca Spa	55,061% 23,496%	Line-by-line	Line-by-line	Banking
36. Lombarda Lease Finance 2 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
37. Lombarda Lease Finance 3 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
38. Lombarda Lease Finance 4 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
39. Medinvest Spa	Milan	1	Centrobanca Spa	100,000%	Line-by-line	Line-by-line	Financial
40. UBI Management Company Sa	Luxembourg	1	UBI Banca International SA UBI Banca Private Investment Spa	1,000% 99,000%	Line-by-line	Line-by-line	Financial
41. UBI Finance 2 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
42. UBI Finance Srl	Milan	1	UBI Banca Scpa	60,000%	Line-by-line	Line-by-line	Financial
43. Orio Finance Nr. 3 Plc	Dublin (Ireland)				Line-by-line	RWA	Financial
44. Società Bresciana Immobiliare - Mobiliare SBIM Spa	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
45. UBI Gestioni Fiduciarie Sim Spa	Brescia	1	UBI Fiduciaria Spa	100,000%	Line-by-line	Line-by-line	Financial
46. Silf - Società Italiana Leasing e Finanziamenti Spa	Cuneo	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
47. Sintonia Finance Srl	Milan				Line-by-line	RM	Financial
48. Società Lombarda Immobiliare Spa - SOLIMM	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Instrumental
49. Twice SIM Spa	Milan	1	IW Bank Spa	100,000%	Line-by-line	Line-by-line	Financial
50. Twice & Partners Srl	Milan	1	Twice SIM Spa	100,000%	Line-by-line	Line-by-line	Other
51. Twice Research Srl	Milan	1	Twice SIM Spa	100,000%	Line-by-line	Line-by-line	Other
52. UBI Fiduciaria Spa	Brescia	1	UBI Banca Scpa	100,000%	Line-by-line	Line-by-line	Financial
53. UBI Banca International SA	Luxembourg	1	UBI Banca Scpa Banco di Brescia Spa Banco di San Giorgio Spa Banca Popolare di Bergamo Spa	93,014% 3,347% 0,177% 3,462%	Line-by-line	Line-by-line	Banking
54. UBI Insurance Broker Srl	Bergamo	1	UBI Banca Scpa	100,000%	Line-by-line	RWA	Other
55. UBI Pramerica SGR Spa	Milan	1	UBI Banca Scpa	65,000%	Line-by-line	Line-by-line	Financial
56. UBI Lease Finance 5 Srl	Brescia		UBI Banca Scpa	10,000%	Line-by-line	Line-by-line	Financial
57. UBI Sistemi e Servizi Scpa	Brescia	1	UBI Banca Scpa Banca Popolare di Bergamo Spa Banco di Brescia Spa Banca Popolare Commercio e Industria Spa Banca Popolare di Ancona Spa	70,919% 2,960% 2,960% 2,960% 2,960%	Line-by-line	Line-by-line	Instrumental

Name	Headquarters	Type of relationship	Details of investment		Treatment for statutory purposes	Treatment for supervisory purposes	Type of activity
			Investing company	% held			
			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	1,480%			
			UBI Assicurazioni Spa	1,480%			
			Banca 24-7 Spa	1,480%			
			Silf Spa	0,074%			
			UBI Insurance Broker Srl	0,074%			
			UBI Pramerica Alternative Sgr Spa	0,074%			
			UBI Factor Spa	0,740%			
58. UBI Trustee	Luxembourg	1	UBI Banca International Sa	100,000%	Line-by-line	Line-by-line	Financial
A.2 Proportionately consolidated companies							
1. Barberini Sa	Brussels (Belgium)	2	UBI Banca Sepa	33,333%	Proportionate	Proportionate	Financial
2. UBI Trust Company Ltd	Jersey (Great Britain)	2	UBI Banca International SA	99,998%	Proportionate	Proportionate	Financial
3. By You Spa	Milan	2	UBI Banca Sepa	40,000%	Proportionate	Proportionate	Financial
4. By You Piemonte Srl	Ciriè (TO)	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
5. By You Mutui Srl	Milan	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
6. By You Liguria Srl	Genoa	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
7. By You Adriatica Srl	Bologna	2	By You Spa	100,000%	Proportionate	Proportionate	Financial
8. Permico Spa	Turin	2	UBI Banca Sepa	20,615%	Proportionate	Proportionate	Financial
9. Polis Fondi SGR Spa	Milan	2	UBI Banca Sepa	9,800%	Proportionate	Proportionate	Financial
10. Prestitalia Spa	Rome	2	Barberini SA	68,518%	Proportionate	Proportionate	Financial
A.3 Companies consolidated using the equity method							
1. Arca SGR Spa	Milan	3	UBI Banca Sepa	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 Sepa	49,999%	Equity Method	Deducted from Sup. Cap.	Insurance
3. Aviva Vita Spa	Milan	3	UBI Banca Sepa	50,000%	Equity Method	Deducted from Sup. Cap.	Insurance
4. Capital Money Spa	Milan	3	UBI Banca Sepa	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. Group Srl	Milan	3	Centrobanca Spa	20,000%	Equity Method	RWA	Other
7. Lombarda China Fund Management Co.	Shenzen (China)	3	UBI Banca Sepa	49,000%	Equity Method	Deducted from Sup. Cap.	Financial
8. Lombarda Vita Spa	Brescia	3	UBI Banca Sepa	49,900%	Equity Method	Deducted from Sup. Cap.	Insurance
9. H&C Spa in liquidazione	Milan	3	Medinvest Spa	49,080%	Equity Method	RWA	Other
10. Italforex Srl	Milan	3	Invesclub Srl	20,000%	Equity Method	RWA	Other
11. Prisma Srl	Milan	3	UBI Banca Sepa	20,000%	Equity Method	Deducted from Sup. Cap.	Other
12. Secur Broker Srl	Bergamo	3	UBI Insurance Broker	30,000%	Equity Method	Deducted from Sup. Cap.	Other
			UBI Banca Sepa	10,000%			
13. SF Consulting Srl	Mantova	3	UBI Banca Sepa	35,000%	Equity Method	RWA	Other
14. Sider Factor Spa	Milan	3	UBI Factor Spa	27,000%	Equity Method	Deducted from Sup. Cap.	Financial
15. Sofipo Fiduciarie Sa	Lugano (Switzerland)	3	Banque de Depots et de Gestion	30,000%	Equity Method	Deducted from Sup. Cap.	Financial
16. SPF Studio Progetti Finanziari Srl	Rome	3	Banca Popolare di Ancona Spa	25,000%	Equity Method	RWA	Other
17. Tex Factor Spa	Milan	3	UBI Factor Spa	20,000%	Equity Method	Deducted from Sup. Cap.	Financial
18. UBI Assicurazioni Spa	Milan	3	UBI Banca Sepa	49,999%	Equity Method	Deducted from Sup. Cap.	Insurance

Key

Type of relationship
1 = Majority of voting rights in ordinary general meetings
2 = Joint control
3 = Significant influence

Quantitative information

Since 4th March 2010, the company Prestitalia Spa has temporarily suspended its operations which concern the grant of new loans on its own behalf and on behalf of intermediaries and its client banks. It has done this in compliance with Bank of Italy instructions of 3rd March 2010, which order it not to undertake new transactions until it has implemented the plan required to strengthen its capital.

On 24th March 2010, an Extraordinary Shareholders' Meeting passed a resolution to increase the share capital by 37.000.282 euro. The increase in the share capital was fully subscribed and paid up by the major shareholder Barberini SA which, following that operation, held 93,6% of the share capital of Prestitalia Spa.

Table 3 - Supervisory capital structure

Qualitative information

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

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

Supervisory capital is composed of tier one capital and the supplementary capital (tier two), net of “prudential filters”⁸ 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 prudential filters (termed positive elements of tier one capital). Own shares held in portfolio, goodwill, intangible fixed assets, prior and current year losses, other negative items and negative prudential filters⁹ for tier 1 capital (termed negative elements of tier 1 capital) are deducted from the total of those items. The algebraic sum of the positive and negative components of the tier 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 capital instruments not eligible for inclusion in the tier one capital, innovative capital instruments not eligible for inclusion in the tier one capital, hybrid capital instruments, tier two subordinated liabilities, other positive

⁸ Prudential filters are corrections made to equity items in the balance sheet made to safeguard the quality of the supervisory capital and to reduce potential volatility induced by the application of IAS/IFRS international accounting standards.

With regard to those prudential filters that are most important to the UBI Group, the regulations state that unrealised gains and losses on available-for-sale financial assets are divided between equity securities (inclusive of collective investment instruments) and debt securities. For each of these aggregates, if the reserve in question is negative it reduces the tier 1 capital and if it is positive the tier 2 capital is increased by 50% of the reserve.

⁹ Negative filters include a negative prudential filter designed to dilute over time the impact on the income statement generated by the tax relief on goodwill pursuant to Decree Law No. 185/2008 converted into Law No. 2/2009 and regulated by Bank of Italy circular No. 256030 of 11/03/2009.

elements and positive prudential filters (termed positive elements of tier two capital). Other negative items and negative tier two prudential filters (termed negative elements of tier two capital) are deducted from the total of those items.

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

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

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.

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

ISSUER		TYPE OF ISSUE	COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2009	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL		
TIER 1 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	255.464	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	Call 10-03-2010*	124.636	139.749	124.636
	BPCI CAPITAL TRUST		3	2001/perpetual - mixed rate ISIN XS0131512450 Currency euro	9,00% until 10 th year Euribor 3 months + 5,40% from year 11	perpetual	Call 27-06-2011	101.388	106.691	101.388
TIER 2 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	154.440	154.393
			5	2005/2015 - floating rate EMTN ISIN XS0237670319	Quarterly Euribor 3M + 0,40% for years 1-5 Euribor 3M + 1,00% for years 6-10	07-12-2015	07-12-2010	349.650	349.588	348.828
			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	106.481	105.556	106.481
			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	132.380	131.447	132.380
			8	2008/2015 - floating rate ISIN IT0004424435 Currency euro	Quarterly Euribor 3M + 0,85%	28-11-2015		599.399	588.819	599.399

ISSUER	TYPE OF ISSUE	COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2009	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL	
		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	211.573	211.000
		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	136.037	135.914
		2009/2016 - floating rate ISIN IT0004457187 Currency euro	Quarterly Euribor 3M + 1,25%	13-03-2016	No provision	211.992	207.898	211.992
		2009/2019 - mixed rate ISIN IT0004457070 Currency euro	Half year fixed rate 4,15% until 2014 and subsequently floating Euribor 6M + 1,85%	13-03-2019	13-03-2014	370.000	373.598	370.000
		2009/2016 - floating rate ISIN IT0004497068 Currency euro	Quarterly Euribor 3M + 1,25%	30-06-2016	No provision	156.837	153.444	156.837
		2009/2019 - mixed rate ISIN IT0004497050 Currency euro	Half year fixed rate 4% until 2014 and subsequently variable Euribor 6M + 1,85%	30-06-2019	30-06-2014	365.000	358.593	365.000
		Ordinary subordinated bond issues (Upper Tier II)	2000/2010 - fixed rate EMTN ISIN XS0108245167 Currency euro	Fixed rate 6,875%	23-02-2010		350.000	373.494
BANCA POPOLARE DI BERGAMO	Hybrid capitalisation instruments (Upper Tier II)	2001/2012 - floating rate ISIN IT0003210074 Currency euro listed in Milan	Quarterly Euribor 3M + spread between 0,80% and 1%	18-06-2012	No provision	250.000	250.131	250.000

ISSUER		TYPE OF ISSUE		COUPON	MATURITY DATE	EARLY REDEMPTION CLAUSE	NOMINAL AMOUNT	IAS AMOUNT 31.12.2009	AMOUNT ELIGIBLE FOR INCLUSION IN THE SUPERVISORY CAPITAL	
	BANCA CARIME	Hybrid capitalisation instruments (Upper Tier II)	17	2002/2012 - fixed rate 6% ISIN IT0003302863 Currency euro	Half yearly fixed rate 6%	25-06-2012	No provision	164.000	164.623	163.592
TOTAL AS AT 31/12/2009								4.011.699	4.061.145	4.009.276
TOTAL AS AT 31/12/2008								3.958.199	4.016.334	3.847.248

* In relation to the security ISIN XS0108805564, in consideration of the uncertainty caused by the expected introduction of new regulations for the calculation of capital to be issued in 2010, UBI Banca did not proceed to call the security on the first early redemption date (10th March 2010). After that date the loan may nevertheless be called every three months.

Quantitative information

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

COMPOSITION OF THE SUPERVISORY CAPITAL	as at 31.12.09	as at 31.12.08
TIER 1 CAPITAL		
- Positive elements		
- Share capital	2.033.305	2.151.518
- Share premiums	7.186.217	7.147.058
- Reserves	2.529.985	2.559.710
- Non innovative capital instruments	-	-
- Innovative capital instruments	453.460	570.000
- Net profit for the period	69.876	40.116
- Prudential filters: increases in tier 1 capital	-	-
- Fair value option: changes in its credit worthiness	-	-
- Reimbursable shares	-	-
- Capital resources subject to forward pledge of purchase eligible for inclusion in tier 1 capital	-	-
- Other positive prudential filters	662	1.281
- Total positive elements of tier 1 capital	12.273.505	12.469.683
- Negative elements:		
- Treasury shares or quotas	-	-
- Goodwill	4.447.566	4.378.547
- Other intangible fixed assets	808.440	859.805
- Loss for the period	-	-
- Other negative elements:	-	-
- Net impairment losses on loans	-	-
- Net impairment of supervisory amounts relating to the "trading portfolio for supervisory purposes "	-	-
- Other	-	-
- Prudential filters: deductions from tier 1 capital	-	-
- Fair value option: changes in its credit worthiness	-	-
- Negative reserves on available-for-sale securities	-	-
- Equity instruments and units in O.I.C.R (collective investment instruments).	-	-
- Debt securities	11.028	123.069
- 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	47.878	54.718
- Total negative elements of tier 1 capital	5.314.911	5.420.078
- Tier 1 capital before items to be deducted	6.958.594	7.049.605

COMPOSITION OF THE SUPERVISORY CAPITAL	as at 31.12.09	as at 31.12.08
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	21.581	23.088
- Non innovative capital instruments	-	-
- Innovative capital instruments	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the entity invested in	-	-
- Shareholdings	11.307	11.844
- Non innovative capital instruments	-	-
- Innovative capital instruments	-	-
- 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	-	-
- Hybrid capital instruments	-	-
- Subordinated instruments	-	-
- Equity investments in insurance companies:	-	-
- Equity investments	101.776	64.906
- Subordinated instruments	5.046	5.046
- Expected losses in excess of total impairment losses	-	-
- Deductions resulting from securitisations	-	-
- Deductions relating to settlement risks on DVP transactions	-	-
- Total elements to be deducted	141.717	104.883
TIER ONE CAPITAL	6.816.877	6.944.723
TIER 2 CAPITAL		
- Positive elements		
- Fair value reserves	143.987	120.963
- Non innovative capital instruments not eligible for inclusion in tier1 capital	-	-
- Innovative capital instruments not eligible for inclusion in tier 1 capital	-	-
- Hybrid capital instruments	763.592	863.437
- Tier 2 subordinated liabilities	2.792.224	2.413.811
- Excess of total net impairment losses over expected losses	-	-
- Net gains on equity investments	-	-

COMPOSITION OF THE SUPERVISORY CAPITAL	as at 31.12.09	as at 31.12.08
- Other positive elements	-	-
- Prudential filters: increases in the supplementary capital:	-	-
- Total positive elements of the supplementary capital	3.699.802	3.398.211
- Negative elements:		
- Net losses on equity investments	-	-
- Loans	-	-
- Other negative elements	5.788	18.841
- Prudential filters: deductions from supplementary capital	10.978	-
- Total negative elements of tier 2 capital	16.765	18.841
- Tier 2 capital before items to be deducted	3.683.037	3.379.370
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	21.581	23.088
- Shares held in banks and financial companies greater than 10% but less than 20% of the share capital of the entity invested in	13.314	11.844
- Shares held in banks and financial companies equal to or less than 10% of the share capital of the entity invested in	-	-
- Equity investments in insurance companies:	106.821	69.951
- 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	141.717	104.883
TIER 2 CAPITAL	3.541.320	3.274.487
ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 CAPITAL	155.642	258.399
SUPERVISORY CAPITAL	10.202.556	9.960.812
TIER 3 CAPITAL	-	-
SUPERVISORY CAPITAL INCLUDED IN THE TIER 3 CAPITAL	10.202.556	9.960.812

Table 4 - Capital adequacy

Qualitative information

The new supervisory instructions for banks issued by the Bank of Italy (circular No. 263/06) underline the importance of internal processes for assessing capital adequacy. The regulations state that banks must define a process designed to determine their total capital adequacy, in present and future terms, needed to meet all significant risks (i.e. ICAAP). The senior management of the UBI Group immediately recognised the crucial role played by ICAAP and in October 2007 it set up an ICAAP Function as part of the Capital Management Service within the Risk Capital & Policies Area. In September 2009, following the reorganisation of the Group, the ICAAP Funzione became the ICAAP Service within the same Area. The service was given responsibility for activities connected with the process for assessing the present and future capital adequacy requirement.

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

The capital adequacy assessment process commences with the definition and details of the risk profile (risk appetite) of the Group. This represents the starting point because it contributes to the definition of strategic 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. This applies to non measurable risks in particular.

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 or total capital*, defined as the sum of capital elements that the Group considers can be used to cover internal capital and total internal capital requirements.

The supervisory capital is compared with the total capital requirement to verify the achievement of objects expressed in terms of capital ratios. The total capital is compared with total internal capital to verify the achievement of objectives expressed in terms of *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 new supervisory instructions mentioned, the UBI Group will file its consolidated report on its capital adequacy (ICAAP report) with the Bank of Italy before 30th April 2010, for its position as at 31st December 2009.

Quantitative information

CAPITAL ADEQUACY	Capital requirement 31.12.09	Capital requirement 31.12.08
A. SUPERVISORY CAPITAL		
Credit and counterparty risk		
<i>Standardised approach</i>		
Exposures to or guaranteed by central governments and central banks	5	-
Exposures to or guaranteed by regional government and local authorities	7.431	7.814
Exposures to or guaranteed by non commercial and public sector entities	75.262	72.014
Exposures to or guaranteed by multilateral development banks	-	-
Exposures to or guaranteed by international organisations	-	-
Exposures to or guaranteed by supervised intermediaries	177.850	150.550
Exposures to or guaranteed by corporates	2.974.894	3.278.243
Retail exposures	1.157.160	1.464.243
Exposures secured by real estate property	1.019.326	823.706
Past due exposures	434.908	242.370
High risk exposures	22.180	61.171
Exposures in the form of covered bonds	-	-

CAPITAL ADEQUACY	Capital requirement 31.12.09	Capital requirement 31.12.08
Exposures to supervised intermediaries and corporates	-	-
Exposures to or secured by OICR (collective investment undertakings)	15.875	16.597
Other exposures	269.588	315.954
Securitisations	35.638	24.127
Total credit and counterparty risk	6.190.116	6.456.869

Market risk

Standardised approach

Assets included in the supervisory trading portfolio:		
- position risk	115.873	138.343
- supervisory risk	-	-
- concentration risk	-	-
Other assets:		
- currency risk	27.175	67.461
- position risk in commodities	37	38
Total market risk	143.085	205.842

Operational risk

Standardised approach		
Basic indicator approach	47.273	53.511
Standardised approach	473.685	475.124
Advanced measurement approach	-	-
Total operational risk	520.959	528.635

B. SUPERVISORY RATIOS

Core Tier 1 ratio before specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	7,59%	7,21%
Core Tier 1 ratio after specific deductions from tier 1 capital (tier 1 capital net of preference shares/risk weighted assets)	7,43%	7,09%
Tier 1 ratio (tier 1 capital/risk weighted assets)	7,96%	7,73%
Total capital ratio [(Tier 2 capital+ qualifying tier 3 capital)/risk weighted assets]	11,91%	11,08%

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 balance sheet 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 gave 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.

The management of problem loans is performed on the basis of the level of risk. It is performed by the Problem Loan Units of individual banks for “exposures past due and/or continuously in arrears”, for “operationally impaired loans” and “restructured loans”, while “impaired” and “non performing” positions are managed by the Credit Recovery Area of the Parent Bank. 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 very short period of time (normally nine months, extendable, under exceptional circumstances for another three) defined as “operationally impaired loans” and the remaining positions for which it is felt best to disengage from the account with debt collection out of court over a longer period of time

Assessment of the appropriateness of impairment recognised is performed on a case by case basis for individual positions to ensure adequate levels of cover for expected losses. The analysis of deteriorated exposures is performed continuously by the single operational units which manage risks and by the Parent Bank. The resolution of difficulties by counterparties is a determining factor for the return of positions to “performing” status. This event occurs

principally and above all for accounts which are “continuously in arrears for more than 180 days” and for “operationally impaired” accounts.

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

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

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

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

The analysis is conducted using data acquired from: 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).

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

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

The calculation methodologies used in the Network Banks and at Centrobanca are different from those used by the main Product Companies of the Group. More specifically the Network Banks apply methodologies for loans to customers based on Probability of Default (PD) and (LGD) Loss Given Default. 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” 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 internally estimated deterioration rates for loans which uses a definition of default that includes changes of classification from performing to impaired, non performing and restructured classes (Banca 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 expert values are applied at Banca 24/7, due to the very small size of its non performing portfolio. Special “danger rates” need to be applied to render the definitions of default used for deterioration rates and estimates of LGD consistent. For UBI Leasing these are estimated on internal data and differentiated by product, while for Banca 24/7 they are estimated internally, but with no differentiation.

Quantitative information

Gross credit exposures, by principal types of exposure

	Banking group						
	Non performing loans	Impaired loans	Restructured exposures	Past due exposures	Other assets	TOTAL	
1. Financial assets held for trading	1.269	6.594	321	1.000	1.360.277	1.369.461	
2. Available-for-sale financial assets	-	-	-	-	5.643.863	5.643.863	
3. Held-to-maturity investments	-	-	-	-	-	-	
4. Loans to banks	68	293	-	316	3.223.884	3.224.561	
5. Loans to customers	1.330.880	1.838.973	438.076	915.678	93.376.250	97.899.857	
6. Financial assets at fair value	-	-	-	-	-	-	
7. Financial assets held for disposal	-	-	-	-	71.158	71.158	
8. Hedging derivatives	-	-	-	-	633.263	633.263	
	31/12/2009	1.332.217	1.845.860	438.397	916.994	104.308.695	108.842.163
	31/12/2008	846.190	1.171.248	106.326	205.375	105.699.221	108.028.360

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Non performing loans	2.722.678	1.327.492	9.414	1.467	14.951	2.339	4.142	-	403	149	2.751.588	1.331.447
A.2 Impaired loans	2.140.763	1.795.638	57.474	41.013	125	61	1.335	1.207	1.907	1.126	2.201.604	1.839.045
A.3 Restructured exposures	477.691	436.934	801	797	-	-	-	-	369	345	478.861	438.076
A.4 Past due exposures	865.543	844.165	71.853	71.486	6	6	-	-	171	168	937.573	915.825
A.5 Other transactions	95.178.284	94.700.287	2.764.137	2.754.291	783.621	782.844	16.953	16.941	328.696	328.668	99.071.691	98.583.031
TOTAL	101.384.959	99.104.516	2.903.679	2.869.054	798.703	785.250	22.430	18.148	331.546	330.456	105.441.317	103.107.424
B. Off-balance sheet exposures												
B.1 Non performing loans	43.058	33.852	-	-	-	-	-	-	-	-	43.058	33.852
B.2 Impaired loans	104.381	98.081	85	85	-	-	-	-	-	-	104.466	98.166
B.3 Other impaired assets	52.215	50.538	587	587	-	-	-	-	-	-	52.802	51.125
B.4 Other exposures	13.641.321	13.614.642	1.105.297	1.104.488	108.825	108.734	7.116	7.115	41.050	41.048	14.903.609	14.876.027
TOTAL	13.840.975	13.797.113	1.105.969	1.105.160	108.825	108.734	7.116	7.115	41.050	41.048	15.103.935	15.059.170
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
31/12/2008	114.448.285	112.887.268	3.853.915	3.833.298	1.135.357	1.119.280	22.571	22.446	387.273	385.809	119.847.401	118.248.101

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure												
A.1 Non performing loans	22	20	153	48	-	-	-	-	-	-	175	68
A.2 Impaired loans	-	-	3.573	102	191	191	-	-	-	-	3.764	293
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	316	316	-	-	-	-	-	-	316	316
A.5 Other transactions	3.464.994	3.464.949	1.226.802	1.226.802	119.467	119.467	14.693	14.693	118.433	118.433	4.944.389	4.944.344
TOTAL	3.465.016	3.464.969	1.230.844	1.227.268	119.658	119.658	14.693	14.693	118.433	118.433	4.948.644	4.945.021
B. Off-balance sheet exposures												
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1.653.699	1.653.699	784.202	784.202	91.985	91.985	20.282	20.282	7.663	7.663	2.557.831	2.557.831
TOTAL	1.653.699	1.653.699	784.202	784.202	91.985	91.985	20.282	20.282	7.663	7.663	2.557.831	2.557.831
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
31/12/2008	7.719.217	7.708.115	1.564.696	1.564.691	164.103	164.103	37.903	37.903	74.353	74.353	9.560.272	9.549.165

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

	Governments and Central Banks		Other public authorities		Financial companies		Insurance companies		Non financial companies		Other		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance sheet exposure														
A.1 Non performing loans	-	-	425	239	68.003	13.779	1.652	104	1.717.664	919.392	963.844	397.933	2.751.588	1.331.447
A.2 Impaired loans	1	-	1.931	1.827	84.672	59.654	-	-	1.702.162	1.424.775	412.838	352.789	2.201.604	1.839.045
A.3 Restructured exposures	-	-	-	-	3.445	2.997	-	-	466.049	429.339	9.367	5.740	478.861	438.076
A.4 Past due exposures	-	-	1	1	91.858	91.442	-	-	640.988	631.202	204.726	193.180	937.573	915.825
A.5 Other exposures	4.248.769	4.248.769	1.002.744	1.002.249	5.120.034	5.107.514	111.489	111.219	56.513.819	56.243.030	32.074.836	31.870.250	99.071.691	98.583.031
TOTAL A	4.248.770	4.248.769	1.005.101	1.004.316	5.368.012	5.275.386	113.141	111.323	61.040.682	59.647.738	33.665.611	32.819.892	105.441.317	103.107.424
B. Off-balance sheet exposures														
B.1 Non performing loans	-	-	-	-	190	190	-	-	42.558	33.396	310	266	43.058	33.852
B.2 Impaired loans	-	-	-	-	1.275	1.157	-	-	101.951	95.812	1.240	1.197	104.466	98.166
B.3 Other impaired assets	-	-	-	-	1.432	1.432	-	-	50.934	49.257	436	436	52.802	51.125
B.4 Other exposures	105.920	105.920	1.162.108	1.161.902	882.440	874.079	156.167	156.108	10.805.470	10.787.507	1.791.504	1.790.511	14.903.609	14.876.027
TOTAL B	105.920	105.920	1.162.108	1.161.902	885.337	876.858	156.167	156.108	11.000.913	10.965.972	1.793.490	1.792.410	15.103.935	15.059.170
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
31/12/2008	1.704.072	1.703.922	1.887.951	1.886.933	10.021.621	9.964.006	199.035	198.960	65.681.086	64.643.057	40.351.387	39.686.791	119.845.152	118.083.669

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

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Indeterminate maturity	TOTAL
On-balance sheet assets	18.760.325	5.224.552	616.398	5.069.451	5.509.388	2.413.686	4.212.138	26.660.747	35.210.172	4.274.061	107.950.918
A.1 Government securities	311	-	20.050	-	11.602	65.563	13.392	927.713	3.082.062	-	4.120.693
A.2 Other debt securities	29.338	143	140	91	17.563	4.193	112.866	531.889	1.537.654	1.382	2.235.259
A.3 Units in OICR (collective investment instruments)	146.364	-	-	-	-	-	315	128	260	163.348	310.415
A.4 Financing	18.584.312	5.224.409	596.208	5.069.360	5.480.223	2.343.930	4.085.565	25.201.017	30.590.196	4.109.331	101.284.551
- Banks	1.056.929	205.600	152.100	558.600	481.280	242.747	21.088	462.291	96.429	1.198	3.278.262
- Customers	17.527.383	5.018.809	444.108	4.510.760	4.998.943	2.101.183	4.064.477	24.738.726	30.493.767	4.108.133	98.006.289
	-	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	35.319.597	2.078.663	1.234.075	3.362.466	4.563.048	2.489.165	3.140.605	35.339.280	13.887.015	476.629	101.890.543
B.1 Deposits	31.208.267	1.188.047	590.660	1.026.997	1.137.324	898.228	98.274	14.678.219	643.523	149	51.469.688
- Banks	1.448.464	608.416	537.134	770.180	957.712	872.135	61.454	333.185	131.250	-	5.719.930
- Customers	29.759.803	579.631	53.526	256.817	179.612	26.093	36.820	14.345.034	512.273	149	45.749.758
B.2 Debt securities	3.884.504	96.009	133.221	573.498	2.963.404	1.289.367	2.829.079	20.314.711	12.263.759	132	44.347.684
B.3 Other liabilities	226.826	794.607	510.194	1.761.971	462.320	301.570	213.252	346.350	979.733	476.348	6.073.171
	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	(846.574)	(55.394)	(19.845)	286.772	119.321	510.544	962.153	1.366.334	4.142.364	(3.516.167)	2.949.508
C.1 Financial derivatives with exchange of principal	-	13.711	11.597	337.931	95.866	29.610	156.743	675.109	1.768.593	(2.524.572)	178.494
- Long positions	-	72.326	52.981	1.490.068	383.514	199.033	459.933	993.248	270.704	2.738.222	6.660.029
- Short positions	-	72.865	61.198	1.492.177	476.082	198.417	616.480	1.668.357	2.039.297	213.650	6.838.523
C.2 Financial derivatives without exchange of principal	78.225	(70.702)	(35.172)	(53.811)	(190.734)	164.423	516.041	4.511	(12)	-	412.769
- Long positions	132.312	89.713	53.138	71.153	437.567	20.572	76.628	56.087	987.670	-	1.924.840
- Short positions	210.537	19.011	17.966	17.342	246.833	184.995	592.669	60.598	987.658	-	2.337.609
C.3 Deposits and loans receivable	3.454	29.317	-	(16.829)	-	(5.985)	(9.957)	-	-	-	-
- Long positions	3.454	78.922	-	-	2.704	751	-	-	162.558	-	248.389
- Short positions	-	49.605	-	16.829	2.704	6.736	9.957	-	162.558	-	248.389
C.4 Irrevocable commitments to disburse funds	(1.935.438)	(55.266)	1.474	6.684	182.074	312.740	267.091	635.432	1.582.353	(997.144)	-
- Long positions	311.759	9.024	1.474	6.684	182.074	312.740	267.091	635.432	1.586.089	49.352	3.361.719
- Short positions	2.247.197	64.290	-	-	-	-	-	-	3.736	1.046.496	3.361.719
C.5 Financial guarantees issued	1.007.185	27.546	2.256	12.797	32.115	9.756	32.235	51.282	791.430	5.549	1.972.151

Distribution by economic sector of deteriorated exposures and impairment

Exposures/Counterparties	Governments and Central Banks				Other public authorities				Financial companies				Insurance companies				Non financial companies				Other			
	Gross exposure	Specific impairment	Portfolio impairment	Net exposure	Gross exposure	Specific impairment	Portfolio impairment	Net exposure	Gross exposure	Specific impairment	Portfolio impairment	Net exposure	Gross exposure	Specific impairment	Portfolio impairment	Net exposure	Gross exposure	Specific impairment	Portfolio impairment	Net exposure	Gross exposure	Specific impairment	Portfolio impairment	Net exposure
A. On-balance sheet exposure																								
A.1 Non performing loans	-	-	X	-	425	(186)	X	239	68.003	(54.224)	X	13.779	1.652	(1.548)	X	104	1.717.664	(798.272)	X	919.392	963.844	(565.911)	X	397.933
A.2 Impaired loans	1	(1)	X	-	1.931	(104)	X	1.827	84.672	(25.018)	X	59.654	-	-	X	-	1.702.162	(277.387)	X	1.424.775	412.838	(60.049)	X	352.789
A.3 Restructured exposures	-	-	X	-	-	-	X	-	3.445	(448)	X	2.997	-	-	X	-	466.049	(36.710)	X	429.339	9.367	(3.627)	X	5.740
A.4 Past due exposures	-	-	X	-	1	-	X	1	91.858	(416)	X	91.442	-	-	X	-	640.988	(9.786)	X	631.202	204.726	(11.546)	X	193.180
A.5 Other transactions	4.248.769	X	-	4.248.769	1.002.744	X	(495)	1.002.249	5.120.034	X	(12.520)	5.107.514	111.489	X	(270)	111.219	56.513.819	X	(270.789)	56.243.030	32.074.836	X	(204.586)	31.870.250
TOTAL A	4.248.770	(1)	-	4.248.769	1.005.101	(290)	(495)	1.004.316	5.368.012	(80.106)	(12.520)	5.275.386	113.141	(1.548)	(270)	111.323	61.040.682	(1.122.155)	(270.789)	59.647.738	33.658.038	(641.133)	(197.013)	32.819.892
B. Off-balance sheet exposures																								
B.1 Non performing loans	-	-	X	-	-	-	X	-	190	-	X	190	-	-	X	-	42.558	(9.162)	X	33.396	310	(44)	X	266
B.2 Impaired loans	-	-	X	-	-	-	X	-	1.275	(118)	X	1.157	-	-	X	-	101.951	(6.139)	X	95.812	1.240	(43)	X	1.197
B.3 Other impaired assets	-	-	X	-	-	-	X	-	1.432	-	X	1.432	-	-	X	-	50.934	(1.677)	X	49.257	436	-	X	436
B.4 Other exposures	105.920	X	-	105.920	1.162.108	X	(206)	1.161.902	882.440	X	(8.361)	874.079	156.167	X	(59)	156.108	10.805.470	X	(17.963)	10.787.507	1.791.504	X	(993)	1.790.511
TOTAL B	105.920	-	-	105.920	1.162.108	-	(206)	1.161.902	885.337	(118)	(8.361)	876.858	156.167	-	(59)	156.108	11.000.913	(16.978)	(17.963)	10.965.972	1.793.490	(87)	(993)	1.792.410
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
31/12/2008	1.704.072	-	(150)	1.703.922	1.887.951	(314)	(704)	1.886.933	10.021.621	(38.900)	(18.715)	9.964.006	199.035	(33)	(42)	198.960	65.681.086	(780.990)	(257.039)	64.643.057	40.351.387	(481.532)	(183.064)	39.686.791

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-balance sheet exposure												
A.1 Non performing loans	2.722.678	(1.395.186)	9.414	(7.947)	14.951	(12.612)	4.142	(4.142)	403	(254)	2.751.588	(1.420.141)
A.2 Impaired loans	2.140.763	(345.125)	57.474	(16.461)	125	(64)	1.335	(128)	1.907	(781)	2.201.604	(362.559)
A.3 Restructured exposures	477.691	(40.757)	801	(4)	-	-	-	-	369	(24)	478.861	(40.785)
A.4 Past due exposures	865.543	(21.378)	71.853	(367)	6	-	-	-	171	(3)	937.573	(21.748)
A.5 Other transactions	95.178.284	(477.997)	2.764.137	(9.846)	783.621	(777)	16.953	(12)	328.696	(28)	99.071.691	(488.660)
TOTAL	101.384.959	(2.280.443)	2.903.679	(34.625)	798.703	(13.453)	22.430	(4.282)	331.546	(1.090)	105.441.317	(2.333.893)
B. Off-balance sheet exposures												
B.1 Non performing loans	43.058	(9.206)	-	-	-	-	-	-	-	-	43.058	(9.206)
B.2 Impaired loans	104.381	(6.300)	85	-	-	-	-	-	-	-	104.466	(6.300)
B.3 Other impaired assets	52.215	(1.677)	587	-	-	-	-	-	-	-	52.802	(1.677)
B.4 Other exposures	13.641.321	(26.679)	1.105.297	(809)	108.825	(91)	7.116	(1)	41.050	(2)	14.903.609	(27.582)
TOTAL	13.840.975	(43.862)	1.105.969	(809)	108.825	(91)	7.116	(1)	41.050	(2)	15.103.935	(44.765)
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)
31/12/2008	114.454.049	(1.561.017)	3.853.915	(20.617)	1.135.357	(16.077)	22.571	(125)	387.273	(1.464)	119.853.165	(1.599.300)

Distribution by geographical area of deteriorated exposures to banks and impairment

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Gross exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet exposure										
A.1 Non performing loans	22	(2)	153	(105)	-	-	-	-	-	-
A.2 Impaired loans	-	-	3.573	(3.471)	191	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	316	-	-	-	-	-	-	-
A.5 Other transactions	3.464.994	(45)	1.226.802	-	119.467	-	14.693	-	118.433	-
TOTAL	3.465.016	(47)	1.230.844	(3.576)	119.658	-	14.693	-	118.433	-
B. Off-balance sheet exposures										
B.1 Non performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Impaired loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1.653.699	-	784.202	-	91.985	-	20.282	-	7.663	-
TOTAL	1.653.699	-	784.202	-	91.985	-	20.282	-	7.663	-
31/12/2009	5.118.715	(47)	2.015.046	(3.576)	211.643	-	34.975	-	126.096	-
31/12/2008	7.719.217	(11.102)	1.564.696	(5)	164.103	-	37.903	-	74.353	-

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	(1.021.196)	(221.995)	(39.653)	(9.437)
- of which: exposures transferred not derecognised			-	-
B. Increases	(806.843)	(300.003)	(30.353)	(23.400)
B.1 impairment losses	(690.885)	(225.843)	(19.238)	(17.846)
B.2 transfers from other categories of impaired exposures	(104.637)	(3.312)	(9.050)	(1.569)
B.3 other increases	(11.321)	(70.848)	(2.065)	(3.985)
C. Decreases	407.898	159.439	29.221	11.089
C.1 write-backs as a result of valuation	53.080	16.357	616	2.412
C.2 write-backs for payments received	50.639	30.884	1.625	1.423
C.3 write-offs	245.476	1.175	26.445	32
C.4 transfers to other categories of impaired exposures	1.497	110.098	115	6.858
C.5 other decreases	57.206	925	420	364
D. Total impairment	(1.420.141)	(362.559)	(40.785)	(21.748)
- 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	(7)		-	-
- of which: exposures transferred not derecognised	-	-	-	-
B. Increases	(103)	(3.471)	-	-
B.1 impairment losses	-	(3.471)	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	(103)			
C. Decreases	3	-	-	-
C.1 write-backs as a result of valuation	3	-	-	-
C.2 write-backs for payments received	-		-	-
C.3 write-offs		-	-	-
C.4 transfers to other categories of impaired exposures	-	-	-	-
C.5 other decreases				
D. Total impairment	(107)	(3.471)	-	-
- 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:

- Lince;
- Moody's Investors Service.

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

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

(*) *Solicited or unsolicited*

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

Quantitative information

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

SUPERVISORY PORTFOLIO	Credit quality step	As at 31.12.09			As at 31.12.08		
		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		5.673.597	5.684.127	2.245	5.406.356	5.428.349	2.245
	0%	5.673.296	5.683.826		5.406.356	5.428.349	
	20%	301	301				
Exposures to or guaranteed by regional government and local authorities		794.519	842.214		796.369	852.093	
	0%	-	5.234		-	8.188	
	20%	794.519	836.980		796.369	843.904	
Exposures to or guaranteed by non commercial and public sector entities		2.612.685	2.714.899		2.414.527	2.892.741	
	0%	4.005	99.262		8.393	474.490	
	20%	1.295.165	1.302.121		1.211.099	1.223.217	
	100%	1.313.515	1.313.515		1.195.034	1.195.034	
Exposures to or guaranteed by multilateral development banks		-	-		-	-	
Exposures to or guaranteed by international organisations		-	-		-	-	
Exposures to or guaranteed by supervised intermediaries		14.525.549	22.685.246	5.670	13.547.256	17.045.575	3.047
	0%	4.543.333	12.510.019		3.859.092	7.090.588	
	20%	9.356.714	9.549.656		8.679.525	8.943.462	
	50%	126.738	126.738		410.968	410.968	
	100%	498.763	498.833		597.671	600.556	
Exposures to or guaranteed by corporates		81.942.975	82.901.811		86.876.457	92.044.871	
	0%	12.276	683.970		91.712	4.585.209	
	20%	6.733.795	6.781.237		7.556.306	7.612.392	
	50%	23.076.204	23.315.905		23.927.792	24.205.977	

SUPERVISORY PORTFOLIO	Credit quality step	As at 31.12.09			As at 31.12.08		
		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
	100%	50.692.500	50.692.500		54.884.192	55.224.840	
	150%	1.428.199	1.428.199		416.455	416.455	
Retail exposures		28.557.555	30.166.640		33.849.028	39.962.404	
	0%	-	1.609.085		2	6.124.409	
	75%	28.557.555	28.557.555		33.849.026	33.837.995	
Exposures secured by real estate property		31.646.963	31.674.602		25.220.703	25.244.026	
	0%	-	27.639		-	23.323	
	35%	19.952.448	19.952.448		15.008.065	15.008.065	
	50%	11.694.515	11.694.515		10.212.638	10.212.638	
Past due exposures		4.805.575	4.895.358		2.531.360	2.578.007	
	0%	-	89.783		1.070	27.844	
	50%	35.357	35.357		18.283	18.283	
	100%	2.540.641	2.540.641		1.248.668	1.248.668	
	150%	2.229.577	2.229.577		1.263.338	1.283.211	
High risk exposures		184.830	184.830		509.756	509.756	
		184.830	184.830		509.756	509.756	
Exposures in the form of covered bonds		-	-		-	-	
Short term exposures to supervised intermediaries and corporates		-	-		-	-	
Exposures to OICR (collective investment undertakings)		218.762	218.762		277.641	277.641	
	100%	218.762	218.762		277.641	277.641	
Other exposures		5.081.722	5.081.722	431.160	5.540.543	5.540.543	462.871
	0%	732.492	732.492		765.361	765.361	

SUPERVISORY PORTFOLIO	Credit quality step	As at 31.12.09			As at 31.12.08		
		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
	20%	1.135.187	1.135.187		275.488	275.488	
	100%	3.214.044	3.214.044		4.499.695	4.499.695	
Securitisations		206.130	206.130		201.197	201.197	

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

Table 8 – Risk mitigation techniques

Qualitative information

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

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

This is performed through special contracts which regulate repurchase agreement transactions (termed Global Master Repurchase Agreements – GMRAs), and OTC derivatives contracts (termed International Swaps and Derivatives Association agreements – 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 exposures¹⁰, 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 request new appraisals. There are also second level controls consisting of the production of periodic reports to the competent units in the Parent Bank.

¹⁰ 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”.

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 area as follows:

- real estate mortgage;
- pledge.

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

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

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

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

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

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

No positions in credit derivatives existed as at 31st December 2009.

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 110 million euro. The guarantees granted by other admissible guarantors are for amounts of less than ten million euro for each group of companies, except for one group only which guarantees exposures for approximately 23 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 350 million euro and by USA government securities which guarantee exposures for around 64 million euro. Securities issued by major Italian banking groups (including Intesa Sanpaolo and Monte dei Paschi di Siena), and units in monetary funds managed by UBI Pramerica SGR represent some of the largest of the other securities recognised in terms of size.

Quantitative information

EXPOSURES BACKED BY COLLATERAL AND PERSONAL GUARANTEES	As at 31.12.09		As at 31.12.08	
SUPERVISORY PORTFOLIO	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or guaranteed by central governments and central banks	-	10.530	-	21.993
Exposures to or guaranteed by regional government and local authorities	5.234	42.460	8.188	47.535
Exposures to or guaranteed by non commercial and public sector entities	95.257	6.956	466.097	12.118
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	4.226.164	3.933.533	615.427	2.882.892
Exposures to or guaranteed by corporates	671.547	287.289	4.493.497	674.918
Retail exposures	1.609.085	-	6.113.375	-
Exposures secured by real estate property	27.639	-	23.323	-
Past due exposures	89.783	-	26.774	19.873
High risk exposures	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Short term exposures to supervised intermediaries and corporates	-	-	-	-
Exposures to OICR (collective investment undertakings)	-	-	-	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-

Table 9 - Counterparty risk

Qualitative information

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 Capital & Policies and Compliance Areas and to the Legal and Corporate Affairs and Subsidiaries, Parent and Group Audit and 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.

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

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

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

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

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

Trading in derivatives is subject to signing an ISDA agreement with the counterparty with an associated Credit Support Annex (CSA),¹¹ 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 threshold¹² levels and MTAs that are not set in absolute terms, but vary as a function of the rating of the parties from time to time. In these situations a lower rating will result in a lower MTA threshold and therefore also in a lower value for the collateral posted.

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.

¹¹ See Table 8 for further details.

¹² **Threshold:** maximum exposure that a party decides to accept towards another, without the protection provided by the payment of 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 assets/type of derivative	as at 31.12.09		as at 31.12.08	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	61.564.678	1.767.200	49.100.096	2.569.976
a) Options	22.914.562	813	24.295.012	126
b) Swaps	38.182.339	-	24.805.084	-
c) Forward	-	-	-	-
d) Futures	-	1.766.387	-	2.569.850
e) Other	467.777	-	-	-
2. Equity instruments and share indices	152.748	97.201	128.651	116.977
a) Options	152.748	1	128.651	10
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	97.200	-	116.967
e) Other	-	-	-	-
3. Currencies and gold	4.518.308	-	8.252.616	-
a) Options	1.466.234	-	2.645.388	-
b) Swaps	492.850	-	517.353	-
c) Forward	2.559.224	-	5.089.875	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	13.281	-	29.291	-
5. Other underlying	-	-	-	-
Total	66.249.015	1.864.401	57.510.654	2.686.953
Average amounts	61.880.900	2.270.680	69.371.763	3.406.693

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

For hedging

Underlying assets/type of derivative	as at 31.12.09		as at 31.12.08	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	42.724.918	-	22.977.832	-
a) Options	1.053.566	-	1.075.651	-
b) Swaps	41.671.352	-	21.902.181	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	3.705	-	760.744	-
a) Options	-	-	760.744	-
b) Swaps	3.705	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	1.181.753	-	3.723.816	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	1.181.753	-	3.723.816	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	43.910.376	-	27.462.392	-
Average amounts	37.248.541	-	21.040.563	-

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

Other derivatives

Underlying assets/type of derivative	as at 31.12.09		as at 31.12.08	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	70.920	-	919.981	-
a) Options	70.920	-	406.216	-
b) Swaps	-	-	513.765	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	7.938.327	-	8.229.957	-
a) Options	7.938.327	-	8.229.957	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	14.180	-	14.678	-
a) Options	14.180	-	14.678	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	-	-	-	-
Total	8.023.427	-	9.164.616	-
Average amounts	8.758.442	-	6.813.665	-

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

Underlying assets/type of derivative	Positive fair value			
	as at 31.12.09		as at 31.12.08	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	687.568	582	762.151	2.637
a) Options	72.006	5	56.591	122
b) Interest rate swaps	588.499	-	556.769	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	24.995	-	145.529	-
f) Futures	-	577	-	2.515
g) Other	2.068	-	3.262	-
B. Banking portfolio - for hedging	633.263	-	792.398	-
a) Options	132	-	-	-
b) Interest rate swaps	625.177	-	404.231	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	7.954	-	388.167	-
C. Banking portfolio - other derivatives	34.681	-	9.300	-
a) Options	34.681	-	9.300	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	1.355.512	582	1.563.849	2.637

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

Underlying assets/type of derivative	Negative fair value			
	as at 31.12.09		as at 31.12.08	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading portfolio	712.874	3.960	780.008	5.147
a) Options	60.670	4	64.437	92
b) Interest rate swaps	625.005	-	564.899	-
c) Cross currency swaps	1.611	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	24.280	-	147.414	-
f) Futures	-	3.015	3.258	5.055
g) Other	1.308	941	-	-
B. Banking portfolio - for hedging	927.319	-	635.129	-
a) Options	-	-	-	-
b) Interest rate swaps	898.104	-	583.053	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	29.215	-	52.076	-
C. Banking portfolio - other derivatives	29.918	-	8.981	-
a) Options	29.918	-	8.981	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	1.670.111	3.960	1.424.118	5.147

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	-	28.678	34.233.231	19.190.451	-	6.394.121	1.718.197
- positive fair value	-	35	313.728	105.740	-	202.247	15.336
- negative fair value	-	5	596.973	52.159	-	4.250	954
- future exposure	-	141	263.079	145.077	-	43.922	7.210
2) Equity instruments and share indices							
- notional amount	-	-	152.748	-	-	-	-
- positive fair value	-	-	3.351	-	-	-	-
- negative fair value	-	-	2.684	-	-	-	-
- future exposure	-	-	11.794	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	2.974.845	704.861	324	821.760	16.518
- positive fair value	-	-	31.491	5.776	3	7.722	1.410
- negative fair value	-	-	40.472	5.189	-	8.058	903
- future exposure	-	-	39.277	7.620	3	9.169	149
4) Other values							
- notional amount	-	-	10.678	-	-	2.603	-
- positive fair value	-	-	623	-	-	106	-
- negative fair value	-	-	719	-	-	508	-
- future exposure	-	-	1.068	-	-	260	-

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	-	-	41.027.911	1.736.727	-	-	31.200
- positive fair value	-	-	609.023	20.632	-	-	352
- negative fair value	-	-	778.006	117.534	-	-	6.293
- future exposure	-	-	231.176	4.155	-	-	341
2) Equity instruments and share indices							
- notional amount	-	-	2.474.888	1.897.751	2.904.263	439	664.691
- positive fair value	-	-	29.305	711	-	-	319
- negative fair value	-	-	21.215	-	-	6	4.967
- future exposure	-	-	128.216	188.300	265.285	23	55.225
3) Currencies and gold							
- notional amount	-	-	14.180	20.900	-	178.898	981.955
- positive fair value	-	-	-	68	-	992	6.542
- negative fair value	-	-	-	697	-	3.743	24.776
- future exposure	-	-	142	209	-	1.850	9.970
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	More than 1 year and less than 5 years	More than 5 years	Total
A. Supervisory trading portfolio	35.116.235	17.114.661	14.018.119	66.249.015
A.1 Financial Derivatives on debt securities and interest rates	30.760.688	16.785.871	14.018.119	61.564.678
A.2 Financial Derivatives on equities and share indices	28.675	124.073	-	152.748
A.3 Financial Derivatives on exchange rates and gold	4.313.591	204.717	-	4.518.308
A.4 Financial Derivatives on other values	13.281	-	-	13.281
B. Banking portfolio	11.928.071	24.675.885	15.329.847	51.933.803
B.1 Financial Derivatives on debt securities and interest rates	10.680.019	20.427.777	11.688.042	42.795.838
B.2 Financial Derivatives on equities and share indices	52.119	4.248.108	3.641.805	7.942.032
B.3 Financial Derivatives on exchange rates and gold	1.195.933	-	-	1.195.933
B.4 Financial derivatives on other values	-	-	-	-
Total 31/12/2009	47.044.306	41.790.546	29.347.966	118.182.818
Total 31/12/2008	38.005.412	40.469.067	15.663.183	94.137.662

Credit derivatives: end of period and average notional amounts

Categories of transactions	Supervisory dealing portfolio		Banking portfolio	
	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 31/12/2009	-	-	-	-
Total 31/12/2008	-	-	-	-
Average amounts	-	-	-	-
1. Protection purchases	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2009	-	-	-	-
Total 31/12/2008	65.000	-	-	-
Average amounts	23.000	-	-	-

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

Portfolios/type of derivative	Negative fair value	
	as at 31.12.09	as at 31.12.08
A. Supervisory dealing portfolio	-	-
a) Credit default products	-	1.776
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 swap	-	-
d) Other	-	-
Total	-	1.776

Residual maturity of over the counter financial derivatives: notional amounts

Underlying elements/Residual maturity	Up to 1 year	More than 1 year and less than 5 years	More than 5 years	Total
A. Supervisory dealing 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 31/12/2009	-	-	-	-
Total 31/12/2008		65.000		65.000

Counterparty risk - credit equivalent

	as at 31.12.09		as at 31.12.08	
	CREDIT EQUIVALENT		CREDIT EQUIVALENT	
	STANDARDISED APPROACH	IRB APPROACH	STANDARDISED APPROACH	IRB APPROACH
Derivatives contracts	1.718.849		2.098.955	
Securities financing transactions and long term settlement transactions	11.588.483		14.810.246	
Cross product netting agreements				

Table 10 – Securitisation transactions

Qualitative information

Objectives of the Bank with regard to securitisation activities

Securitisations transactions with own underlying assets

The securitisations with own underlying assets of the UBI Group are of the following two types:

- i) conventional securitisations of the assets of Group member companies which allow direct access to capital markets, with the objective of narrowing the liquidity gap between medium-to-long term lending and short term funding, diversifying the sources of financing at a competitive cost of funding and reducing risk assets calculated for the purposes of solvency ratios, without excluding the originator (transferor) from the management of customer relationships;
- ii) conventional securitisations of own assets in order to generate assets eligible as collateral for refinancing with the European Central Bank. 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 - SPEs), which allow an entity to acquire funding by securitising part of the assets which it owns. Generally the assets (usually loans) recognised in the balance sheet of an entity are transferred to an SPE, which issues securities sold on the market in order to fund the purchase and pay back the amount received to the transferor. The redemption and return on the securities issued depend on the cash flows generated by the loans transferred. In conventional securitisation transactions of its own assets, designed to generate assets eligible as collateral, UBI fully subscribes two tranches of the securities issued by the SPE in order to finance the purchase of the loans. The senior securities assigned a rating are listed and can be used for refinancing operations with the ECB.

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

Securitisation transactions performed within the UBI Banca Group were closed during 2009 as follows:

- on 15th January 2009 the Albenza 2 Srl transaction was closed down in advance in accordance with contracts. The right to repurchase loans, held under contract by UBI Banca Scpa, was transferred to UBI Banca Popolare di Bergamo Spa which recognised the

loans transferred in its financial statements (66.092.428 euro). The relative servicing activity was therefore also closed down;

- on 30th October 2009, the Lombarda Lease Finance 2 securitisation was closed down in advance because the originator (UBI leasing) exercised its option under the contract to repurchase all the loans held in portfolio for a total amount of 39.310.455 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 formulated 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 Bank 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.

Securitisation transactions with underlying assets of others

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 0,17% of its consolidated assets (net of impairment).

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

- a collateralised bond obligation (“CBO Investment Jersey Ltd 1999-2010”, classified within financial assets held for trading), amounting to 35,6 million euro and matured in January 2010, with the underlying consisting of securities issued by supranational institutions;
- ABS securities totalling approximately 2,2 million euro (recognised within financial assets held for trading), belonging almost exclusively to the subsidiary UBI Banca International Sa, with underlying assets mainly of European origin;
- other structured credit products totalling 2,4 million euro (classified within financial assets held for trading in the UBI Banca International Sa portfolio) with an investment grade credit rating;
- ABS instruments totalling 128,8 million euro (recognised within available-for-sale financial assets) relating to senior tranches of INPS (national insurance institute) securitisations;
- RMBS securities amounting to 36,4 million euro (recognised within available-for-sale financial assets) and relating to the senior tranches of the residential mortgage securitisations of a major Italian banking group.

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 liquidity position of the Group.

Securitisations: characteristics

UBI Finance 2

The UBI Finance 2 Srl transaction (which accommodates the UBI Banco di Brescia 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 (UBI 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 Bank, UBI Banca, by means of repurchase agreements to be used as collateral in repo transactions with the ECB or to guarantee intraday transactions with the Bank of Italy;
- class B securities (junior tranches): nominal amount 519.850.000,00 euro with no rating and with a yield equal to the additional return on the transaction, which allow the originator, Banco di Brescia, to benefit from the excess spread on the underlying portfolios.

Lombarda Lease Finance 3

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

- on 11/06/03 a contract was signed for the transfer without recourse by the originator (UBI Leasing S.p.A.) of the principal of implicit performing loans recognised in the accounts as at 11/06/03 relating to lease contracts, against payment of the nominal value of the loans transferred by the SPE (Lombarda Lease Finance 3 S.r.l.);
- the amount of the loans transferred was 650.529.119 euro
- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee;
- on 30/06/04 Lombarda Lease Finance 3 S.r.l. issued notes with different redemption characteristics to fund the operation;
- class A1-A2-A3-B-C “senior and mezzanine” notes subscribed by institutional investors;
- class D “Junior” securities subscribed by the originator.

Lombarda Lease Finance 4

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

- on 11/05/05 a contract was signed for the periodic transfer without recourse by UBI Leasing to Lombarda Lease Finance 4 S.r.l. (“Lombarda Lease Finance”) of loans relating to leasing contracts, against payment of the nominal amount of the loans transferred by the SPE (Lombarda Lease Finance 4 S.r.l.). On 19/10/05, UBI Leasing transferred to LLF4, under the transfer contract signed, loans relating to leasing contracts for an amount equal to the loans transferred which had expired;

- the amount of the loans transferred in the first transfer was 1.100.007.686 euro and the amount for the first transfer scheduled under the “revolving” programme was 63.637.298 euro;
- collection of the repayments was managed by the “originator” as the “servicer” of the operation on specific mandate of the transferee;
- on 15/06/05 Lombarda Lease Finance 4 S.r.l. issued notes with different redemption characteristics to fund the operation;
- class A-B-C “senior and mezzanine” notes subscribed by institutional investors;
- class D “Junior” securities subscribed by the originator.

UBI Lease Finance 5

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

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

Albenza 3

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

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

Orio Finance nr. 3

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

The transfer contract was structured as follows:

- transfer of securities to the special purpose vehicle Orio Finance nr 3 plc., in which the UBI Banca Group holds no interest;
- funding of the operation by the issue of bonds divided into three classes:

- class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,260%, for an amount of 427.200.000 euro, assigned ratings AAA (S&P) and Aaa (Moody's);
- class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,70% for an amount of 17.800.000 euro, assigned ratings A (S&P) and A2 (Moody's);
- class C securities (junior securities): floating rate bonds equal to the Euribor three month + 1,00% , for an amount of 21.600.000 euro (unrated);
- the different types were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C bonds were recognised within the trading portfolio of UBI Banca S.c.p.a., and were eliminated in the consolidation against the junior securities recognised within liabilities in the balance sheet of Orio Finance nr 3 plc.

Sintonia Finance

The Sintonia Finance s.r.l. 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 special purpose entity Sintonia Finance s.r.l., in which the UBI Group holds no interest;
- funding of the operation by the issue of bonds by Sintonia Finance s.r.l. divided into three classes:
 - class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,45% for an amount of 302.790.000 thousand euro, assigned ratings AAA (S&P) and AAA (Fitch);
 - class B securities (mezzanine securities): floating rate bonds equal to the Euribor three month + 0,60% for an amount of 21.040.000 thousand euro, assigned ratings AA (S&P) and AA (Fitch);
 - class C securities (junior securities): fixed rate 2,00%, bonds, for an amount of 17.383.000 thousand euro;
- the different types were assigned a different degree of subordination in the definition of payment priorities for both the interest and principal components. The class C bonds were all 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 balance sheet of the SPE.

24-7 Finance

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

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

The transfer contract was structured as follows:

- the transfer without recourse of the loans to the special purpose entity 24/7 Finance in which UBI Banca holds a 10% interest;

- funding of the operation by the issue of bonds divided according to the sub-transaction as follows:
 - mortgages:
 - class A securities (senior securities): floating rate bonds equal to the Euribor three month + 0,02% for an amount of 2.279.250.000 euro, assigned a rating Aaa (Moody's);
 - class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 225.416.196 euro;
 - salary backed loans:
 - class A securities (senior securities): floating rate bonds equal to the Euribor three month for an amount of 722.450.000 euro, assigned a rating Aaa (Moody's);
 - class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 113.728.307 euro;
 - consumer loans:
 - class A securities (senior securities): floating rate bonds equal to the Euribor six month + 0.35% for an amount of 2.128.250.000 euro, assigned a rating Aaa (Moody's);
 - class D securities (junior securities): bonds with a yield equal to the “additional return”, for an amount of 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 concluded for each securitisation between the respective SPEs and the respective swap counterparties who, in order to be able to “close” the risk with the originators, signed contracts identical in form but opposite in their effects with UBI Banca which in turn renegotiated further mirror swaps with the respective originators. The 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 Bank, hedging the risk by means of a swap contract.

As at 31st December 2009 ordinary lines of liquidity existed granted by the Parent Bank to the special purpose entities Orio Finance Nr.3 Plc for a total of five million euro, but never drawn on. Ordinary lines of liquidity have also been granted by B@nca 24-7 to the entity 24-7 Finance for a total of 64,4 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

Lombarda Lease Finance 3

Originator	UBI Leasing Spa
Issuer	Lombarda Lease Finance 3 Srl
Servicer	UBI Leasing Spa
Collection Account Bank	UBI Banco di Brescia, Luxembourg Branch
Investment Account Bank	UBI Banco di Brescia, Luxembourg Branch
Cash Manager	UBI Banco di Brescia, Luxembourg Branch
Class D Notes Depository	UBI Banco di Brescia
Quotaholder	UBI Banca Scpa

Lombarda Lease Finance 4

Originator	UBI Leasing Spa
Issuer	Lombarda Lease Finance 4 Srl
Servicer	UBI Leasing Spa
Collection Account Bank	UBI Banco di Brescia, Luxembourg Branch
Investment Account Bank	UBI Banco di Brescia, Luxembourg Branch
Cash Manager	UBI Banco di Brescia, Luxembourg Branch
Quotaholder	UBI Banca 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 S.A. Italian Branch

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

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 nr 3 plc

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
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Issuer	UBI Group is Centrobanca Spa
Servicer	Sintonia Finance Srl
Collection Account Bank	Centrobanca Spa
Investment Account Bank	Centrobanca Spa
Cash Manager	Citibank N.A. London Branch
	Citibank N.A. London Branch

24-7 Finance S.r.l.

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

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

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

The major part of the management of securitisations is performed by the Finance, Administration and Operational Control and Risk Control Macro Areas. The roles and tasks relating to the performance of the various operational phases of servicing and to monitoring performance data were defined in those units.

A set of reports monitoring each individual securitisation transaction is prepared quarterly for senior management, with half year reports for the Management Board.

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

Securitisations: methodologies for calculating exposures

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

Securitisations: accounting policies

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

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

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

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

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

Quantitative information

Securitisations: positions for own and third party securitisations

Quality of underlying assets/ Exposures	On-balance sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying assets of others:																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	200.722	200.722	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Type of underlying assets/Exposures	On-balance sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs	Carrying amount	Impairment losses/write-backs
A.1 CBO INVESTMENT JERSEY LTD																		
Securities, supranational issuers	35.587	57	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Cartolarizzazione INPS 19 TV - Società SCCI																		
Pension assets	88.607	(158)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Cartolarizzazione INPS 18 TV - Società SCCI																		
Pension assets	40.145	691	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Cordusio RMBS Securitisation Srl																		
Mortgage loans on residential properties	21.433	1.054	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5 Cordusio RMBS 3 UBCasa 1 Srl																		
Mortgage loans on residential properties	14.950	1.040	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitisations: positions by financial asset portfolio and type

Exposure/portfolio	Trading	At fair value	Available-for-sale	Held-to-maturity	Loans	as at 31.12.09	as at 31.12.08
1. On-balance sheet exposures	35.587	-	165.135	-	-	200.722	174.620
- Senior	35.587	-	165.135	-	-	200.722	174.620
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-balance sheet exposures	-	-	-	-	-	-	-
- Senior	-	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-

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

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

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

SECURITISATIONS: TYPE OF EXPOSURE BY WEIGHTING BANDS (STANDARDISED APPROACH)							
Own underlying assets	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional						21.000	21.000
Synthetic							-
TOTAL OWN 31.12.09	-	-	-	-	-	21.000	21.000
TOTAL OWN 31.12.08	-	-	-	-	-	21.000	21.000
Underlying assets of others	20%	50%	100%	350%	1250%	1250% unrated	TOTAL
Traditional	185.130						185.130
Synthetic							-
TOTAL OTHERS 31.12.09	185.130	-	-	-	-	-	185.130
TOTAL OTHERS 31.12.08	180.197	-	-	-	-	-	180.197

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

Servicer	The special purpose entity	Securitized assets (end of period figures)		Payments received on loans during the year		Percentage of securities redeemed (the end of period figure)					
		Impaired assets	Perfor- ming assets	Impaired assets	Perfor- ming assets	Senior		Mezzanine		Junior	
						Impaired assets	Perfor- ming assets	Impaired assets	Perfor- ming assets	Impaired assets	Perfor- ming assets
UBI Banca Scpa	Albenza 2 Società per la cartolarizzazione Srl	-	-	-	65.494	0,02%	99,98%	-	-	-	-
UBI Banca Scpa	Albenza 3 Società per la cartolarizzazione Srl	1.091	53.210	124	21.326	0,04%	86,04%	-	-	-	-
UBI Banca Scpa	UBI Finance 2 Srl	-	-	-	-	-	-	-	-	-	-
Centrobanca Spa	Sintonia Finance Srl	4.000	27.134	1.210	8.954	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 2 Srl	-	-	975	66.721	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 3 Srl	5.256	57.699	1.249	43.011	-	-	-	-	-	-
UBI Leasing Spa	Lombarda Lease Finance 4 Srl	24.610	337.468	4.844	201.277	-	-	-	-	-	-
UBI Leasing Spa	UBI Lease Finance 5 Srl	77.157	3.040.419	2.532	898.897	-	-	-	-	-	-
Banca 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			Lending to banks			Lending to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2009	31/12/2008
A. On-balance sheet assets	306.720	-	-	-	-	-	2.991.150	-	-	-	-	-	-	-	-	-	-	-	3.297.870	3.562.407
1. Debt securities	306.720	-	-	-	-	-	2.991.150	-	-	-	-	-	-	-	-	-	-	-	3.297.870	3.018.585
2. Equity instruments	-	-	-	-	-	-	-	-	X	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	X	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	543.822
5. Impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
31/12/2009	306.720	-	-	-	-	-	2.991.150	-	-	-	-	-	-	-	-	-	-	-	3.297.870	3.562.407
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31/12/2008	556.295	231.339	254.312	-	-	-	127.969	783.491	907.199	632.304	687.187	988.263	-	-	-	543.822	-	-	3.562.407	3.562.407
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Legend:

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

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

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

Table 12 – Operational risk

Qualitative information

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

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

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

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

Table 13 – Equity exposures: disclosures for banking book positions

Qualitative information

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

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

Accounting policies

Capital instruments included in the banking book are recognised in the balance sheet within available-for-sale financial assets (shares and units in O.I.C.R. – collective investment instruments – other than hedge funds) and within financial assets at fair value (units in hedge funds acquired after 1st July 2007) and in the case of instruments held in companies subject to significant influence by the UBI Group, within equity investments.

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

	<i>carrying amount</i>		<i>fair value</i>		<i>market value</i>		<i>gains/losses/income/expenses realised and impairment</i>		<i>unrealised gains/losses recognised in the balance sheet</i>	
	<i>level 1</i>	<i>level 2/3</i>	<i>level 1</i>	<i>level 2/3</i>	<i>level 1</i>	<i>level 2/3</i>	<i>level 1</i>	<i>level 2/3</i>	<i>level 1</i>	<i>level 2/3</i>
Financial assets at fair value:										
- equity instruments	-	-	-	-	-	X	-	-	X	X
- OICR units (collective investment instruments)	108.819	64.908	108.619	64.908	108.619	X	6.976	(32.127)	X	X
Available-for-sale financial assets:										
- equity instruments	489.825	146.623	489.825	146.623	489.825	X	(31.530)	2.194	137.671	12.698
- OICR units (collective investment instruments)	17.177	110.306	17.177	110.306	17.177	X	(8.720)	(347)	-	(6.396)

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 Bank 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. This estimate is supported by statistical and quantitative analyses conducted in 2008 on the main banks in the Group.

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 demand deposits. 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 Bank, which performs the following on a monthly basis:

- a sensitivity analysis designed to measure changes in the value of assets on the basis of parallel shocks on interest rate levels for all the time buckets of the curve;
- a simulation of the impact on net interest income for the current year by means of a static gap analysis (i.e. assuming that the positions remain constant during the period), considering different hypotheses for the elasticity of 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 UBI Group to interest rate risk, measured in terms of core sensitivity on items as at 31st December 2009, amounted to approximately -227,93 million euro (-277,19 million euro as at 31st December 2008), compared to a limit of -300 million euro set on that aggregate by the Group Financial Risks Policy.

The total level of exposure includes an estimate of the impact of the early repayment of loans (approximately +236 million euro in terms of sensitivity) and transactions to hedge loans granted as at 31st December 2009 (approximately +19 million euro in terms of sensitivity at consolidated level) performed after the end of the year in order to comply with limits set at individual company level by the Financial Risks Policy.

In detail, the sensitivity originated by the network banks amounted to approximately -68,64 million euro, while approximately -29,83 million euro is attributable to the activities of the Product Companies. The Parent Bank contributes a total of approximately -129,67 million euro, including +18,09 million euro from banking book assets and liabilities – attributable mainly to the available-for-sale portfolio and to loans – and approximately -147,76 million euro from action taken for structural balance and on sensitivity grounds with regard 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.

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	-227,49	116,16
	Other non significant currencies	-0,45	-0,99
TOTAL +100 bp		-227,93	115,16
-100 bp	EUR	339,77	-152,12
	Other non significant currencies	0,21	0,99
TOTAL -100 BP		339,98	-151,13

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	7,15%
Impact on economic value/Supervisory capital	4,78%

-200 bp

Impact on economic value/Tier I	-10,19%
Impact on economic value/Supervisory capital	-6,81%

End of period values

+200 bp

Impact on economic value/Tier I	6,80%
Impact on economic value/Supervisory capital	4,54%

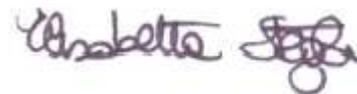
-200 bp

Impact on economic value/Tier I	-7,4%
Impact on economic value/Supervisory capital	-4,9%

Declaration of the Senior Officer Responsible for preparing 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.

Senior Officer Responsible for
preparing the company accounting
documents



Bergamo, 27th April 2010