

Italy  
Credit Analysis

**Banca UBAE**

**Ratings**

	Current Ratings
<b>Foreign Currency</b>	
Long-Term IDR	BB+
Short-Term IDR	B
<b>Individual</b>	
Support Rating	C/D
Support Rating Floor	5
	No Floor
<b>Sovereign Risk</b>	
Foreign Long-Term IDR	AA-
Local Long-Term IDR	AA-

**Outlook**

Foreign Long-Term	Stable
Sovereign Foreign Long-Term	Stable
Sovereign Local Long-Term	Stable

**Financial Data**

Banca UBAE	30 Jun 08	31 Dec 07
Total assets (USDm)	6,013.9	3,996.9
Total assets (EURm)	3,815.0	2,715.1
Total equity (EURm)	184.8	177.2
Operating profit (EURm)	11.0	12.5
Published net income (EURm)	7.6	7.7
Comprehensive income (EURm)	7.6	7.7
Operating ROAA (%)	0.67	0.53
Operating ROAE (%)	12.15	7.21
Internal capital generation (%)	0.00	0.00
Eligible capital/weighted risks (%)	11.18	18.18
Tier 1 ratio (%)	11.15	18.12

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**Rating Rationale**

- The ratings of Banca UBAE (UBAE) reflect its core activities in a niche market, significant credit exposure to non-investment-grade-rated countries combined with its sensitivity to political changes in these markets, and a capitalisation that needs strengthening if it wants to pursue further growth. They also take account of its still low but improving profitability and low market risk.
- Although revenues from the Libyan oil business are still significant, UBAE has, since 2005, started redirecting its activities towards new markets and products to strengthen its profitability. UBAE's operating profitability reflects the low margins typical of its core trade finance business, which is nonetheless performing adequately on the back of increasing business volumes, while the abundant funding from its oil business is being invested in interbank assets and contributes to the bank's net interest revenue. Cost efficiency is good.
- UBAE's credit risk in its trade finance business is moderate. The bank is exposed to emerging markets characterised by significant political risk; nonetheless, its knowledge of the countries and counterparties is sound and the type of exposures it takes are short term and towards banks. Its exposure towards banks worldwide through pure money market lines and as a result of its trade finance activity is significant. It also has a small book of loans extended to trade finance-related corporate customers. Single name concentrations on its books tend to be material. Market risk is currently low.
- Funding is largely from short-term bank deposits, a substantial amount of which comes from its shareholders. These deposits are mostly from banks with which UBAE has stable correspondent banking relationships.
- UBAE's capitalisation has been decreasing on the back of on- and off-balance sheet growth. End-H108 capitalisation also reflects the negative impact of Basel 2 adoption. Given the bank's exposure to political and operational risks and the significant concentrations in its assets and liabilities, Fitch Ratings considers that it should operate with high levels of capital. Management has plans to increase capital in 2009 and 2010.

**Support**

- If UBAE were to get into difficulties, Fitch believes it would first look to its shareholders for support, although their ability and propensity to support it cannot be assessed; additional support from the authorities is possible but cannot be relied upon.

**Key Rating Drivers**

- Pressure on the ratings could arise from increased political risk or volatility in its key markets, the default of one of its bank counterparties (to which UBAE tends to be significantly exposed) or failure to sustain capital despite further growth. Upward potential is limited given the bank's operations, its credit risk exposure and currently limited size.

**Profile**

UBAE is a niche provider of specialised short-term trade finance to Mediterranean Arab markets, with a leading market share in payment services related to oil trading between Libya and Italy. UBAE's main shareholder is the Libyan Foreign Bank (LFB, 49.9%), a fully-owned subsidiary of the country's central bank.

- Small niche provider of trade finance

UBAE was created in 1972 by Union de Banques Arabes et Françaises and the former Banca di Roma with the aim of developing trade between Italy and Arab countries. The bank is a niche provider of short-term trade finance to Italian, Western European and US companies trading with North African and Middle Eastern markets. The bank's historical focus is on financing oil trades, mainly between Libya and Italy, but has also expanded into the financing of infrastructures and real estate development projects. The bank is based in Rome and has a branch in Milan as well as representative offices in Libya, Lebanon, Egypt, Iran and Algeria. At end-June 2008, it had 142 employees.

UBAE finances trades from Libya, Iran, Sudan, Turkey and Algeria as well as other Arab countries on the Mediterranean. Given the absence of developed private sectors in many of its key markets, its transactions are often dominated by a few major public sector counterparties. Thanks to its good knowledge of the region in which it operates, the bank is able to defend its position in these markets, where it often has a leading market share in trade finance activity from and to Italy. The relationship between UBAE and its shareholders helps the origination of business opportunities. UBAE has no direct domestic competitors; its main competitors are small European banks specialised in trade finance as well as certain major global banking groups.

UBAE's current shareholding structure reflects its activity and the purposes for which it was created. The largest shareholders are institutional Arab banks, including state-owned LFB, acting as intermediary for all payments between Libya and foreign countries, as well as National Société Générale Bank (17.6%), based in Cairo and acquired in 2006 by France's Société Générale, together with Bank Al-Maghrib (4.7%) and Banque Marocaine du Commerce Extérieur (4.3%), both of which are based in Morocco. A second tier of shareholders consists of large Italian banks and corporates, most notably UniCredit (10.8%, rated 'A+'), Banca Monte dei Paschi di Siena (3.7%, rated 'A'), Intesa Sanpaolo (1.8%, 'AA-'), ENI (Italy's largest oil and gas company, 5.4%, 'AA-'), and Telecom Italia (1.8%, 'BBB+'). A change in the bank's shareholders structure is envisaged as some core shareholders might be interested in increasing their ownership in the bank while others might exit or accept being diluted in the event of a capital increase (see Capital below).

Since 2004, UBAE has started to diversify its product range by offering to its corporate customers and banking counterparties additional products, such as foreign exchange (FX) and oil-related services. It has also improved the management of its bond portfolio and treasury so that it can more profitably invest its abundant liquidity (a result of large deposits and payments, partly related to oil deals), which has hitherto been placed mainly with the interbank market. Granting loans as an ancillary service to low-risk SME trade finance customers and large export-oriented Italian corporates has also been a recent area of expansion. A new general manager, in place since mid 2008, has recently presented a new strategic plan for 2009 - 2011. The bank will largely move along the already known strategic directives, by focussing on the traditional documentary activity consolidating its activities in North Africa and look at geographical diversification into the Middle East and the Gulf countries, as well as Iran, Yemen, Saudi Arabia, Sudan, Russia, Ukraine and Kazakhstan, although this will be slower than originally planned given the current global macroeconomic scenario. Greater emphasis is being placed on increasing the number of Arab clients interested in utilising UBAE's treasury and FX activities. To support and diversify its revenues streams, the bank plans to open to medium term lending to small and medium Italian banks and to get involved in project financing in the North African area, where it has good business and political links, as co-lead manager with larger partners but small risks taken on its own books.

- Operating profitability depends on funding from oil business
- Increasing commission from trade finance business
- Small negative impact from FX and other trading results
- Good cost efficiency in line with peers

### Presentation of Accounts

UBAE has been reporting under International Financial Reporting Standards (IFRS) since end-2006. It has restated its figures for 2005.

### Performance

The bank's operating profitability is dependent on the amount of funding coming from its shareholders and the oil business: fluctuations in the amounts deposited at the bank influence the investments that it is able to make and hence its net interest margin, as was clearly the case during 2007. At the same time, growing commissions earned on the volumes of trade finance activity that UBAE intermediates continues to represent a feature of the bank. In the past, operating performance was affected by loan impairment charges after some of its lending became impaired. This has to be put in the context of the bank's strategy at the time when it tried to tap lending to corporates in sectors it was not familiar with.

Table 1 above compares UBAE's performance with those of other OECD banks specialising in trade finance that are rated by Fitch. In general, net interest margins and profitability measures remain low for banks in this peer group as they tend to rely more than traditional commercial/retail banks on expensive interbank funding, while their small size limits lending opportunities, which typically take the form of money market interbank loans. At the same time, the contribution of commissions earned from their trade finance operations to total revenues is quite substantial. A low cost/income ratio is typical of banks specialised in this business.

### Operating Revenues

The lower net interest revenue and net interest margin in 2007 is the consequence of the lower amount of funds deposited by the Libyan National Oil Company related to oil trade, which are typically very cheap (see also *Funding* below) and which in previous years had underpinned its net interest margin. Fitch understands that this is partly the consequence of a change in the way oil exports from Libya are currently traded: through letters of credit (L/Cs) as opposed to direct trade as was the case in the past following the oil market recent price volatility.

Fees and commissions earned from its trade finance business on the contrary increased both in 2007 and H108 on the back of the significantly higher intermediated volumes of L/Cs. The bank is looking to expand this activity to more dynamic markets where it can earn higher fees.

Other operating income consists mainly of results from FX (and to a lesser extent other financial) dealing activities on behalf of the bank's customers. Again, this item is highly correlated to the volatility of oil prices and of the USD against the EUR but also to the demand for USD currency from clients, which has been

**Table 1: Selected Performance Indicators**

(%)	UBAE		Banque de Commerce et de Placement <sup>a</sup> ('BB+'/'C')*		Fimbank ('BB+'/'C/D')*	
	H108	2007	2007	2006	H108	2007
Net interest margin	0.79	1.01	1.22	1.34	2.24	2.11
Operating ROAA	0.67	0.53	1.92	2.15	1.97	2.07
Net fees and commissions/total operating revenue	39.73	41.39	54.32	45.35	47.44	45.35
Pre-impairment operating ROAA	0.67	0.62	n.a.	n.a.	2.29	2.23
Operating ROAE	12.15	7.21	21.59	20.92	12.12	13.36
Costs/income	50.89	60.00	48.56	51.22	70.76	74.11
Eligible capital/regulatory weighted risks	11.18	18.18	12.31 <sup>b</sup>	13.26 <sup>b</sup>	n.a.	35.89
Eligible capital (EURm)	184.8	177.2	110.6 <sup>c</sup>	96.2 <sup>c</sup>	74.7	65.5

\* IDR/Individual Rating

<sup>a</sup> Swiss GAAPS

<sup>b</sup> Tier 1 ratio

<sup>c</sup> Equity

Source: Annual and interim reports reclassified by Fitch

structurally weak in 2007. Its small securities portfolio recorded some negative valuation movements in the course of 2007, and in line with market trends very little was realised.

### Operating Expenses

Staff and other administrative expenses remained relatively stable, reflecting the bank's effective cost control. The deterioration in the cost/income ratio in 2007 is rather the consequence of weaker operating revenue.

### Net Loan and Other Credit Impairment Charges

Such charges were quite high in 2007 as they included a EUR800,000 charge against the bank's own securitisation (see *Credit Risk* below) and the effect of one existing off-balance sheet impaired exposure transforming into a cash impaired exposure.

### Prospects

The bank is working to improve its low margin profitability and reliance on Libyan oil flows by developing new revenue sources, more recently by advising its depositors on how to invest their liquidity and providing them with some brokerage services. Meanwhile, the currently difficult market conditions might turn favourable for UBAE as it is able to invest its abundant funding in short-term money market lending which, in consideration of the high interbank market rates, is yielding some attractive returns. This should reverse the trend seen in its net interest revenue and margin in 2007, although Fitch considers that this is a cyclical effect rather than a structural improvement in its profitability. In North Africa and the Middle East, UBAE should continue to benefit from its strong relationships with local banks and from its knowledge of the region. Revenue streams arising from the transfer of payments for oil (mainly Libyan) are likely to continue to make a significant contribution to the bank's operating revenues, although in the medium to long term Libya's improved relationship with the EU and the US may result in tougher competition from foreign banks, and 2007 performance has already given evidence of the fact that the bank's performance is somewhat vulnerable to fluctuations in these oil-related transfers.

### Risk Management

An independent risk management unit, in place since 2005, reporting directly to the bank's general manager, monitors credit, market and operational risks. A weekly risk committee monitors the bank's general risk exposure and its compliance with limits, including limits on credit exposures to single borrowers to reduce concentration risk.

### Credit Risk

In addition to its trade finance business, UBAE takes on credit risk by investing its abundant deposits in securities and placing funds with banks. To a lesser extent, it also lends to Italian SMEs. Although Fitch believes that the bank's expertise in its traditional business allows it to be selective in this area, it views UBAE's exposure to political risk as significant. The agency regards the bank's exposure to Italian SMEs as a negative risk factor, but is reassured by the fact that UBAE only offers lending as an ancillary service to trade-finance-related customers, which have a record of doing business with the bank.

The board of directors decides the bank's maximum exposure for each speculative-grade country. A credit committee comprising the bank's senior management takes responsibility for approving the bulk of trade finance and commercial loans. An independent credit control office monitors the bank's loan book on a monthly basis, while specialists (organised by country) analyse country risk. Deteriorating exposures are reported to internal audit, risk management and the credit function and the general manager decides on their classification as impaired. The bank has a scoring system for both banking and corporate counterparties. Credit exposures to

- Extremely high concentrations in its books and exposure to political risk in emerging markets
- Improving asset quality
- Market risk low but likely to increase

**Table 2: On-Balance Sheet Credit Exposure by Country**

(%)	End-H108
Italy	59.25
Germany	6.65
Austria	4.66
Netherlands	4.10
Turkey	2.76
France	2.38
Bahrain	2.10
Belgium	2.04
Libya	1.87
Denmark	1.77
Others	12.42

Source: UBAE

**Table 3: Off-Balance Sheet Credit Exposure by Country**

(%)	End-H108
Italy	43.81
Libya	16.37
UK	5.63
Turkey	5.17
India	4.96
Switzerland	4.75
Belgium	3.30
Sudan	3.02
Iran	2.32
Algeria	2.23
Others	8.45

Source: UBAE

countries, banks and corporates are monitored through the utilisation of external databases. UBAE applies the standardised approach for credit risk under Basel II. In general, the bank has a good knowledge of the countries in which it operates, developed over a period of 30 years. It usually undertakes business in new areas only after achieving a good understanding of the country. A specialised unit checks the bank's documentation and L/Cs.

The bank's balance sheet has increased significantly since end-2006, mainly its loans and advances to banks, increasing its credit risk exposure. This growth has mainly been liability driven, after the bank succeeded in attracting new flows of deposits. UBAE's on-balance sheet assets are liquid and predominantly short term. Interbank lending and trading assets accounted for approximately 96% of total assets at end-June 2008. At the same date, 91% of UBAE's lending to banks had a maturity of below three months, and 55% of less than one month. Over 40% of UBAE's EUR5.2bn total exposure to banks (consisting of EUR3.6bn on-balance sheet as lending to banks and EUR1.6bn off-balance sheet as guarantees and commitments) was to banks for its trade finance business while the rest was money market lines. Its exposure to foreign banks was 50% of the total, out of this percentage 40% was trade finance related, the majority of this exposure is extended to some of the largest banks in the markets in which UBAE operates. These are generally owned by the governments of the countries concerned, although they generally are in speculative-grade areas (or have speculative grade ratings). Around 3% of the EUR3.6bn in interbank lending consisted of loans related to the commercial activity of the bank's customers and was secured by receivables.

Although the short-term and secured nature of most of UBAE's interbank lending mitigates the credit risk of these assets, the political risk involved is significant (see also Table 2). Management says that exposure to Iran is kept at a minimum and not expanded.

Confirmed L/C and other trade-related guarantee exposures, which are off-balance sheet, totalled EUR1.6bn at end-June 2008 (see also Table 3), higher than in 2007. The bulk of the L/C business at UBAE is related to oil trading. UBAE, which has never incurred any losses on its trade finance activities, has outstanding related party exposure totalling EUR80m; however, all of these transactions are conducted on a commercial basis.

At end-April 2008, UBAE also had a EUR496m exposure to trade-finance-related corporate customers (EUR85m on-balance sheet as commercial lending and EUR392m off-balance sheet as guarantees and commitments). The size of the commercial loan portfolio has continued to decrease since 2003, reflecting the bank's change in strategy following loan losses. The loan book is highly concentrated because of its focus on a few selected companies and its small overall size but the bank is making effort to limit the size of single new loans (the general manager has an individual limit of EUR5m, above this all approvals are granted by the board of directors).

At end-April 2008, the bank's 20 largest bank (on- and off-balance sheet) exposures amounted to 63% of its total exposure to banks. Its 20 largest non bank exposures were instead equal to 84% of its customer lending exposure. At end-September 2008, UBAE reported 17 large exposures (i.e. defined as those larger than 10% of its regulatory capital), equating in aggregate to over 4x its regulatory capital which is extremely high, although given their nature these large exposures are extremely volatile, both in total amount and number of clients.

### Other Assets

At end-June 2008, less than 3% of UBAE's assets were invested in securities. Largely accounted as held for trading, these included mainly shares in listed banks and insurance companies and European corporates. The bank also owned some bonds.

The bank aims to create a EUR100m-150m European banks bond portfolio to be held until maturity and support net interest income generation.

### Loan Loss Experience

UBAE's asset quality is adequate despite the concentrations in its loan book. In 2005, the bank decided to clean up its loan portfolio by increasing the loan impairment allowance for its impaired loans. Since then, coverage levels have remained good: at end-June 2008, impairment allowances were equal to over 100% of gross impaired loans (see also *Performance* above). Between end-2007 and end-June 2008 the amount of gross impaired remained stable at EUR10.6m. At end-June, the bank also had EUR5m of net guarantees and commitments classified as impaired, some of these relate to very old exposures. However, including guarantees and commitments, at end-June 2008 impaired exposures still represented a small portion of UBAE's eligible capital.

In 1999, UBAE securitised all its doubtful loans (EUR22.6m net). At end-2007, it held EUR2m net of the senior tranche of this securitisation, purchased from its main shareholder.

### Market Risk

The risk committee is responsible for the strategic management of the bank's funding and for defining monthly market risk policies; it reports directly to the board of directors. The bank has a well-defined system of limits for treasury, derivatives and FX activities. Treasury activity is mainly short term, reflecting the duration of the deals intermediated by the bank. Treasury manages UBAE's excess liquidity and the funds from its main shareholders by investing them on the interbank market. The treasury policy requires maturity and currency mismatches to be maintained at very contained levels.

UBAE monitors and manages market risk on its equity and bond portfolios through value at risk (VaR - 99% confidence, 10-day holding period) within the limits of EUR750,000 for its equities and 2% of the capital invested in bonds (but utilisation levels are around 10% of these limits) but backtesting has been suboptimal so far. The investment limit for single equity exposures is a conservative EUR2m, while the total equity investment cannot exceed EUR10m. The bank's bond investments must be rated investment grade and made in investment-grade and OECD countries. Although the bank can invest in speculative-grade securities, it can do so only with the approval of the board of directors. Derivative instruments are only used for hedging purposes.

UBAE asset and liabilities management system has been recently extended to the entire banking book. The bank monitors interest rate risk through basis point value analyses and interest rate potential losses. The bank is not unduly exposed to interest rate movements and the short-term nature of its assets and liabilities allows it to be flexible and reposition the balance sheet relatively fast.

UBAE operates in the FX markets on behalf of its banking customers, an area it wants to continue develop. At the same time, the level of proprietary FX risk it

### Asset Quality

(%)	UBAE		Banque de Commerce et de Placement <sup>a</sup>		Fimbank	
	H108	2007	2007	2006	2007	2006
Impaired loans gross/loans gross	11.06	6.98	0.02	n.a.	17.83	16.92
Individual loan impairment/gross impaired loans	99.10	99.10	62.00	47.00	56.60	60.62
Loan impairment/gross impaired loans	105.66	119.81	101.00	n.a.	59.26	62.60
Impaired loans net/eligible capital	-0.32	-1.19	n.a.	n.a.	7.05	9.40
Loan impairment charge/gross loans (av.)	0.81	3.36	0.19	0.34	0.36	2.28

<sup>a</sup> Swiss GAAPS

Source: Annual and interim reports reclassified by Fitch

assumes to carry out its customer-related business is low and adequately managed. Its FX net open position is monitored daily. The maximum overnight position it can hold is equal to EUR15m. During 2007, the bank carried out limited proprietary stock picking to be able to sell this service to its clients in the future.

### Operational Risk

Its trade finance activity exposes the bank to significant operational risk, including related to money laundering. However, the bank has strengthened its organisation, setting up an internal audit and risk management unit to manage and monitor these risks. The documentary credit business has solid and well tested procedures, which provides comfort. Nonetheless, Fitch notes that controls have scope to improve further. UBAE adopts the basic indicator approach to measure operational risk charges but will start collecting data on operational losses to improve its analyses. The bank has not reported operational losses during 2007 and H108.

## Funding, Liquidity and Capital

### Funding

UBAE's funding largely comes in the form of short-term bank deposits. At end-June 2008, interbank borrowing accounted for 89% of total funding. Typically with maturities of less than three months, the bank has been trying to lengthen the maturity profile of its deposits more towards the six months maturity. A large part of these bank deposits came from counterparties with which the bank has stable correspondent bank relationships for its trade finance activity. Deposits from corporate customers, typically with maturities of less than three months and mostly from non resident oil related customers, account for a further 4%. The only long-term debt is represented by five-year subordinated debt from its shareholders (see also *Capital*), which amounted to EUR40m at end-2007, and some longer-term credit lines. The bank has also been endeavouring to diversify its depositor base to compensate for the lower volumes of oil-related deposits experienced in 2007, in particular linked to business with Libya, towards which UBAE has historically been reliant. These efforts have so far been successful and Fitch understands that correspondence has been established with a number of central banks in Middle Eastern countries and deposits from banks grew substantially (nearly EUR1bn in 2007 and by additional EUR800m in H108). Nonetheless, these newly attracted deposits are concentrated on a handful of names and there is no track record of stability. Relevant depositor concentration is evident both at the bank and customer deposits level. At end-June 2008, deposits from its largest shareholder, LFB, accounted for 33% of the total.

### Liquidity

UBAE is highly liquid owing to its very short-term activities and the fact that a large part of its business is off-balance sheet. The bank estimates that around EUR2bn of interbank deposits are rolled over and therefore represent a relatively stable stock of funding; in addition, a substantial portion of deposits comes from LFB. At end-June 2008, UBAE has EUR1.8bn and USD1.3bn of available credit lines on the interbank market.

### Capital

At end-2007, UBAE's capital ratios were still acceptable, with an eligible capital to risk weighted assets ratio of 18%, given the bank's exposure to operational risk, the concentration in its loan book and its small size. Eligible capital is equivalent to reported equity: the bank does not issue any hybrid instrument and no goodwill is deducted. Capitalisation has been rapidly decreasing on the back of increasing risk weighted assets (mainly interbank assets and off-balance sheet items). End-H108 capitalisation reflects this additional growth but also the impact of Basel 2 adoption (the inclusion of operational risk charges mainly). Given the nature of the risks taken by the bank, Fitch considers that it must conduct its business with high

- Mainly funded through short-term bank deposits, but quite stable; recent sharp increase in deposits from banks
- Relevant depositor concentration
- Decreasing capital ratios; bank plans to strengthen capital through subordinated issuance and capital increase in the next two years

capital ratios. In 2006 and 2007, the bank did not distribute any dividend, nor it will in 2008, and internal capital generation is adequate. The bank will issue EUR100m of subordinated debt in 2009 to be accounted for as Tier 2 in its regulatory capital calculation to reinforce capitalisation, which LFB agreed to subscribe entirely. The bank is also studying a capital increase in the area of EUR200m to take place in 2010 to carry out its strategic plan, which would be partly utilised to reimburse the subordinated debt.

**Balance Sheet Analysis**

**BANCA UBAE**

	30 Jun 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	6 Months - Interim	6 Months - Interim	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	EURm	Assets	EURm	EURm	Assets	EURm	Assets	EURm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>A. LOANS</b>										
1. Loans and Advances < 3 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Loans and Advances 3 - 12 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Loans and Advances > 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Loan Impairment (to deduct from above)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
5. Loan Impairment (memo)	17.7	11.2	0.29	12.0	12.7	0.47	0.0	0.00	6.1	0.39
<b>TOTAL A</b>	<b>133.4</b>	<b>84.6</b>	<b>2.22</b>	<b>111.9</b>	<b>139.2</b>	<b>5.13</b>	<b>91.8</b>	<b>4.68</b>	<b>121.7</b>	<b>7.76</b>
<b>B. OTHER EARNING ASSETS</b>										
1. Loans and Advances to Banks	5,661.3	3,591.3	94.14	2,991.8	2,392.3	88.11	1,675.8	85.51	1,213.8	77.36
2. Government Securities	n.a.	n.a.	-	n.a.	2.3	0.08	0.2	0.01	0.2	0.01
3. Trading Assets	135.1	85.7	2.25	103.9	122.0	4.49	110.1	5.62	152.0	9.69
4. Derivatives	0.0	0.0	0.00	1.8	3.6	0.13	5.9	0.30	1.3	0.08
5. Other Securities and Investments	7.7	4.9	0.13	4.9	4.8	0.18	4.4	0.22	3.7	0.24
6. Equity Investments	0.0	0.0	0.00	0.0	0.1	0.00	0.1	0.01	0.0	0.00
<b>TOTAL B</b>	<b>5,804.1</b>	<b>3,681.9</b>	<b>96.51</b>	<b>3,103.5</b>	<b>2,525.1</b>	<b>93.00</b>	<b>1,796.5</b>	<b>91.67</b>	<b>1,371.0</b>	<b>87.38</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>5,937.5</b>	<b>3,766.5</b>	<b>98.73</b>	<b>3,215.4</b>	<b>2,664.3</b>	<b>98.13</b>	<b>1,888.3</b>	<b>96.36</b>	<b>1,492.7</b>	<b>95.14</b>
<b>D. TANGIBLE FIXED ASSETS</b>	<b>42.6</b>	<b>27.0</b>	<b>0.71</b>	<b>27.3</b>	<b>27.5</b>	<b>1.01</b>	<b>28.6</b>	<b>1.46</b>	<b>30.4</b>	<b>1.94</b>
<b>E. NON-EARNING ASSETS</b>										
1. Cash and Due from Banks	0.3	0.2	0.01	0.9	1.6	0.06	26.4	1.35	37.6	2.40
2. Other	33.6	21.3	0.56	21.5	21.7	0.80	16.4	0.84	8.3	0.53
<b>F. TOTAL ASSETS</b>	<b>6,013.9</b>	<b>3,815.0</b>	<b>100.00</b>	<b>3,265.1</b>	<b>2,715.1</b>	<b>100.00</b>	<b>1,959.7</b>	<b>100.00</b>	<b>1,569.0</b>	<b>100.00</b>
<b>G. DEPOSITS &amp; MONEY MARKET FUNDING</b>										
3. Due to Customers, no breakdown	416.6	264.3	6.93	194.5	124.6	4.59	72.2	3.68	111.4	7.10
4. Deposits from Banks	4,803.0	3,046.8	79.86	2,650.1	2,253.3	82.99	1,296.0	66.13	1,012.5	64.53
<b>TOTAL G</b>	<b>5,219.6</b>	<b>3,311.1</b>	<b>86.79</b>	<b>2,844.5</b>	<b>2,377.9</b>	<b>87.58</b>	<b>1,368.2</b>	<b>69.82</b>	<b>1,123.9</b>	<b>71.63</b>
<b>H. OTHER LIABILITIES</b>										
1. Derivatives	1.6	1.0	0.03	1.9	2.7	0.10	7.9	0.40	2.2	0.14
<b>TOTAL H</b>	<b>1.6</b>	<b>1.0</b>	<b>0.03</b>	<b>1.9</b>	<b>2.7</b>	<b>0.10</b>	<b>7.9</b>	<b>0.40</b>	<b>2.2</b>	<b>0.14</b>
<b>I. OTHER FUNDING</b>										
1. Long-term Borrowing	n.a.	n.a.	-	n.a.	25.0	0.92	85.9	4.38	59.5	3.79
2. Subordinated Debt	n.a.	n.a.	-	n.a.	39.8	1.47	n.a.	-	n.a.	-
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>TOTAL I</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>64.8</b>	<b>2.39</b>	<b>85.9</b>	<b>4.38</b>	<b>59.5</b>	<b>3.79</b>
<b>J. NON-INTEREST BEARING</b>	<b>501.5</b>	<b>318.1</b>	<b>8.34</b>	<b>205.3</b>	<b>92.5</b>	<b>3.41</b>	<b>328.1</b>	<b>16.74</b>	<b>223.7</b>	<b>14.26</b>
<b>K. HYBRID CAPITAL</b>										
1. Hybrid capital accounted for as equity	0.0	0.0	0.00	0.0	0.0	0.00	n.a.	-	n.a.	-
2. Hybrid Capital accounted for as debt	0.0	0.0	0.00	0.0	0.0	0.00	n.a.	-	n.a.	-
<b>L. TOTAL LIABILITIES</b>	<b>5,722.6</b>	<b>3,630.2</b>	<b>95.16</b>	<b>3,084.1</b>	<b>2,537.9</b>	<b>93.47</b>	<b>1,790.1</b>	<b>91.35</b>	<b>1,409.3</b>	<b>89.82</b>
<b>M. EQUITY</b>										
1. Common Equity	291.3	184.8	4.84	181.0	177.2	6.53	169.6	8.65	159.7	10.18
3. Revaluation Reserves	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
<b>TOTAL M</b>	<b>291.3</b>	<b>184.8</b>	<b>4.84</b>	<b>181.0</b>	<b>177.2</b>	<b>6.53</b>	<b>169.6</b>	<b>8.65</b>	<b>159.7</b>	<b>10.18</b>
<b>MEMO: CORE CAPITAL</b>	<b>291.3</b>	<b>184.8</b>	<b>4.84</b>	<b>181.0</b>	<b>177.2</b>	<b>6.53</b>	<b>169.6</b>	<b>8.65</b>	<b>159.7</b>	<b>10.18</b>
<b>MEMO: ELIGIBLE CAPITAL</b>	<b>291.3</b>	<b>184.8</b>	<b>4.84</b>	<b>181.0</b>	<b>177.2</b>	<b>6.53</b>	<b>169.6</b>	<b>8.65</b>	<b>159.7</b>	<b>10.18</b>
<b>N. TOTAL LIABILITIES &amp; EQUITY</b>	<b>6,013.9</b>	<b>3,815.0</b>	<b>100.00</b>	<b>3,265.1</b>	<b>2,715.1</b>	<b>100.00</b>	<b>1,959.7</b>	<b>100.00</b>	<b>1,569.0</b>	<b>100.00</b>

Exchange Rate

USD1 = EUR 0.6344

USD1 = EUR 0.6793

USD1 = EUR 0.7593

USD1 = EUR 0.8477

**Income Statement Analysis**

**BANCA UBAE**

	30 Jun 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	Original
1. Interest Income	67.3	4.19	100.2	4.40	98.8	5.84	59.2	-
2. Interest Expense	54.6	3.40	77.1	3.39	65.6	3.88	30.9	-
<b>3. NET INTEREST REVENUE</b>	<b>12.7</b>	<b>0.79</b>	<b>23.1</b>	<b>1.01</b>	<b>33.2</b>	<b>1.96</b>	<b>28.3</b>	-
4. Net Fees & Commissions	8.9	0.55	14.9	0.65	12.1	0.72	10.1	-
5. Net Insurance Revenue	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Operating Income	0.8	0.05	-2.0	-0.09	1.2	0.07	9.5	-
7. Personnel Expenses	6.9	0.43	13.3	0.58	14.1	0.83	13.2	-
8. Other Operating Expenses	4.5	0.28	8.3	0.36	7.9	0.47	8.1	-
<b>9. PRE-IMPAIRMENT OPERATING PROFIT</b>	<b>11.0</b>	<b>0.68</b>	<b>14.4</b>	<b>0.63</b>	<b>24.5</b>	<b>1.45</b>	<b>26.6</b>	-
10. Loan Impairment Charge	0.5	0.03	4.1	0.18	-0.7	-0.04	6.7	-
11. Other Credit Impairment and Provisions	-0.5	-0.03	-2.2	-0.10	1.7	0.10	2.7	-
<b>12. OPERATING PROFIT</b>	<b>11.0</b>	<b>0.68</b>	<b>12.5</b>	<b>0.55</b>	<b>23.5</b>	<b>1.39</b>	<b>17.2</b>	-
13. Other Income and Expenses	1.0	0.06	1.9	0.08	1.4	0.08	0.6	-
<b>14. PUBLISHED PRE-TAX PROFIT</b>	<b>12.0</b>	<b>0.75</b>	<b>14.4</b>	<b>0.63</b>	<b>24.9</b>	<b>1.47</b>	<b>17.8</b>	-
15. Taxes	4.4	0.27	6.7	0.29	10.5	0.62	7.9	-
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS investments	0.0	0.00	0.0	0.00	n.a.	-	n.a.	-
18. Currency Translation Differences	0.0	0.00	0.0	0.00	n.a.	-	n.a.	-
19. Other Gains/(Losses) not in Published Net Income	0.0	0.00	0.0	0.00	0.0	0.00	0.0	-
<b>20. FITCH COMPREHENSIVE INCOME</b>	<b>7.6</b>	<b>0.47</b>	<b>7.7</b>	<b>0.34</b>	<b>14.4</b>	<b>0.85</b>	<b>9.9</b>	-
21. Total Gains/(Losses) not in Published Net Income	0.0	0.00	0.0	0.00	0.0	0.00	0.0	-
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>23. PUBLISHED NET INCOME</b>	<b>7.6</b>	<b>0.47</b>	<b>7.7</b>	<b>0.34</b>	<b>14.4</b>	<b>0.85</b>	<b>9.9</b>	-

**Ratio Analysis**

**BANCA UBAE**

		30 Jun 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		6 Months - Interim	Year End	Year End	Year End
		EURm	EURm	EURm	EURm
		Original	Original	Original	Original
<b>I. PERFORMANCE</b>					
1. Net Interest Margin	%	0.79	1.01	1.96	n.a.
2. Loan Yield	%	n.a.	2.77	87.12	n.a.
3. Cost of Funds	%	3.84	3.96	4.97	n.a.
4. Costs/Average Assets	%	0.70	0.92	1.25	n.a.
5. Costs/Income	%	50.89	60.00	47.31	44.47
6. Pre-Impairment Operating ROAA	%	0.67	0.62	1.39	n.a.
7. Operating ROAA	%	0.67	0.53	1.33	n.a.
8. Pre-impairment Operating ROAE	%	12.15	8.30	14.88	n.a.
9. Operating ROAE	%	12.15	7.21	14.27	n.a.
<b>II. CAPITAL ADEQUACY</b>					
1. Internal Capital Generation	%	8.40	4.44	8.75	n.a.
2. Core Capital/Total Assets	%	4.84	6.53	8.65	10.18
3. Eligible Capital/Regulatory Weighted Risks	%	11.18	18.18	23.55	22.41
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	11.18	18.18	23.55	22.41
5. Tier 1 Regulatory Capital Ratio	%	11.15	18.12	23.45	21.66
6. Total Regulatory Capital Ratio	%	13.49	22.14	28.22	25.15
7. Free Capital/Equity	%	85.06	84.09	78.54	80.59
<b>III. LIQUIDITY (year end)</b>					
1. Liquid Assets/Deposits & Money Mkt Funding	%	n.a.	n.a.	n.a.	n.a.
2. Loans/Deposits	%	32.01	111.72	127.15	109.25
<b>IV. ASSET QUALITY</b>					
1. Loan Impairment Charge/Gross Loans (av.)	%	0.81	3.36	-0.64	n.a.
2. Total Credit Impairment/Pre-impairment Operating Profit	%	0.00	13.19	4.08	35.34
3. Loan Impairment/Gross Impaired Loans	%	105.66	119.81	0.00	117.31
4. Individual Loan Impairment/Gross Impaired Loans	%	99.10	99.10	97.20	119.20
5. Impaired Loans Gross / Loans Gross	%	11.06	6.98	7.73	4.07
6. Impaired Loans Net/Eligible Capital	%	-0.32	-1.19	4.19	-0.56

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