# BANCA UBAE S.p.A.

## Report on Assets, Liabilities and Profit Results as at 31 December 2010

## Thirty-Eighth Financial Year

| | | |
|---|---|---|
| Share Capital: | Euro | 151,060,800.00 (full paid-up) |
| Reserves (as at 30th April 2010): | Euro | 42,406,660.00 |

| | |
|---|---|
| (*) Libyan Foreign Bank, Tripoli | 67.55% |
| UniCredit SpA, Rome | 10.79% |
| Eni Adfin SpA (ENI Group), Rome | 5.39% |
| Banque Centrale Populaire, Casablanca | 4.66% |
| Banque Marocaine du Commerce Extérieur, Casablanca | 4.34% |
| Sansedoni Siena SpA (Fondazione Monte dei Paschi di Siena), Siena | 3.67% |
| Intesa Sanpaolo SpA, Turin | 1.80% |
| Telecom Italia SpA, Milan | 1.80% |

(*) Libyan Foreign Bank acquired the 17.62% stake held by National Société Générale Bank, Cairo in October 2010

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**EXTRAORDINARY COMMISSIONERS** — **APPOINTED ON 13.04.2011**

Corrado Casalino
Attilio Zimatore

**SUPERVISORY BOARD** — **APPOINTED ON 13.04.2011**

Raffaele Lener, President
Maurizio Losavio
Oliviero Pesce

**TEMPORARY ADMINISTRATORS** — **SINCE 12.03.2011 TO 12.04.2011**

Vincenzo Cantarella
Maurizio Losavio

**BOARD OF DIRECTORS 2009-2011** — **DISSOLVED ON 13.04.2011**

**Chairman,** Abdullatif El Kib*

**Vice Chairman**, Alberto Rossetti *

**Directors**

Yousef A. Abdelmaula *
Ahmed S.Abusnina
Radaedin M. Banuga (1)
Mohamed Benchaaboun (2)
Luca Bonechi
Abdelrazak M. Elhoush (1)
Ernesto Formichella
Selim K. Ihmouda *
Saleh A. Keshlaf *

(1) appointed by the Shareholders on 21.1.2011
(2) co-opted on 16.7.2010 to replace outgoing Director Abdellatif Jouahri (appointment ratified by the Shareholders on 21.1.2011)

*** Member of the Executive Committee**

Secretary to the Board of Directors and the Executive Committee
**Priscilla Simonetta**

**BOARD OF AUDITORS** — **DISSOLVED ON 13.04.2011**

| **Chairman** | **Statutory Auditors** | **Alternate Auditors** |
|---|---|---|
| Marco Leotta | Fernando Carpentieri | Fabio Gallassi |
| | Cosimo Vella | Francesco Rocchi |

MANAGEMENT

**General Manager**, Biagio Matranga
**Deputy General Manager**, Jamal R. Elbenghazi
**Assistant General Manager**, **Administration**, Marcello Fontana
**Assistant General Manager**, **Operational,** Adel Aboushwesha

**Manager of the Bank's Representative Office in Tripoli,** Mahmud A. Elesawi

# **Extraordinary Commissioners' Report**
## (art. 73, para. 4 of the Consolidated Banking Law)



Acting on a recommendation from Banca d'Italia, the Minister of Economy and Finance decreed on 8 April 2011 that the Board of Directors, the Executive Committee and the Board of Auditors of Banca UBAE SpA should be dissolved and the institution placed in "extraordinary administration".

The decree followed an earlier resolution - adopted by Banca d'Italia on urgent grounds on 12 March 2011 - whereby the Bank was placed in "temporary administration" in the wake of international measures freezing assets traceable to the Libyan regime, including those belonging to Libyan Foreign Bank, which holds 67.55% of UBAE's share equity.

On 13 April 2011, Banca d'Italia appointed the bodies responsible for the governance of Banca UBAE SpA *in amministrazione straordinaria*, i.e., two Extraordinary Commissioners, Messrs. Corrado Casalino and Attilio Zimatore, and a three-member Supervisory Board comprising Messrs. Raffaele Lener, Maurizio Losavio and Oliviero Pesce. Mr. Lener was later designated to chair the Supervisory Board.

Thus composed, both bodies were formally installed on 18 April 2011.

The Extraordinary Commissioners replaced the administrators whom Banca d'Italia had appointed to conduct the Bank's affairs on a temporary basis pursuant to art. 76 of the CBL.

Upon taking office we, the Extraordinary Commissioners, demanded to see an abstract of the Bank's accounts. Shortly afterwards, the General Manager presented us with a draft copy of the 2010 financial statements that had been all but completed by the competent departments and had gone through extensive internal checks. The draft had already been submitted to the independent auditors charged with certifying Banca UBAE's accounts in previous periods, and had come back free of any comments liable to cast doubt on the accuracy and fairness of its contents.

The Board of Directors and Board of Auditors of Banca UBAE SpA having been dissolved by government decree (pursuant to art. 70 of the CBL) as mentioned, the draft financial statements cannot of course be finalized and then submitted to a shareholders' meeting for approval.

That said we believe - on the basis of the information available to us - that the current draft constitutes a fair and accurate representation of the Bank's assets, liabilities, revenues and expenses, providing a detailed account of all banking activities pursued over the course of 2010 and of Banca UBAE's profit results.

In order to offer third parties the best possible perspective on Banca UBAE's balancesheet and performance data we have resolved, pursuant to and for the purposes of art. 73 of the CBL, to file this report with the Registrar of Companies on the understanding that the figures contained in the draft 2010 financial statements carry our endorsement.

Rome, 20 June 2011

**THE EXTRAORDINARY COMMISSIONERS**
Corrado Casalino
Attilio Zimatore

# Statement by the Supervisory Board

(art. 73, para. 4 of the Consolidated Banking Law)



Comprising Messrs. Raffaele Lener, Maurizio Losavio and Oliviero Pesce, the Supervisory Board of Banca UBAE SpA *in amministrazione straordinaria* took office on 18 April 2011. On the same day, the body appointed Mr. Lener to act as chairman.

The procedure known as "extraordinary administration" replaced an earlier arrangement, temporary administration, which Banca d'Italia had imposed on 12 March 2011 after the international community had frozen the assets of entities with ties to the Libyan regime, one of which was Banca UBAE's controlling shareholder Libyan Foreign Bank.

The Supervisory Board had the opportunity to examine a rundown of UBAE's accounts as it had been produced for the Extraordinary Commissioners (Messrs. Corrado Casalino and Attilio Zimatore) in conformity with the provisions of art. 73, para. 1 of the Consolidated Banking Law.

A draft version of the 2010 financial statements, which the General Manager had then submitted to the Extraordinary Commissioners, was also viewed by the Supervisory Board and was subsequently discussed with the Commissioners.

Most recently, the Supervisory Board read the report issued by independent auditors BDO SpA, whom the Bank had charged with certifying its accounts in previous years (cf. articles 14 and 16 of Legislative Decree 39/2010).

Delivered on 6 June 2011, the report cannot be taken as a formal audit of UBAE's draft financial statements for the year to 31 December 2010, yet contains no indication that such statements are deficient or inaccurate in any substantive way. Indeed BDO insisted that what (limited) mistakes they did find remained below the individual and aggregate thresholds for material accounting errors as defined for official audit purposes.

In this light and taken account, *inter alia*, of the favourable comments that were made by the Commissioners within the bounds of their own competence, the Supervisory Board has resolved, pursuant to and for the purposes of art. 73, para. 4 of the CBL, to release this statement and hereby confirms its impression that the draft accounts provide a fair and accurate description of Banca UBAE's assets, liabilities, financial position and profit results for the period.

Rome, 22 June 2011

**THE SUPERVISORY BOARD**
Raffaele Lener (Chairman)
Maurizio Losavio
Oliviero Pesce

# DRAFT FINANCIAL STATEMENTS

## THIRTY-EIGHTH FINANCIAL YEAR

ANNUAL REPORT
FINANCIAL YEAR 2010

# SUMMARY OF BUSINESS ACTIVITIES

## FINANCIAL YEAR 2010

# BREAKDOWN OF ITALIAN IMPORTS/EXPORTS AND UBAE'S SHARE OF YEARLY TOTALS



EUR/mn

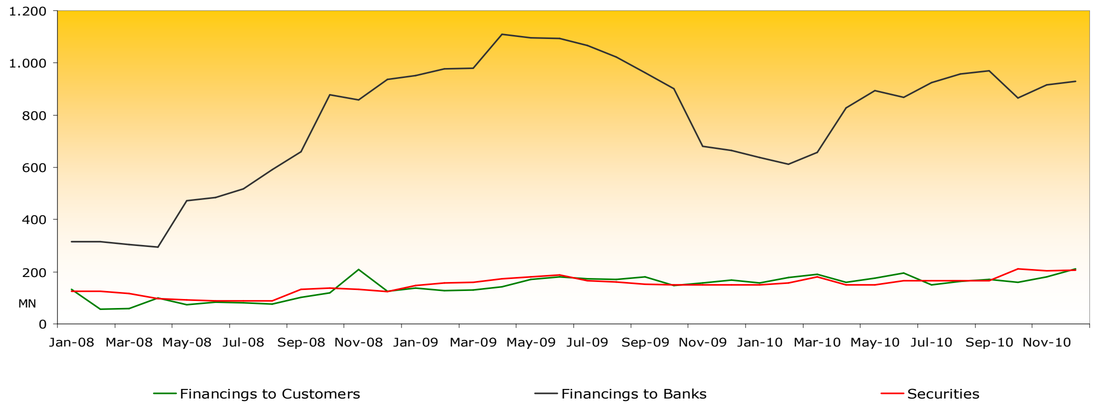
| COUNTRIES | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | IMPORTS | EXPORTS | IMPORTS | EXPORTS | IMPORTS | EXPORTS |
| 1) TURKEY | 5,161 | 8,031 | 4,423 | 5,678 | 5,585 | 7,496 |
| 2) UAE | 451 | 3,685 | 367 | 3,841 | 455 | 5,226 |
| 3) TUNISIA | 2,315 | 3,430 | 2,033 | 2,558 | 2,329 | 2,948 |
| 4) INDIA | 3,811 | 3,389 | 2,907 | 2,750 | 3,429 | 3,091 |
| 5) EGYPT | 1,888 | 2,936 | 1,422 | 2,617 | 2,247 | 2,906 |
| 6) ALGERIA | 7,904 | 2,872 | 6,041 | 2,598 | 8,597 | 3,008 |
| 7) LIBYA | 11,838 | 2,705 | 10,156 | 2,451 | 17,390 | 2,639 |
| 8) SAUDI ARABIA | 3,090 | 2,675 | 2,009 | 2,451 | 4,231 | 3,314 |
| 9) SOUTH KOREA | 2,973 | 2,513 | 2,025 | 2,176 | 3,037 | 2,607 |
| 10) IRAN | 4,673 | 2,061 | 1,969 | 2,023 | 3,921 | 2,170 |
| 11) MOROCCO | 529 | 1,430 | 422 | 1,374 | 609 | 1,689 |
| 12) SYRIA | 1,134 | 1,168 | 421 | 717 | 818 | 1,030 |
| 13) MALTA | 248 | 1,076 | 218 | 1,002 | 249 | 1,161 |
| 14) LEBANON | 28 | 1,038 | 19 | 767 | 35 | 774 |
| 15) QATAR | 1,500 | 940 | 315 | 1,216 | 44 | 1,534 |
| 16) CYPRUS | 89 | 760 | 37 | 719 | 122 | 1,067 |
| 17) KUWAIT | 108 | 734 | 76 | 628 | 151 | 738 |
| 18) PAKISTAN | 489 | 568 | 423 | 605 | 495 | 543 |
| 19) IRAQ | 3,047 | 446 | 2,535 | 579 | 3,936 | 209 |
| 20) JORDAN | 62 | 421 | 43 | 404 | 57 | 426 |
| 21) OMAN | 77 | 307 | 42 | 321 | 16 | 414 |
| 22) BANGLADESH | 536 | 252 | 447 | 176 | 433 | 167 |
| 23) SRI LANKA | 361 | 159 | 320 | 137 | 305 | 162 |
| 24) SUDAN | 7 | 156 | 8 | 165 | 20 | 258 |
| 25) BAHRAIN | 112 | 142 | 36 | 166 | 77 | 222 |
| 26) YEMEN | 8 | 124 | 5 | 116 | 28 | 122 |
| 27) CHAD | 0 | 22 | 0 | 39 | 0 | 17 |
| 28) MAURITANIA | 109 | 20 | 132 | 26 | 117 | 30 |
| | | | | | | |
| **TOTAL** | **52,548** | **44,060** | **38,851** | **38,300** | **58,733** | **45,968** |
| | | | | | | |
| **UBAE'S SHARE** | **2,377** | **2,064** | **4,974** | **2,148** | **5,069** | **1,864** |
| % | 4.52 | 4.68 | 12.80 | 5.61 | 8.63 | 4.05 |

# BANKING OPERATIONS

## Loans and Advances to Customers

The focus of activity at Banca UBAE is the provision of financial assistance to corporate clients engaged in import/export business or contract works in target countries (with retail credit playing only a marginal role). In line with the Bank's business strategy, operations in this department remained on significant levels throughout 2010; what little variability emerged over the course of the year was mostly a reflection of adjustments in individual customers' demands

**Financing and Securities Trend**




Given their riskiness, their low yield and above all their extraneousness to the Bank's core business, the extension of short-term loans to corporate clients for purposes other than trade finance is kept to a minimum and is restricted to parties who do business with the Bank on a regular basis.

Credit risk is generally modest.

## Commercial Operations on Foreign Markets

In 2010 as in previous years, most of the Bank's efforts were directed at developing trade-linked business in its core markets. As it turned out, Banca UBAE coped brilliantly with a series of challenges on different markets at a time when the banking sector was still going through an extremely serious crisis. In such a climate of acute uncertainty, targeted marketing campaigns enabled it to face down competition from rival institutions and preserve its market share in a number of countries.

While falling short of the levels attained before the financial crisis that erupted in late 2008, the Bank managed sustained and in many instances increased turnover as trade between Italy and the countries in its traditional region of interest picked up. Growth in business with several Asian countries constitutes another positive note. By contrast, the freeze on new initiatives in some areas where UBAE boasts a long-standing presence led to a decline in the number and value of letters of credit opened during the year.

Activity on the Libyan market witnessed further growth, in both direct dealings and indirect business (banking assistance to domestic exporters for the most part), which outstripped the growth rate in overall bilateral trade.

In the oil sector, shifts in some customers' business strategy resulted in a smaller volume of imports being assisted by L/Cs. Even so, and despite the decline in oil sales that was caused by the global downturn, the Bank processed a substantial amount of oil business in 2010, with profit margins to match.

EUR/000

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Value / no. | +/- % | Value / no. | +/- % | Value / no. | +/- % |
| Letters of credit: Number | 4,731 | -15.06 | 5,570 | 19.17 | 4,674 | 2.28 |
| Non Oil Letters of Credit: Value | 2,064,160 | -3.94 | 2,148,905 | 15.79 | 1,855,883 | 36.78 |
| Oil Letters of credit: Value | 2,377,180 | -52.21 | 4,974,327 | -36.92 | 7,885,640 | n/a |
| % of total exports | | 5.78 | | 6.91 | | 5.11 |
| % of total imports | | 5.35 | | 15.19 | | 9.94 |
| Commissions accrued | 15,572 | -9.31 | 17,171 | -3.01 | 17,703 | 42.87 |

Turnover in guarantees diminished somewhat in 2010, though the rise in commitments outstanding at year-end attests to increased stability in this area as well as Banca UBAE's successful drive to steer business opportunities towards Italian firms. Even as the volume of guarantees issued fell from the level recorded in 2009, however, commission revenue marked (modest) growth, reflecting market prices for the higher-risk commitments which the Bank gave during the year.

EUR/000

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Value | +/- % | Value | +/- % | Value | +/- % |
| Guarantees issued in year | 339,156 | -32.07 | 499,281 | 254.18 | 140,968 | -47.5 |
| Guarantees: Outstanding at EoY | 466,250 | -6.11 | 496,598 | 63.22 | 304,259 | -0.92 |
| Commissions received | 4,379 | 5.19 | 4,163 | 37.80 | 3,021 | 51.2 |

## Financial Market Operations

Throughout 2010, Banca UBAE endeavoured to find the most profitable ways to employ funding from institutional counterparties as well as cash flow generated by oil sales.

The former grew strongly in the early months of the year. In spite of multiple problems linked to the financial turmoil experienced by some states and enduring doubts about the credibility of the entire financial system, the Bank was consistently appreciated as a safe depository for surplus liquidity by major credit institutions in its region of interest, including a number of central banks. Funding remained quite substantial in the second half, with minimal fluctuations in the third quarter and only a modest dip in the fourth.

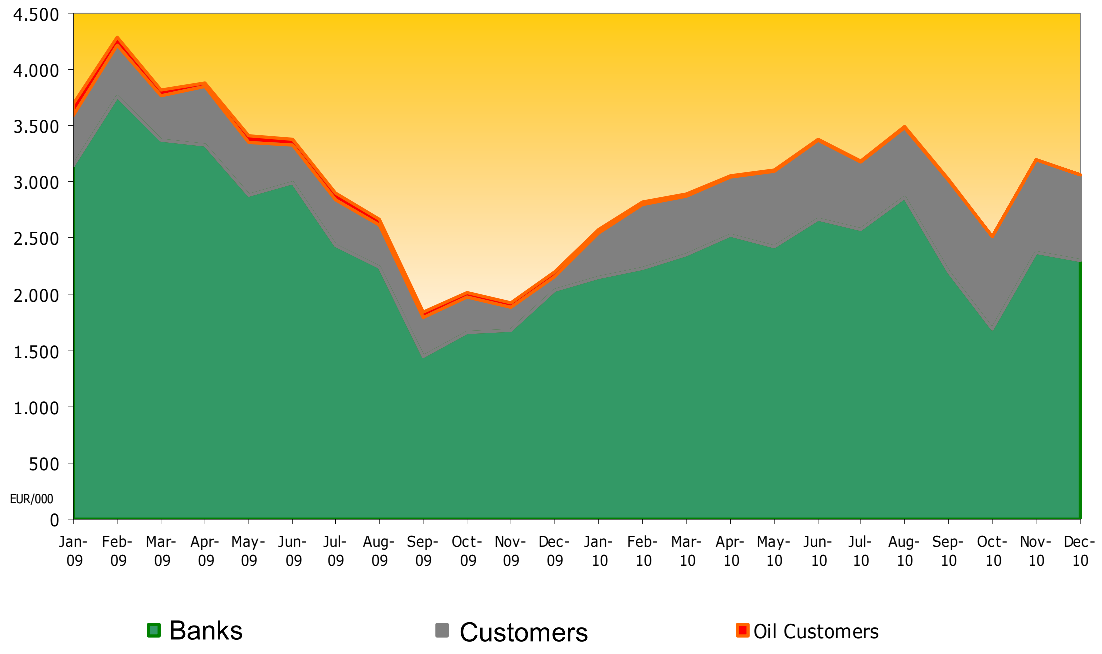
Business from companies operating in the oil sector was satisfactory as customary in terms of both cash flow management and the Bank's ability to attract deposits.

Total funding (i.e., liabilities to banks and customers plus funds at customers' disposal), is quantified in the table below, which shows the average for each quarter and the relevant variation.

EUR/000

| FUNDING 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|
| First quarter | | Second quarter | | Third quarter | | Fourth quarter | |
| Value | +/- % | Value | +/- % | Value | +/- % | Value | +/- % |
| **2,711,802** | 31.37 | **3,119,288** | 15.026 | **3,178,523** | 1.90 | **2,809,578** | -11.6 |

A monthly breakdown is provided in the following chart:



## Managing Financial Assets

Portfolio activity increased in 2010. Trading was sustained, the basic criterion being not so much the renewal of issues as they came to maturity as an ongoing search for yields in line with or higher than those afforded by other types of earning assets. The financial climate in general and the recurrent crises certain countries had gone through prompted the Bank to screen its counterparties and assess margins carefully, yet also encouraged trading activity, which sought to seize profitable market opportunities wherever they could be found. The volume of securities held to maturity (HTM) was stabilized, while the trading (HFT) portfolio nearly doubled in size from the previous year.

Financial assets at year-end consisted mostly of bonds, whose average residual life was 2.0 years for the HFT portfolio and 2.8 years for the HTM portfolio. The use of derivatives to mitigate interest rate risk resulted in average durations of 3 months for the HFT and 1 month for the HTM portfolio.

It has been the Bank’s policy to avoid equity markets other than where both current and prospective risks could be monitored closely, and to limit the purchase of adjustable-rate bond issues so as to contain the risk associated with interest rate fluctuations.

After a strong recovery of previous losses in 2009 and despite problems seen in the market, results show that the Bank has managed to produce a satisfactory profit level while maintaining a limited risk profile for the HFT portfolio by hedging against exchange rate and interest rate risk and simultaneously by considerably increasing the volume of securities dealt in and managed. It should be noted that given the results achieved the Board of Directors had resolved to forgo the option it had approved in 2008 of moving issues from the HFT to the HTM portfolio.

Additional software refinements enabled the Bank to keep its securities position under even more stringent control, in harmony with a strong emphasis on the close monitoring of portfolio performance as well as risks.

Dealings in securities and certificates of deposit on behalf of third parties in 2010 showed a similar trend to that seen in the previous year and turnover was around EUR 57 mn. This activity level was mainly influenced by customers' preference to wait for financial markets to stabilize.

Below are the agreed guidelines for purchase of securities.

➢ Investment portfolio (issues held to maturity/available for sale):
- adjustable rate issues with a substantial spread, resulting in yields higher than the interbank rate;
- fixed or adjustable rate issues from entities resident in the Bank's geographical areas of interest;
- fixed rate, short-term issues.

➢ HFT portfolio (issues held for trading):
- fixed or adjustable rate issues chosen based on expectations of a yield of short-term capital gains;
- shares in top-tier domestic and international companies.

On the whole the securities portfolio was not negatively affected by the economic trend and events associated with turbulence in financial markets, thanks to which the Bank managed to achieve a satisfactory result. Given the financial market situation and indications from customers, the Bank decided to defer use of new formulas and novel instruments (such as harmonized financial products and OICRs) for proprietary trading purposes.

Furthermore, to ensure optimal support for non-proprietary trading the Bank further revised the architecture of its finance departments and IT resources underpinning all business, operational and risk management activity in this area.

**Interbank Transactions**

Problems in financial markets worldwide, including in the US and Asia, plus difficulties that emerged on interbank markets, certainly had an impact on dollar and euro interest rates. The Bank made a successful shift in treasury management strategy as a result of which interbank activity increased during the early months of the year and then remained at a high level.

Short-term treasury transactions and short and medium-term loans to foreign banks continued to be quite substantial. Total funds administered for money market purposes in the major currencies were consistently above the EUR 3 bn mark, mostly the result of short-term funding from overseas correspondents and liquidity from clients operating in the maritime sector.

To support current and prospective medium and long-term investment levels the Bank has taken steps to consolidate its sources of funds - market uncertainties permitting - by obtaining extensions for the term of deposits made by certain counterparties. For the medium-term the Bank is evaluating targeted borrowing to supplement the subordinated loan which began to be drawn at the end of 2008.

**Year-End Results**

Despite a conservative policy adopted by the Board of Directors when establishing provisions, the net result for 2010 (EUR 8,400,896) shows a further improvement over 2009 and 2008, confirming the Bank’s ability to stabilize earnings through growth in both commercial and non-commercial operations.

At EUR 30,715,596 (-9.9% on 2009) the gross operating result reflects a decline in interest margins (-8.0%) compared to the previous year, mainly due to the depletion in revenues from the administration of "oil" deposits, partially offset by taking advantage of various market opportunities as well as optimal handling of administered (non-oil) funds. Net non-interest income rose slightly (+0.9%), which reflects the positive result seen in the securities sector, with a very satisfactory and almost stable earnings from fees and commissions.

The decrease in gross operating profit was caused by an increase in administrative costs, mainly due to lower expense recoveries from customers (+14.0%) and higher personnel costs (+4.4%), which, however, include certain extraordinary items.

Net write-downs and provisions were essentially stable (-1,5%), the result of the aggregate impact of higher amortization of intangibles for the new software and larger loan write-downs offset by lower provisions for contingent liabilities. In the wake of problems afflicting the international credit sector, different lump-sum provisions were made for exposure to the banking sector, based on the country and counterparty concerned.

Income tax for the year amounted to EUR 6,194,333, down 35.9% from 2009

# ORGANIZATION AND PERSONNEL

## Personnel

Reorganization of the workforce continued during the year in line with the Bank's market objectives for the coming years, which involved both a recruitment policy geared to strengthening core processes and ensuring a healthy generational turnover. This led to the hiring of 4 people (1 senior executive, 3 executive cadres) while 9 people (1 senior executive, 4 executive cadres and 4 other staff members) left the Bank's service, for a total staff of 159 at year-end.

Several initiatives, as indicated below, were implemented to optimize the development and management of UBAE's human resources.

- ✓ Maintaining and updating the performance management system in order to better understand/assess professional performance.
- ✓ Consolidation of a career enhancement policy supported by actions to promote internal mobility and professional career paths - this means the promotion system (in economic/career terms) has been enhanced by elements linked to the Bank's human resources.
- ✓ Consolidation of a reward system based on performance and results.
- ✓ Consolidation of an integrated on-the-job training system that builds on the steps first taken by the Bank in 2008, when it began to design and implement competence-enhancement opportunities supported by industry-wide funds for workers in the credit and insurance sectors, as well as an ad hoc path conceived to give new recruits a sense of the Bank's working processes. Those activities pursued two complementary (and mutually reinforcing) objectives:
    - promote motivation, responsibility, self-improvement and other values instrumental to successful role fulfilment;
    - provide the knowledge and skills needed for a fruitful bank-client relationship in the context of the Bank's core processes (L/Cs, credit, accounts and budgeting) and in the light of recent regulatory developments (MiFID, Basel 2), so as ultimately to create value for both sides.

  In addition to mandatory training intended to keep staff abreast of shifting rules in such areas as personal data, safety and security in the workplace and money laundering prevention, during 2010 new training programmes were introduced covering specialist and managerial aspects (leadership, HR management and development ) and productivity enhancement (managing time, teamwork, etc.).

  Furthermore, other training initiatives were launched during the year aimed mainly at providing support for specific technical/professional skills required in the various roles.

## Internal Organization

In 2010 Internal Organization activity focused mainly on TEMENOS project development for the Bank's new software package, in addition to corrective maintenance and development of the existing SEC Servizi system. Certain projects involved all internal departments, both as regards planned activities, their later introduction and final implementation. Salient accomplishments include activities indicated below.

- Pillar 2: UBAE continued to follow the Basel 2, Pillar 2 project and was specifically involved in defining and establishing parameters for the ERMAS system for preparation of periodic stress test reporting within the framework of Pillar 3. In concert with other departments, the task of analysis got under way to establish operating liquidity as prescribed by Banca d'Italia instructions issued in November 2010, especially the analysis of imbalances highlighted by departments. Furthermore, the analysis phase was also launched to allow specific and explicit indication of the fund transfer rate in ICAAP reporting as requested by the Board of Directors.
- An analysis was made and approval given for a new Forex operating procedure based on software created and released by BNP-Paribas. The Continuous Linked Settlement (CLS) system will be used to carry out and regulate Forex transactions in the CLS bank circuit (run by BNP-Paribas) in which risk of delivery is almost zero.
- Preparations and application tests were completed for software and regulatory updates concerning implementation of Sepa and PSD directives and new SWIFT standards (Rulebook 4 came into force on 1 November 2010).
- Testing was completed and approval given for release of the application for operational management, accounting and reporting of syndicated banking transactions as regards contingent transactions, while the analysis phase for cash transactions was completed and the relevant functional specifications released.
- Contract terms with Thomson-Reuters were reviewed in concert with Systems Department and Treasury Division in order to update the technological structure for receiving and management of market data and Reuter News. The project also covered optimization of Xtra3000 (EIKON product) management and infrastructure costs required to feed operations desks and the Master Finance integrated treasury platform with market data and news.
- Parameters were established for the CAD procedure (Securities) concerning the correct operating approach for securities as regards customers, in relation to trading for own account, order receipt and transmission.
- Testing was completed and replacement began of the Creationonline platform with DB-Direct for direct transmission of security orders to the counterparty, so overcoming the need to send SWIFT messages.
- As regards the Fastcheck product (OFAC, PEP, etc. lists), testing was completed and the database set-up phase for the online check function went live. This automatically checks counterparties as part of the fight against money laundering and terrorism, in line with domestic and international regulations. Parameters were also established for the abnormal events procedure covering signalling of suspicious parties and blocking of the transactions concerned.

- TEMENOS project: summer 2010 saw the completion of the pre-training phase and workshops, during which model bank procedures were analysed and differences with the Bank's current operations highlighted. Analysis of the TEMENOS platform system tables was completed and the necessary studies got under way. Later, a basic version was installed for system operational testing and staff training courses began and will continue throughout 2011. The forecast is that final parameters will be established and the definitive version in the UBAE environment created in June 2011.

- Additional databases were defined and loaded into the DBMS and Sadas systems, followed by internal courses covering optimal utilization of the available data.

- Business continuity testing for Treasury areas and payments was carried out and, in concert with the Systems and Legal Departments, contracts were signed with a banking counterparty for business continuity testing in the event of a scenario in which the Bank is "completely out of action". A review of business continuity manuals also began while in December a new application was analysed covering the semi-automatic management of business continuity.

**Marketing**

Marketing activity focused on four broad areas in 2010.

1) *Strategic marketing activities in support of General Management*:

- analysis of UBAE business trends over the past ten years;
- analysis of the Italian export market with a view to the possible opening of new branch offices;
- country presentations covering opportunities offered by new countries;
- study to define a customer service platform;
- brainstorming with Financial Institutions and Corporate Divisions.

*2) Business development activities in support of business divisions*:

- organization of the fourth edition of the Trade Banking Seminar, held at Head Office and this year aimed at five major Algerian banks;
- sponsorship of the volume "*Banca e Finanza Islamica* (Islamic Banking and Finance)" by Prof. Claudio Porzio, published by Bancaria Editrice, with a contribution from Banca UBAE;
- organization in collaboration with ABI and Bancaria Editrice of the round table "Islamic Finance: business, regulatory and fiscal aspects for a rapid integration within Italy". Attendees were given a complimentary copy of the volume "Banca e Finanza Islamica";
- sponsorship of the annual Tripoli Exhibition;
- contribution to the publication "Guida agli Investimenti in Libia (Guide for Investments in Libya)" prepared by Italy's Associazione Avvocati Associati;
- monitoring and analysis of costs for promotional activities and returns for these by individual country.

3) *Institutional marketing activities in support of General Management:*

- management of relations with associations of which the Bank is a member;
- support provided to General Management for preparation of presentations made during banking conferences covering issues related to the Bank's business and countries in which it operates;
- management of external communication and preparation of the communication plan. Coordination of the press office with issue of press releases, articles and interviews by UBAE management in dailies, specialist publications and on television, including *Corriere della Sera, Il Sole 24 Ore, Il Giornale, Milano Finanza,Italia Oggi, Bloomberg*;
- monitoring and regular updating of the Bank's corporate website.

4) *Operational aspects:*

- creation, management and updating of marketing material: financial statements, institutional and operational brochures, interim results, articles of association, dealers' calender.

**IT Systems**

Throughout 2010 the Bank worked to adapt its systems and applications as required by new rules and operating procedures introduced during the year to mitigate operational risks that arise from the use of information technology. In particular:

– technological upgrading continued with replacement of the Rome and Milan storage devices and communications infrastructure between them, together with new backup technologies - the so-called Virtual Tape Library (VTL) - in order to improve systems reliability and business continuity. These actions consolidated the Bank's highly reliable systems infrastructure platform;

– it ensured that data protection systems were constantly updated both to filter message flows and to block unauthorized access from outside and minimize risks of infection by malware;

– migration of the Head Office/branch intranet/internet communications infrastructure to an MPLS (private) network, also adopting tools to reinforce protection of remote connections by VPN or SSL service via web, each using an OTP key for remote connections with suppliers, technicians and other parties;

– continuous updating of tools made available to staff for the widespread, customized use of the Bank's considerable database and ensuring that, in addition to being accessible, all data are extracted from the same data warehouse;

– IT resources were kept up-to-date and well aligned with ongoing changes in technology and procedures. Studies were launched concerning the typical workstation for technological updating of IT systems in use, in line with requirements of the new TEMENOS software package, which will have to be integrated with applications in use with the outsourcer, SEC Servizi;

At the same time, the Bank continued to survey the market for, and evaluate, potential alternatives to its IT set-up in an ongoing drive to improve on existing performance levels.

**Risk Management**

Over the past few years appropriate tools were acquired and used to detect, analyse and monitor the Bank's risks.

Alignment with the new, more stringent Basel rules was carefully analysed by the Risk Management unit and the results obtained by simulations and actual measurements were presented in quarterly reports to Senior Management and the Board of Directors.

For the purposes of Basel 2, Pillar II risk measurement methods in particular, Banca UBAE is a Class 3 credit institution, which means it may adopt simplified methods for quantifiable risks and risk mitigating policies and procedures for non-quantifiable risks.

From an organizational standpoint, the review process is based on the ICAAP Operating Manual, which not only defines the roles and duties accruing to the various units involved in the process but also provides guidance for managing each type of risk (measurable or otherwise), calculating the internal capital requirement (if a risk is quantifiable), and choosing the correct stress test methodology.

Furthermore, pursuant to the supervisory regulations governing risks that cannot be quantified and therefore are not susceptible to specific capital absorption, the Bank has adopted detailed internal policies for managing liquidity risk and reputational risk, as well as a contingency plan to deal with liquidity risk. Policies are reviewed and updated to cater for changes in the regulatory/operational context within which the Bank operates.

The supervisory review process has helped the Bank pursue several objectives:

- raise the governing bodies' awareness of risk and capital planning-related issues;
- improve understanding of UBAE's exposure to the various types of risk associated with its business operations;
- quantify previously unquantified risks (credit concentration risk, interest rate risk in the banking book) and bolster organizational safeguards and risk management tools for others (liquidity, reputational, strategic risks);
- emphasize the need to acquire ever-more efficient and adequate risk measuring and risk monitoring tools;
- expand the time frame for internal (forward-looking) analyses and stress testing;
- improve the strategic planning process by introducing capitalization policies strictly linked to the Bank's risk profile, i.e., to the results emerging from the ICAAP as it was performed.

The ICAAP report relating to the situation as at 31.12.2010 will be forwarded to Banca d'Italia by 30.4.2011 at the latest.

As far as disclosure to the public is concerned, the Bank will post the qualitative and quantitative information called for in Pillar III on its website under "Financials" within the same time frame as applies to the publication of its annual financial statements.

**Market Risk**

Business conducted by the Treasury Division and compliance with the operational limits set out in the Internal Regulations are monitored constantly by those charged with first, second and third-order controls, which rely extensively on the Master Finance front-office platform.

Reports are produced daily, may be consulted on the corporate intranet and are traceable to the desks that generated them. They are concerned with portfolio composition, with daily, monthly and yearly performance, and with movements in risk indicators (potential loss, BPV, duration, VaR, stop loss, etc.).

Conformity with internal operating limits is monitored on a daily basis and any breaches are reported without delay to allow for prompt remedial action and/or the start of the relevant approval process in accordance with the Bank's internal rules.

The Risk Management unit submits a quarterly report to the Risk Committee on controls performed, exceptions found and the outcome of its assessments.

The Bank does not intend to apply for recognition of any internal models for calculating its capital requirement against market risks.

**Credit and Counterparty Risk**

Principles of sound and prudent risk management underpin the granting, monitoring and review of credit facilities. Safeguards for different phases of the lending process include:

- systematic assignment of a "credit access score" to both bank and corporate borrowers;
- daily monitoring of loan performance and recording of any breach of internal limits (overruns) or external anomalies (CRB data);
- periodic stress testing.

Aside from the observance of approved borrowing limits, which is monitored by a dedicated unit within the Credit Division, exposure to credit risk is tracked by the Risk Management unit in terms of the deterioration of portfolio quality and thus capital absorption. In particular, Risk Management produces regular reports for the Risk Committee and the Board of Directors on the distribution of loans across the Bank's region of interest.

For ICAAP purposes, furthermore, Risk Management monitors credit concentration risk and carries out scenario analyses by simulating the impact of certain information shocks such as sovereign debt defaults or economic downturns on the capital requirement against credit risk.

As for counterparty risk (which is primarily associated with exposures to sellers of OTC derivatives for the HFT portfolio), Risk Management works with the Treasury Division to monitor positions daily on a mark-to-market basis.

**Operational Risks**

Though it chose the Basic Indicator Approach for determining its capital requirement against operational risks under the supervisory authorities' new rules, Banca UBAE is implementing a dedicated operational risk management system to evaluate and monitor exposure to operational risks and the losses these might entail.

At the end of 2010, a self-risk assessment was performed with support from a specialized consulting firm in order to map the Bank's processes, the type of operational risks to which it is exposed and a qualitative evaluation of the various adverse events. Self risk assessment files are periodically brought up to date in the light of organizational and operational changes and are then submitted to the pertinent process owners for their validation and a qualitative judgement on the frequency and severity of adverse events. Analysis of all self risk assessment files completes the qualitative evaluation phase, while the ensuing reports to Management enable the latter to determine what organizational and procedural steps are most likely to mitigate the risks concerned.

**Other Risks**

❖ ***Liquidity risk***

Exposure to this risk is subject to constant monitoring by the Treasury Department, whereas Risk Management is responsible for weekly checks on compliance with internal operating limits.

In the course of 2010, the management guidelines given in the internal policy and contingency liquidity plan were reviewed based on recent updates introduced as regards prudent rules concerning liquidity. Internal operating system limits and stress tests were refined to bring them into line with regulatory provisions. The concept of a risk tolerance threshold was introduced and the series of early-warning indicators (systemic and one-off), which define events to be submitted to the Treasury Division and Risk Management unit, was expanded.

The Bank's tools in this domain include an online maturity ladder forming part of the Master Finance platform plus an ALM product (ERMAS) that is fed directly from the accounting ledgers and is used quarterly to generate the Bank's maturity ladder and supply a database for stress testing.

❖ ***Credit concentration risk***

In introducing an additional capital requirement, Pillar II places a special emphasis on credit concentration risk associated with individual counterparties or groups of related counterparties in the corporate loan portfolio. SEC Servizi has equipped Banca UBAE with a tool for quantifying internal capital by the simplified method foreseen by Banca d'Italia and conducts simulations to evaluate the impact of any changes of a strategic or operational nature.

As far as "single name" concentration risk from bank counterparties is concerned, as requested by Banca d'Italia in 2009 the Bank has implemented a set of internal operating limits in order to contain its exposure.

Credit concentration risk by business sector and geographical area does not need to be quantified at the moment, so the Bank has opted for a strictly qualitative assessment. At the same time, staff members regularly attend industry-body courses and conferences in a bid to gain new insights for analysis and methodological approaches.

### ❖ *Interest rate risk in the banking book*

Using the integrated treasury product, Master Finance, on a monthly basis the Risk Management unit monitors compliance with the internal operating limit, which has been set below the regulatory threshold as a measure of precaution.

For ICAAP purposes the Bank uses an ALM product (ERMAS) fed directly from the accounting ledgers, which generates a maturity ladder and exposure to interest rate risk, both by the simplified method permitted by Banca d'Italia and by the full evaluation method. The same tool is also used for stress testing against hypothetical parallel and non-parallel shifts in the interest rate curve.

### ❖ Reputational and strategic risks

These risks, which complete the Bank's risk profile, are especially tricky to quantify and are best addressed through qualitative evaluations, risk mitigation policies and above all risk avoidance measures.

During the year the Bank adopted an internal policy for managing reputational risk that defines the role and duties of each unit potentially concerned, draws a model of adverse events, sets out mitigation policies aimed at forestalling the occurrence or limiting the consequences of such events and establishes a strategy for coping with a "reputation crisis".

As regards strategic risk, the Bank is in the process of establishing a procedure to formulate necessary scenarios for preparation of the budget and three-year plan, and to measure fluctuations in gross operating income, taken as being an approximation of this risk.

## Management Information Reports

The Bank has continued to refine its reporting tools, which supplement the Accounting Department's monthly statement and information inflows from other systems. Full use of available IT tools has led to an increase and improvement in daily data concerning positions and income, and has provided faster and more detailed comprehensive reports both by period and as regards trends for each area of activity.

## Security Blueprint

Pursuant to art. 34 of Legislative Decree 196/2003, the Bank's security blueprint for 2010 was revised as set out in section 19 of the Decree's Technical Guidelines for Minimum Security Standards.

## Logistics

In addition to normal maintenance activities, a number of improvements were made at the Bank's offices in Rome and Milan to ensure space was optimally exploited. In particular, improvements were made at Head Office to create an open-space facility for 12 new workstations providing more appropriate working conditions for the Overseas Portfolio Department staff transferred to this new area. A new training room was also created in the area concerned.

Targeted extraordinary maintenance was carried out in the archives to ensure proper upkeep of the premises and the safety of any personnel and third parties present there.
Certification of technological systems at the Milan office was updated by specialized technicians and in agreement with the Technical unit responsible for all the branch's ordinary and extraordinary maintenance carried out by local firms.

# RECLASSIFIED BALANCE SHEET



EUR/000

| | Balance as at : | | Change | |
|---|---|---|---|---|
| | **31.12.2010** | **31.12.2009** | **Amount** | **%** |
| **ASSETS** | | | | |
| Cash and cash equivalents | 216 | 341 | -125 | -36.66% |
| Loans and advances | | | | |
| - to customers | 210,275 | 168,104 | 42,171 | 25.09% |
| - to banks | 2,897,838 | 2,106,310 | 791,528 | 37.58% |
| Financial assets held for trading | 115,517 | 67,871 | 47,646 | 70.20% |
| Fixed assets | | | | |
| - financial [1] | 94,605 | 85,335 | 9,270 | 10.86% |
| - tangible | 24,982 | 25,671 | -689 | -2.68% |
| - intangible | 2,219 | 348 | 1,871 | 537.64% |
| Other assets [2] | 28,647 | 20,819 | 7,828 | 37.60% |
| **Total assets** | **3,374,299** | **2,474,799** | **899,500** | **36.35%** |
| | | | | |
| **LIABILITIES** | | | | |
| Accounts payable | | | | |
| -to customers | 761,550 | 123,593 | 637,957 | 516.18% |
| -to banks | 2,380,598 | 2,119,506 | 261,092 | 12.32% |
| Financial liabilities held for trading | 3,968 | 7,154 | -3,186 | -44.53% |
| Earmarked provisions [3] | 2,595 | 2,922 | -327 | -11.19% |
| Other liabilities [4] | 23,273 | 28,158 | -4,885 | -17.35% |
| | | | | |
| Shareholders' equity | | | | |
| -Capital and reserves | 193,914 | 185,381 | 8,533 | 4.60% |
| -Net profit for the year | 8,401 | 8,085 | 316 | 3.91% |
| **Total liabilities** | **3,374,299** | **2,474,799** | **899,500** | **36.35%** |

[1] Inclusive of financial assets HTM and AFS
[2] Inclusive of tax assets and other assets
[3] Inclusive of staff severance fund and provisions for risks and charges
[4] Inclusive of tax liabilities and other liabilities

# RECLASSIFIED INCOME STATEMENT



EUR/000

| | Balance as at : | | Change | |
|---|---|---|---|---|
| | **31.12.2010** | **31.12.2009** | **Amount** | **%** |
| Net interest income | 25,225 | 27,424 | -2,199 | -8.02% |
| Net non-interest income [1] | 27,143 | 26,904 | 239 | 0.89% |
| **Gross operating income** | **52,368** | **54,328** | **-1,960** | **-3.61%** |
| | | | | |
| Personnel expenses | -15,300 | -14,649 | -651 | 4.44% |
| Other administration expenses and operating charges [2] | -6,353 | -5,572 | -781 | 14.02% |
| **Gross operating result** | **30,715** | **34,107** | **-3,392** | **-9.95%** |
| | | | | |
| Net adjustments to tangible and intangible fixed assets | -1,516 | -999 | -517 | 51.75% |
| Provisioning, write-downs and write-ups [3] | -14,604 | -15,363 | 759 | -4.94% |
| **Pre-tax profit from continuing operations** | **14,595** | **17,745** | **-3,150** | **-17.75%** |
| | | | | |
| Income tax for the year | -6,194 | -9,660 | 3,466 | -35.88% |
| | | | | |
| **Net profit from continuing operations** | **8,401** | **8,085** | **316** | **3.91%** |
| Net result from non-continuing operations | | | | |
| | | | | |
| **Net profit for the year** | **8,401** | **8,085** | **316** | **3.91%** |

[1] Inclusive of net commissions, dividends and net trading income
[2] Inclusive of other administration expenses and other operating income
[3] Inclusive of net impairment adjustments and net provisioning for risk and charges

**COMMENTS ON BALANCE SHEET ITEMS**

Loans and advances

EUR/000

| | Balance as at : | | Variation | |
|---|---|---|---|---|
| | 31.12.2010 | 31.12.2009 | Amount | % |
| **Loans and advances to customers:** | | | | |
| § In euros | 185,028 | 149,718 | 35,310 | 23.58% |
| § In other currencies | 25,247 | 18,386 | 6,861 | 37.32% |
| **Loans and advances to banks:** | | | | |
| § In euros | 1,769,781 | 1,047,588 | 722,193 | 68.94% |
| § In other currencies | 1,128,057 | 1,058,722 | 69,335 | 6.55% |
| **Total** | **3,108,113** | **2,274,414** | **833,699** | **36.66%** |

**Loans and advances to Customers**

Non-bank loans rose by 25.9%, mainly due to a resumption in corporate lending as the Bank sought to spread risk in the light, *inter alia*, of more stringent limits for individual borrowers. The loans' main purpose, regardless of whether they are granted directly by UBAE or through syndicated facilities arranged by major lending institutions, is to support domestic clients engaged in trade with countries in the Bank's region of interest.

Loans are shown at face value net of individual or collective adjustments. Valuation criteria are reviewed in the Notes to the Financial Statements.

Non-performing items accounted for 0.04% of total loans and advances to customers.

The value of outstanding loans was written down by EUR 314,385 representing anticipated loan losses plus the portion of non-performing debt that was judged recoverable to a marginal extent at best. Write-backs amounted to EUR 101,537

## Loans and advances to Banks

Loans to banks rose by EUR 791,527,680 (+37.58%), largely as a result of the already mentioned growth in funding from both banks and customers that enabled the Bank to increase the amount of capital employed not only in Europe but also in UBAE's region of interest.

The item was only marginally affected by movements in "oil" funds and consequently the Bank's investment policy in relation thereto fell progressively and finally reached zero.

UBAE recorded a write-down of EUR 19,556,090 reflecting expected losses from loans and advances to banks. The adjustment was deemed necessary given uncertainties surrounding the banking sector on the wave of facts and events that led to instability in north African and Middle East markets, which prompted the Bank to adopt a more prudent policy.

## Financial Assets

Financial assets, comprising securities, derivatives and minority equity stakes, amounted to EUR 206,153,820, a net increase over the previous year of EUR 60,102,791. The increase was due to a significant boost in trading that, in line with the Bank's policy, meant advantage could be taken of opportunities offered by the market for investment in easily negotiable securities providing a good yield.

This increase in financial assets only referred to the part of the security portfolio dedicated to investments. Given the market climate, newly-purchased issues are monitored closely for yield and issuer’s standing.

The Bank did not transfer any assets from one portfolio to another.
Taken all round, the type of securities selected for trading and the intensive activity level during the year enabled the Bank to record good results for the HFT portfolio thanks to the previously mentioned market opportunities, whereas it managed to limit the impact of falling prices for certain issues.

EUR/000

| | Balance as at : | | Variation | |
|---|---|---|---|---|
| | 31.12.2010 | 31.12.2009 | Amount | % |
| **Financial assets** | | | | |
| § Assets held for trading | 115,517 | 67,871 | 47,646 | 70.20 |
| § Liabilities held for trading | -3,968 | -7,154 | 3,186 | -44.53 |
| § Assets available for sale | 3,504 | 2,502 | 1,002 | 40.05 |
| § Assets held to maturity | 91,101 | 82,833 | 8,268 | 9.98 |
| **Total** | **206,154** | **146,052** | **60,102** | **41.15** |

The criteria followed for valuing securities and for assigning issues to the investment or trading portfolio are discussed in the Notes to the Financial Statements (pp. 54-56).
The value of assets held for trading and that of derivatives is aligned with market prices; other securities were valued at amortized cost.

**Accounts Payable**

Accounts payable to banks and customers are shown at amortized cost.
The table below gives a breakdown of changes in funding from banks and customers in euros and other currencies.

As already mentioned, funding from institutional counterparties fell in 2009 but then showed a partial recovery in 2010 as regards positions in euros, whereas non-euro funding remained essentially stable. Instead funding from customers increased considerably - 5 times the amount recorded in 2009 - and was mainly seen in countries of interest to the Bank.

EUR/000

| | Balance as at : | | Variation | |
|---|---|---|---|---|
| | 31.12.2010 | 31.12.2009 | Amount | % |
| **Payable to customers** | | | | |
| § In euros | 700,571 | 102,116 | 598,455 | 586.05 |
| § In other currencies | 60,979 | 21,476 | 39,503 | 183.94 |
| **Payable to banks** | | | | |
| § In euros | 1,292,281 | 976,137 | 316,144 | 32.39 |
| § In other currencies | 1,088,317 | 1,143,369 | -55,052 | -4.81 |
| **Total** | **3,142,148** | **2,243,098** | **899,050** | **40.08** |

**Shareholders' Equity**

Movements in shareholders' equity may be represented as follows.

EUR/000

| | Capital | Share premium | Reserves | Retained profit | Net profit | **Total** |
|---|---|---|---|---|---|---|
| **31.12.2009** | **151,060** | **16,702** | **17,618** | **0** | **8,085** | **193,465** |
| **2010 Movements:** | | | | | | |
| § Appropriation of 2009 profit | | | 405 | 7,680 | -8,085 | **0** |
| § Bonus capital increase | | | | | | **0** |
| § Valuation reserve | | | 448 | | | **448** |
| § Net profit | | | | | 8,401 | **8,401** |
| **31.12.2010** | **151,060** | **16,702** | **18,471** | **7,680** | **8,401** | **202,314** |

Following approval of the 2009 Financial Statements an increase was made to the legal reserve while the remaining profit was carried forward. Certain transfers of shares took place in 2010: the Moroccan Central Bank was replaced by Morocco's Banque Centrale Populaire, whereas Egypt's National Société Générale Bank's shareholding was taken up by Libyan Foreign Bank, which now holds 67.55%.

**Shares**

As of 31 December 2010 share capital amounted to EUR 151,060,800 divided into 1,373,280 common shares of EUR 110 each. Following the exercise of some rights in the course of 2005, warrants (2001-2011) still in circulation amounted to EUR 97,680,440.

**Subordinated Loan**

In line with the recapitalization goals set out in the three-year strategic plan, in 2008 the Bank finalized a new ten-year subordinated loan agreement for a total of EUR 100,000,000, in addition to the residual portion of the existing loan of EUR 70,000,000 that will expire in 2011.

The amount subscribed in the previous year plus the residual portion of the old loan amounting to EUR 7,800,000 makes for a total of EUR 77,800,000 as at 31 December 2010.

## COMMENTS ON THE ITEMS IN THE PROFIT AND LOSS ACCOUNT

### Net Interest Income

EUR/000

| | | | Variation | |
|---|---|---|---|---|
| | 2010 | 2009 | Amount | % |
| 10. Interest income and related revenue | 37,309 | 62,092 | -24,783 | -39.91 |
| 20. Interest charges | -12,084 | -34,668 | 22,584 | -65.14 |
| **Net interest income** | **25,225** | **27,424** | **-2,199** | **-8.02** |
| 30. Dividends and other proceeds | 9 | 22 | -13 | -59.09 |

Despite the general fall in market rates during the year and therefore a reduction in negotiation room, the modest decline in net interest income (-8.02% compared to the prior year) attests to the Bank's enduring ability to diversify earning assets so as to secure the highest possible returns, on the one hand, and to preserve a good spread between assets and liabilities, mainly by focusing on the interbank market or companies with a high credit standing. By virtue of the sizeable volume of funds administered over the period, these opportunities made for a most satisfying result.

Low interest rates, particularly for euros and US dollars (with the latter approaching zero), accounted in part for the low amount of total interest compared to the previous year.

### Net Non-Interest Income

The breakdown of non-interest income is as follows:

EUR/000

| | | | Variation | |
|---|---|---|---|---|
| | 2010 | 2009 | Amount | % |
| 40. Commissions received | 24,849 | 26,199 | -1,350 | -5.15 |
| 50. Commissions paid | -3,020 | -4,318 | 1,298 | -30.06 |
| **Net commissions** | **21,829** | **21,881** | **-52** | **-0.24** |
| 80. Trading assets | 5,305 | 5,001 | 304 | 6.08 |
| 190. Other operating proceeds | 1,821 | 2,875 | -1,054 | -36.66 |
| **Net non-interest income** | **28,955** | **29,757** | **-802** | **-2.70** |

Net income from commissions confirmed the excellent trend seen in recent years, with a negligible decrease from 2009 of 0.24%. Further to the adjustment made two years ago, a change was introduced during the year as regards administration of oil funds that led to a reduction in relevant income.

Letters of credit remained at sustained levels in spite of the international crisis and progressive reduction of the quota linked to oil flows. On the other hand, levels for traditional business remained high as evidenced by both net income and the non-oil letter of credit volume negotiated during 2010. This confirms that the Bank is an important player in the general trend for trade between countries in its region of interest. Income from guarantees showed a slight improvement despite the reduction in total turnover.

Results for financial trading were extremely positive notwithstanding the ongoing effects of the international financial crisis. In that context, it must be recognized that low interest rates and the sluggish oil trade led customers to diversify their forex operations, with a resulting higher turnover and a significant increase in relevant margins.

Other net operating income refers to amounts recouped on costs incurred for commercial transactions, which reflects an increase in commission income and also includes the net balance of extraordinary income and charges.

**Administration Expenses**

EUR/000

| | 2010 | 2009 | Variation Amount | Variation % |
|---|---|---|---|---|
| **a) Personnel expenses:** | | | | |
| § wages and salaries | 9,081 | 8,825 | 256 | 2.90 |
| § social security contributions | 2,520 | 2,466 | 54 | 2.19 |
| § staff severance payments | 663 | 636 | 27 | 4.25 |
| § other expenses | 1,778 | 1,618 | 160 | 9.89 |
| **Total employee expenses** | **14,042** | **13,545** | **497** | **3.67** |
| § Administrators | 1,095 | 926 | 169 | 18.25 |
| § Non-staff associates | 163 | 178 | -15 | -8.43 |
| **Total personnel expenses** | **15,300** | **14,649** | **651** | **4** |
| **b) other administration expenses** | **8,174** | **8,447** | **-273** | **-3.23** |
| **Total** | **23,474** | **23,096** | **378** | **1.64** |

Total personnel expenses increased by 4.44%. The net change was the result of an increase in wages and salaries reflecting a reduction in clerical staff and increase for senior executives and executive cadres, only partially offset by personnel who left the Bank's service during the year. Reduced outlays for voluntary early-retirement packages paid out contributed significantly to limit other personnel expenses but this was offset by a considerable increase for seconded personnel, with the result that the total expense was higher than in 2009.

For purposes of greater clarity amounts paid to Directors and associates not on the Bank's payroll are entered under personnel costs as required by new accounting principles.

Other administration expenses fell by 3.23%. This confirms the Bank's ability to limit operating expenses and keep overheads under control while managing available resources in the most cost-effective manner.

**Composition of the Year-end Net Result**

Variations in net interest income (-8.02%), net non-interest income (+0.88%) and administrative expenses (+7.08%) resulted in a reduction in gross operating profit from EUR 34,107,154 to EUR 30,715,596 in 2010.

The following table indicates the composition of net profit for 2010 compared to 2009.

EUR/000

| Results | 2010 | | 2009 | |
|---|---|---|---|---|
| **- Gross operating profit** | | **30,715** | | **34,107** |
| - Net adjustments to tangible and intangible fixed assets | | -1,516 | | -999 |
| - Net impairment adjustments: | | | | |
| § to loans | -19,646 | | -7,790 | |
| § to financial assets available for sale | 1,180 | | -396 | |
| § to financial assets held to maturity | 30 | | -507 | |
| § to other financial operations | 3,984 | | -6,419 | |
| § net provisioning for risks and charges | -152 | | -251 | |
| **total** | | -14,604 | | -15,363 |
| | | | | |
| **- Profit before tax** | | **14,595** | | **17,745** |
| - Income tax for the year | | -6,194 | | -9,660 |
| | | | | |
| **Net profit** | | **8,401** | | **8,085** |

More information on these figures is provided in the Notes to the Financial Statements (Part C: Additional Income Statement Data), whereas proposals for allocating net profit are submitted in the section Profit Allocation

## SIGNIFICANT POST-YEAR-END EVENTS

Civil disorder and subsequent events causing various impacts in north African and Middle Eastern countries have forced UBAE to adopt a cautious assessment and control policy as regards open positions. In addition, the Bank is faced with objective difficulties in carrying out normal business operations.

In particular, events in Libya and positions taken by international organizations have affected UBAE and all European banks that find themselves in a similar position. In Italy, on 12 March 2011 this led to temporary administration of the Bank by Banca d'Italia and later, to extraordinary administration as prescribed by decree on 8 April 2011, with the consequence that the Bank's Board of Directors, Board of Statutory Auditors and Executive Committee were dissolved.

As a result of this measure Banca d'Italia appointed two Extraordinary Commissioners and a Supervisory Board comprising three members to ensure financial markets that the Bank's operations are conducted in an entirely transparent and correct manner in accordance with Italian, European and international regulations.

And so the Bank is fully operational and continues to conduct business in an entirely efficient manner.

New scenarios in markets in the Bank's region of interest, especially in Libya, require constant and careful monitoring of open positions and import/export transactions under way. The aims are to make sure commercial and attendant financial transactions are conducted correctly and to check and ensure compliance with international directives, which are constantly being updated.

On the risk front as regards credit facilities granted and deposits, including all outstanding contingent facilities (guarantees and letters of credit ), the Bank has intensified its first and second level internal controls and checks made by the Compliance unit.

Given the Bank's current overall position, compared to the situation at year-end there is no need to create further provisions for financial and business risks. In fact the valuation of balance sheet items and specific provisions already made took into account overall risks in the Bank's various markets. In the specific case of Libya, the level of funds on deposit with the Bank, commitments counter-guaranteed by Italian or European banks and restrictive international measures encumbering beneficiaries of the majority of guarantees issued means that the existing risk level is limited and as such is reflected in the balance sheet evaluation.

## ADDITIONAL INFORMATION

The Bank does not conduct research and development activity.

The Bank does not hold any treasury stock.

Information regarding the Bank's dealings with related parties may be found in the relevant section of the Notes to the Financial Statements.

**1. Approval of the Accounts for the Financial Year Ended 31 December 2010**

Gentlemen:

Based on regulations governing Extraordinary Administration it is not possible to distribute the profit for 2010 reported in the Bank's Financial Statements, therefore the entire result is allocated in part, for the mandatory portion, to the Legal Reserve while the remainder is carried forward

**2. Appropriation of Net Profit**

Profit for the year is allocated as follows

| | | |
|---|---|---|
| - Net profit | Euro | 8,400,896.00 |
| - 5% to Legal Reserve (art. 30.a) of the Articles of Association) | Euro | 420,044.80 |
| - Retained profit | Euro | 7,980,396.00 |
| | Euro | 7,680,020.23 |
| | **Euro** | **15,660,416.23** |
| **- Carry-forward** | **Euro** | **15,660,416.23** |

**If the scheme is approved, shareholders' equity will amount to EUR 212,315,253.26 and will be composed as follows**

| | | |
|---|---|---|
| - Share capital | Euro | 151,060,800.00 |
| - Share premium | Euro | 16,702,216.29 |
| - Reserves and profit carried forward | Euro | 34,246,997.59 |
| - IAS FTA reserve and carry-forward 2005 IAS | Euro | 305,239.38 |
| | **Euro** | **202,315,253.26** |

# FINANCIAL STATEMENTS

(amounts in euros)

| | Assets | 2010 | 2009 |
|---|---|---|---|
| 10 | Cash and cash equivalents | 216,394 | 340,899 |
| 20 | Financial assets held for trading | 115,517,036 | 67,871,003 |
| 40 | Financial assets available for sale | 3,503,653 | 2,501,915 |
| 50 | Financial assets held to maturity | 91,100,706 | 82,832,563 |
| 60 | Loans and advances to bank | 2,897,837,929 | 2,106,310,249 |
| 70 | Loans and advances to customers | 210,275,496 | 168,104,001 |
| 110 | Tangible fixed assets | 24,981,933 | 25,671,143 |
| 120 | Intangible fixed assets, | 2,219,484 | 347,700 |
| | of which: goodwill | | |
| 130 | Tax assets | 27,249,518 | 19,758,988 |
| | a) current | 17,428,059 | 15,170,994 |
| | b) deferred | 9,821,459 | 4,587,994 |
| 150 | Other assets | 1,396,185 | 1,060,690 |
| | **Total assets** | **3,374,298,334** | **2,474,799,151** |

# BALANCE SHEET: LIABILITIES 

| | Liabilities | 2010 | 2009 |
|---|---|---|---|
| 10 | Accounts payable to banks | 2,380,597,369 | 2,119,506,551 |
| 20 | Accounts payable to customers | 761,550,250 | 123,592,793 |
| 40 | Financial liabilities held for trading | 3,967,575 | 7,154,452 |
| 80 | Tax liabilities | 11,706,382 | 11,728,810 |
| | a) current | 11,617,617 | 11,616,666 |
| | b) deferred | 88,765 | 112,144 |
| 100 | Other liabilities | 11,566,817 | 16,428,960 |
| 110 | Staff severance fund | 2,128,847 | 2,446,298 |
| 120 | Provisions for risks and charges | 465,841 | 475,827 |
| | a) pensions and similar | 0 | |
| | b) other | 465,841 | 475,827 |
| 130 | Valuation Reserves | 733,461 | 284,564 |
| 160 | Reserves | 25,417,880 | 17,332,934 |
| 170 | Share premium reserve | 16,702,216 | 16,702,216 |
| 180 | Share capital | 151,060,800 | 151,060,800 |
| 190 | Treasury stock | 0 | |
| 200 | Net profit for the year | 8,400,896 | 8,084,946 |
| **Total liabilities and shareholders' equity** | | **3,374,298,334** | **2,474,799,151** |

# INCOME STATEMENT



| | Items | 2010 | 2009 |
|---|---|---|---|
| 10 | Interest and similar income | 37,309,436 | 62,091,943 |
| 20 | Interest charges and similar expenses | (12,083,877) | (34,668,143) |
| **30** | **Net interest income** | **25,225,559** | **27,423,800** |
| 40 | Commission income | 24,849,395 | 26,199,469 |
| 50 | Commission expense | (3,020,333) | (4,317,765) |
| **60** | **Net commissions** | **21,829,062** | **21,881,704** |
| 70 | Dividends and similar income | 8,500 | 21,846 |
| 80 | Net trading income | 5,305,315 | 5,000,781 |
| **120** | **Gross operating income** | **52,368,436** | **54,328,131** |
| 130 | Net impairment adjustments: | (14,452,406) | (15,112,001) |
| | a) to loans and advances | (19,646,429) | (7,789,994) |
| | b) to financial assets available for sale | 1,180,503 | (396,352) |
| | c) to financial assets held-to-maturity | 29,879 | (507,087) |
| | d) to other financial assets | 3,983,641 | (6,418,568) |
| **140** | **Net income from financial operations** | **37,916,030** | **39,216,130** |
| 150 | Administration expenses: | (23,473,498) | (23,096,411) |
| | a) personnel | (15,299,582) | (14,649,154) |
| | b) other | (8,173,916) | (8,447,257) |
| 160 | Net provisioning for risks and charges | (152,292) | (251,376) |
| 170 | Net adjustments to tangible fixed assets | (817,334) | (830,588) |
| 180 | Net adjustments to intangible fixed assets | (698,335) | (167,963) |
| 190 | Other operating income / charges | 1,820,658 | 2,875,434 |
| **200** | **Operating charges** | **(23,320,801)** | **(21,470,904)** |
| **250** | **Profit from continuing operations before tax** | **14,595,229** | **17,745,226** |
| 260 | Income tax for the year on continuing operations | (6,194,333) | (9,660,280) |
| **270** | **Net profit from continuing operations** | **8,400,896** | **8,084,946** |
| **290** | **Net profit for the year** | **8,400,896** | **8,084,946** |

# COMPREHENSIVE NET INCOME DETAIL



| | Items | 2010 | 2009 |
|---|---|---|---|
| **10** | **Net profit (loss)** | **8,400,896** | **8,084,946** |
| 20 | Financial assets available for sale | 302,707 | 192,600 |
| 30 | Tangible assets | | |
| 40 | Intangible assets | | |
| 50 | Hedging of foreign investments | | |
| 60 | Hedging of financial flows | | |
| 70 | Forex differentials | | |
| 80 | Non-current assets earmarked for disposal | | |
| 90 | Actuarial profit (loss) on defined-benefit plans | | |
| 100 | Share of valuation reserves booked to shareholders’ equity | | |
| **110** | **Other sources of income, after tax** | **302,707** | **192,600** |
| **120** | **Comprehensive Net Income** | **8,703,603** | **8,277,546** |

# STATEMENT OF CHANGES IN EQUITY - 2010



| | Balance as at 31.12.2009 | Change in opening balance | Balances as at 01.01.2010 | Allocation of profit from previous year | | Changes to reserves |
|---|---|---|---|---|---|---|
| | | | | Reserves | Dividends and others | |
| **Share capital** | | | | | | |
| a) ordinary shares | 151,060,800 | | 151,060,800 | | | |
| b) other shares | | | | | | |
| Share premium account | 16,702,216 | | 16,702,216 | | | |
| Reserves | | | | | | |
| a) from profits | 17,332,934 | | 17,332,934 | 8,084,946 | | |
| b) other | | | | | | |
| Revaluation reserves | 284,564 | | 284,564 | | | 448,897 |
| Capital instrument | | | | | | |
| Own Shares | | | | | | |
| Net profit for the year | 8,084,946 | | 8,084,946 | (8,084,946) | | |
| **Shareholders' equity** | **193,465,460** | **0** | **193,465,460** | **0** | **0** | **448,897** |

| Intervening variations | | | | | | | Shareholders' Equity as at 31.12.2010 |
|---|---|---|---|---|---|---|---|
| Changes to Equity | | | | | | 2010 Net Profit | |
| New Shares issued | Treasury stock bought | Extraordinary dividends paid | Changes to capital instruments | Derivatives on treasury stock | Stock options | | |
| | | | | | | | |
| | | | | | | | 151,060,800 |
| | | | | | | | |
| | | | | | | | 16,702,216 |
| | | | | | | | |
| | | | | | | | 25,417,880 |
| | | | | | | | |
| | | | | | | | 733,461 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | 8,400,896 | 8,400,896 |
| | | | | | | **8,400,896** | **202,315,253** |

# STATEMENT OF CHANGES IN EQUITY - 2009



| | Balance as at 31.12.2008 | Change in opening balance | Balances as at 01.01.2009 | Allocation of profit from previous year | | Changes to reserves |
|---|---|---|---|---|---|---|
| | | | | Reserves | Dividends and others | |
| **Share capital** | | | | | | |
| a) ordinary shares | 143,624,470 | | 143,624,470 | | | |
| b) other shares | | | | | | |
| Share premium account | 16,702,216 | | 16,702,216 | | | |
| Reserves | | | | | | |
| a) from profits | 16,944,611 | | 16,944,611 | 7,824,653 | | |
| b) other | | | | | | |
| Revaluation reserves | | | | | | 284,564 |
| Capital instrument | | | | | | |
| Own Shares | | | | | | |
| Net profit for the year | 7,824,653 | | 7,824,653 | (7,824,653) | | |
| **Shareholders' equity** | **185,095,950** | **0** | **185,095,950** | | | **284,564** |

| Intervening variations | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Changes to Equity | | | | | | | | |
| New Shares issued | Treasury stock bought | Extraordinary dividends paid | Changes to capital instruments | Derivatives on treasury stock | Stock options | **2009 Net Profit** | **Shareholders' Equity as at 31.12.2009** |
| | | | | | | | |
| 7,436,330 | | | | | | | 151,060,800 |
| | | | | | | | |
| | | | | | | | 16,702,216 |
| | | | | | | | |
| (7,436,330) | | | | | | | 17,332,934 |
| | | | | | | | |
| | | | | | | | 284,564 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | 8,084,946 | 8,084,946 |
| | | | | | | **8,084,946** | **193,465,460** |

# CASH FLOW STATEMENT

| | Indirect Method | 2010 | 2009 |
|---|---|---|---|
| A | **OPERATING ACTIVITIES** | | |
| 1 | **Operations** | **16,428,601** | **23,456,531** |
| | Net profit for the year | 8,400,896 | 8,084,946 |
| | Capital gains (losses) on financial assets held for trading and financial assets/liabilities carried at fair value | (866,323) | 410,728 |
| | Capital gains (losses) on hedging assets | | |
| | Net impairment adjustments | 14,452,406 | 15,112,001 |
| | Net adjustments to tangible and intangible assets | 1,515,669 | 998,551 |
| | Net provisions for risks and charges and Other revenues (costs) | (9,986) | 208,473 |
| | Unsettled taxes and duties | (7,512,958) | (1,642,732) |
| | Net post tax adjustments to groups of assets earmarked for disposal | | |
| | Other adjustments | 448,897 | 284,564 |
| 2 | **Liquidity generated (absorbed) by financial assets** | **896,268,524** | **(1,196,291,167)** |
| | Financial assets held for trading | 46,779,710 | (23,996,196) |
| | Financial assets carried at fair value | | |
| | Financial assets available for sale | 1,001,738 | (206,636) |
| | Loans and advances to banks: demand | 791,527,680 | (1,154,269,593) |
| | Loans and advances to banks: other | | |
| | Loans and advances to customers | 56,623,901 | (17,443,046) |
| | Other financial assets | 335,495 | (375,696) |
| 3 | **Liquidity generated (absorbed) by financial liabilities** | **890,681,804** | **(1,489,626,521)** |
| | Account payable to banks: demand | 261,090,818 | (1,477,080,863) |
| | Account payable to banks: other | | |
| | Account payable to customers | 637,957,457 | 57,235,905 |
| | Outstanding securities | | |
| | Financial liabilities held for trading | (3,186,877) | (13,996,781) |
| | Financial liabilities carried at fair value | | |
| | Other financial liabilities | (5,179,594) | (55,784,782) |
| | **Net liquidity generated (absorbed) by operating activities** | **10,841,881** | **(269,878,823)** |

| | | | |
|---|---|---|---|
| B | **INVESTMENT/DIVESTMENT ACTIVITIES** | | |
| 1 | **Liquidity generated by:** | **0** | **0** |
| | Disposal of equity investments | | |
| | Dividends received on equity investments | | |
| | Disposal of financial assets held to maturity | | |
| | Disposal of tangible fixed assets | | |
| | Disposal of intangible assets | | |
| | Disposal of business units | | |
| 2 | **Liquidity absorbed by:** | **10,966,386** | **36,340,579** |
| | Purchase of equity investments | | |
| | Purchase of financial assets held to maturity | 8,268,143 | 36,234,747 |
| | Purchase of tangible fixed assets | 128,124 | 86,625 |
| | Purchase of intangible assets | 2,570,119 | 19,207 |
| | Purchase of business units | | |
| | **Net liquidity generated (absorbed) by investment/divestment activities** | **(10,966,386)** | **(36,340,579)** |
| C | **FUNDING** | 0 | |
| | Issue (purchase) of treasury stock | 0 | 7,436,330 |
| | Issue (purchases) of capital instruments | 0 | |
| | Distribution of dividends and other | 0 | (7,436,330) |
| | **Net liquidity generated (absorbed) by funding activities** | 0 | 0 |
| **NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR** | | **(124,505)** | **(306,219,402)** |

**Reconciliation**

| | **2010** | **2009** |
|---|---|---|
| **Cash and cash equivalents at start of year** | **340,899** | **306,560,301** |
| Net liquidity generated/absorbed during the year | (124,505) | (306,219,402) |
| Cash and cash equivalents: effect of exchange rate variations | | |
| **Cash and cash equivalents at the year end** | **216,394** | **340,899** |

# SUPPLEMENTARY NOTE

# PART A
# ACCOUNTING POLICIES



**A.1 GENERAL PART**

**Section 1 – Compliance with international accounting standards**

The 2010 financial statements have been prepared in conformity with the accounting principles issued by the IASB and certified by the European Commission pursuant to EC Regulation 1606 of 19 July 2002. Reference was also made to the IFRS Framework for the preparation and presentation of financial statements.

**Section 2 – General principles for preparation**

In preparing the financial statements, particularly as regards the format for the Balance Sheet, the Income Statement and the Notes, the Bank followed the instructions set out in Banca d'Italia's circular directive 262 of 22 December 2005. Additional information is provided as required to meet International Accounting Standards and wherever it was judged appropriate from the standpoint of relevance or meaningfulness. Amounts in the Balance Sheet and Income Statement are expressed in whole euros, while figures in the Notes are represented in thousands of euros.

The financial statements were drafted to reflect:
- the Bank's continuity over time;
- accrual-basis accounting;
- the relevance and meaningfulness of the information provided;
- the primacy of economic substance over legal form;
- the same classification and presentation criteria from one year to the next;
- no offsetting of any assets, liabilities, revenues or costs unless required or allowed by the Principles, the Interpretations or Banca d'Italia's circular directive;
- departures from the previous year's results.

The financial statements comprise items and classes of items, each of which is significant and homogeneous by nature and/or destination.

**Section 3 – Events Occurring After the End of the Financial Year**

The Annual Report indicates events that have taken place at the end of the financial year, no adjustments to the Financial Statements are deemed necessary in the light of these event.

**Section 2 – Other aspects**

**Statement of comprehensive income**

The Statement of Comprehensive Income, introduced in financial year 2010 and prepared in accordance with changes made to IAS 1, includes revenue and cost items that, in conformity with international accounting principles, are not shown in the Income Statement but are recorded in shareholders' equity.

Therefore comprehensive income includes changes in shareholders' equity during the year, both as a result of transactions contributing to the effective profit for the year plus other transactions net of the relevant tax effect. The latter comprise changes in the value of financial assets available for sale, tangible and intangible fixed assets, hedging of foreign investments and financial flows, forex translation adjustments and actuarial profits or losses on defined employee benefit plans recorded in shareholders' equity based on a specific accounting principle.

## A.2 – PART CONCERNING PRINCIPLES

1 – FINANCIAL ASSETS HELD FOR TRADING

Recognition

Financial assets held for trading are recorded on their settlement date while derivatives are recorded on the trade date.
Financial assets in this category are initially recognized at fair value, which is usually the amount paid or received for them. In cases where fair value differs from the amount paid or received, the asset is recognized at fair value and the balance of actual payment and fair value is recorded in the Income Statement.
Derivatives embedded in financial instruments or in other contractual arrangements which have financial characteristics and risks that are not correlated with the host instrument or that otherwise qualify them as derivatives are accounted for separately under "Financial assets held for trading" except in cases where the host instrument is assessed at fair value and this has an impact on the Income Statement. Where the implied derivative is separated from its host contract, the latter is subject to the accounting rules applying to its own particular instrument class.

Classification

HFT assets are financial assets held for short-term trading purposes, regardless of their technical form. The category extends to derivatives with a positive value and which are not part of effective hedging transactions, including implied derivatives that have been separated from host contracts.

Valuation

After initial recording, HFT items are assessed at fair value. The fair value of financial assets and liabilities is based on official year-end prices if the instruments are listed on active markets. If the instruments, including equity securities, are not listed on active markets, fair value is established through valuation techniques and data freely available to the public, such as active-market quotes for similar instruments, discounted cash-flow estimates, option pricing models, or the prices obtaining in recent, comparable trades

Derecognition

Financial assets held for trading are removed from the Balance Sheet upon expiry of the contractual rights governing the relevant cash flows or in the event of a sale whereby all the risks and benefits associated with the asset are transferred to a third party.

Recognition of Gains and Losses

Gains and losses resulting from the valuation of financial assets held for trading are recorded in the Income Statement along with the relevant interest.

## 2 – FINANCIAL ASSETS AVAILABLE FOR SALE

### Recognition

Financial assets available for sale are recognized on their settlement date. They are first recorded at fair value, which is usually the amount paid or received for them. In cases where fair value differs from the amount paid or received, the asset is recognized at fair value and the balance of actual payment and fair value is recorded in the Income Statement.
The amount recorded initially will include any accessory charges or income relating to the transaction.

### Classification

The available-for-sale category refers to non-derivative assets which are not classified in the Balance Sheet as financial assets held for trading, financial assets held at fair value, financial assets held to maturity, loans and advances to banks, or loans and advances to customers.
The item includes equity holdings which do not qualify as controlling, jointly controlling or connected stakes, and which are not held for trading purposes.

### Valuation

After their initial recording, financial assets available for sale are assessed at fair value. Fair value is established by the method described in the section concerned with financial assets held for trading. If a plausible fair-value figure for equities cannot be obtained by technical assessments, these will be recorded at cost and adjusted for impairment losses if and as applicable.

### Derecognition

Financial assets available for sale are removed from the Balance Sheet upon expiry of the contractual rights governing the relevant cash flows or in the event of a sale whereby all the risks and benefits associated with the asset are transferred to a third party.

### Recognition of Gains and Losses

Gains and losses arising from changes in fair value are recorded in an ad hoc reserve within shareholders' equity and are kept there until the asset is reversed out. Furthermore, these changes are recorded in the Statement of Comprehensive Income.
If there is evidence of an impairment loss at the end of the financial year, the loss is reversed out of shareholders' equity and charged to the Income Statement for an amount equal to the difference between purchase cost and fair value, after deducting any pre-existing impairment losses in the Income Statement.
If fair value should rise again after an impairment loss was recorded, the gain is entered in the Income Statement if the item is a debt instrument, though not if it is an equity.
Besides impairment losses, cumulative gains or losses in the shareholders' equity reserve are recorded in the Income Statement at the time of disposal of the asset concerned as indicated above. Interest reckoned by the actual interest rate method is recorded in the Income Statement. Dividends on financial assets available for sale are recorded in the Income Statement when the right to receive payment matures

## 3 – FINANCIAL ASSETS HELD TO MATURITY

### Recognition

Financial assets held to maturity are recognized on their settlement date. They are first recorded at fair value, which is usually the amount paid or received. In cases where fair value differs from the amount paid or received, the asset is recognized at fair value and the balance of actual payment and fair value is recorded in the Income Statement.
The amount recorded initially will include any accessory charges or income relating to the transaction.

### Classification

The HTM category comprises financial assets, other than derivatives, involving specified or specifiable contractual payments and a fixed maturity, in relation to which there is both a genuine intention and the ability to hold them to maturity. It includes listed bonds though not complex structured bond issues with embedded derivatives that cannot be unbundled.

### Valuation

After initial recording, financial assets held to maturity are assessed at their amortized cost and are later checked for possible impairment losses.
The amortized cost of a financial asset is the value initially recorded, net of any principal reimbursed, plus or minus cumulative amortization as reckoned by the actual interest rate method on any difference between the initial value and value on maturity and net of any write-down (either direct or made by drawing on provisions) due to impairment or outright uncollectability.
The amortized-cost method is not used for short-term financial assets, as applying it would not produce meaningful results; such assets are recorded at cost.

### Derecognition

HTM assets are derecognized upon expiry of the contractual rights governing the relevant cash flows or in the event of a sale whereby all the risks and benefits associated with the asset are essentially transferred to a third party.

### Recognition of Gains and Losses

Gains and losses are entered in the Income Statement at the time the HTM assets are removed from the Balance Sheet. Interest is reckoned by the amortized-cost method based on actual interest rates.
If evidence points to an impairment loss at the end of the financial year, this is entered in the Income Statement as the difference between the asset's book value and the present value of future estimated cash flows, discounted by using the original actual interest rate.
If the reasons that gave rise to the impairment loss should cease to subsist after the loss was recognized, a write-back is recorded in the Income Statement. The gain cannot result in a higher book value than that which the asset’s amortized cost would have exhibited if no impairment loss had been recorded.

## 4 – LOANS AND ADVANCES, GUARANTEES ISSUED

### Recognition

Loans and advances are recorded in the Balance Sheet on the date they are disbursed (for debt instruments, on the settlement date). The value recorded initially is the amount disbursed or subscription price, including marginal costs and income directly attributable to the transaction and quantifiable at the date of recognition, even if paid later.
The initial value cannot include costs that will be reimbursed by the borrower, nor any portions of internal administrative costs.
The initial value of any loans disbursed at other than market rates should equal the fair value of such loans as established using valuation techniques; any difference between fair value and the amount disbursed or subscription price is recorded in the Income Statement.
Carry-over contracts and repurchase or resale agreements are recorded in the Balance Sheet as borrowing or lending transactions; spot sales and forward repurchases are recorded as liabilities for the spot amount received, whereas spot purchase and forward resale transactions are recorded as receivables for the spot amount paid.
Contingent liabilities, which include guarantees and commitment carrying credit risk, are designated at the fair value of the commitment given.
Financial guarantees are initially recognized at fair value, which is represented by the fee initially received and subsequently at the higher of the amount determined in accordance with IAS 37 and the amount initially recognized (less, where appropriate, cumulative amortization calculated on a straight-line basis).

### Classification

Loans and advances that are disbursed directly or acquired from third parties, that are not listed on active markets and involve fixed, specifiable payments are classified under "L&As to Banks" or "L&As to Customers" save for those classified as financial assets held for trading, financial assets designated at fair value, or financial assets available for sale. Any instruments whose characteristics make them similar to loans are also treated as L&As, as are operating loans and repurchase agreements.

### Valuation

After initial recognition, L&As are valued at their amortized cost as described above with reference to financial assets held to maturity.
The amortized cost method is not applied to short-term loans, to loans carrying an unspecified maturity, or to open-ended loans, as applying the amortized cost method would not be meaningful in such cases; all three types of loans are assessed at cost.
The loan portfolio is reviewed at the end of each financial year and checked for any instances of impairment that may lead to losses.
Bad debts, standstill positions, restructured debts and positions that are overdue by, or display overruns extending for, more than 180 days are considered impaired loans.
Impairment losses are only recorded in the accounts when, after initial recognition of the loan, there is objective evidence of events likely to cause a reduction in the loan's value such that future estimated cash flows will be affected.

Bad debts, standstill positions or restructured debts that show a reduction in value based on objective evidence of impairment are valued individually. The loss is calculated as the difference between the asset's book value and the present value of estimated cash flows, discounted by using the original actual interest rate. Valuation takes into account:

- the "maximum collectable amount", which represents the best possible estimate of future cash flows from the loan and related interest: when collection is judged likely this also includes default interest and the realizable value of any collateral, net of collection costs;
- estimated time to collection based on contractual due dates, if such exist, or else on reasonable estimates;
- the discounting-back rate, which is the original actual interest rate; with respect to impaired loans existing at the transition date which proved too difficult to quantify, reasonable estimates are used, such as the average rate for loans during the year in which the loan was classified as a bad debt, or the restructuring rate.

For the purposes of valuation, cash flows estimated to occur over the short term are not discounted to present value. The original actual rate for each loan remains the same over time, even when restructuring has introduced a change in the contractually agreed rate or the loan no longer bears interest.
Loans that show no objective evidence of impairment (typically, performing loans to banks and customers, including loans to counterparties resident in countries considered as being at risk) and impaired loans with overdue positions in excess of 180 days, are assessed collectively by means of creating groups of positions with a similar risk profile. The write-down is based on historical trends for losses on each group of positions; for this purpose, individually valued positions are left out of the loan population.
Adjustments determined collectively in this way are recorded in the Income Statement.
Recoveries in value (if any) are calculated differentially by reference to the entire portfolio of loans in a given class.
Contingent liabilities are also subject to review for impairment using methods similar to those adopted for loans valued individually and collectively.
Any write-downs are recorded in the Income Statement and the contra-item entered under Other Liabilities.
The amount recognized as a provision in accordance with IAS 37 represents the best estimate of the expenditure required to settle the liability existing at the Balance Sheet date in connection with the financial guarantee valued individually or collectively.

### Derecognition

Under the terms of IAS 39, the transfer of financial assets only leads to derecognition when basically all risks and benefits associated with the assets are transferred to a third party. If the Bank has not basically transferred all the risks and benefits associated with an asset and retains control over it, the Bank's "continuing involvement" in the asset (i.e., the amount representing its exposure to changes in the value of the asset transferred) remains in the Balance Sheet.

### Recognition of Gains and Losses

Gains and losses are entered in the Income Statement at the time a loan is derecognized as a result of impairment loss and by amortization of the difference between the book value and the amount to be repaid at maturity, the latter being recorded in the Income Statement as interest.
Impairment losses as defined above in the section on loan valuation, are recorded in the Income Statement.

If the reasons that gave rise to the impairment loss should cease to subsist after the loss was recognized, a write-back is recorded in the Income Statement. The gain cannot result in a higher book value than that which the asset's amortized cost would have exhibited if no impairment loss had been recorded.
Write-backs linked to the passing of time, corresponding to interest accrued over the year on the basis of the original actual interest rate previously used to calculate impairment losses, are recorded under Net impairment write-downs.
Risks and charges relating to contingent liabilities are recorded in the Income Statement and the contra-entry under Other liabilities.

## 5 – FINANCIAL ASSETS CARRIED AT FAIR VALUE

There are no items in this category.

## 6 – HEDGING TRANSACTIONS

There are no items in this category.

## 7 – EQUITY INVESTMENTS

There are no items in this category.

## 8 – TANGIBLE FIXED ASSETS

### Recognition

Tangible fixed assets are recognized in the Balance Sheet when their cost can be reasonably determined and it is likely that the relevant future economic benefits will accrue to the Bank, regardless of the formal transfer of ownership.
Tangible fixed assets are recognized initially at cost, including all directly related costs for the purchase and installation of the assets. Extraordinary maintenance expenses that lead to an increase in a fixed asset's future useful life are recorded as an increase in the value of the asset concerned, whereas ordinary maintenance costs are recorded in the Income Statement.

### Classification

This line item includes fixed assets used in the production and supply of goods and services, or for administrative purposes, and that are intended to be used for a number of years. Tangible fixed assets include land, buildings, technical systems, furniture, fixtures and equipment.

### Valuation

Tangible fixed assets are valued at cost less depreciation and losses for reductions in value.
Depreciation is calculated systematically on a straight-line basis over the residual useful life of the asset. Land included in the value of wholly-owned buildings is not depreciated.

### Derecognition

A tangible fixed asset is derecognized at the time of its disposal or when it has been withdrawn permanently from use and no future benefits are expected as a result of its disposal.

### Recognition of Gains and Losses

Depreciation is recorded in the Income Statement. If there is any indication of a potential reduction in the value of a tangible fixed asset, a comparison is made between the book value and the "recoverable value", the latter being the greater of the asset's use value, i.e., the present value of future cash flows originating from the asset, and its fair value reckoned net of disposal costs. Any shortfall in book value relative to recoverable value is entered in the Income Statement. If the reasons for the write-down should cease to subsist, a write-back is entered in the Income Statement. The write-back cannot result in a higher book value than that which the asset would have exhibited, after depreciation, if no reduction in value had occurred.

## 9 – INTANGIBLE FIXED ASSETS

### Recognition

Intangible fixed assets are non-monetary assets identifiable by virtue of legal or contractual rights. They have no physical form, are held for use over a number of years and are recognized in the Balance Sheet insofar as they are expected to generate future economic benefits. Intangible fixed assets are initially entered at cost.

### Classification

The Bank's intangible fixed assets consist mostly of software.

### Valuation

Intangible fixed assets are recorded at cost and are amortized on a straight-line basis.

### Derecognition

Intangible fixed assets are removed from the Balance Sheet at the time of their disposal or when no future economic benefit is expected from their use or disposal.

### Recognition of Gains and Losses

Amortization is recorded in the Income Statement. If there is any indication of a potential reduction in the value of an intangible fixed asset, a test is performed to assess the loss, and any shortfall in the asset's book value relative to recoverable value is entered as a write-down in the Income Statement. Should the reasons for the write-down of an intangible fixed asset other than goodwill cease to subsist, a corresponding write-back is entered in the Income Statement. The write-back cannot result in a higher book value than that which the asset would have exhibited, net of amortization, if no reduction in value had occurred.

## 10 – NON-CURRENT ASSETS FOR WHICH DISPOSAL IS UNDERWAY

There are no items in this category.

## 11 –TAX ASSETS AND LIABILITIES

### Recognition

Income tax charges comprise current and deferred tax.
Prepaid tax assets are recognized to the extent that it is probable that future taxable income will be available against which such assets can be utilized. Deferred taxes are recognized in all cases in which the relevant liability is likely to arise.

### Classification

Prepaid and deferred taxes are recorded in the Balance Sheet as open balances and are not offset; the former are recorded under Tax assets, the latter under Tax liabilities.

### Valuation

When the results of transactions are recorded under shareholders' equity directly, taxes are recorded under shareholders' equity too.
Assets and liabilities representing prepaid and deferred taxes respectively are periodically reviewed to take account of any changes in regulations, tax rates or the likelihood that a tax benefit will no longer be realized.

### Recognition of Gains and Losses

Income tax is recorded in the Income Statement by the same method used to record revenues and costs, except - as mentioned - those items debited or credited directly to shareholders' equity. Income tax for the year is calculated on the taxable result for the year, using the tax rates applying at year-end and any adjustments for taxes payable on previous years' income. Deferred tax assets and liabilities are measured at the tax rates that are expected apply when the assets are cashed in or the liabilities are settled, based on the rates applying at the Balance Sheet date. Deferred and prepaid income tax is reckoned on the temporary differences obtaining between assets and liabilities recorded in the Balance Sheet and the corresponding values recognized for tax purposes.

## 12 – STAFF SEVERANCE FUND

### Recognition and classification

The Staff severance fund is recognized by the actuarial method prescribed in IAS 19 for staff defined-benefit programmes. Therefore, the liability recorded in the Balance Sheet is subject to actuarial estimates that also take into account, among other variables, future developments in the employment relationship.
The liability in the Balance Sheet represents the present value of the obligation, adjusted for any unrecognized actuarial gains and losses.

### Valuation and recognition of gains and losses

The present value of future staff severance liabilities is calculated at year-end, based on the Project Unit Credit Method, by an independent accountant. The year-end book value is adjusted by the fair value of any assets pertaining to the plan. Following legislative reforms only staff severance liabilities as at 31.12.2006 are still held by the Bank and subject to the actuarial valuation method described. Actuarial gains and losses are recorded directly in the Income Statement. In the case of (external) defined-contribution pension funds, the Bank's contribution is calibrated to work performed and charged to the Income Statement. Every year the liability is determined on the basis of contributions due for that year. As result of the legislative reform, based on the choice made by each individual employee, Staff Severance amount due from 01.01.2007 onward are transferred to an external pension fund or the INPS treasury fund and as such are no longer considered as "defined contribution plan".

## 13 - FUNDS FOR RISKS AND CHARGES

### Recognition and classification

Provisioning for risks and charges is entered in the Income Statement as well as in the Balance Sheet under liabilities provided the item meets the following conditions:

- a current liability exists (legal or implied) arising from a past event;
- it is deemed probable that financial resources will be disbursed to settle the liability;
- a reliable estimate can be made of the probable future disbursement.

Allocations are made based on the best estimate of the amount required to settle the liability, or to transfer it to a third party at the end of the year concerned.
When the financial impact linked to the passing of time is significant and the dates for settling the liabilities can be estimated reliably, the allocation is stated at present value using the market rates applying at the end of the financial year.

### Valuation and recognition of gains and losses

Amounts provisioned for are reassessed at the end of each financial year and adjusted to reflect the best estimate of the expense required to settle outstanding liabilities.
The impact of time elapsed and any changes in interest rates are reflected in the Income Statement under Net provisioning for the year.

### Derecognition

Provisions are used solely against the liabilities for which they were originally recorded. If it is deemed that settlement of the liability will no longer require the use of resources, then the provision is reversed and the effect of this is reflected in the Income Statement.

## 14 – ACCOUNTS PAYABLES

### Recognition

Initial recognition is based on the fair value of the liability, which is normally the amount received, adjusted for marginal costs and income directly attributable to the transaction and not reimbursed by creditor, though not for any internal administrative costs.
Any financial liabilities issued at other than market conditions are recorded at estimated fair value and the discrepancy with the amount paid or the issue price is recorded in the Income Statement.

### Classification

Payables include financial liabilities not held for short-term trading purposes, such as the various kinds of interbank funding and customer deposits.

### Valuation and Recognition of Gains and Losses

After initial recognition, these items are valued at amortized cost by the actual interest rate method, save for short-term liabilities whose relevance warrants their recognition at fair value (i.e., amount received adjusted for any directly related charges/proceeds). The method for determining amortized cost is discussed in the sub-section above on Financial assets held to maturity.

### Derecognition

Financial liabilities included in this category are removed from the Balance Sheet when settled or at maturity.

## 15 – FINANCIAL LIABILITIES HELD FOR TRADING

### Recognition

Recognition of HFT liabilities carries the settlement date (if derivatives, the trade date). Liabilities are initially recorded at fair value, which normally equals the amount received.
If the amount received differs from fair value, the financial liability is recorded at fair value and the balance of the two quantities is recorded in the Income Statement.
Derivatives embedded in financial instruments or in other contract formats, and whose financial characteristics and risks are unrelated to the host instrument, or which have other features that qualify them as derivatives, are accounted for separately, if negative, under Financial liabilities held for trading, except where the complex instrument in which they are embedded is designated at fair value and the impact is reflected in the Income Statement.

### Classification

This line item includes the negative value of derivatives that are not part of hedging transactions and also the negative value of implied derivatives embedded in complex contracts.

### Valuation

After initial recognition, financial liabilities held for trading are assessed at fair value. The method for determining fair value is discussed in the sub-section on Financial assets held for trading.

### Derecognition

Financial liabilities held for trading are reversed out when settled or at maturity.

### Recognition of Gains and Losses

Gains and losses from the valuation of financial liabilities held for trading are recorded in the Income Statement.

## 16 – FINANCIAL LIABILITIES CARRIED AT FAIR VALUE

There are no items in this category.

## 17 – FOREIGN CURRENCY TRANSACTIONS

### Recognition

When initially recognized, forex transactions are recorded in euros (the accounting currency) by applying the exchange rate in effect on the date of the transaction.

### Recognition of gains and losses

At year-end positions denominated in foreign currency are assessed as follows:

- monetary positions are converted at the exchange rate in effect at the end of the financial year;
- non-monetary positions valued at historical cost are converted at the exchange rate in effect on the date of the transaction;
- non-monetary positions assessed at fair value are converted at the exchange rate in effect at the end of the financial year.

Exchange rate differences arising from the settlement of monetary positions or from the conversion of monetary positions at rates different from those used initially for such positions (or for the conversion of the previous balance sheet) are entered in the Income Statement relating to the period in which they arose.
When a gain or loss relating to a non-monetary position is recorded under shareholders' equity, the exchange rate difference for that item is also recorded under shareholders' equity. On the other hand, when a gain or loss is recorded in the Income Statement, the related exchange rate difference is recorded there too.

## 18 – ADDITIONAL INFORMATION

**Fair value**

Fair value is defined as the amount for which an asset may be traded, or a liability settled, in an unconstrained transaction between informed and mutually independent parties.

The methods adopted by the Bank for quantifying fair value may be grouped into three broad categories:

1. Level 1 - quotes derived from active markets (mark to market), where valuation is based on the price commanded by the same instrument, unmodified and unrecombined, as quoted on an active market. A market is considered active when its listed prices reflect normal market conditions, are regularly and readily available through bourses, listing services and/or brokers, and represent actual and regular market operations.

2. Level 2 - methods based on observable market parameters, such as market quotes for similar instruments, or on the fact that all the instrument's significant factors, including credit and liquidity spreads, can be derived from observable market data. Methods in this group hold little scope for discretion since all parameters used, be it for the same or similar instruments, are ultimately drawn from the market, hence allow for the replication of quotes from active markets.
3. Level 3 - methods based on unobservable market parameters (mark to model). These are widely accepted and used, and include discounting back future cash flows and estimating volatilities; models are revised during their development and periodically thereafter to ensure maximum and durable consistency. Because methods in this group rely heavily on significant inputs from sources other than the market, their use will require estimates and assumptions on the management's part.

Criteria for determining the fair value for a Security are as follows

<u>a) Securities traded on active markets.</u>

For equities and debt instruments traded on active markets fair value will be represented by:

- the official price on the last trading day of the relevant period if the instrument is listed by Borsa Italiana;
- the official price (or its equivalent) on the last day of the relevant period if it is listed on foreign bourses.

<u>b) Securities traded on active markets.</u>

For equities and debt instruments not traded on active markets, fair value will be represented by (in descending order of preference):

- the reference price from recent trades;
- price indications, if available and dependable, supplied by infoproviders such as ICMA, Bloomberg, Reuters, etc.;
- the price obtained by applying valuation methods generally accepted in the financial community, e.g.:
  - for debt instruments, the discounting back of future cash flows, based on the yield rates applying at the end of the period for an equivalent residual life and taken account of any counterparty risk and/or liquidity risk;
  - for equities (if the amount is significant), the price obtained through independent expert assessments if available, or else a price that is equal to the fraction of shareholders' equity held as recognized in the company's latest approved accounts;
- the price supplied by the issuer, suitably adjusted for counterparty risk and/or liquidity risk;
- cost, as adjusted to take account of any material depreciation, if fair value cannot reliably be determined by any of the previously mentioned criteria.

For derivatives, fair value will be represented by:

- the quoted price on the last trading day of the relevant period if the instrument is traded on a regulated market;
- if the instrument is an OTC derivative, its market value on the relevant reference date as determined in accordance with the type of derivative being valued, i.e.:
  - interest rate contracts: the "replacement cost" obtained by discounting back the balances, as applying on the scheduled settlement dates, of cash flows generated at contract rates and expected cash flows generated at the (objectively determined) market rates current at the end of the period for an equivalent residual life;
  - forex derivatives: the forward forex rates applying at the reference date for maturities equivalent to those of the transactions being valued;
  - derivatives on securities, commodities and precious metals: the forward prices applying at the reference date for maturities equivalent to those of the underlying assets.

### Recognition of revenues and costs

Revenues are recognized when they are received or, in any event, when it is likely that future benefits will be received that can be quantified in a reliable manner. In particular:

- dividends are recognized in the Income Statement when their distribution is formally approved;
- revenue from dealings in financial instruments held for trading (consisting in the difference between the transaction price and the instruments' fair value) is entered in the Income Statement when the trades are recognized if fair value can be determined by reference to parameters or recent transactions observable in the same market as that in which the instruments were traded;
- revenue from financial instruments for which the above assessment is not possible is recorded in the Income Statement over the duration of the transaction.

Costs are recognized in the Income Statement in the same year as the related revenues. If the link between costs and revenues can be made in a general and indirect manner, costs are recorded over a number of years using rational and systematic procedures. Costs that cannot be associated with revenues are recorded in the Income Statement immediately.

## Assumptions on corporate continuity

Given the current state of financial markets and the real economy and the worrying outlook for both over the short and medium term, assumptions on corporate continuity need – unlike in the past – to rest on an accurate assessment of the Bank's circumstances. Yet after taking full account of the risks and uncertainties associated with the present macroeconomic climate, we judge it reasonable to anticipate that the Bank will continue to operate for the foreseeable future. The Financial Statements for the year ended 31 December 2010 were thus prepared on that assumption – not least given UBAE's profitability in 2010 as well as earlier years, the unique context in which it operates, and the encouraging near-term forecasts for the Bank's earnings and its overall financial health.

## Accounting estimates

IFRS requires that management provide valuations, estimates and projections bearing on the application of accounting principles and the book value of assets, liabilities, expenses and revenue. Estimates and related projections are based on past experience and other factors deemed relevant, and are used to quantify assets – signally financial assets - and liabilities whose value is not readily obtained from other sources.

## A.3 FAIR VALUE DETAIL

### A.3.1 Transfers between portfolios

A.3.1.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

A.3.1.2 Reclassified financial assets: effects on comprehensive income before transfer

A.3.1.3 Transfers of financial assets held for trading

A.3.1.4 Effective interest rate and expected future cash flows from reclassified assets

**A.3.2 Fair value hierarchy**

A.3.2.1 Accounting portfolios: Breakdown by fair value level

| | Financial assets/liabilities measured at fair value | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| | | L1 | L2 | L3 | L1 | L2 | L3 |
| 1 | Financial assets held for trading | 114,068 | 1,449 | | 64,378 | 3,493 | |
| 2 | Financial assets designated at fair value | | | | | | |
| 3 | Financial assets available for sale | | 2,621 | 883 | | 2,439 | 63 |
| 4 | Hedging derivatives | | | | | | |
| | **Total** | **114,068** | **4,070** | **883** | **64,378** | **5,932** | **63** |
| 1 | Financial liabilities held for trading | | 3,968 | | | 7,154 | |
| 2 | Financial liabilities designated at fair value | | | | | | |
| 3 | Hedging derivatives | | | | | | |
| | **Total** | | **3,968** | | | **7,154** | |

Legend:
L1= Level 1
L2= Level 2
L3= Level 3

A.3.2.2 Annual changes in financial assets designated at fair value through profit and loss (level 3)

A.3.2.3 Annual changes in financial liabilities designated at fair value through profit and loss (level 3)

**A.3.3 Information on the "day one profit/loss"**

## ASSETS

### Section 1 – Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| a) | Cash | 206 | 331 |
| b) | Free deposits with central banks | 10 | 10 |
| | **Total** | **216** | **341** |

**Section 2 – Financial assets held for trading – Item 20**

2.1 Financial assets held for trading: Composition by type

| Items / Values | | | Total 2010 | | | Total 2009 | | |
|---|---|---|---|---|---|---|---|---|
| | | | L1 | L2 | L3 | L1 | L2 | L3 |
| A | **Non-derivative assets** | | | | | | | |
| 1 | Debt securities | | 113,797 | | | 63,630 | | |
| | 1.1 | Structured securities | 0 | | | 4,521 | | |
| | 1.2 | Other debt securities | 113,797 | | | 59,109 | | |
| 2 | Equity securities | | 271 | | | 748 | | |
| 3 | Holdings in UCI | | | | | | | |
| 4 | Loans | | | | | | | |
| | 4.1 | Repo | | | | | | |
| | 4.2 | Other debt securities | | | | | | |
| | | **Total (A)** | 114,068 | | | 64,378 | | |
| | | | | | | | | |
| B | **Derivatives:** | | | | | | | |
| 1 | Financial derivatives | | | 1,449 | | | 3,493 | |
| | 1.1 | For trading | | 1,449 | | | 3,493 | |
| | 1.2 | Connected at fair value option | | | | | | |
| | 1.3 | Other | | | | | | |
| 2 | Credit derivatives | | | | | | | |
| | 2.1 | For trading | | | | | | |
| | 2.2 | Connected at fair value option | | | | | | |
| | 2.3 | Other | | | | | | |
| | | **Total (B)** | | 1,449 | | | 3,493 | |
| | | **Total (A+B)** | 114,068 | 1,449 | | 64,378 | 3,493 | |

Legend:
L1= Level 1
L2= Level 2
L3= Level 3
UCI= Undertakings in collective investments

2.2 Financial assets held for trading: Composition by class of debtor/issuer

| Items / Values | | Total 2010 | Total 2009 |
|---|---|---|---|
| **A** | **Non-derivative assets** | | |
| **1** | **Debt securities** | **113,797** | **63,630** |
| a) | Governments and central banks | | |
| b) | Other public-sector entities | | |
| c) | Banks | 93,402 | 24,028 |
| d) | Other issuers | 20,395 | 39,602 |
| | | | |
| **2** | **Equity securities** | **271** | **748** |
| a) | Banks | 271 | |
| b) | Other issuers | 0 | 748 |
| | - Insurance undertakings | | |
| | - Financial companies | | |
| | - Non-financial companies | 0 | 748 |
| | - Other | | |
| | | | |
| **3** | **Unit in UCI** | | |
| | | | |
| **4** | **Loans** | | |
| a) | Governments and central banks | | |
| b) | Other public-sector entities | | |
| c) | Banks | | |
| d) | Other | | |
| | **Total (A)** | **114,068** | **64,378** |
| **B** | **Derivatives** | | |
| a) | Banks | 921 | 2,494 |
| | - *fair value* | 921 | 2,494 |
| | - | | |
| b) | Customers | 528 | 999 |
| | - *fair value* | 528 | 999 |
| | - | | |
| | **Total (B)** | **1,449** | **3,493** |
| | **Total (A+B)** | **115,517** | **67,871** |

2.3 Financial assets held for trading: annual variation

| | | Debt securities | Equities | Holdings in UCI | Loans | **Total** |
|---|---|---|---|---|---|---|
| **A** | **Opening balance** | **63,630** | **748** | | | **64,378** |
| | | | | | | |
| **B** | **Increases** | **120,076** | **55,334** | | | **175,410** |
| B1 | Purchases | 118,199 | 55,010 | | | |
| B2 | Variations (+) in FV | 54 | | | | |
| B3 | Other variations | 1,823 | 324 | | | |
| | | | | | | |
| **C** | **Decreases** | **69,909** | **55,811** | | | **125,720** |
| C1 | Sales | 63,746 | 55,699 | | | |
| C2 | Redemptions | 5,000 | | | | |
| C3 | Variations (-) in FV | 601 | 35 | | | |
| C4 | Transfers from other portfolios | | | | | |
| C5 | Other variation | 562 | 77 | | | |
| | | | | | | |
| **D** | **Closing balance** | **113,797** | **271** | | | **114,068** |

**Section 3 – Financial assets designated at fair value – Item 30**

3.1 Financial assets designated at fair value: Composition by type

3.2 Financial assets designated at fair value: Composition by class of debtor/issuer

3.3 Financial assets designated at fair value: Yearly variations

## Section 4 – Financial assets available for sale – Item 40

4.1 Financial assets available for sale: Composition by type

| Items/Values | | | Total 2010 | | | Total 2009 | | |
|---|---|---|---|---|---|---|---|---|
| | | | L1 | L2 | L3 | L1 | L2 | L3 |
| 1 | Debt securities | | | 2,621 | 819 | | 2,439 | |
| | 1.1 | Structured | | | 504 | | | |
| | 1.2 | Other | | 2,621 | 315 | | 2,439 | |
| 2 | Equities | | | | 64 | | | 63 |
| | 2.1 | Valued at fair value | | | | | | |
| | 2.2 | Valued at cost | | | 64 | | | 63 |
| 3 | Holdings in UCI | | | | | | | |
| 4 | Loans | | | | | | | |
| | 4.1 | Structured | | | | | | |
| | 4.2 | Others | | | | | | |
| | | **Total** | | **2,621** | **883** | | **2,439** | **63** |

4.2 Financial assets available for sale: Composition by class of debtor/issuer

| Items/Values | | Total 2010 | Total 2009 |
|---|---|---|---|
| **1** | **Debt securities** | **3,440** | **2,439** |
| | a) Governments and central banks | 2,621 | 1,898 |
| | b) Other public-sector entities | | |
| | c) Banks | 819 | |
| | d) Other issuers | 0 | 541 |
| | | | |
| **2** | **Equities** | **64** | **63** |
| | a) Banks | | |
| | b) Other issuers | 64 | 63 |
| | - Insurance undertakings | | |
| | - Financial companies | 5 | 5 |
| | - Non-financial companies | 59 | 58 |
| | - Other | | |
| | | | |
| **3** | **Holdings in UCI** | | |
| | | | |
| **4** | **Loans** | | |
| | a) Governments and central banks | | |
| | b) Other public-sector entities | | |
| | c) Banks | | |
| | d) Other public-sector entities | | |
| | **Total** | **3,504** | **2,502** |

4.3 Financial assets available for sale: assets subject to micro-hedging

4.4 Financial assets available for sale: Yearly variation

| | | Debt securities | Equities | Holdings in UCI | Loans | **Total** |
|---|---|---|---|---|---|---|
| **A** | **Opening balance** | **2,439** | **63** | | | **2,502** |
| **B** | **Increases** | **4,812** | **1** | | | **4,813** |
| B1 | Purchases | 0 | | | | |
| B2 | Variations (+) in FV | | | | | |
| B3 | Write-backs | 1,314 | | | | |
| | - booked to income statement | 1,314 | | | | |
| | - booked to shareholders' equity | | | | | |
| B4 | Transfers from other portfolios | | | | | |
| B5 | Other variations (*) | 3,498 | 1 | | | |
| **C** | **Decreases** | **3,811** | **0** | | | **3,811** |
| C1 | Sales | | | | | |
| C2 | Redemptions | 552 | | | | |
| C3 | Variations (-) in FV | 0 | | | | |
| C4 | Write-downs caused by impairment: | 0 | | | | **0** |
| | - booked to income statement | 0 | | | | |
| | - booked to shareholders' equity | | | | | |
| C5 | Transfers to other portfolios | | | | | |
| C6 | Other variations (**) | 3,259 | 0 | | | |
| **D** | **Closing balance** | **3,440** | **64** | | | **3,504** |

(*) Item B5 "Other variations" includes bad debts for debt securities and equities amounting in total to EUR 2,808 mn, gross of adjustments

(**) The amount of EUR 1,128 mn refers to early repayment of the securitization transaction in 1999 and concerns securities allocated to this portfolio written down in previous years and entirely repaid. The amount is included in both "Write-backs" (EUR 1,314 mn) and "Other variations" in Decreases ( EUR 3,259 mn).

**Section 5 – Financial assets held to maturity – Item 50**

5.1 Financial assets held to maturity: Composition by type

| | | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | BV | FV | | | BV | FV | | |
| | | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1 | **Debt securities** | 91,101 | 90,083 | 1,466 | | 82,833 | 83,180 | 1,163 | |
| 1.1 | Structured | | | | | | | | |
| 1.2 | Other | 91,101 | 90,083 | 1,466 | | 82,833 | 83,180 | 1,163 | |
| | | | | | | | | | |
| 2 | **Loans** | | | | | | | | |

Legend:

BV= Book Value

FV= Fair value

L1= Level 1

L2= Level 2

L3= Level 3

5.2 Financial assets held to maturity: Composition by class of debtor/issuer

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| 1 | **Debt securities** | **91,101** | **82,833** |
| a) | Governments and central banks | 1,963 | 1,751 |
| b) | Other public-sector entities | | |
| c) | Banks | 83,226 | 75,214 |
| d) | Other issuers | 5,912 | 5,868 |
| | | | |
| 2 | **Loans** | **0** | **0** |
| a) | Governments and central banks | | |
| b) | Other public-sector entities | | |
| c) | Banks | | |
| d) | Other public-sector entities | | |
| | **Total** | **91,101** | **82,833** |
| | **Total fair value** | **91,549** | **84,343** |

5.3 Financial assets held to maturity: Assets subject to micro-hedging

5.4 Assets held to maturity: Yearly variations

| | | Debt securities | Loans | Total |
|---|---|---|---|---|
| **A** | **Opening balance** | **82,833** | | **82,833** |
| | | | | |
| **B** | **Increases** | **10,084** | | **10,084** |
| B1 | Purchases | 8,063 | | 8,063 |
| B2 | Write-backs | 106 | | 106 |
| B3 | Transfers from other | | | |
| B4 | Other variations | 1,915 | | 1,915 |
| | | | | |
| **C** | **Decreases** | **1,816** | | **1,816** |
| C1 | Sales | | | |
| C2 | Redemptions | 75 | | 75 |
| C3 | Write-downs | 76 | | 76 |
| C4 | Transfers to other | 0 | | |
| C5 | Other variations | 1,665 | | 1,665 |
| | | | | |
| **D** | **Closing balance** | **91,101** | | **91,101** |

## Section 6 – Loans and advances to banks – Item 60

6.1 Loans and advances to banks: Composition by type

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **A** | **L&As to central banks** | | **4,849** | **12,139** |
| | 1 | Term deposits | | |
| | 2 | Compulsory reserves | 0 | 0 |
| | 3 | Repos | | |
| | 4 | Other | 4,849 | 12,139 |
| | | | | |
| **B** | **L&As to other banks** | | **2,892,989** | **2,094,171** |
| | 1 | Current accounts and free deposits | 1,028,583 | 864,081 |
| | 2 | Term deposits | 961,322 | 578,007 |
| | 3 | Other | 748,889 | 552,689 |
| | | 3.1 Repos | | |
| | | 3.2 Financial leases | | |
| | | 3.3 Other | 748,889 | 552,689 |
| | 4 | Debt securities | 154,195 | 99,394 |
| | | 4.1 Structured | | |
| | | 4.2 Other | 154,195 | 99,394 |
| | | **Total book value** | **2,897,838** | **2,106,310** |
| | | **Total fair value** | **2,897,838** | **2,106,310** |

The "mandatory reserve" observed indirectly amounts to EUR 48,580,087.15
Impaired assets consist of:
EUR 1.847 mn of rescheduled debts (entered under exposures to central banks)

EUR 2.511 mn of bad debts (entered under other L&As)

6.2 Loans and advances to banks: Assets subject to micro-hedging

6.3 Financial leases

## Section 7 – Loans and advances to customers – Item 70

7.1 Loans and advances to customers: Composition by type

| | | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|---|
| | | | Bonis | Impaired | Bonis | Impaired |
| 1 | Current accounts | | 753 | 11 | 945 | 114 |
| 2 | Repos | | | | | |
| 3 | Mortgages | | 6,890 | 89 | 6,117 | 86 |
| 4 | Credit cards, personal loans and loans backed | | 2,114 | | 1,759 | |
| 5 | Financial leases | | | | | |
| 6 | Factoring | | | | | |
| 7 | Other | | 200,418 | | 159,083 | |
| 8 | Debt securities | | | | | |
| | 8.1 | Structured | | | | |
| | 8.2 | Other | | | | |
| | | **Total book value** | **210,175** | **100** | **167,904** | **200** |
| | | **Total fair value** | **210,175** | **100** | **167,904** | **200** |

7.2 Loans and advances to customers: Composition by class of debtor/issuer

| | | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|---|
| | | | Bonis | Impaired | Bonis | Impaired |
| **1** | **Debt securities** | | | | | |
| | a) | Governments | | | | |
| | b) | Other public-sector entities | | | | |
| | c) | Other issuers | | | | |
| | | - Non-financial companies | | | | |
| | | - Financial companies | | | | |
| | | - Insurance companies | | | | |
| | | - Others | | | | |
| | | | | | | |
| **2** | **L&As to** | | **210,175** | **100** | **167,904** | **200** |
| | a) | Governments | | | | |
| | b) | Other public-sector entities | 0 | | 3,459 | |
| | c) | Others | 210,175 | 100 | 164,445 | 200 |
| | | - Non-financial companies | 147,653 | 11 | 116,615 | 111 |
| | | - Financial companies | 28,521 | | 24,308 | |
| | | - Insurance companies | | | | |
| | | - Others | 34,001 | 89 | 23,522 | 89 |
| | | | | | | |
| | | **Total** | **210,175** | **100** | **167,904** | **200** |

7.3 Loans and advances to customers: Assets subject to micro-hedging

7.4 Financial leases

## Section 8 – Hedging derivatives - Item 80

8.1 Hedging derivatives: Composition by type of contract and underlying assets

8.2 Hedging derivatives: Composition by portfolio and type of hedging

## Section 9 - Adjustments to financial assets subject to macro-hedging - Item 90

9.1 Adjustments to hedged assets: Composition by portfolio hedged

9.2 Assets subject to macro interest rate risk hedging: Composition

## Section 10 – Equity investments – Item 100

10.1 Equity investments in subsidiaries, jointly controlled companies and companies subject to significant influence

10.2 Equity investments in subsidiaries, jointly controlled companies and companies subject to significant influence: Accounting data

10.3 Equity investments: Yearly variations

10.4 Commitments relating to investments in subsidiaries

10.5 Commitments relating to investments in jointly controlled companies

10.6 Commitments relating to investments in companies subject to significant influence

## Section 11 – Tangible fixed assets - Item 110

11.1 Tangible fixed assets: Composition of assets carried at cost

| Items/Values | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **A** | **Assets held for operational use** | | | |
| **1.1** | **Owned** | | **24,982** | **25,671** |
| | a) | land | 8,187 | 8,203 |
| | b) | buildings | 16,352 | 16,908 |
| | c) | movables | 281 | 332 |
| | d) | electronic systems | 53 | 62 |
| | e) | other | 109 | 166 |
| **1.2** | **Leased** | | **0** | **0** |
| | a) | land | | |
| | b) | buildings | | |
| | c) | movables | | |
| | d) | electronic systems | | |
| | e) | other | | |
| | | **Total (A)** | **24,982** | **25,671** |
| **B** | **Assets held for investment** | | | |
| **2.1** | **Owned** | | | |
| | a) | land | | |
| | b) | buildings | | |
| **2.2** | **Leased** | | | |
| | a) | land | | |
| | b) | buildings | | |
| | | **Total (B)** | | |
| | | **Total (A+B)** | **24,982** | **25,671** |

11.2 Tangible fixed assets: Composition of assets designated at fair value or revalued

11.3 Tangible fixed assets held for operational use: Yearly variations

| | | Land | Buildings | Movables | Electronic systems | Other | **Total** |
|---|---|---|---|---|---|---|---|
| **A** | **Opening gross balance** | **8,203** | **20,267** | **1,571** | **2,233** | **2,003** | **34,277** |
| A.1 | Total net write-downs | | 3,359 | 1,239 | 2,171 | 1,837 | 8,606 |
| A.2 | Opening net balance | 8,203 | 16,908 | 332 | 62 | 166 | 25,671 |
| **B** | **Increases** | | **91** | **49** | **16** | **27** | **183** |
| B1 | Purchases | | 91 | 49 | 16 | 27 | 183 |
| B2 | Improvements capitalized | | | | | | |
| B3 | Write-backs | | | | | | |
| B4 | Positive changes in fair value booked to: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| B5 | Forex gains | | | | | | |
| B6 | Transfers from assets held fo | | | | | | |
| B7 | Other increases | | | | | | |
| **C** | **Decreases** | **16** | **647** | **100** | **25** | **84** | **872** |
| C1 | Sales | | | | | | |
| C2 | Depreciation | | 608 | 100 | 25 | 84 | 817 |
| C3 | Write-downs for impairment booked to: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| C4 | Negative changes in fair value booked to: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| C5 | Forex losses | | | | | | |
| C6 | Transfers to: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| C7 | Other decreases | 16 | 39 | 0 | | | 55 |
| **D** | **Net closing balance** | **8,187** | **16,352** | **281** | **53** | **109** | **24,982** |
| D1 | Total net write-downs | | 3,967 | 1,339 | 2,196 | 1,921 | 9,423 |
| D2 | Gross closing balance | | 20,319 | 1,620 | 2,249 | 2,030 | 26,218 |
| **E** | **Valuation at cost** | **8,187** | **16,352** | **281** | **53** | **109** | **24,982** |
| | **Depreciation rate applied** | 0% | 3% | 12% | 20% | 15-20-25% | |

11.4 Tangible fixed assets held for investment: Yearly variations

11.5 Commitments for purchases of tangible fixed assets (IAS 16/74.c)

## Section 12 – Intangible fixed assets – Item 120

### 12.1 Intangible fixed assets: Composition by type

| | | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|---|
| | | | Limited Life | Unlimited Life | Limited Life | Unlimited Life |
| A1 | Goodwill | | | | | |
| A2 | Other intangible assets | | 2,219 | | 348 | |
| | A2.1 | Assets valued at cost | 2,219 | | 348 | |
| | | a) Intangible assets developed in-house | | | | |
| | | b) Other assets | 2,219 | | 348 | |
| | A2.2 | Assets designated at fair value | | | | |
| | | a) Intangible assets developed in-house | | | | |
| | | b Other assets | | | | |
| | | **Total** | **2,219** | | **348** | |

### 12.2 Intangible fixed assets: Yearly variations

| | | | Good-will | Other: generated in-house | | Other: generated externally | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | Limited | Unl | Limited | Unl | |
| **A** | **Opening balance** | | | | | **348** | | **348** |
| | A1 | Total net write-downs | | | | | | |
| | A2 | Net opening balance | | | | 348 | | 348 |
| **B** | **Increases** | | | | | **2,569** | | **2,569** |
| | B1 | Purchases | | | | 2,569 | | 2,569 |
| | B2 | Increases in internal assets | | | | | | |
| | B3 | Write-backs | | | | | | |
| | B4 | Positive changes in fair value booked to: | | | | | | |
| | | - shareholders' equity | | | | | | |
| | | - income statement | | | | | | |
| | B5 | Forex gains | | | | | | |
| | B6 | Other increases | | | | | | |
| **C** | **Decreases** | | | | | **698** | | **698** |
| | C1 | Sales | | | | | | |
| | C2 | Write-downs: | | | | | | |
| | | - amortization | | | | 698 | | 698 |
| | | - devaluations | | | | | | |
| | | - shareholders' equity | | | | | | |
| | | - income statement | | | | | | |
| | C3 | Negative changes in fair value booked to: | | | | | | |
| | | - shareholders' equity | | | | | | |
| | | - income statement | | | | | | |
| | C4 | Transfers to non-current assets being divested | | | | | | |
| | C5 | Forex losses | | | | | | |
| | C6 | Other decreases | | | | | | |
| **D** | **Net closing balance** | | | | | **2,219** | | **2,219** |
| | D1 | Total net write-downs | | | | | | |
| **E** | **Gross closing balance** | | | | | **2,219** | | **2,219** |
| **F** | **Valuation at cost** | | | | | **2,219** | | **2,219** |

12.3 Other information

## Section 13 – Tax assets and tax liabilities - Item 130 (assets) and Item 80 (liabilities)

13.1 Pre-paid tax assets: Composition

| | | 31/12/2010 | 31/12/2009 |
|---|---|---|---|
| | **Total** | **9,821** | **4,588** |
| *Income statement* | | 9,821 | 4,588 |
| 1 | Tax losses | | |
| 2 | Loan losses | 9,476 | 4,243 |
| 3 | Other | 345 | 345 |
| *Shareholders' equity* | | | |
| 4 | Valuation reserves | | |
| 5 | Other | | |

13.2 Deferred Tax liabilities: composition

| | | 31/12/2010 | 31/12/2009 |
|---|---|---|---|
| | **Total** | **89** | **112** |
| 1 | Income statement | 89 | 112 |

13.3 Changes in pre-paid tax assets: Contra-item in the income statement

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **1** | **Opening balance** | | **4,588** | **2,886** |
| | | | | |
| **2** | **Increases** | | **5,486** | **1,708** |
| | 2.1 | Pre-paid tax assets recorded during the year | 5,486 | 1,708 |
| | | a) relating to earlier years | | |
| | | b) due to changes in accounting policies | | |
| | | c) write-backs | | |
| | | d) other | 5,486 | 1,708 |
| | 2.2 | New taxes or increases in tax rates | | |
| | 2.3 | Other increases | | |
| | | | | |
| **3** | **Decreases** | | **253** | **6** |
| | 3.1 | Pre-paid tax assets annulled during the year | 253 | 6 |
| | | a) reversals | 253 | 6 |
| | | b) write-downs for intervening non-recoverability | | |
| | | c) due to changes in accounting policies | | |
| | | d) others | | |
| | 3.2 | Reductions in tax rates | | |
| | 3.3 | Other decreases | | |
| | | | | |
| **4** | **Closing balance** | | **9,821** | **4,588** |

13.4 Changes in deferred tax liabilities: Contra-item in the income statement

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| 1 | **Opening balance** | | **112** | **121** |
| | | | | |
| 2 | **Increases** | | **0** | **0** |
| | 2.1 | Deferred tax liabilities recorded during the year | | |
| | | a) relating to earlier years | | |
| | | b) due to changes in accounting policies | | |
| | | c) write-backs | | |
| | | d) other | | |
| | 2.2 | New taxes or increases in tax rates | | |
| | 2.3 | Other increases | | |
| | | | | |
| 3 | **Decreases** | | **23** | **9** |
| | 3.1 | Deferred tax liabilities annulled during the year | 23 | 9 |
| | | a) reversals | 23 | 9 |
| | | b) due to changes in accounting policies | | |
| | | c)other | | |
| | 3.2 | Reductions in tax rates | | |
| | 3.3 | Other decreases | | |
| | | | | |
| 4 | **Closing balance** | | **89** | **112** |

13.5 Changes in pre-paid tax assets: Contra-item in shareholders' equity

13.6 Changes in deferred tax liabilities: Contra-item in shareholders' equity

13.7 Other information

## Section 14 – Non-current assets and groups of assets being divested and associated liabilities – Item 140 (assets) and Item 90 (liabilities)

14.1 Non-current assets and groups of assets being divested: Composition by type

14.2 Other information

14.3 Information on holdings - not entered under shareholders' equity - in companies subject to significant influence

**Section 15 – Other assets – Item 150**

15.1 Other assets: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| 1 | Gold, silver and precious metals | | |
| 2 | Accrued income | | |
| 3 | Improvements to assets pertaining to third parties | | |
| 4 | Other (illiquid items, as yet unprocessed amounts) | 1,396 | 1,061 |
| | | | |
| | **Total** | **1,396** | **1,061** |

## LIABILITIES

### Section 1 – Accounts payable to banks - Item 10

1.1 Accounts payable to banks: Composition by type

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **1** | **Accounts payable to central banks** | | **209,216** | **176,741** |
| | | | | |
| **2** | **Accounts payable to other banks** | | **2,171,382** | **1,942,765** |
| | 2.1 | Current accounts and free deposits | 886,432 | 831,327 |
| | 2.2 | Term deposits | 1,207,099 | 1,000,766 |
| | 2.3 | Loans | 77,851 | 110,672 |
| | | 2.3.1 Repo | | |
| | | 2.3.2 Other | 77,851 | 110,672 |
| | 2.4 | Liabilities in respect of commitments to repurchase own equity | | |
| | 2.5 | Other liabilities | | |
| | | **Total** | **2,380,598** | **2,119,506** |
| | | ***Fair value*** | **2,380,598** | **2,119,506** |

1.2 Detail of item 10 "Accounts payable to banks": Subordinated liabilities

| | |
|---|---|
| **Accounts payable to banks** | |
| Subordinated Liabilities | ***77,851*** |

1.3 Detail of item 10 "Accounts payable to banks": Structured liabilities

1.4 Accounts payable to banks: Items subject to micro-hedging

1.5 Financial-leasing liabilities

**Section 2 – Accounts payable to customers - Item 20**

2.1 Accounts payable to customers: Composition by type

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| 1 | Current accounts and free deposits | | 757,708 | 106,999 |
| 2 | Term deposits | | 3,842 | 16,594 |
| 3 | Loans | | | |
| | 3.1 | Repo | | |
| | 3.2 | Other | | |
| 4 | Liabilities in respect of commitments to repurchase own equity | | | |
| 5 | Other accounts payable | | | |
| | | **Total** | **761,550** | **123,593** |
| | | ***Fair value*** | **761,550** | **123,593** |

2.2 Detail of item 20 "Accounts payable to customers": Subordinated liabilities

2.3 Detail of item 20 "Accounts payable to customers": Structured liabilities

2.4 Accounts payable to customers: "Items subject to micro-hedging"

2.5 Financial-leasing liabilities

**Section 3 – Debt securities outstanding - Item 30**

3.1 Debt securities outstanding: Composition by type

3.2 Detail of item 30 "Debt securities outstanding": Subordinated securities

3.3 Debt securities outstanding: Securities subject to micro-hedging

## Section 4 – Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: Composition by type

| | | Total 2010 | | | | | Total 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | NV | FV | | | FV* | NV | FV | | | FV* |
| | | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A** | **Cash liabilities** | | | | | | | | | | |
| 1 | Accounts payable to banks | | | | | | | | | | |
| 2 | Accounts payable to customers | | | | | | | | | | |
| 3 | Debt securities | | | | | | | | | | |
| 3.1 | Bonds | | | | | | | | | | |
| | 3.1.1 Structured | | | | | | | | | | |
| | 3.1.2 Others | | | | | | | | | | |
| 3.2 | Other securities | | | | | | | | | | |
| | 3.2.1 Structured | | | | | | | | | | |
| | 3.2.2 Others | | | | | | | | | | |
| | **Total A** | | | | | | | | | | |
| **B** | **Derivatives** | | | | | | | | | | |
| 1 | Financial derivatives | 222,680 | | 3,968 | | | 673,079 | | 7,154 | | |
| 1.1 | Held for trading | 222,680 | | 3,968 | | | 673,079 | | 7,154 | | |
| 1.2 | Linked to fair value option | | | | | | | | | | |
| 1.3 | Other | | | | | | | | | | |
| 2 | Credit derivatives | | | | | | | | | | |
| 2.1 | Held for trading | | | | | | | | | | |
| 2.2 | Linked to fair value option | | | | | | | | | | |
| 2.3 | Other | | | | | | | | | | |
| | **Total B** | 222,680 | | 3,968 | | | 673,079 | | 7,154 | | |
| | **Total (A+B)** | 222,680 | | 3,968 | | | 673,079 | | 7,154 | | |

Legend:
FV= fair value
FV* = fair value as reckoned by excluding variations in value due to changes intervened in the issuer's creditworthiness since the issue date
NV= nominal or notional value
L1= Level 1 L2= Level 2 L3= Level 3

4.2 Detail of item 40 "Financial liabilities held for trading": Subordinated liabilities

4.3 Detail of item 40 "Financial liabilities held for trading": Structured liabilities

4.4 Cash liabilities (except "technical overdrafts") held for trading: Yearly variations

| | | Due to banks | Due to customers | Securities outstanding | **Total** |
|---|---|---|---|---|---|
| **A** | **Opening balance** | **4,935** | **2,219** | | **7,154** |
| | | | | | |
| **B** | **Increases** | **1,246** | **282** | | **1,528** |
| | B1 Issues | | | | |
| | B2 Sales | | | | |
| | B3 Positive changes in fair value | 604 | | | 604 |
| | B4 Other increases | 642 | 282 | | 924 |
| | | | | | |
| **C** | **Decreases** | **2,495** | **2,219** | | **4,714** |
| | C1 Purchases | 0 | | | 0 |
| | C2 Redemptions | 2,005 | 2,219 | | 4,224 |
| | C3 Negative changes in fair value | 490 | | | 490 |
| | C4 Other decreases | | | | |
| | | | | | |
| **D** | **Closing balance** | **3,686** | **282** | | **3,968** |

**Section 5 – Financial liabilities designated at fair value – Item 50**

5.1 Financial liabilities designated at fair value: Composition by type

5.2 Detail of item 50 "Financial liabilities designated at fair value": Subordinated liabilities

5.3 Financial liabilities designated at fair value: Yearly variations

**Section 6 – Hedging derivatives - Item 60**

6.1 Hedging derivatives: Composition by type of contract and underlying assets

6.2 Hedging derivatives: Composition by portfolio and type of hedging

## Section 7 – Adjustment to financial liabilities subject to macro-hedging – Item 70

7.1 Adjustment to hedged liabilities: Composition by portfolio

7.2 Liabilities macro-hedged against interest rate risk: Composition

## Section 8 – Tax liabilities – Item 80

See Assets, section 13

## Section 9 – Liabilities associated with assets held for divestment – Item 90

See Assets, section 14

## Section 10 – Other liabilities – Item 100

10.1 Other liabilities: Composition

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| 1 | Liabilities arising from the impairment of: | | 3,713 | 7,697 |
| | *a* | *Contingent exposures* | *3,713* | *7,697* |
| | *b* | *Credit derivatives* | | |
| | *c* | *Irrevocable commitments to disburse funds* | | |
| 2 | Payment agreements based on own shares | | | |
| 3 | Accrued expenses | | | |
| 4 | Other liabilities (illiquid items, amounts available for customers) | | 7,854 | 8,732 |
| | | **Total** | **11,567** | **16,429** |

**Section 11 – Staff severance fund - Item 110**

11.1 Staff severance fund: Yearly variations

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| A | **Opening balance** | | **2,446** | **2,555** |
| | | | | |
| B | **Increases** | | **2** | **37** |
| | B.1 | Provisioning for the year | 2 | 37 |
| | B.2 | Other increases | | |
| | | | | |
| C | **Decreases** | | **319** | **146** |
| | C.1 | Severance payments | 319 | 146 |
| | C.2 | Other decreases | | |
| | | | | |
| D | **Closing balance** | | **2,129** | **2,446** |
| | | **Total** | **2,129** | **2,446** |

11.2 Rates

| | |
|---|---|
| Annual technical depreciation rate | 4.40% |
| Annual inflation rate | 2.00% |
| Real annual salary increase rate | n.a. |
| Overall annual salary increase rate | n.a. |
| Gross annual SSF increase rate | 3.00% |

11.3 Reconciliation of actuarial valuations under IAS 19

| | Total 2010 | Total 2009 |
|---|---|---|
| **Opening balance** | **2,446** | **2,555** |
| Realignment | | |
| Pension cost | | |
| Financial charges | 86 | 113 |
| Benefits paid | (319) | (146) |
| Transfers | | |
| **Expected liabilities** | **2,213** | **2,522** |
| | | |
| Actuarial loss | (84) | (76) |
| **Closing balance** | **2,129** | **2,446** |

11.4 Other information

| | |
|---|---|
| **Provisioning for the year** | **2** |
| Pension costs | |
| Financial charges | 86 |
| Actuarial loss | (84) |
| Other | |

**Section 12 – Provisions for risks and charges – Item 120**

12.1 Provisions for risks and charges: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| 1 | Company pension plans | | |
| 2 | Other provisions for risks and charges | 466 | 476 |
| | 2.1 Litigation | | |
| | 2.2 Staff charges | 466 | 476 |
| | 2.3 Other | | |
| | | **466** | **476** |

12.2 Provisions for risks and charges: Yearly variations

| | | | Company pension funds | Other provisions | Total |
|---|---|---|---|---|---|
| **A** | **Opening balance** | | | **476** | **476** |
| | | | | | |
| **B** | **Increases** | | | **152** | **152** |
| | B.1 | Provisioning for the year | | 152 | |
| | B.2 | Variations due to the passing of time | | | |
| | B.3 | Variations due to changes in discount rate | | | |
| | B.4 | Other increases | | | |
| | | | | | |
| **C** | **Decreases** | | | **162** | **162** |
| | C1 | Amount drawn during the year | | 162 | |
| | C2 | Variations due to changes in discount rate | | | |
| | C3 | Other decreases | | | |
| | | | | | |
| **D** | **Closing balance** | | | **466** | **466** |

12.3 Company defined-benefit pension funds

1. Description of funds
2. Changes in funds during the period
3. Changes in plan assets and other information during the period
4. Reconciliation between the fund's present value, the present value of the plan assets and the assets and liabilities recorded in the balance sheet
5. Description of main actuarial assumptions
6. Comparative data

12.4 Provisions for risk and charges – other provisions

| | |
|---|---|
| Provision for unenjoyed staff holidays | 466 |
| Other | |
| **Total** | **466** |

**Section 13 – Insurance reserves - Item 140**

13.1 Insurance reserves: Composition

**Section 14 – Shareholders' equity - Items 130, 150, 160, 170, 180, 190, 200**

14.1 "Share capital" and "Treasury stock": Composition

| | Items / Values | Total 2010 | Total 2009 |
|---|---|---|---|
| 1 | Share capital | 151,061 | 151,061 |
| 2 | Share premium account | 16,702 | 16,702 |
| 3 | Reserves | 25,418 | 17,333 |
| 4 | Capital instruments | | |
| 5 | (Treasury stock) | | |
| 6 | Valuation reserves | 733 | 285 |
| 7 | Profit (Loss) for the year | 8,401 | 8,085 |
| | **Total** | **202,315** | **193,466** |

14.2 Share capital: Yearly variations in number of shares

| | | | Common | Other |
|---|---|---|---|---|
| **A** | **Shares at start of year** | | **1,373,280** | |
| | | - fully paid up | 1,373,280 | |
| | | - not fully paid up | | |
| | A1 | Treasury Stock | | |
| | A2 | Shares outstanding: Opening balance | 1,373,280 | |
| **B** | **Increases** | | **0** | |
| | B1 | New share issues | **0** | |
| | | **rights issues:** | | |
| | | - combination of companies | | |
| | | - conversion of bonds | | |
| | | - exercise of warrants | | |
| | | **bonus issues:** | 0 | |
| | | - for employees | | |
| | | - for directors | | |
| | | - other | 0 | |
| | B2 | Sale of treasury stock | | |
| | B3 | Other increases | | |
| **C** | **Decreases** | | **0** | |
| | C1 | Cancellations | | |
| | C2 | Purchase of treasury stock | | |
| | C3 | Disposal of companies | | |
| | C4 | Other decreases | | |
| **D** | **Shares outstanding: Fiscal closing balance** | | **1,373,280** | |
| | D1 | Treasury stock(+) | | |
| | D2 | Shares at end of year | 1,373,280 | |
| | | - fully paid up | 1,373,280 | |
| | | - not fully paid up | | |

Each of the Bank's 1,373,280 shares has a face value of EUR 110.

14.3 Share capital: Other information

The Bank does not hold any treasury stock.
Shareholders hold 888,004 warrants (2001-2011) entitling them to buy up to 888,004 shares at face value. As of 31.12.2010, warrants had been exercised rights for a total of 111,996 shares.

14.4 Profit reserves: Other information

| | | Amount | Options for allocation | Available portion | Allocations over past three years |
|---|---|---|---|---|---|
| | **Share capital** | **151,061** | | | |
| | | | | | |
| | **Capital Reserves** | **16,702** | | | |
| | Share premium account | 16,702 | A,B,C | 16,702 | |
| | **Reserves** | **17,738** | | | |
| | a) Legal Reserve | 9,703 | B | 9,298 | |
| | b) Extraordinary Reserve | 7,730 | A,B,C | 7,730 | |
| | c) FTA/IFRS reserves | (95) | | | |
| | d) retained profitIFRS 2005 | 400 | | | |
| | e) retained profit | | A,B,C | | |
| | **Other Reserves** | | | | |
| | **Total** | **34,440** | | | |
| | Amount not allocatable | 10,008 | | | |
| | **Amount allocatable** | **24,432** | | | |

Legend:
A= capital increase
B= cover for losses
C= distribution to shareholders

14.5 Stock: Composition and yearly variations

14.6 Valuation reserves: Composition

**Other information**

1 Guarantees issued and commitments

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| 1) | **Financial guarantees issued** | | **16,248** | **8,544** |
| | a) | to banks | 16,248 | 48 |
| | b) | to customers | 0 | 8,496 |
| 2) | **Commercial guarantees issued** | | **1,306,994** | **1,463,802** |
| | a) | to banks | 557,407 | 794,006 |
| | b) | to customers | 749,587 | 669,796 |
| 3) | **Irrevocable commitments to disburse funds** | | **67,992** | **166,691** |
| | a) | to banks | 0 | 90,098 |
| | i) | draw-down certain | 0 | 85,609 |
| | ii) | draw-down uncertain | 0 | 4,489 |
| | b) | to customers | 67,992 | 76,593 |
| | i) | draw-down certain | | |
| | ii) | draw-down uncertain | 67,992 | 76,593 |
| 4) | **Commitments underlying credit derivatives: hedging sales** | | | |
| 5) | **Assets pledged as collateral for third-party liabilities** | | | |
| 6) | **Other commitments** | | | |
| | | **Total** | **1,391,234** | **1,639,037** |

2 Assets pledged as collateral for own liabilities and commitments

3 Information on operational leasing

4 Asset management and brokerage services

| | | Services | Amount |
|---|---|---|---|
| **1** | **Trading in financial instruments on behalf of third parties** | | |
| | a) | Purchases | |
| | 1 | settled | |
| | | not yet settled | |
| | b) | Sales | |
| | 1 | settled | |
| | | not yet settled | |
| **2** | **Asset management** | | |
| | a) | Individual | |
| | b) | Collective | |
| **3** | **Custody and administration of securities** | | **892,206** |
| | a) | Third-party securities held as part of depositary bank services (asset management excluded) | 0 |
| | | 1 issued by reporting bank | |
| | | 2 other | |
| | b) | Other third-party securities on deposit (asset management excluded) | 525,285 |
| | | 1 issued by reporting bank | 27,279 |
| | | 2 other | 498,006 |
| | c) | Third-party securities deposited with third parties | 496,986 |
| | d) | Self-owned securities deposited with third parties | 366,921 |
| **4** | **Other transactions** | | |

It should be noted that the Bank has third-party funds of EUR 2.2 bn (EUR 1.5 bn at 31 December 2009) with depositories that represent reimbursement of third-party securities and relative coupons, now subject to international sequestration. These amounts are included in the Memorandum Accounts given that they are neither owned by nor available to the Bank.

**Section 1 - Interest - Items 10 and 20**

1.1 Interest and similar income: Composition

| | | Debt securities | Loans | Other assets | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|
| 1 | Financial assets held for trading | 1,632 | | | **1,632** | **2,180** |
| 2 | Financial assets available for sale | 321 | | | **321** | **335** |
| 3 | Financial assets held to maturity | 2,825 | | | **2,825** | **2,977** |
| 4 | L&As to banks | 2,017 | 23,288 | | **25,305** | **49,667** |
| 5 | L&As to customers | | 7,226 | | **7,226** | **6,922** |
| 6 | Financial assets designated at fair value | | | | | |
| 7 | Hedging derivatives | | | | | |
| 8 | Financial assets disposed of but not | | | | | |
| | **Total** | **6,795** | **30,514** | | **37,309** | **62,081** |

Interest income from impaired L&As to customers amounted to EUR 20,427 for 2010 compared to EUR 19,436 for 2009.
Interest income from impaired L&As to banks amounted to EUR 19,606 for 2010 compared to EUR 18,844 for 2009.

1.2 Interest and similar income: Hedging differentials

1.3 Interest and similar income: other information

1.3.1 Interest income from financial assets denominated in foreign currency

| | | Performing assets | | Impaired assets | Other assets | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|---|
| | | Debt securities | Loans | | | | |
| 1 | Financial assets held for trading | 6 | | | | **6** | **123** |
| 2 | Financial assets available for sale | 197 | | 51 | | **248** | **186** |
| 3 | Financial assets held to maturity | 109 | | | | **109** | **103** |
| 4 | L&As to banks | | 9,640 | 19 | | **9,659** | **10,605** |
| 5 | L&As to customers | | 1,611 | | | **1,611** | **2,266** |
| 6 | Financial assets designated at fair value | | | | | | |
| 7 | Hedging derivatives | | | | | | |
| 8 | Financial assets disposed of but not derecognized | | | | | | |
| 9 | Other assets | | | | | | |
| | **Total** | **312** | **11,251** | **70** | | **11,321** | **13,283** |

1.3.2 Interest income from leasing transactions

1.4 Interest charges and similar expenses: Composition

| | | Accounts payable | Securities | Other liabilities | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|
| 1 | Accounts payable to central banks | 607 | | | **607** | **15,886** |
| 2 | Accounts payable to banks | 10,581 | | | **10,581** | **18,005** |
| 3 | Accounts payable to customers | 896 | | | **896** | **777** |
| 4 | Securities outstanding | | | | | |
| 5 | Financial liabilities held for trading | 0 | | | **0** | |
| 6 | Financial liabilities designated at FV | | | | | |
| 7 | Other liabilities and allowances | | | | | |
| 8 | Hedging derivatives | | | | | |
| | **Total** | **12,084** | | | **12,084** | **34,668** |

1.5 Interest charges and similar expenses: Hedging differentials

1.6 Interest charges and similar expenses: Other information

1.6.1 Interest charges on liabilities denominated in foreign currency

| | | Accounts payable | Securities | Other liabilities | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|
| 1 | Accounts payable to central banks | 114 | | | **114** | **258** |
| 1 | Accounts payable to banks | 7,581 | | | **7,581** | **5,423** |
| 2 | Accounts payable to customers | 378 | | | **378** | **356** |
| 3 | Securities outstanding | | | | | |
| 4 | Financial liabilities held for trading | | | | | |
| 5 | Financial liabilities designated at fair value | | | | | |
| 7 | Other liabilities and allowances | | | | | |
| 8 | Hedging derivatives | | | | | |
| | **Total** | **8,073** | | | **8,073** | **6,037** |

1.6.2 Interest charges on leasing transactions

**Section 2 - Commission income and expense - Items 40 and 50**

2.1 Commission income: Composition

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **a)** | **Guarantees issued** | | **22,643** | **25,223** |
| **b)** | **Credit derivatives** | | | |
| **c)** | **Management, brokerage and advisory services** | | **2,019** | **854** |
| | 1 | trading in financial instruments | 1,573 | 422 |
| | 2 | forex | 324 | 432 |
| | 3 | asset management | 0 | |
| | | 3.1 individual | 0 | |
| | | 3.2 collective | | |
| | 4 | custody and administration of securities | 122 | |
| | 5 | depositary bank services | | |
| | 6 | placement of securities | | |
| | 7 | collection of orders | | |
| | 8 | advisory services | | |
| | | 8.1 in matters of investment | | |
| | | 8.2 in matters of financial structure | | |
| | 9 | distribution of third-party services | | |
| | | 9.1 asset management: | | |
| | | 9.1.1 individual | | |
| | | 9.1.2 collective | | |
| | | - insurance products | | |
| | | - other products | | |
| **d)** | **Collection and payment services** | | | |
| **e)** | **Securitization servicing** | | **1** | **1** |
| **f)** | **Factoring services** | | | |
| **g)** | **Tax and debt collection services** | | | |
| **h)** | **Management of multilateral trading services** | | | |
| **i)** | **Keeping and management of current accounts** | | **44** | |
| **j)** | **Other services** | | **142** | **121** |
| | | **Total** | **24,805** | **26,199** |

2.2 Commission income: distribution channels of products and services

2.3 Commission expense: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| **a)** | **Guarantees received** | **2,556** | **3,889** |
| **b)** | **Credit derivatives** | | |
| **c)** | **Management and brokerage services** | **193** | **249** |
| 1 | trading in financial instruments | 193 | 248 |
| 2 | forex | 0 | 1 |
| 3 | asset management | | |
| | 3.1 own portfolio | | |
| | 3.2 third-party portfolios | | |
| 4 | custody and administration of securities | | |
| 5 | placement of securities | | |
| 6 | off-premises distribution of securities, products and services | | |
| **d)** | **Collection and payment services** | | |
| **e)** | **Other services** | **271** | **180** |
| | **Total** | **3,020** | **4,318** |

**Section 3 – Dividends and similar income – Item 70**

3.1 Dividends and similar income: Composition

| | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|
| | | Dividends | Income from investment funds | Dividends | Income from investment funds |
| A | Financial assets held for trading | 9 | | 22 | |
| B | Financial assets available for sale | | | | |
| C | Financial assets designated at fair value | | | | |
| D | Equity investments | | | | |
| | **Total** | **9** | | **22** | |

**Section 4 – Net trading income – Item 80**

4.1 Net trading income: Composition

| | | | Capital gains (A) | Trading gains (B) | Capital losses (C) | Trading losses (D) | **Net Income** A+B)-(C+D |
|---|---|---|---|---|---|---|---|
| **1** | **Financial assets held for trading** | | **54** | **6,699** | **636** | **85** | **6,032** |
| | 1.1 | Debt securities | 54 | 1,179 | 601 | 8 | 624 |
| | 1.2 | Equities | | 325 | 35 | 77 | 213 |
| | 1.3 | Holdings in UCI | | | | | |
| | 1.4 | Loans | | | | | |
| | 1.5 | Other | | 5,195 | | | 5,195 |
| | | | | | | | |
| **2** | **Financial liabilities held for trading** | | | | | | |
| | 2.1 | Debt securities | | | | | |
| | 2.2 | Other | | | | | |
| | | | | | | | |
| **3** | **Other financial liabilities: forex differentials** | | | | | | **323** |
| | | | | | | | |
| **4** | **Derivatives** | | **1,260** | **5,147** | **1,545** | **5,912** | **(1,050)** |
| | 4.1 | Financial derivatives: | 1,260 | 5,147 | 1,545 | 5,912 | (1,050) |
| | | - on debt securities and interest rates | 83 | 704 | 622 | 2,277 | (2,112) |
| | | - on equities and equity indices | | 219 | | 333 | (114) |
| | | - on foreign currencies and gold | 1,177 | 4,224 | 923 | 3,302 | 1,176 |
| | | - other | | | | | |
| | 4.2 | Credit derivatives | | | | | |
| | | | | | | | |
| | | **Total** | **1,314** | **11,846** | **2,181** | **5,997** | **5,305** |

**Section 5 – Net income from hedging activities – Item 90**

5.1 Net income from hedging activities: Composition

**Section 6 – Net income from disposals and repurchases – Item 100**

6.1 Net income from disposals and repurchases: Composition

**Section 7 – Net result from financial assets/liabilities designated at fair value – Item 110**

7.1 Net result from financial assets/liabilities designated at fair value: Composition

**Section 8 – Net impairment adjustments – Item 130**

8.1 Net impairment adjustments to loans and advances: Composition

| | | Write-downs (1) | | | Write-backs (2) | | | | Total 2010 | Total 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Specific | | Port-folio | Specific | | Portfolio | | | |
| | | write -offs | Others | | A | B | A | B | | |
| A | L&As to banks | | 586 | 18,970 | | 224 | | 0 | **(19,332)** | **(8,016)** |
| | - Loans | | 586 | 18,460 | | 224 | | 0 | (18,822) | (7,092) |
| | - Securities | | | 510 | | | | | (510) | (924) |
| B | L&As to customers | 4 | 18 | 393 | | 101 | | 0 | **(314)** | **226** |
| | - Loans | 4 | 18 | 393 | | 101 | | 0 | (314) | 226 |
| | - Securities | | | 0 | | | | | | |
| **C** | **Total** | **4** | **604** | **19,363** | | **325** | | **0** | **(19,646)** | **(7,790)** |

8.2 Net impairment adjustments to financial instruments available for sale: Composition

| | | Write-downs (1) Specific | | Write-backs (2) Specific | | Total 2010 | Total 2009 |
|---|---|---|---|---|---|---|---|
| | | write -offs | Others | A | B | | |
| A | Debt securities | 0 | 134 | | 1,314 | 1,180 | (396) |
| B | Equities | | | | | | |
| C | Holdings in UCI | | | | | | |
| D | L&As to banks | | | | | | |
| E | L&As to customers | | | | | | |
| **F** | **Total** | **0** | **134** | | **1,314** | **1,180** | **(396)** |

Legend:
A = from interest
B = other write-backs

8.3 Net impairment adjustments to financial instruments held to maturity: Composition

| | | **Write-downs (1)** | | | **Write-backs (2)** | | | | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Specific | | Port-folio | Specific | | Portfolio | | | |
| | | write-offs | Others | | A | B | A | B | | |
| A | Securities | | | 76 | | | | 106 | 30 | (507) |
| B | L&As to banks | | | | | | | | | |
| C | L&As to customers | | | | | | | | | |
| **D** | **Total** | | | **76** | | | | **106** | **30** | **(507)** |

Legend A = from interest B = other write-backs

8.4 Net impairment adjustments to other financial instruments: Composition

| | | **Write-downs (1)** | | | **Write-backs (2)** | | | | **Total 2010** | **Total 2009** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Specific | | Port-folio | Specific | | Portfolio | | | |
| | | write-offs | Others | | A | B | A | B | | |
| A | Guarantees issued | | 213 | 0 | | 439 | | 3,758 | 3,984 | (6,419) |
| B | Credit derivatives | | | | | | | | | |
| C | Commitments to disburse funds | | | | | | | | | |
| D | Other instruments | | | | | | | | | |
| **E** | **Total** | | 213 | 0 | | 439 | | 3,758 | 3,984 | (6,419) |

**Section 9 – Administration expenses – Item 150**

9.1 Personnel expenses: Composition

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **1** | **Staff** | | **14,042** | **13,545** |
| | a) | Wages and salaries | 9,081 | 8,825 |
| | b) | Social security contributions | 2,520 | 2,466 |
| | c) | Severance payments | | |
| | d) | Pension payments | | |
| | e) | Allocations to the staff severance fund | 68 | 596 |
| | f) | Allocations to the provision for pensions and similar liabilities: | | |
| | | - defined contribution | 595 | 40 |
| | | - defined benefit | | |
| | g) | Payments to external complementary pension funds: | | |
| | | - defined contribution | | |
| | | - defined benefit | | |
| | h) | Costs arising from agreements to make payments in own equity instruments | | |
| | i) | Other benefits to staff | 1,778 | 1,618 |
| 2 | Non-salaried personnel | | **163** | **178** |
| 3 | Directors (*) | | **1,215** | **1,045** |
| 4 | Retired personnel | | | |
| 5 | Expenses recouped for staff seconded to other institutions | | | |
| 6 | Expenses reimbursed for staff seconded from other institutions | | | |
| | | **Total** | **15,420** | **14,768** |

(*) This table conventionally includes compensation paid to the Bank's Statutory Auditors (EUR 120,000 for 2010 against EUR 119,000 for 2009) which is recorded in the Income Statement under "Other administration expenses".

9.2 Average number of staff: Breakdown by category

| | | |
|---|---|---|
| a) | Senior managers | 4 |
| b) | Executive cadres | 72 |
| c) | Other staff | 84 |
| | **Total** | **160** |

9.3 Company defined-benefit pension funds: Total cost

9.4 Other staff benefits

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| | Early retirement payments | 195 | 286 |
| | Other payments | 1,583 | 1,332 |
| | | **1,778** | **1,618** |

9.5 Other administration expenses: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| | It expenses | 1,381 | 1,239 |
| | Expenses for movable/immovable property: | | |
| | - rentals and other fees | 129 | 111 |
| | - other | 772 | 1,004 |
| | Expenses for the purchase of goods and non-professional services | 2,788 | 2,886 |
| | Expenses for professional services | 2,257 | 2,322 |
| | Insurance premiums | 102 | 109 |
| | Advertising | 149 | 182 |
| | Indirect duties and taxes | 277 | 276 |
| | Other (1) | 319 | 318 |
| | **Total** | **8,174** | **8,447** |

(1) amounts include compensation paid to the Statutory Auditors (as entered by convention in Table 9.1 under “Directors”)

**Section 10 – Net provisioning for risks and charges – Item 160**

10.1 Net provisioning for risks and charges: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| | Litigation | | |
| | Other risks and charges | 152 | 251 |
| | **Total** | **152** | **251** |

**Section 11 – Net adjustments to tangible fixed assets - Item 170**

11.1 Net adjustments to tangible fixed assets: Composition

| | | | Depreciation (a) | Impairment write-downs (b) | Write-backs ( C) | Net result (a+b-c) |
|---|---|---|---|---|---|---|
| **A** | **Tangible fixed assets** | | | | | |
| | A1 | Owned | 817 | | | 817 |
| | | - used in operations | 817 | | | 817 |
| | | - held for investment | | | | |
| | A2 | Leased | | | | |
| | | - used in operations | | | | |
| | | - held for investment | | | | |
| | | **Total** | **817** | | | **817** |

**Section 12 – Net adjustments to intangible fixed assets – Item 180**

12.1 Net adjustments to intangible fixed assets: Composition

| | | | Depreciation (a) | Impairment write-downs (b) | Write-backs ( C) | Net result (a+b-c) |
|---|---|---|---|---|---|---|
| **A** | **Intangible fixed assets** | | | | | |
| | A1 | Owned | 698 | | | 698 |
| | | - developed in-house | | | | |
| | | - other | 698 | | | 698 |
| | A2 | Leased | | | | |
| | | **Total** | **698** | | | **698** |

**Section 13 – Other operating income / charges – Item 190**

13.1. Other operating charges: Composition

| | | **Total 2010** | **Total 2009** |
|---|---|---|---|
| | Other operating charges | 261 | 373 |
| | **Total** | **261** | **373** |

13.2. Other operating income: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| | Duties and taxes recouped | 26 | 28 |
| | Rentals and fees | 111 | 111 |
| | Income from IT services rendered: | | |
| | - to companies within the banking group | | |
| | - to others | | |
| | Expenses recouped: | | |
| | - for own staff seconded to third parties | | |
| | - on deposits and current accounts | 684 | 1,792 |
| | - other | 808 | 1,147 |
| | SSF attribution to profit and loss | 63 | 17 |
| | Other income | 390 | 153 |
| | **Total** | **2,082** | **3,248** |

**Section 14 – Gains (losses) from equity investments - Item 210**

14.1 Profit (loss) from equity investments: Composition

**Section 15 – Net adjustments to fair value of tangible and intangible assets – Item 220**

15.1 Net adjustments to fair value of tangible and intangible assets: Composition

**Section 16 – Adjustments to goodwill – Item 230**

16.1 Adjustments to goodwill: Composition

**Section 17 – Gains (losses) from the disposal of investments - Item 240**

17.1 Gains (losses) from the disposal of investments: Composition

**Section 18 – Income tax for the year on continuing operations – Item 260**

18.1 Income tax for the year on continuing operations: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| **1** | **Current tax (-)** | **(11,450)** | **(11,371)** |
| 2 | Variations in current tax for prior years (+/-) | | |
| 3 | Current tax rebate for the year (+) | | |
| 4 | Variation in pre-paid taxes (+/-) | 5,233 | 1,702 |
| 5 | Variation in deferred taxes (+/-) | 23 | 9 |
| **6** | **Income tax for the year (-) (-1+/-2+-3+/-4+/-5)** | **(6,194)** | **(9,660)** |

18.2 Reconciliation of theoretical tax liability and actual book liability

| | Total 2010 | Total 2009 |
|---|---|---|
| **Profit before tax** | **14,595** | **17,745** |
| Theoretical IRES and IRAP due (32.32%) | 4,717 | 5,735 |
| IRAP adjustments for administration expenses | 778 | 941 |
| IRAP adjustments for write-offs | 755 | 800 |
| Taxes on non-deductible costs | 5,200 | 3,891 |
| Pre-paid and deferred taxes | (5,256) | (1,707) |
| **Total taxes** | **6,194** | **9,660** |
| **Net profit** | **8,401** | **8,085** |

**Section 19 – Net profit (loss) from groups of assets being divested - Item 280**

19.1 Net profit (loss) from groups of assets being divested: Composition

19.2 Breakdown of income tax in respect of groups of assets/liabilities being divested

**Section 20 – Other information**

**Section 21 – Profit per share**

21.1 Average number of diluted common shares

| | Amount 2010 | Amount 2009 |
|---|---|---|
| Net profit | 8,401 | 8,085 |
| Number of Shares | 1,373,280 | 1,373,280 |
| **Profit per Shares** | **6.12** | **5.89** |

21.2 Other information

# PART D
# COMPREHENSIVE NET INCOME DETAIL

| | | Gross Amount | Income Taxes | Net Amount |
|---|---|---|---|---|
| **10** | **Net profit (loss)** | **8,401** | | **8,401** |
| 20 | Financial assets available for sale: | 448 | 146 | 302 |
| | a) fair-value adjustments | 448 | 146 | 302 |
| | b) income statement reversals | | | |
| | - from impairment | | | |
| | - from disposals | | | |
| | c) other adjustments | | | |
| 30 | Tangible assets | | | |
| 40 | Intangible assets | | | |
| 50 | Hedging of foreign investments: | | | |
| | a) fair-value adjustments | | | |
| | b) income statement reversals | | | |
| | c) other adjustments | | | |
| 60 | Hedging of financial flows: | | | |
| | a) fair-value adjustments | | | |
| | b) income statement reversals | | | |
| | c) other adjustments | | | |
| 70 | Forex differentials: | | | |
| | a) value adjustments | | | |
| | b) income statement reversals | | | |
| | c) other adjustments | | | |
| 80 | Non-current assets earmarked for disposal: | | | |
| | a) fair-value adjustments | | | |
| | b) income statement reversals | | | |
| | c) other adjustments | | | |
| 90 | Actuarial profit (loss) on defined-benefit plans | | | |
| 100 | Share of valuation reserves booked to shareholders' equity: | | | |
| | a) fair-value adjustments | | | |
| | b) income statement reversals | | | |
| | - from impairment | | | |
| | - from disposals | | | |
| | **c) other adjustments** | | | |
| **110** | **Other sources of income** | **448** | **146** | **302** |
| **120** | **Comprehensive Net Income** | **8,849** | **146** | **8,703** |

# PART E
# RISKS AND THEIR COVERAGE



**Section 1 – Credit**

**QUALITATIVE INFORMATION**

**1. General aspects**

The Bank's policy for monitoring and managing credit risk is set out in a frame directive approved by the Board of Directors which defines:

- the identity and powers of the bodies and officials authorized to extend credit;
- the process for selecting and evaluating credit facilities;
- the criteria for allocating exposure by debtor, country and business sector;
- procedures for monitoring and enforcing compliance with the Basel 2, Pillar I capital requirement against credit risk and central bank directives on large exposures;
- operating limits on debt exposures as weighted by risk size and type and by debtor category, country of residence and business sector.

The adequacy of the criteria and policies adopted for managing credit risk is evaluated annually by the Board of Directors, which makes reference to current and prospective exposure data supplied by the Bank's Risk Management unit.

The Bank's mission is to promote and develop all manner of financial, commercial and industrial relations in the international sphere. Business activities are targeted primarily, though not solely, at supporting the relations of Mediterranean and Middle Eastern countries with Europe and the rest of the world. Fulfilling that mission, as Banca UBAE has been doing for over three decades, implies the adoption of stringently professional borrower-selection and credit policies.

The emphasis is on financing trade transactions across the Bank's region of interest, where beneficiaries may be resident or non-resident, bank or non-bank enterprises. The commercial nature of such transactions is reflected in the type of credit facilities granted as well as in the beneficiary's overall business approach as assessed by Banca UBAE.

The extension of purely financial credit lines to parties other than target-country banks is subject to qualitative and quantitative constraints. Each year, in particular, the Board of Directors sets individual risk-weighted exposure limits for specific countries and types of credit facility on the basis of detailed scenario analyses and in conformity with sound and prudent management principles.

As regards prudential regulations in force, UBAE has equipped itself with the necessary tools/procedures to calculate overall internal capital and evaluate the Bank's capital adequacy.

Regulations prescribe that methods used for calculating capital requirements against market, credit and operational risks (Pillar I) will vary according to a bank's size and complexity, as well as with the supervisory authorities' own assessment.

UBAE has adopted the "standardized" method for calculating the capital requirement against credit risk and must follow the Basic Indicator Approach for calculating the requirement against operational risks. The requirement against market risks in the trading book will continue to be calculated by the current method.

Basel 2 has also introduced a "supervisory review process" whereby individual banks will have to estimate their own overall capital adequacy in relation to other types of risk not addressed under Pillar I. The estimate will be reviewed by Banca d'Italia, who may ask a bank to take corrective action and/or impose additional capital requirements (Pillar II).

The supervisory review process thus comprises two distinct phases: an internal capital adequacy process (ICAAP) which is a matter for banks, and a supervisory review and evaluation process (SREP) administered by Banca d'Italia.

The principle of proportionality governing the entire arrangement stipulates that risk management procedures, internal control mechanisms, economic capital valuation methods, and the frequency and depth of central bank reviews will vary in accordance with the nature, size and operational complexity of each institution.

Banca d'Italia has divided banks and assimilated financial institutions into three groups for the purposes of compliance with Pillar II. UBAE belongs to Group 3, representing banks that adopted the standardized method under Pillar I and whose gross assets are less than EUR 3.5 bn. Group 3 banks will adopt simplified methods for evaluating the various other risks addressed by Pillar II. Among these, credit concentration risk (as linked to individual borrowers or groups of related borrowers) and interest rate risk in the banking book will be calculated by a method entailing additional capital requirements with respect to Pillar I (1)

[1] Instead of an additional capital requirement, the other "quantifiable" risk, i.e., **liquidity risk**, is managed by a combination of means including construction of a maturity ladder, stress testing, and the formulation of in-house policies and contingency plans.

The Bank's 2010 ICAAP report (compiled on year-end data) will be delivered to Banca d'Italia by 30 April 2011.

As regards the public disclosure of information on exposure to specified risk categories (Pillar III), the Bank will post the relevant qualitative and quantitative charts and tables on its corporate website ("Financials" section) by the deadline applying to the publication of its financial statements.

## 2. Policies for Managing Credit Risk

*2.1 Organizational aspects*

On the Credit Committee's proposal (as based on an opinion from the competent units), the Board of Directors or the Executive Committee resolves annually on the extension of credit facilities to eligible parties. In doing so the BD/EC will specify:

- the risk group to which the prospective beneficiary belongs;
- the Bank's maximum risk-weighted exposure;
- the technical format(s) in which facilities may be authorized (including their validity and the characteristics of acceptable guarantees) and the exposure that will result from the weighting system adopted.

Technical formats include financial-market transactions (deposits and forex) and the purchase of bonds for the HTM portfolio.

In approving facilities in favour of banks from countries lacking an investment grade rating, the Board of Directors will pass a single resolution stipulating risk-weighted exposure sub-limits for each bank concerned.

The General Manager will proceed each year to assign the Treasury Division its annual VaR, consisting of a maximum weighted-exposure limit for risks taken on from clients or groups of connected clients in favour of whom the Board of Directors has approved credit facilities.

For each department within the Treasury Division, the General Manager will specify:

- a list of clients and/or groups of clients, their respective risk groups and risk ceilings;
- the individual risk ceilings assigned to the Treasury Division expressed in percentage terms;
- a breakdown by technical format, expressed in percentage terms, of the Treasury Division's risk ceilings.

Provided he cites clear risk-containment reasons and notifies the Board of Directors of his decision, the General Manager may order the curtailment of any risk positions opened by the Treasury Division with a client or group of connected clients, even though they fell within the previously established risk limits.

The Risk Management unit performs daily checks to ensure lending limits applying to the recipients of facilities from the Treasury Division are duly observed, while the *progress* of exposures is a matter for a separate function within the Credit Division.

Facilities granted to any one client or group of connected clients will not, in any case, exceed the lending limit established by existing regulations on large exposures, as calibrated to the Bank's eligible capital [(2)].

Where VaR would exceed the limit set by the resolution granting any given credit facility, the Internal Regulations will apply with regard to who may authorize such VaR and within what quantitative and temporal limits.

*2.2 Measuring, managing and monitoring credit risk*

In reviewing a request for the extension or revision of credit facilities, the Credit Processing Department assign or adjust the beneficiary's credit access score, which is a condensed creditworthiness assessment.

The score is arrived at through a dedicated software product enabling a comparison between the financials of the proposed borrower and those contained in various databases for similar banking and non-banking, domestic and foreign counterparties. Though based on peer analysis, the final score may take into account the analyst's own evaluation of the borrower from an organizational or other qualitative standpoint. The weighting of each factor contributing to the final score is the result of a tried and tested methodology which the Bank has refined over the years.

Assigning a credit access score enables the Bank to place borrowers in homogeneous risk classes, hence adopt risk-weighted pricing models and obtain a ready picture of the overall quality of the loans portfolio - all to the benefit of the business planning process.

For the purposes of monitoring loan performance, the credit control function within the Credit Division draws on assistance from the competent business departments and the Milan Branch to keep a list of the Bank's problem loans, i.e., risk positions to be kept under observation on the basis of information gathered from sources both external (CRB data, detrimental-action records, press releases) and internal (automated monitoring of credit line utilization/overrun rates, reports from the competent business departments on particular countries and/or business sectors, events of default on payments due, legal steps taken by the Bank to collect amounts due).

The heads of the competent business departments and the manager of the Milan Branch provide monthly updates to the credit control function on the reasons underlying any anomalies detected in such positions and on any action that was undertaken to mitigate credit risk. At the same time, they are required to forward any information deemed useful for keeping the list of problem loans up-to-date to the credit control function without delay.

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2) In order to be prudent the Bank has fixed a lending limit below the regulatory level.

The credit control function submits regular updates to the General Manager as well as a quarterly update to the Board of Directors on the progress of all problem loans.

Any proposals for new facilities in favour of clients or groups of connected clients whose positions are under observation must be approved by the Board of Directors or the Executive Committee, irrespective of the amount or technical format involved.

If it deems it appropriate - and definitely in the event of occurrences that might impair the Bank's ability to recover even part of its exposure - the credit control function will promptly present the General Manager with a written statement recommending that a risk position is downgraded to standstill or bad-debt status.

Risk Management is responsible for monitoring the capital requirement against credit risk (Pillar I) on the basis of its quarterly risk-matrix report to Banca d'Italia. It also submits a quarterly report on capital adequacy to the Risk Committee. For ICAAP purposes, it formulates stress testing hypotheses so the Risk Committee can evaluate the impact in terms of internal capital.

Risk Management collects quarterly data on large exposures and the Bank's individual lending limit (25% of eligible capital). Likewise, it monitors and circulates the list of External Credit Assessment Institutions (ECAIs) selected for independent ratings.

Finally, it is up to Risk Management to determine the simplified indicator for "single name" credit concentration risk in the corporate portfolio and the additional capital requirement called for by Pillar II in relation to overall internal capital. As regards concentration by banking counterparty, a system of internal operating limits has been set up to limit this risk. And lastly, credit concentration by branch of business and geographical area is covered by a qualitative evaluation of sector-specific indicators upon which to construct stress testing scenarios relevant to credit risk is carried out for ICAAP purposes.

### *2.3 Credit risk mitigation techniques*

An individual risk position may be backed by personal guarantees or by collateral.

The Bank's risk position with a guaranteed party may be replaced by its risk position with the guarantor, provided the latter is characterized by a lesser risk-weighting factor and that the following conditions apply:

- the guarantee is specific, i.e., covers the risk associated with a specified ordinary or ad hoc credit facility;
- the guarantee is unconditional, in the sense that the Bank may have recourse to the guarantor at any time;
- the guarantor is independent of the guaranteed party, in the sense that the likelihood of default by the guarantor is not linked to the likelihood of default by the guaranteed party.

Unless such conditions are fulfilled, the guaranteed party's individual risk position may not be replaced by the guarantor's when calculating the Bank's overall credit risk.

The following types of collateral may be lodged in the Bank's favour, subject to the customary contractual formulations:

- cash sums deposited with the Bank;
- cash sums deposited with banks that have been accorded credit lines by UBAE or are otherwise acceptable to it; in the latter case, acceptance of any real guarantees is subject to approval by the competent loan-granting official or body;
- bonds deposited with the Bank, provided they are issued by institutions whose rating is investment-grade;
- bonds issued by entities whose rating is investment-grade and which are deposited with international clearing bodies or with banks that have been accorded credit lines by UBAE or are otherwise acceptable to it; in the latter case, acceptance of collateral is subject to approval by the competent loan-granting official or body;
- matured trade receivables;
- not-yet matured trade receivables;
- residential and commercial property.

The value of cash sums and the market-price value of financial instruments lodged as collateral (though not that of matured/not yet matured trade receivables or property) is deducted from the individual credit risk generated by the ordinary or ad hoc credit facilities to which the collateral refers. The resulting individual net credit risk will be considered for the purposes of calculating the Bank's overall credit risk.

The resolution approving an ordinary or ad hoc facility that is backed by collateral may indicate the minimum value, expressed in percentage terms, which the guarantee must preserve relative to the value of the approved exposure.

Banca UBAE does not purchase credit derivatives (CDS) as a means of protection against credit risk.

*2.4 Impaired financial assets*

On the basis of a report submitted by the credit control function and after consulting with the heads of the competent business departments or the Milan Branch, the General Manager will decide whether or not the relevant problem loans should be reclassified as standstill positions or bad debts.

Once a risk position has been reclassified as standstill, no new credit facilities may be granted to that client or any connected client, while measures geared to make good the Bank's exposure must be set in train immediately.

It is up to the General Manager to authorize negotiations with a client for the purpose of reducing the Bank's exposure from a standstill position (rescheduled position).

Any proposals for new credit facilities in favour of clients whose positions have been rescheduled must be approved by the Board of Directors, irrespective of the amount or technical format involved.

After consulting with the competent department heads and the credit control function, the General Manager will take all necessary action to safeguard the Bank's exposure; if a position has been reclassified as a bad debt, he will proceed without delay to cancel all facilities granted and initiate legal debt-recovery proceedings. The initiation of legal debt-recovery proceedings automatically entails a position's reclassification as a bad debt.

Should he deem it appropriate, the General Manager may authorize a given business department to continue dealing with a client whose position has been entered under bad debts, provided guidance is sought from the Legal unit.

Assisted by the credit control function and the Legal unit, the General Manager will update the Executive Committee and (on a quarterly basis) the Board of Directors on the progress of all bad debts, rescheduled debts and standstill positions, including details of loss forecasts if and as applicable.

## QUANTITATIVE INFORMATION

## A. Credit quality

### A.1 Performing and non-performing credit positions: Amounts outstanding, write-downs, variations, distribution by business sector and geographical area

A.1.1 Distribution of financial assets by portfolio and credit quality (book value)

| Portfolio/credit quality | | Bad debts | Standstill positions | Resche-duled debts | Past-due positions | Other | Total |
|---|---|---|---|---|---|---|---|
| 1 | Financial assets held for trading | | | | | 115,246 | **115,246** |
| 2 | Financial assets available-for-sale | 819 | | 0 | | 2,621 | **3,440** |
| 3 | Financial assets held to maturity | | | | | 91,101 | **91,101** |
| 4 | L&As to banks | 2,511 | | 1,847 | | 2,893,480 | **2,897,838** |
| 5 | L&As to customers | 89 | 11 | | | 210,175 | **210,275** |
| 6 | Financial assets designated at fair value | | | | | | |
| 7 | Financial assets being divested | | | | | | |
| 8 | Hedging Derivativesves | | | | | | |
| | **Total 2010** | **3,419** | **11** | **1,847** | **0** | **3,312,623** | **3,317,900** |
| | **Total 2009** | **3,490** | **110** | **1,932** | **3** | **2,421,274** | **2,426,809** |

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

| Portfolio/credit quality | Impaired assets | | | Other assets | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Specific write-downs | Net exposure | Gross exposure | Specific write-downs | Net exposure | |
| 1 Financial assets held for trading | | | | 115,246 | | 115,246 | **115,246** |
| 2 Financial assets available-for-sale | 2,730 | 1,911 | 819 | 2,645 | 24 | 2,621 | **3,440** |
| 3 Financial assets held to maturity | | | | 91,942 | 841 | 91,101 | **91,101** |
| 4 L&As to banks | 10,901 | 6,543 | 4,358 | 2,919,373 | 25,893 | 2,893,480 | **2,897,838** |
| 5 L&As to customers | 10,454 | 10,354 | 100 | 212,129 | 1,954 | 210,175 | **210,275** |
| 6 Financial assets designated at fair value | | | | | | | |
| 7 Financial assets being divested | | | | | | | |
| 8 Hedging Derivatives | | | | | | | |
| **Total 2010** | **24,085** | **18,808** | **5,277** | **3,341,335** | **28,712** | **3,312,623** | **3,317,900** |
| **Total 2009** | **23,928** | **18,393** | **5,535** | **2,431,041** | **9,767** | **2,421,274** | **2,426,809** |

Exposures "in bonis" do not include exposures under renegotiation as part of collective agreements

A.1.3 Cash and off-balance sheet exposure to banks: gross and net values

| Exposure type/values | Gross exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---|---|---|---|---|
| **A CASH EXPOSURE** | | | | |
| a) Bad debts | 11,767 | 8,437 | | 3,330 |
| b) Standstill position | | | | |
| c) Rescheduled debts | 1,864 | 17 | | 1,847 |
| d) Past due positions | | | | |
| e) Other assets | 3,097,696 | | 26,667 | 3,071,029 |
| **Total A** | **3,111,327** | **8,454** | **26,667** | **3,076,206** |
| | | | | |
| **B OFF-BALANCE SHEET EXPOSURE** | | | | |
| a) Impaired | | | | |
| b) Other | 577,075 | | 2,499 | 574,576 |
| **Total B** | **577,075** | | **2,499** | **574,576** |
| | | | | |
| **Total A+B** | **3,688,402** | **8,454** | **29,166** | **3,650,782** |

A.1.4 Cash exposure to banks: changes in gross impaired positions

| | Causal / categories | Bad debts | Standstill positions | Rescheduled debts | Past due positions |
|---|---|---|---|---|---|
| **A** | **Opening gross exposure** | **11,342** | | **1,950** | |
| | of which: exposures assigned but not derecognized | | | | |
| **B** | **Increases** | **8,937** | | **171** | |
| B1 | inflows from performing positions | | | | |
| B2 | transfers from other classes of impaired positions | | | | |
| B3 | other increases (*) | 8,937 | | 171 | |
| | | | | | |
| **C** | **Decreases** | **(8,512)** | | **(257)** | |
| C1 | outflows to performing positions | | | | |
| C2 | write-offs | | | | |
| C3 | items collected | (721) | | (247) | |
| C4 | items assigned | | | | |
| C5 | transfers to other classes of impaired positions | | | | |
| C6 | other decreases (*) | (7,791) | | (10) | |
| | | | | | |
| **D** | **Closing gross exposure** | **11,767** | | **1,864** | |
| | of which: exposures assigned but not derecognized | | | | |

(*)The amounts reflect a reclassification of EUR 7,791 mn from "Bad debts"to "Rescheduled debts", however, for supervisory reporting purposes it is classified as a bad debt

A.1.5 Cash exposure to banks: variations in total adjustments

| | Causal / categories | Bad debts | Standstill positions | Rescheduled debts | Past due positions |
|---|---|---|---|---|---|
| **A** | **Opening gross exposure** | **7,939** | | **18** | |
| | of which: exposures assigned but not derecognized | | | | |
| | | | | | |
| **B** | **Increases** | **6,174** | | | |
| B1 | write-downs | 200 | | | |
| B2 | transfers from other classes of impaired positions | | | | |
| B3 | other increases (*) | 5,974 | | | |
| | | | | | |
| **C** | **Decreases** | **5,676** | | **1** | |
| C1 | valuation write-backs | | | | |
| C2 | collection write-backs | 223 | | | |
| C3 | write-offs | | | | |
| C4 | transfers to other classes of impaired positions | | | | |
| C5 | other decreases (*) | 5,453 | | 1 | |
| | | | | | |
| **D** | **Closing gross exposure** | **8,437** | | **17** | |
| | of which: exposures assigned but not derecognized | | | | |

(*) The amount of EUR 5,453 mn reflects the reclassification of doubtful accounts of a position classified as "Bad debts" to "Rescheduled debts", however, for supervisory reporting purposes it is classified as a bad debt

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

| | Exposure type/values | Gross exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---|---|---|---|---|---|
| **A** | **CASH EXPOSURE** | | | | |
| a) | Bad debts | 10,442 | 10,353 | 0 | 89 |
| b) | Standstill positions | 12 | 1 | 0 | 11 |
| c) | Rescheduled debts | | | | 0 |
| d) | Past due positions (*) | | | | 0 |
| f) | Other assets | 243,639 | 0 | 2,045 | 241,594 |
| | **Total A** | **254,093** | **10,354** | **2,045** | **241,694** |
| | | | | | |
| **B** | **OFF-BALANCE SHEET EXPOSURES** | | | | |
| a) | Impaired | 5,089 | 846 | 0 | 4,243 |
| b) | Other | 814,232 | 0 | 368 | 813,864 |
| | **Total B** | **819,321** | **846** | **368** | **818,107** |

(*) As regards past due positions amounting to EUR 90, it should be noted that these originated in June 2010. Positions overdue up to 90 days of EUR 182 originated in September 2010

A.1.7 Cash exposures to customers: variations  in gross impaired positions exposed to country risk

| | Causal / categories | Bad debts | Standstill positions | Rescheduled debts | Past due positions |
|---|---|---|---|---|---|
| **A** | **Opening gross exposure** | **10,522** | **111** | | **3** |
| | of which: exposures assigned but not derecognized | | | | |
| **B** | **Increases** | **20** | **16** | | **1** |
| B1 | inflows from performing | | 11 | | 1 |
| B2 | transfers from other classes of impaired positions | | 3 | | |
| B3 | Other increases | 20 | 2 | | |
| **C** | **Decreases** | **(100)** | **(115)** | | **(4)** |
| C1 | outflows to performing positions | | (12) | | (1) |
| C2 | write-offs | | (4) | | |
| C3 | items collected | (100) | (99) | | 0 |
| C4 | items assigned | | | | |
| C5 | transfers to other classes of impaired positions | | | | (3) |
| C6 | other decreases | | | | |
| **D** | **Closing gross exposure** | **10,442** | **12** | | **0** |
| | of which: exposures assigned but not derecognized | | | | |

A.1.8 Cash exposures to customers: changes in total adjustments

| | Causal / categories | Bad debts | Standstill positions | Rescheduled debts | Past due positions |
|---|---|---|---|---|---|
| **A** | **Opening gross exposure** | **10,435** | **1** | | |
| | of which: exposures assigned but not derecognized | | | | |
| | | | | | |
| **B** | **Increases** | **18** | **2** | | **0** |
| B1 | write-downs | 18 | 1 | | |
| B2 | transfers from other classes of impaired positions | | | | 0 |
| B3 | Other Increases | | 1 | | |
| | | | | | |
| **C** | **Decreases** | **(100)** | **(2)** | | **0** |
| C1 | valuation write-backs | 0 | (1) | | 0 |
| C2 | collection write-backs | (100) | (1) | | |
| C3 | write-offs | | | | |
| C4 | transfers to other classes of impaired positions | | | | |
| C5 | other decreases | | | | |
| | | | | | |
| **D** | **Closing gross exposure** | **10,353** | **1** | | |
| | of which: exposures assigned but not derecognized | | | | |

## A.2 Distribution of positions by external and internal ratings

A.2.1 Distribution of off-balance sheet and cash exposures through external rating bands (Book value)

| Exposures | | External rating bands | | | | | | Unrated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | class 1 | class 2 | class 3 | class 4 | class 5 | class 6 | | |
| A | Cash Exposures | 2,528,812 | 200,506 | 91,378 | 198,427 | 22,907 | | 274,757 | **3,316,787** |
| B | Derivatives | 921 | 0 | 43 | 0 | 0 | | 485 | **1,449** |
| B1 | Financial derivatives | 921 | | 43 | | | | 485 | 1,449 |
| B2 | Credit derivatives | | | | | | | 0 | |
| C | Guarantees given | 377,160 | 4,829 | 108,654 | 37,795 | 6,187 | | 788,617 | **1,323,242** |
| D | Commitments to disburse funds | | | | | | | 67,992 | **67,992** |
| | | | | | | | | | |
| | **Total** | **2,906,893** | **205,335** | **200,075** | **236,222** | **29,094** | | **1,131,851** | **4,709,470** |

Rating agencies used are Standard & Poor's Rating Services, Moody's Investors Service e Fitch Ratings as per following mapping:

| External ratinghs bands | Moody's | S&P | Fitch |
|---|---|---|---|
| Class 1 | Aaa/Aa3 | AAA/AA- | |
| Class 2 | A1/A3 | A+/A- | |
| Class 3 | Baa1/Baa3 | BBB+/BBB- | |
| Class 4 | Ba1/Ba3 | BB+/BB- | |
| Class 5 | B1/B3 | B+/B- | |
| Class 6 | Caa and below | CCC and below | |

A 2.1 Distribution of off-balance sheet and cash exposures by internal rating bands

**A.3 Distribution of guaranteed exposures by type of guarantee**

A.3.1 Guaranteed Banks' exposures

| | | | Net exposure Value | Collateral | | | |
|---|---|---|---|---|---|---|---|
| | | | | Property | Secu-rities | Other assets | Credit Linked Notes |
| 1 | | **Cash exposures guaranteed** | **8,531** | | | **3,859** | |
| | 1.1 | fully guaranteed | 2,640 | | | 2,060 | |
| | | - out of which, impaired | | | | | |
| | 1.2 | not fully guaranteed | 5,891 | | | 1,799 | |
| | | - out of which, impaired | | | | | |
| | | | | | | | |
| 2 | | **Off-Balance Sheet exposures guaranteed** | **206** | | | **157** | |
| | 2.1 | fully guaranteed | 150 | | | 150 | |
| | | - out of which, impaired | | | | | |
| | 2.2 | not fully guaranteed | 56 | | | 7 | |
| | | - out of which, impaired | | | | | |

A.3.2 Guaranteed Clients' exposures

| | | | Net exposure value | Collateral | | | |
|---|---|---|---|---|---|---|---|
| | | | | Property | Secu-rities | Other assets | Credit Linked Notes |
| 1 | | **Cash exposures guaranteed** | **14,533** | **6,978** | | **0** | |
| | 1.1 | fully guaranteed | 14,533 | 6,978 | | | |
| | | - out of which, impaired | 89 | 89 | | | |
| | 1.2 | not fully guaranteed | 0 | 0 | | | |
| | | - out of which, impaired | | | | | |
| | | | | | | | |
| 2 | | **Off-Balance Sheet exposures guaranteed** | **120,247** | | | **199** | |
| | 2.1 | fully guaranteed | 52,648 | | | 197 | |
| | | - out of which, impaired | | | | | |
| | 2.2 | not fully guaranteed | 67,599 | | | 2 | |
| | | - out of which, impaired | 0 | | | | |

*(following)*

| Personal | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| **Credit derivatives** | | | | **Endorsement** | | | | |
| **Other derivatives** | | | | | | | | |
| Gov't and Central Banks | Other public entities | Banks | Others | Gov't and Central Banks | Other public entities | Banks | Others | |
| | | | | **524** | | | **56** | **4,439** |
| | | | | 524 | | | 56 | **2,640** |
| | | | | | | | | |
| | | | | 0 | | | | **1,799** |
| | | | | | | | | |
| | | | | | | | | |
| | | | | **0** | | | | **157** |
| | | | | | | | | **150** |
| | | | | | | | | |
| | | | | | | | | **7** |
| | | | | | | | | |

*(following)*

| Personal | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| **Credit derivatives** | | | | **Endorsement** | | | | |
| **Other derivatives** | | | | | | | | |
| Gov't and Central Banks | Other public entities | Banks | Others | Gov't and Central Banks | Other public entities | Banks | Others | |
| | | | | **0** | | | **7,680** | **14,658** |
| | | | | 0 | | | 7,680 | **14,658** |
| | | | | | | | 0 | **89** |
| | | | | | | | 0 | **0** |
| | | | | | | | | |
| | | | | | | | | |
| | | | | **43,362** | | **6,996** | **41,776** | **92,333** |
| | | | | 12,990 | | 6,996 | 32,465 | **52,648** |
| | | | | | | | | **0** |
| | | | | 30,372 | | | 9,311 | **39,685** |
| | | | | 0 | | | | **0** |

## B. Credit distribution and concentration

B.1 Distribution of cash and off-balance sheet credit exposures to customers by borrower sector

| Exposures / Counterparties | Governments | | | Other public entities | | | Financial |
|---|---|---|---|---|---|---|---|
| | Net exposure | Specific write-downs | Port-folio write-downs | Net exposure | Specific write-downs | Port-folio write-downs | Net exposure |
| **A CASH EXPOSURE** | | | | | | | |
| A1 Bad debts | | | | | | | |
| A2 Standstill positions | | | | | | | |
| A3 Rescheduled debts | | | | | | | |
| A4 Past due positions | | | | | | | |
| A5 Other assets | 4,584 | | 36 | 0 | | 0 | 49,350 |
| **Total (A)** | **4,584** | | **36** | **0** | | **0** | **49,350** |
| | | | | | | | |
| **B OFF-BALANCE SHEET EXPOSURES** | | | | | | | |
| B1 Bad debts | | | | | | | |
| B2 Standstill positions | | | | | | | |
| B3 Impaired | | | | | | | |
| B4 Other | | | | 144 | | | 1,424 |
| **Total (B)** | | | | **144** | | | **1,424** |
| | | | | | | | |
| **Total (A+B) 2010** | **4,584** | | **36** | **144** | | **0** | **50,774** |
| **Total (A+B) 2009** | **3,649** | | **328** | **3,513** | | **32** | **61,827** |

B.2 Distribution of cash and off-balance sheet exposures to customers by geographical area (book value)

| Exposures / Geographical area | Italy | | Other European countries | |
|---|---|---|---|---|
| | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A CASH EXPOSURE** | | | | |
| A1 Bad debts | 89 | 10,341 | | |
| A2 Standstill positions | 11 | 1 | | |
| A3 Rescheduled debts | 0 | 0 | | |
| A4 Past due positions | 0 | 0 | | |
| A5 Other assets | 101,236 | 934 | 83,337 | 630 |
| **Total (A)** | **101,336** | **11,276** | **83,337** | **630** |
| | | | | |
| **B OFF-BALANCE SHEET EXPOSURES** | | | | |
| B1 Bad debts | 2,760 | 681 | | |
| B2 Standstill positions | 1,483 | 165 | | |
| B3 Impaired | 0 | 0 | | |
| B4 Other | 654,656 | 320 | 96,686 | 20 |
| **Total (B)** | **658,899** | **1,166** | **96,686** | **20** |
| | | | | |
| **Total 2010 (A+B)** | **760,235** | **12,442** | **180,023** | **650** |
| **Total 2009 (A+B)** | **730,602** | **12,630** | **185,222** | **706** |

*(following)*

| companies | | Insurance companies | | | Non financial companies | | | Others | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs |
| | | | | | | | | | | |
| 12 | | | | | | 10,279 | | 89 | 62 | |
| | | | | | 11 | 1 | | 0 | | |
| | | | | | 0 | | | 0 | | |
| | | | | | 0 | | | 0 | | |
| 0 | 320 | | | | 153,131 | | 1,373 | 34,001 | | 316 |
| **12** | **320** | | | | **153,142** | **10,280** | **1,373** | **34,090** | **62** | **316** |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | 2,760 | 681 | | 0 | | |
| | | | | | 1,483 | 165 | | | | |
| | | | | | 0 | 0 | | | | |
| | | | | | 812,274 | | 368 | 22 | | |
| | | | | | **816,517** | **846** | **368** | **22** | | |
| | | | | | | | | | | |
| **12** | **320** | | | | **969,659** | **11,126** | **1,741** | **34,112** | **62** | **316** |
| **212** | **281** | | | | **870,207** | **11,435** | **1,412** | **34,452** | **62** | **218** |

*(following)*

| Americas | | Asia | | Rest of the World | |
|---|---|---|---|---|---|
| Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| | | | | | |
| | 12 | | | | |
| | | | | | |
| | | | | | |
| | | 0 | | | |
| 5,054 | 3 | 32,356 | 300 | 19,083 | 178 |
| **5,054** | **15** | **32,356** | **300** | **19,083** | **178** |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | 0 | 0 | | |
| | | 26,132 | 12 | 36,390 | 16 |
| | | **26,132** | **12** | **36,390** | **16** |
| | | | | | |
| **5,054** | **15** | **58,488** | **312** | **55,473** | **194** |
| **13,974** | **13** | **41,071** | **605** | **2,779** | **26** |

B.3 Distribution of cash and off-balance sheet exposures to banks by geographical area (book value)

| Exposures / Geographical area | | Italy | | Other European countries | |
|---|---|---|---|---|---|
| | | Net exposure | Total write-downs | Net exposure | Total write-downs |
| **A** | **CASH EXPOSURE** | | | | |
| A1 | Bad debts | | | | |
| A2 | Standstill positions | | | | |
| A3 | Rescheduled debts | | | | |
| A4 | Past due positions | | | | |
| A5 | Other assets | 2,143,357 | 4,825 | 715,677 | 2,562 |
| | **Total (A)** | **2,143,357** | **4,825** | **715,677** | **2,562** |
| | | | | | |
| **B** | **OFF-BALANCE SHEET EXPOSURES** | | | | |
| | B1 Bad debts | | | | |
| | B2 Standstill positions | | | | |
| | B3 Impaired | | | | |
| | B4 Other | 159,646 | 79 | 67,242 | 355 |
| | **Total (B)** | **159,646** | **79** | **67,242** | **355** |
| | | | | | |
| | **Total 2010 (A+B)** | **2,303,003** | **4,904** | **782,919** | **2,917** |
| | **Total 2009 (A+B)** | **1,854,617** | **4,494** | **632,629** | **951** |

B.4 Large Exposures

| | |
|---|---|
| Nominal Amount | 3,222,663 |
| Weighted Amount | 1,713,034 |
| Number | 29 |

*(following)*

| Americas | | Asia | | Rest of the World | |
|---|---|---|---|---|---|
| Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs |
| | | | | | |
| | | 3,330 | 8,437 | | |
| | | | | | |
| | | | | 1,847 | 17 |
| | | | | | |
| 4,653 | | 143,802 | 14,077 | 62,619 | 5,203 |
| **4,653** | | **147,132** | **22,514** | **64,466** | **5,220** |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | 155,977 | 77 | 191,711 | 1,988 |
| | | **155,977** | **77** | **191,711** | **1,988** |
| | | | | | |
| **4,653** | | **303,109** | **22,591** | **256,177** | **7,208** |
| **2,400** | | **313,448** | **15,823** | **289,104** | **609** |

## C. Securitization and disposal of assets

### C.1 Securitization

**QUALITATIVE INFORMATION**

In 1999 UBAE took specific action to refine its procedure concerning bad debts by making recourse to securitization of the loan portfolio.
During 2010, following an in-depth review conducted together with the special-purpose vehicle and with assistance from a specialized legal firm, an analysis of outstanding positions was made to establish the possibility of debt recovery. The conclusion was reached that the residual securities concerned, held solely by the Bank and that had already been almost entirely written down, should be completely written off.

The amount reimbursed to UBAE as a result of closing these positions was greater than the net value of the securities concerned and led to a write-back of EUR 1.13 mn.

**QUANTITATIVE INFORMATION**

C.1.1 Exposure from securitization schemes: Breakdown by quality of underlying assets

1.2 Exposure from main in-house securitization schemes: Breakdown by type of securitized assets and type of exposure

C.1.3 Exposure from main third-party securitization schemes: Breakdown by type of securitized assets and type of exposure

C.1.4 Exposure from securitization schemes: Breakdown by portfolio and type

C.1.5 Total value of securitized debt underlying junior notes or other forms of credit support

C.1.6 Stakes in special-purpose vehicles

C.1.7 Servicer activities – Collection of securitized debt and redemption of securities issued by the special purpose vehicle

### C.2 Disposals

C.2.1 Financial assets disposed of but not derecognized

C.2.2 Financial liabilities linked to financial assets disposed of but not derecognized

### C.3 Covered bonds

### D. Credit risk measurement models

UBAE does not have its own internal model for measuring credit risk exposure based on a combination of internal and external factors relating to PD (probability of default).

Risk Management Department is working on a project to utilize transition tables made available by ECAI to map internal risk groups so that the PD value indicated by ECAI can be attributed to each internal group.
Risk Management will use these PD values for each counterparty in order to obtain the EL (expected loss) value and UL (unexpected loss) value that will then be included in a pricing formula for credit transactions, which will highlight the risk premium and the risk adjusted performance measurement cost.

## Section 2 – Market risk

### 2.1 – Price and Interest rate risk: Trading book

**QUALITATIVE INFORMATION**

***A. General aspects***

Established by the Board of Directors, the maximum level of market risk acceptable for the HFT portfolio is equivalent to the amount of economic capital which the Bank is prepared to allocate against market risk. Risk management policy in this area will identify the units and individuals authorized to take on risks and define their respective responsibilities.

In supporting risk taking activities through a range of tasks, Risk Management helps to implement the strategy set out by the Bank's governing bodies and sees that risks in each category are properly monitored and reported in the light of established limits.

The risk management process is meant to ensure that the actual risk profile remains within the overall accepted risk level and within the limits set for each risk category, and that the risk profile is attained in a transparent manner.

The Bank's risk profile is conveyed and analysed through a reporting system that is adequate, shared and subject to periodic independent controls.

Financial transactions are recorded by Master Finance (MF), a software application forming part of the Bank's IT and accounting system. Risk control and management reporting requirements are adequately served by MF.

Recent adjustments to MF took account of the internal rules governing Banca UBAE's financial operations, signally the latter's subdivision into a number of elementary portfolios, the roles of the various actors involved, management and control processes, the instruments that may be assigned to each portfolio, operating limits, and the nature and frequency of reports for the Management.

MF handles the following financial instruments:

- forex (traditional and OTC derivatives)
- money market (traditional and derivatives: FRA, IRS, OIS)
- bonds and derivatives (options)
- equities and derivatives (index futures, options traded on regulated markets)

MF also contains information regarding risk positions generated by the Treasury Dept. and the business divisions (loans/discounting). The product was configured for automatic updates to and from all relevant SEC programs.

Since it is linked up with the most widely used infoproviders (Bloomberg, Reuters, Prometeia), MF supports pricing activity for both cash and derivative instruments.

MF supports risk-measuring methods that provide an accurate and comprehensive representation of the Bank's risk exposure by monitoring operating limits. In particular:

- position risk on the trading portfolio is expressed in terms of VaR, with a 99% confidence interval and a 10-day holding period
- option risk is susceptible to monitoring in terms of delta, gamma and vega factors
- counterparty risk is calculated on the basis of the current value of OTC derivatives
- interest rate risk is expressed in terms of sensitivity to shifts in the interest rate curve (duration, interest rate potential loss, etc.).

The internal rules applying to financial operations embody two key principles:

- each type of activity will be pursued through a single portfolio of financial instruments;
- each type of risk - as defined in relation to the various types of activity - will be handled by a single unit within the Treasury Division.

Adherence to both principles ensures the decision-making process is more transparent and controls are more effective.

The internal rules set guidelines for the distribution of powers in the financial sphere, define internal communication flows for managing exceptional events, and describe the limits, the typical risks, and the mission assigned to each department in the Treasury Division.

The entire system of internal operating limits is replicated in MF to enable first-, second- and third-order controls to be carried out in real time by the competent units.

A reporting system has also been implemented within MF, which automatically generates a series of reports enabling the competent bodies to be informed on a daily, weekly or monthly basis (as variously stipulated by the internal rules) with respect to financial positions, risks and any breaches of operating limits. Reports are delivered to Senior Management and the head of the Treasury Division.

**B. Risk management processes and measuring methods**

Dealing on behalf of bank or corporate customers in interest- or exchange-rate derivatives may result in day-to-day misalignments in the portfolio for such instruments, hence in a temporary increase in exposure to generic position risk for either the Treasury Dept. or the Securities Dept.

Trading positions in interest- and exchange-rate derivatives, whether regulated or OTC, are entered in the MF front-office system, which supports the daily pricing of these instruments and calculates unrealized gains and losses. The risk associated with each position opened in financial instruments is expressed in terms of VaR (with a 10-day holding period and a 99% confidence interval) and is subject to quantitative limits proposed by the Risk Committee. These are approved by the Board of Directors and monitored daily by the Risk Management unit.

If a limit is approached, procedures for checking and possibly calling in the exposure are activated.

Risk Management ensures the accuracy of measurements obtained from the VaR model through quarterly back-testing.

**QUANTITATIVE INFORMATION**

1.A Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: EUR

| Type / Residual maturity | | | Sight | Up to 3 months | 3 to 6 months |
|---|---|---|---|---|---|
| 1 | **Cash assets** | | | **102,931** | |
| | 1.1 | Debt securities | | 102,931 | |
| | | - with an option for early | | | |
| | | - other | | 102,931 | |
| | 1.2 | Other assets | | | |
| | | | | | |
| 2 | **Cash liabilities** | | | | |
| | 2.1 | Repo | | | |
| | 2.2 | Other liabilities | | | |
| | | | | | |
| 3 | **Financial derivatives** | | | **58,783** | **15,019** |
| | **3.1** | **With underlying security:** | | | |
| | | **- Options** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | | **- Other derivatives** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | **3.2** | **W/out underlying security:** | | **58,783** | **15,019** |
| | | **- Options** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | | **- Other derivatives** | | 58,783 | 15,019 |
| | | * Long positions | | 214,448 | 15,019 |
| | | * Short positions | | 155,665 | |

*(following)*

| 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|
| | **10,350** | **0** | | |
| | 10,350 | 0 | | |
| | | | | |
| | 10,350 | 0 | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **0** | **(50,509)** | **0** | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **0** | **(50,509)** | **0** | | |
| | | | | |
| | | | | |
| | | | | |
| 0 | (50,509) | 0 | | |
| | 5,000 | | | |
| 0 | 55,509 | 0 | | |

1.B Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: USD

| Type / Residual maturity | | | Sight | Up to 3 months | 3 to 6 months |
|---|---|---|---|---|---|
| **1** | **Cash assets** | | | **0** | **0** |
| | 1.1 | Debt securities | | 0 | 0 |
| | | - with an option for early redemption | | | |
| | | - other | | 0 | |
| | 1.2 | Other assets | | | |
| | | | | | |
| **2** | **Cash liabilities** | | | | |
| | 2.1 | Repo | | | |
| | 2.2 | Other liabilities | | | |
| | | | | | |
| **3** | **Financial derivatives** | | | **(9,833)** | **2,853** |
| | **3.1** | **With underlying security:** | | | |
| | | **- Options** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | | **- Other derivatives** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | **3.2** | **W/out underlying security:** | | **(9,833)** | **2,853** |
| | | **- Options** | | | |
| | | * Long positions | | | |
| | | * Short positions | | | |
| | | **- Other derivatives** | | (9,833) | 2,853 |
| | | * Long positions | | 74,429 | 4,602 |
| | | * Short positions | | 84,262 | 1,749 |

*(following)*

| 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|
| **0** | **0** | **0** | | |
| 0 | 0 | 0 | | |
| | | | | |
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| **5,930** | | | | |
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| | | | | |
| **5,930** | | | | |
| | | | | |
| | | | | |
| | | | | |
| 5,930 | | | | |
| 5,930 | | | | |
| 0 | | | | |

1.C Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: GBP

| **Type / Residual maturity** | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|
| **1 Cash assets** | | | | | | | | |
| 1.1 Debt securities | | | | | | | | |
| - with an option for early redemption | | | | | | | | |
| - other | | | | | | | | |
| 1.2 Other assets | | | | | | | | |
| | | | | | | | | |
| **2 Cash liabilities** | | | | | | | | |
| 2.1 Repo | | | | | | | | |
| 2.2 Other liabilities | | | | | | | | |
| | | | | | | | | |
| **3 Financial derivatives** | | **0** | | **0** | | | | |
| **3.1 With underlying security:** | | | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **3.2 W/out underlying security:** | | **0** | | **0** | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | **0** | | **0** | | | | |
| * Long positions | | 9,121 | | 1,743 | | | | |
| * Short positions | | 9,121 | | 1,743 | | | | |

1.D Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: CHF

| Type / Residual maturity | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|
| **1 Cash assets** | | | | | | | | |
| 1.1 Debt securities | | | | | | | | |
| - with an option for early redemption | | | | | | | | |
| - other | | | | | | | | |
| 1.2 Other assets | | | | | | | | |
| | | | | | | | | |
| **2 Cash liabilities** | | | | | | | | |
| 2.1 Repo | | | | | | | | |
| 2.2 Other liabilities | | | | | | | | |
| | | | | | | | | |
| **3 Financial derivatives** | | **0** | | | | | | |
| **3.1 With underlying security:** | | | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **3.2 W/out underlying security:** | | **0** | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | **0** | | | | | | |
| * Long positions | | 80,051 | | | | | | |
| * Short positions | | 80,051 | | | | | | |

1.E Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: AED

| Type / Residual maturity | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|
| **1 Cash assets** | | | | | | | | |
| 1.1 Debt securities | | | | | | | | |
| - with an option for early redemption | | | | | | | | |
| - other | | | | | | | | |
| 1.2 Other assets | | | | | | | | |
| | | | | | | | | |
| **2 Cash liabilities** | | | | | | | | |
| 2.1 Repo | | | | | | | | |
| 2.2 Other liabilities | | | | | | | | |
| | | | | | | | | |
| **3 Financial derivatives** | | **(11,953)** | (2,857) | **(5,918)** | | | | |
| **3.1 With underlying security:** | | | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **3.2 W/out underlying security:** | | **(11,953)** | (2,857) | **(5,918)** | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | **(11,953)** | (2,857) | **(5,918)** | | | | |
| * Long positions | | 0 | 0 | | | | | |
| * Short positions | | 11,953 | 2,857 | 5,918 | | | | |

1.F Trading book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) other currencies

| **Type / Residual maturity** | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|
| **1 Cash assets** | | | | | | | | |
| 1.1 Debt securities | | | | | | | | |
| - with an option for early redemption | | | | | | | | |
| - other | | | | | | | | |
| 1.2 Other assets | | | | | | | | |
| | | | | | | | | |
| **2 Cash liabilities** | | | | | | | | |
| 2.1 Repo | | | | | | | | |
| 2.2 Other liabilities | | | | | | | | |
| | | | | | | | | |
| **3 Financial derivatives** | | **(1,259)** | | | | | | |
| **3.1 With underlying security:** | | | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **3.2 W/out underlying security:** | | **(1,259)** | | | | | | |
| **- Options** | | | | | | | | |
| * Long positions | | | | | | | | |
| * Short positions | | | | | | | | |
| **- Other derivatives** | | **(1,259)** | | | | | | |
| * Long positions | | 0 | | | | | | |
| * Short positions | | 1,259 | | | | | | |

2. Trading book: Distribution of exposure in equities and share indices by country of listing

| | Type / share indices | Listed | | | Not Listed |
|---|---|---|---|---|---|
| | | Italy | | | |
| A | **Equities: trades settled** | **271** | | | |
| | Long positions | 271 | | | |
| | Short positions | | | | |
| | | | | | |
| B | **Equities: trades no yet settled** | | | | |
| | Long positions | | | | |
| | Short positions | | | | |
| | | | | | |
| C | **Other derivatives on equities** | | | | |
| | Long positions | | | | |
| | Short positions | | | | |
| | | | | | |
| D | **Derivatives on shares indices** | | | | |
| | Long positions | | | | |
| | Short positions | | | | |

3. Trading book: Internal models and other sensitivity-analysis methods

## 2.2 – Price and Interest rate risk – Banking book

**QUALITATIVE INFORMATION**

***A. General aspects, risk management processes and measuring methods***

Pillar II foresees an additional capital requirement against interest rate risk and requires banks to check such risk regularly by calculating a (simplified) "risk indicator" corresponding to a shock producing a 200 bp parallel shift in the interest rate curve.

Readings for the indicator should never exceed 20% of eligible capital, which is well above the level recorded at Banca UBAE on account of the concentration of assets and liabilities within a 12-month time frame and the presence of derivatives mitigating their riskiness. For internal operating purposes, the Bank's rules cap this particular risk at 5% of eligible capital as a measure of precaution reflecting its true susceptibility to interest rate risk in the banking book.

Once a month, Risk Management verifies compliance with the internal operating limit. For ICAAP purposes, it uses an ALM product to conduct quarterly maturity ladder analyses under the simplified approach as well as by the full-evaluation method. Once a year as a minimum, finally, the unit subjects the exposure to stress testing in relation to hypothetical parallel and non-parallel shifts in the interest rate curve.

### B. Fair value hedges

Banca UBAE does not hold derivatives to hedge assets or liabilities designated at fair value.

### C. Cash flow hedges

Banca UBAE does not hold derivatives to hedge cash flow in accordance with IAS 39. Its portfolio includes interest rate derivatives (OIS, IRS) whose purpose is to provide a sort of macro-coverage of the interest margin implicit in the cash flow generated by banking activities (bonds, loans, discounting). Hedging and negotiation of derivatives are a matter for the Treasury Dept. The Treasury Division as such may hold IRSs hedging interest rate risk associated with bonds carried in the HTM portfolio.

**QUANTITATIVE INFORMATION**

1.A Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: EUR

| | Type / Residual maturity | Sight | Up to 3 months |
|---|---|---|---|
| 1 | **Cash assets** | **586,723** | **909,353** |
| | 1.1 Debt securities | | 152,750 |
| | - with an option for early redemption | | |
| | -other | | 152,750 |
| | 1.2 L&As to banks | 585,844 | 648,356 |
| | 1.3 L&As to customers | 879 | 108,247 |
| | - A/C | 755 | |
| | -other L&As | 124 | 108,247 |
| | with an option for early redemption | 65 | 31,571 |
| | other | 59 | 76,676 |
| | | | |
| 2 | **Cash liabilities** | **1,512,313** | **446,062** |
| | 2.1 Due to customers | 697,247 | 1,717 |
| | - A/C | 697,247 | 1,717 |
| | -other liabilities | 0 | 0 |
| | with an option for early redemption | | |
| | other | | 0 |
| | 2.2 Due to banks | 815,066 | 444,345 |
| | - A/C | 62,224 | 0 |
| | -other liabilities | 752,842 | 444,345 |
| | 2.3 Debt securities | | |
| | - with an option for early redemption | | |
| | -other | | |
| | 2.4 Other liabilities | | |
| | - with an option for early redemption | | |
| | -other | | |
| | | | |
| 3 | **Financial derivatives** | | |
| | 3.1 With underlying security: | | |
| | - Options | | |
| | * Long positions | | |
| | * Short positions | | |
| | -other derivatives | | |
| | * Long positions | | |
| | * Short positions | | |
| | 3.2 W/out underlying security: | | |
| | - Options | | |
| | * Long positions | | |
| | * Short positions | | |
| | -other derivatives | | |
| | * Long positions | | |
| | * Short positions | | |

*(following)*

| 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|
| **133,371** | **289,880** | **119,936** | **2,923** | **2,464** | **0** |
| 54,955 | | 36,330 | | | |
| | | | | | |
| 54,955 | 0 | 36,330 | 0 | 0 | |
| 45,195 | 285,014 | 51,178 | | | |
| 33,221 | 4,866 | 32,428 | 2,923 | 2,464 | |
| | 0 | 0 | 0 | | |
| 33,221 | 4,866 | 32,428 | 2,923 | 2,464 | |
| 2,182 | 393 | 2,905 | 2,923 | 2,464 | |
| 31,039 | 4,473 | 29,523 | 0 | | |
| | | | | | |
| **26,632** | **7,845** | | | | |
| 1,607 | | | | | |
| 1,607 | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| 25,025 | 7,845 | | | | |
| | | | | | |
| 25,025 | 7,845 | | | | |

1. Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: USD

| | Type / Residual maturity | Sight | Up to 3 months |
|---|---|---|---|
| 1 | **Cash assets** | **442,003** | **541,881** |
| | 1.1 Debt securities | 0 | 3,881 |
| | - with an option for early redemption | | |
| | -others | 0 | 3,881 |
| | 1.2 L&As to banks | 441,993 | 529,769 |
| | 1.3 L&As to customers | 10 | 8,231 |
| | - A/C | 10 | 0 |
| | -others L&As | 0 | 8,231 |
| | with an option for early redemption | | 0 |
| | others | 0 | 8,231 |
| | | | |
| 2 | **Cash liabilities** | **179,403** | **908,862** |
| | 2.1 Due to customers | 60,258 | 346 |
| | - A/C | 60,258 | 346 |
| | -others liablities | 0 | 0 |
| | with an option for early redemption | | |
| | others | | 0 |
| | 2.2 Due to banks | 119,145 | 908,516 |
| | - A/C | 81,699 | 0 |
| | -others liablities | 37,446 | 908,516 |
| | 2.3 Debt securities | | |
| | - with an option for early redemption | | |
| | -others | | |
| | 2.4 Other liabilities | | |
| | - with an option for early redemption | | |
| | -others | | |
| | | | |
| 3 | **Financial derivatives** | | |
| | 3.1 With underlying security: | | |
| | - Options | | |
| | * Long positions | | |
| | * Short positions | | |
| | -others derivatives | | |
| | * Long positions | | |
| | * Short positions | | |
| | 3.2 W/out underlying security: | | |
| | - Options | | |
| | * Long positions | | |
| | * Short positions | | |
| | -others derivatives | | |
| | * Long positions | | 0 |
| | * Short positions | | 0 |

*(following)*

| 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|
| **24,590** | **65,723** | **47,696** | **762** | **57** | |
| | | | 762 | 57 | |
| | | | | | |
| | | | 762 | 57 | |
| 20,749 | 63,933 | 38,461 | 0 | | |
| 3,841 | 1,790 | 9,235 | 0 | 0 | |
| | | | | | |
| 3,841 | 1,790 | 9,235 | 0 | | |
| | | | | | |
| 3,841 | 1,790 | 9,235 | | | |
| | | | | | |
| **49,403** | | | | | |
| | | | | | |
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| 49,403 | | | | | |
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| 49,403 | | | | | |
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1.C Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: GBP

| Type / Residual maturity | | | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Cash assets** | | **217** | **3,371** | | | | | | |
| | 1.1 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 1.2 | L&As to banks | 217 | 3,371 | | | | | | |
| | 1.3 | L&As to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | - Other L&As: | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| **2** | **Cash liabilities** | | **133** | **3,525** | | | | | | |
| | 2.1 | Due to customers | 21 | 172 | | | | | | |
| | | - A/C | 21 | 172 | | | | | | |
| | | -others liabilities | 0 | 0 | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| | 2.2 | Due to banks | 112 | 3,353 | | | | | | |
| | | - A/C | 110 | | | | | | | |
| | | -others liabilities | 2 | 3,353 | | | | | | |
| | 2.3 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 2.4 | Other liabilities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| **3** | **Financial derivatives** | | | | | | | | | |
| | 3.1 | With underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | 3.2 | W/out underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |

1.D Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: CHF

| | | Type / Residual maturity | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Cash assets** | | **1,867** | **0** | | | | | | |
| | 1.1 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 1.2 | L&As to banks | 1,867 | | | | | | | |
| | 1.3 | L&As to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | - Other L&As: | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| **2** | **Cash liabilities** | | **354** | **1,600** | | | | | | |
| | 2.1 | Due to customers | 182 | | | | | | | |
| | | - A/C | 182 | | | | | | | |
| | | -others liabilities | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| | 2.2 | Due to banks | 172 | 1,600 | | | | | | |
| | | - A/C | 172 | | | | | | | |
| | | -others liabilities | | 1,600 | | | | | | |
| | 2.3 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 2.4 | Other liabilities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| **3** | **Financial derivatives** | | | | | | | | | |
| | 3.1 | With underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | 3.2 | W/out underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |

1.E Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: JPY

| | Type / Residual maturity | | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Cash assets** | | **90** | **3,949** | | | | | | |
| | 1.1 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 1.2 | L&As to banks | 90 | 3,949 | | | | | | |
| | 1.3 | L&As to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | - Other L&As: | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| **2** | **Cash liabilities** | | **17** | **4,050** | | | | | | |
| | 2.1 | Due to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | -others liabilities | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| | 2.2 | Due to banks | 17 | 4,050 | | | | | | |
| | | - A/C | 13 | | | | | | | |
| | | -others liabilities | 4 | 4,050 | | | | | | |
| | 2.3 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 2.4 | Other liabilities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| **3** | **Financial derivatives** | | | | | | | | | |
| | 3.1 | With underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | 3.2 | W/out underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |

1.F Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: AED

| | | Type / Residual maturity | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Cash assets** | | **1,419** | **12,202** | **2,875** | **7,008** | | | | |
| | 1.1 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 1.2 | L&As to banks | 1,419 | 12,202 | 2,875 | 7,008 | | | | |
| | 1.3 | L&As to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | - Other L&As: | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| **2** | **Cash liabilities** | | **22** | **611** | | **408** | | | | |
| | 2.1 | Due to customers | | | | | | | | |
| | | - A/C | | | | | | | | |
| | | -others liabilities | | | | | | | | |
| | | with an option for early redemption | | | | | | | | |
| | | others | | | | | | | | |
| | 2.2 | Due to banks | 22 | 611 | | 408 | | | | |
| | | - A/C | 22 | | | | | | | |
| | | -others liabilities | | 611 | | 408 | | | | |
| | 2.3 | Debt securities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| | 2.4 | Other liabilities | | | | | | | | |
| | | - with an option for early redemption | | | | | | | | |
| | | -others | | | | | | | | |
| **3** | **Financial derivatives** | | | | | | | | | |
| | 3.1 | With underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | 3.2 | W/out underlying security: | | | | | | | | |
| | | - Options | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |
| | | -other derivatives | | | | | | | | |
| | | * Long positions | | | | | | | | |
| | | * Short positions | | | | | | | | |

1.G Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: other currencies

| | Type / Residual maturity | Sight | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | Over 10 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|
| **1** | **Cash assets** | **154** | **2,140** | | | | | | |
| 1.1 | Debt securities | | | | | | | | |
| | - with an option for early redemption | | | | | | | | |
| | -others | | | | | | | | |
| 1.2 | L&As to banks | 154 | | | | | | | |
| 1.3 | L&As to customers | | **2,140** | | | | | | |
| | - A/C | | | | | | | | |
| | - Other L&As: | | 2,140 | | | | | | |
| | with an option for early redemption | | | | | | | | |
| | others | | 2,140 | | | | | | |
| **2** | **Cash liabilities** | **0** | **907** | | | | | | |
| 2.1 | Due to customers | | | | | | | | |
| | - A/C | | | | | | | | |
| | -others liabilities | | | | | | | | |
| | with an option for early redemption | | | | | | | | |
| | others | | | | | | | | |
| 2.2 | Due to banks | 0 | 907 | | | | | | |
| | - A/C | | | | | | | | |
| | -others liabilities | | 907 | | | | | | |
| 2.3 | Debt securities | | | | | | | | |
| | - with an option for early redemption | | | | | | | | |
| | -others | | | | | | | | |
| 2.4 | Other liabilities | | | | | | | | |
| | - with an option for early redemption | | | | | | | | |
| | -others | | | | | | | | |
| **3** | **Financial derivatives** | | | | | | | | |
| 3.1 | With underlying security: | | | | | | | | |
| | - Options | | | | | | | | |
| | * Long positions | | | | | | | | |
| | * Short positions | | | | | | | | |
| | -other derivatives | | | | | | | | |
| | * Long positions | | | | | | | | |
| | * Short positions | | | | | | | | |
| 3.2 | W/out underlying security: | | | | | | | | |
| | - Options | | | | | | | | |
| | * Long positions | | | | | | | | |
| | * Short positions | | | | | | | | |
| | -other derivatives | | | | | | | | |
| | * Long positions | | | | | | | | |
| | * Short positions | | | | | | | | |

2. Banking book: internal models and other sensitivity analysis methods

**2.3 - Currency risk**

**QUALITATIVE INFORMATION**

## A. General aspects, risk management processes and measuring methods

UBAE's banking book denotes a prevalence of US dollars for short-term funding and euros for earning assets.

Securities making up the HFT portfolio are mostly denominated in euros. Dealing in forward exchange rate derivatives may increase the Bank's global exposure to exchange rate risk insofar as it holds assets and liabilities denominated in other currencies.

Intraday and overnight operating limits as well as stop loss limits for global exposure to exchange rate risk are set by the Board of Directors, administered by the Risk Committee and monitored daily by the Risk Management unit.

## B. Hedging for currency risk

Banca UBAE does not hold derivatives to hedge financial flows denominated in non-euro currencies according to IAS 39.

The Treasury Division ensures a macro-coverage of financial flows denominated in non-euro currencies by holding interest rate and exchange rate derivatives (currency swaps) as dictated by its appreciation of the market.

**QUANTITATIVE INFORMATION**

1. Distribution by currency in which assets/liabilities and derivatives are denominated

| Items | | | Currencies | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | US Dollar | British Pound | Yen | United Arab Em. | Swiss Franc | Other |
| | | | USD | GBP | JPY | AED | CHF | |
| **A** | **Financial assets** | | **1,122,716** | **3,588** | **4,039** | **23,504** | **1,867** | **2,299** |
| | A1 | Debt securities | 4,700 | | | | | |
| | A2 | Equities | 4 | | | | | 5 |
| | A3 | L&As to banks | 1,094,905 | 3,588 | 4,039 | 23,504 | 1,867 | 154 |
| | A4 | L&As to customers | 23,107 | | | | | 2,140 |
| | A5 | Other financial assets | 0 | | | | | |
| | | | | | | | | |
| **B** | **Other assets** | | | | | | | |
| | | | | | | | | |
| **C** | **Financial liabilities** | | **1,137,668** | **3,658** | **4,067** | **1,041** | **1,954** | **907** |
| | C1 | Due to banks | 1,077,064 | 3,465 | 4,067 | 1,041 | 1,772 | 907 |
| | C2 | Due to customers | 60,604 | 193 | 0 | 0 | 182 | 0 |
| | C3 | Debt securities | | | | | | |
| | C4 | Other financial liabilities | | | | | | |
| | | | | | | | | |
| **D** | **Other liabilities** | | | | | | | |
| | | | | | | | | |
| **E** | **Financial derivatives** | | **(1,050)** | | | **(20,728)** | | (1,259) |
| | - Options | | | | | | | |
| | | * Long positions | | | | | | |
| | | * Short positions | | | | | | |
| | -other derivatives | | (1,050) | | | (20,728) | | (1,259) |
| | | * Long positions | 84,961 | 10,864 | 0 | 0 | 80,051 | 0 |
| | | * Short positions | 86,011 | 10,864 | 0 | 20,728 | 80,051 | 1,259 |
| | | | | | | | | |
| | **Total assets** | | **1,207,677** | **14,452** | **4,039** | **23,504** | **81,918** | **2,299** |
| | | | | | | | | |
| | **Total liabilities** | | **1,223,679** | **14,522** | **4,067** | **21,769** | **82,005** | **2,166** |
| | | | | | | | | |
| | **Balance (+/-)** | | **(16,002)** | **(70)** | **(28)** | **1,735** | **(87)** | **133** |

2. Internal models and other sensitivity-analysis method

### 2.4 Derivatives

#### *A. Financial derivatives*

A.1 Trading book: Year end and average notional values

| underlying assets / derivatives type | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|
| | | Over the counter | Core Counter-parties | Over the counter | Core Counter-parties |
| **1** | **Debt securities and interest rates** | **60,509** | | **65,019** | |
| a) | Options | | | | |
| b) | Interest rates Swap | 60,509 | | 65,019 | |
| c) | Forward | | | | |
| d) | Futures | | | | |
| e) | Others | | | | |
| | | | | | |
| **2** | **Equities and shares indices** | | | | |
| a) | Options | | | | |
| b) | Swap | | | | |
| c) | Forward | | | | |
| d) | Futures | | | | |
| e) | Others | | | | |
| | | | | | |
| **3** | **Exchange rates and gold** | **348,850** | | **1,147,801** | |
| a) | Options | | | | |
| b) | Swap | | | | |
| c) | Forward | 348,850 | | 1,147,801 | |
| d) | Futures | | | | |
| e) | Others | | | | |
| | | | | | |
| **4** | **Goods** | | | | |
| | | | | | |
| **5** | **Others assets** | | | | |
| | **Total** | **409,359** | | **1,212,820** | |
| | **Average** | **488,631** | | **604,509** | |

A.2 Banking book: Year end and average notional values

A.2.1 Hedges

A.2.2 Others derivatives

A.3 Financial derivatives: positive gross fair value: by instruments

| Portfolio / derivatives type | | Positive Fair value - Total 2010 | | Positive Fair value - Total 2009 | |
|---|---|---|---|---|---|
| | | Over the counter | Core Counter-parties | Over the counter | Core Counter-parties |
| **A** | **Trading book** | **1,449** | | **3,493** | |
| | a) Options | | | | |
| | b) Interest rate swap | 271 | | 191 | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | 1,178 | | 3,302 | |
| | f) Futures | | | | |
| | g) Others | | | | |
| **B** | **Banking book: hedges** | | | | |
| | a) Options | | | | |
| | b) Interest rate swap | | | | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | | | | |
| | f) Futures | | | | |
| | g) Others | | | | |
| **C** | **Banking book: other derivatives** | | | | |
| | a) Options | | | | |
| | b) Interest rate swap | | | | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | | | | |
| | f) Futures | | | | |
| | g) Others | | | | |
| | **Total** | **1,449** | | **3,493** | |

A.3 Financial derivatives: negative gross fair value: by instruments

| Portfolio / derivatives type | | Negative Fair value - Total 2010 | | Negative Fair value - Total 2009 | |
|---|---|---|---|---|---|
| | | Over the counter | Core Counter-parties | Over the counter | Core Counter-parties |
| **A** | **Trading book** | **3,968** | | **7,154** | |
| | a) Options | | | | |
| | b) Interest rate swap | 3,044 | | 2,930 | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | 924 | | 4,224 | |
| | f) Futures | | | | |
| | g) Others | | | | |
| **B** | **Banking book: hedges** | | | | |
| | a) Options | | | | |
| | b) Interest rate swap | | | | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | | | | |
| | f) Futures | | | | |
| | g) Others | | | | |
| **C** | **Banking book: other derivatives** | | | | |
| | a) Options | | | | |
| | b) Interest rate swap | | | | |
| | c) Cross currency swap | | | | |
| | d) Equity swap | | | | |
| | e) Forward | | | | |
| | f) Futures | | | | |
| | g) Others | | | | |
| | **Total** | **3,968** | | **7,154** | |

A.5 OTC financial derivatives: regulatory trading portfolio: notional value, positive and negative fair value by counterparties – contracts not included under netting agreements

| **Contracts not included under netting agreements** | Gov'ts & Central banks | Other public entities | Banks | Fin. Compa-nies | Insurance Compa-nies | Non financial companies | Others |
|---|---|---|---|---|---|---|---|
| **1) Debt securities and interest rates** | | | | | | | |
| - notional value | | | 60,509 | | | | |
| - positive fair value | | | 271 | | | | |
| - negative fair value | | | 3,044 | | | | |
| - future exposure | | | 303 | | | | |
| **2) Equities and equity indices** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |
| **3) Currencies and gold** | | | | | | | |
| - notional value | | | 216,577 | | | 132,273 | |
| - positive fair value | | | 650 | | | 528 | |
| - negative fair value | | | 642 | | | 282 | |
| - future exposure | | | 1,759 | | | 1,021 | |
| **4) Other** | | | | | | | |
| - notional value | | | | | | | |
| - positive fair value | | | | | | | |
| - negative fair value | | | | | | | |
| - future exposure | | | | | | | |

A.6 OTC financial derivatives: regulatory trading portfolio: notional value, positive and negative fair value by counterparties – contracts included under netting agreements

A.7 OTC financial derivatives: banking book: notional value, positive and negative fair value by counterparties – contracts not included under netting agreements

A.8 OTC financial derivatives: banking book: notional value, positive and negative fair value by counterparties – contracts included under netting agreement

A.9 OTC financial derivatives: residual maturity - notional values

| underlying assets / residual maturity | Up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|
| **Trading book** | **348,850** | **60,509** | **0** | **409,359** |
| A1 Financial derivatives on debt instruments and rates | | 60,509 | | 60,509 |
| A2 Financial derivatives on equities and shares indices | | | | |
| A3 Financial derivatives on exchange rates and gold | 348,850 | | | 348,850 |
| A4 Financial derivatives on others instruments | | | | |
| | | | | |
| **Banking Book** | | | | |
| B1 Financial derivatives on debt instruments and rates | | | | |
| B2 Financial derivatives on equities and shares indices | | | | |
| B3 Financial derivatives on exchange rates and gold | | | | |
| B4 Financial derivatives on others instruments | | | | |
| **Total 2010** | **348,850** | **60,509** | **0** | **409,359** |
| **Total 2009** | **1,147,801** | **50,000** | **15,019** | **1,212,820** |

A.10 OTC financial derivatives: financial/counterpart risk – internal models

## B. Credit Derivatives

B.1 Credit derivatives: Year-end and average notional amounts

B.2 OTC Credit derivatives: Gross positive fair value – breakdown by products

B.3 OTC Credit derivatives: Gross negative fair value – breakdown by products

B.4 OTC Credit derivatives: gross (positive and negative) fair value by counterparts - contracts not included under netting agreements

B.5 OTC Credit derivatives: gross (positive and negative) fair value by counterparts - contracts included under netting agreements

B.6 Residual maturity of credit derivatives: notional amounts

B.7 Credit derivatives: counterparty and financial risk - internal model

## *C. Credit and Financial derivatives*

C.1 OTC Credit and Financial derivatives: net fair value and future exposure by counterparty

## Section 3 – Liquidity risk

### QUALITATIVE INFORMATION

#### A. General aspects

Banks do not need to calculate an additional capital requirement against liquidity risk under the Pillar II framework (Liquidity risk refers to a counterparty's failure to meet payment obligations as a result of a sudden inability to raise the necessary funds on the market and/or to liquidate positions in financial instruments promptly). They must, however, guard against liquidity risk by adopting suitable monitoring and audit procedures which have scope for scenario (what-if) analyses and stress tests in relation to prospective liquidity crises in the market. Unlike its approach to interest rate risk, Banca d'Italia does not foresee a core risk indicator and a corresponding operating limit for liquidity risk. Instead, it calls for the implementation of a risk management system that includes scenario analyses and internal policies for mandatory operating limits, as well as suitable contingency planning.

The Bank relies on Master Finance to monitor liquidity (as represented by mismatchings between incoming and outgoing cash flows for any given maturity). For ICAAP purposes, it relies on an ALM product to conduct maturity ladder analyses and devise scenarios on which to base yearly stress testing by the Risk Management unit.

#### B. Risk management processes and measuring methods

Banca UBAE invests primarily on the interbank money market. Risk Management and the Treasury Division are constantly evaluating the possibility of securing special credit lines to deal with potential liquidity crises.

To complete the risk management process (and comply with the regulations in force), the Bank has adopted both a revised internal policy and a liquidity contingency plan to comply with recent updates to rules concerning liquidity. While the former was meant to establish decision-making guidelines, allocate roles and duties among the units concerned and define internal operating limits, the latter contains a set of warning signals that can highlight a crisis and thus facilitate appropriate and timely action by the competent bodies.

**QUANTITATIVE INFORMATION**

1.A Financial assets and liabilities: Breakdown by residual contractual maturity – EUR

| | | Items / maturity ladder | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month |
|---|---|---|---|---|---|---|
| **A** | | **Cash assets** | **586,723** | **446,530** | **30,407** | **31,237** |
| | A1 | Gov't securities | | | | |
| | A2 | Listed debt securities | | | | |
| | A3 | Holdings in UCIs | | | | |
| | A4 | L&As | 586,723 | 446,530 | 30,407 | 31,237 |
| | | - to banks | 585,844 | 419,085 | 718 | 29,877 |
| | | - to customers | 879 | 27,445 | 29,689 | 1,360 |
| | | | | | | |
| **B** | | **Cash liabilities** | **1,512,313** | **55,480** | **14,152** | **141,297** |
| | B | Deposits and A/C | 1,512,313 | 55,480 | 14,152 | 141,297 |
| | | - from banks | 815,066 | 55,430 | 13,996 | 139,982 |
| | | - form customers | 697,247 | 50 | 156 | 1,315 |
| | B2 | Debt securities | | | | |
| | B3 | Other liabilities | | | | |
| | | | | | | |
| **C** | | **OBS transactions** | **(6,351)** | **33,841** | **0** | **(9,498)** |
| | C1 | Financial derivatives with capital exchange | | 33,841 | 0 | (9,498) |
| | | * long positions | 0 | 40,331 | 45,000 | 8,431 |
| | | * short position | 0 | 6,490 | 45,000 | 17,929 |
| | C2 | Financial derivatives without capital exchange | (2,773) | | | |
| | | * long positions | 271 | 0 | 0 | 0 |
| | | * short position | 3,044 | 0 | 0 | 0 |
| | C3 | Deposits and loans to be settled | | 0 | | |
| | | * long positions | | | | |
| | | * short position | | | | |
| | C4 | Irrevocable commitments to disburse funds | (3,578) | | | |
| | | * long positions | | | | |
| | | * short position | 3,578 | 0 | 0 | 0 |
| | C.5 | Financial guarantees issued | | | | |

*(following)*

| Over 1 month up to 3 months | 3 to 6 months | 6 to 12 months | over 1 year | over 5 years | Indefinite |
|---|---|---|---|---|---|
| **248,429** | **78,545** | **304,310** | **417,273** | **14,993** | |
| 0 | 129 | 0 | 574 | 0 | |
| 0 | 0 | 14,430 | 333,093 | 9,606 | |
| | | | | | |
| 248,429 | 78,416 | 289,880 | 83,606 | 5,387 | |
| 198,676 | 45,195 | 285,014 | 51,178 | 0 | |
| 49,753 | 33,221 | 4,866 | 32,428 | 5,387 | |
| | | | | | |
| **165,127** | **26,632** | **7,845** | **28,006** | **70,006** | |
| 165,127 | 26,632 | 7,845 | 28,006 | 70,006 | |
| 164,931 | 25,025 | 7,845 | 28,006 | 70,006 | |
| 196 | 1,607 | 0 | 0 | 0 | |
| | | | | | |
| | | 0 | 0 | 0 | |
| | | | | | |
| **(1,050)** | **0** | **0** | | | |
| (1,050) | | 0 | | | |
| 80,196 | 0 | 0 | 0 | 0 | |
| 81,246 | 0 | 0 | 0 | 0 | |
| | | | | | |
| 0 | 0 | 0 | 0 | 0 | |
| 0 | 0 | 0 | 0 | 0 | |
| 0 | | | | | |
| | | | | | |
| | | | | | |
| 0 | | | | | |
| | | | | | |
| | | | | | |
| | 0 | 0 | | | |

1.B Financial assets and liabilities: Breakdown by residual contractual maturity – USD

| | | Items / maturity ladder | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month |
|---|---|---|---|---|---|---|
| **A** | | **Cash assets** | **442,003** | **598** | **19,755** | **8,232** |
| | A1 | Gov't securities | | | | |
| | A2 | Listed debt securities | | | | |
| | A3 | Holdings in UCIs | | | | |
| | A4 | L&As | 442,003 | 598 | 19,755 | 8,232 |
| | | - to banks | 441,993 | 598 | 19,755 | 8,153 |
| | | - to customers | 10 | 0 | 0 | 79 |
| | | | | | | |
| **B** | | **Cash liabilities** | **179,403** | **63,331** | **147,255** | **135,717** |
| | B | Deposits and A/C | 179,403 | 63,331 | 147,255 | 135,717 |
| | | - from banks | 119,145 | 63,331 | 147,101 | 135,634 |
| | | - form customers | 60,258 | 0 | 154 | 83 |
| | B2 | Debt securities | | | | |
| | B3 | Other liabilities | | | | |
| | | | | | | |
| **C** | | **OBS transactions** | **(1,424)** | **(24,797)** | **18** | **9,432** |
| | C1 | Financial derivatives with capital exchange | | (32,346) | 18 | 9,432 |
| | | * long positions | 0 | 6,434 | 44,748 | 10,183 |
| | | * short position | 0 | 38,780 | 44,730 | 751 |
| | C2 | Financial derivatives without capital exchange | 0 | | | |
| | | * long positions | 0 | 0 | 0 | 0 |
| | | * short position | 0 | 0 | 0 | 0 |
| | C3 | Deposits and loans to be settled | | 7,549 | | |
| | | * long positions | 0 | 7,549 | 0 | 0 |
| | | * short position | 0 | 0 | 0 | 0 |
| | C4 | Irrevocable commitments to disburse funds | (1,424) | | | |
| | | * long positions | | | | |
| | | * short position | 1,424 | 0 | 0 | 0 |
| | C.5 | Financial guarantees issued | | | | |

*(following)*

| Over 1 month up to 3 months | 3 to 6 months | 6 to 12 months | over 1 year | over 5 years | Indefinite |
|---|---|---|---|---|---|
| **509,415** | **24,590** | **65,723** | **47,696** | **4,700** | |
| 0 | 0 | 0 | 0 | 3,881 | |
| 0 | 0 | 0 | 0 | 819 | |
| | | | | | |
| 509,415 | 24,590 | 65,723 | 47,696 | 0 | |
| 501,263 | 20,749 | 63,933 | 38,461 | 0 | |
| 8,152 | 3,841 | 1,790 | 9,235 | 0 | |
| | | | | | |
| **562,559** | **49,403** | **0** | **0** | **0** | |
| 562,559 | 49,403 | 0 | 0 | 0 | |
| 562,450 | 49,403 | 0 | 0 | 0 | |
| 109 | 0 | 0 | 0 | 0 | |
| | | | | | |
| | | 0 | 0 | 0 | |
| | | | | | |
| **5,514** | **2,853** | **5,930** | **1,424** | | |
| 13,063 | 2,853 | 5,930 | | | |
| 13,063 | 4,602 | 5,930 | 0 | 0 | |
| 0 | 1,749 | 0 | 0 | 0 | |
| | | | | | |
| 0 | 0 | 0 | 0 | 0 | |
| 0 | 0 | 0 | 0 | 0 | |
| (7,549) | | | | | |
| 0 | 0 | 0 | | | |
| 7,549 | 0 | 0 | | | |
| 0 | | | 1,424 | | |
| | | | 1,424 | | |
| | | | | | |
| | 0 | 0 | | | |

1.C Financial assets and liabilities: Breakdown by residual contractual maturity – GBP

| **Items / maturity ladder** | | | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month | over 1 month to 3 months | over 3 to 6 months | over 6 to 12 months | over 1 year | Over 5 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | **Cash assets** | | **217** | **929** | **0** | | **2,442** | | | | | |
| | A1 | Gov't securities | | | | | | | | | | |
| | A2 | Listed debt securities | | | | | | | | | | |
| | A3 | Holdings in UCIs | | | | | | | | | | |
| | A4 | L&As | 217 | 929 | 0 | | 2,442 | | | | | |
| | | - to banks | 217 | 929 | 0 | | 2,442 | | | | | |
| | | - to customers | | | | | | | | | | |
| | | | | | | | | | | | | |
| **B** | **Cash liabilities** | | **133** | **906** | **56** | **0** | **2,563** | | | | | |
| | B1 | Deposits and A/C | 133 | 906 | 56 | 0 | 2,563 | | | | | |
| | | - from banks | 112 | 906 | 0 | 0 | 2,447 | | | | | |
| | | - form customers | 21 | 0 | 56 | | 116 | | | | | |
| | B2 | Debt securities | | | | | | | | | | |
| | B3 | Other liabilities | | | | | | | | | | |
| | | | | | | | | | | | | |
| **C** | **OBS transactions** | | | **0** | | 0 | | | **0** | | | |
| | C1 | Financial derivatives with capital exchange | | 0 | | 0 | | | 0 | | | |
| | | * long positions | | 0 | | 9,121 | | | 1,743 | | | |
| | | * short position | | 0 | | 9,121 | | | 1,743 | | | |
| | C2 | Financial derivatives without capital exchange | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C3 | Deposits and loans to be settled | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C4 | Irrevocable commitments to disburse funds | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C.5 | Financial guarantees issued | | | | | | | | | | |

1.D Financial assets and liabilities: Breakdown by residual contractual maturity – CHF

| Items / maturity ladder | | | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month | over 1 month to 3 months | over 3 to 6 months | over 6 to 12 months | over 1 year | Over 5 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | **Cash assets** | | **1,867** | **0** | **0** | **0** | | | | | | |
| | A1 | Gov't securities | | | | | | | | | | |
| | A2 | Listed debt securities | | | | | | | | | | |
| | A3 | Holdings in UCIs | | | | | | | | | | |
| | A4 | L&As | 1,867 | 0 | 0 | 0 | | | | | | |
| | | - to banks | 1,867 | 0 | 0 | 0 | | | | | | |
| | | - to customers | | | | | | | | | | |
| | | | | | | | | | | | | |
| **B** | **Cash liabilities** | | **354** | **1,600** | | | | | | | | |
| | B1 | Deposits and A/C | 354 | 1,600 | | | | | | | | |
| | | - from banks | 172 | 1,600 | | | | | | | | |
| | | - form customers | 182 | | | | | | | | | |
| | B2 | Debt securities | | | | | | | | | | |
| | B3 | Other liabilities | | | | | | | | | | |
| | | | | | | | | | | | | |
| **C** | **OBS transactions** | | | **1,607** | 0 | | **(1,607)** | | | | | |
| | C1 | Financial derivatives with capital exchange | | | 0 | | | | | | | |
| | | * long positions | | | 0 | | 80,051 | | | | | |
| | | * short position | | | 0 | | 80,051 | | | | | |
| | C2 | Financial derivatives without capital exchange | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C3 | Deposits and loans to be settled | | 1,607 | | | (1,607) | | | | | |
| | | * long positions | | 1,607 | | | | | | | | |
| | | * short position | | | | | 1,607 | | | | | |
| | C4 | Irrevocable commitments to disburse funds | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C.5 | Financial guarantees issued | | | | | | | | | | |

1.E Financial assets and liabilities: Breakdown by residual contractual maturity – JPY

| | | **Items / maturity ladder** | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month | over 1 month to 3 months | over 3 to 6 months | over 6 to 12 months | over 1 year | Over 5 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | | **Cash assets** | **90** | **0** | **0** | **3,490** | **459** | | | | | |
| | A1 | Gov't securities | | | | | | | | | | |
| | A2 | Listed debt securities | | | | | | | | | | |
| | A3 | Holdings in UCIs | | | | | | | | | | |
| | A4 | L&As | 90 | 0 | 0 | 3,490 | 459 | | | | | |
| | | - to banks | 90 | 0 | 0 | 3,490 | 459 | | | | | |
| | | - to customers | | | | | | | | | | |
| | | | | | | | | | | | | |
| **B** | | **Cash liabilities** | **17** | **4,050** | **0** | | | | | | | |
| | B1 | Deposits and A/C | 17 | 4,050 | 0 | | | | | | | |
| | | - from banks | 17 | 4,050 | 0 | | | | | | | |
| | | - form customers | | | | | | | | | | |
| | B2 | Debt securities | | | | | | | | | | |
| | B3 | Other liabilities | | | | | | | | | | |
| | | | | | | | | | | | | |
| **C** | | **OBS transactions** | | **4,077** | **(4,077)** | | | | | | | |
| | C1 | Financial derivatives with capital exchange | | 0 | | | | | | | | |
| | | * long positions | | 0 | | | | | | | | |
| | | * short position | | 0 | | | | | | | | |
| | C2 | Financial derivatives without capital exchange | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C3 | Deposits and loans to be settled | | 4,077 | (4,077) | | | | | | | |
| | | * long positions | | 4,077 | | | | | | | | |
| | | * short position | | 0 | 4,077 | | | | | | | |
| | C4 | Irrevocable commitments to disburse funds | | 0 | | | | | | | | |
| | | * long positions | | 0 | | | | | | | | |
| | | * short position | | 0 | | | | | | | | |
| | C.5 | Financial guarantees issued | | | | | | | | | | |

1.F Financial assets and liabilities: Breakdown by residual contractual maturity – AED

| | Items / maturity ladder | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month | over 1 month to 3 months | over 3 to 6 months | over 6 to 12 months | over 1 year | Over 5 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | **Cash assets** | 1,419 | **0** | | | **12,202** | **2,875** | **7,008** | | | |
| A1 | Gov't securities | | | | | | | | | | |
| A2 | Listed debt securities | | | | | | | | | | |
| A3 | Holdings in UCIs | | | | | | | | | | |
| A4 | L&As | 1,419 | **0** | | | 12,202 | 2,875 | 7,008 | | | |
| | - to banks | 1,419 | | | | 12,202 | 2,875 | 7,008 | | | |
| | - to customers | | **0** | | | | | | | | |
| | | | | | | | | | | | |
| **B** | **Cash liabilities** | **22** | **0** | | | **611** | **0** | **408** | | | |
| B1 | Deposits and A/C | 22 | 0 | | | 611 | 0 | 408 | | | |
| | - from banks | 22 | 0 | | | 611 | 0 | 408 | | | |
| | - form customers | | | | | | | | | | |
| B2 | Debt securities | | | | | | | | | | |
| B3 | Other liabilities | | | | | | | | | | |
| | | | | | | | | | | | |
| **C** | **OBS transactions** | | **0** | | | **(11,953)** | **(2,857)** | **(5,918)** | | | |
| C1 | Financial derivatives with capital exchange | | 0 | | | (11,953) | (2,857) | (5,918) | | | |
| | * long positions | | 0 | | | | | | | | |
| | * short position | | | | | 11,953 | 2,857 | 5,918 | | | |
| C2 | Financial derivatives without capital exchange | | | | | | | | | | |
| | * long positions | | | | | | | | | | |
| | * short position | | | | | | | | | | |
| C3 | Deposits and loans to be settled | | | | | | | | | | |
| | * long positions | | | | | | | | | | |
| | * short position | | | | | | | | | | |
| C4 | Irrevocable commitments to disburse funds | | | | | | | | | | |
| | * long positions | | | | | | | | | | |
| | * short position | | | | | | | | | | |
| C.5 | Financial guarantees issued | | | | | | | | | | |

1.G Financial assets and liabilities: Breakdown by residual contractual maturity – other currencies

| Items / maturity ladder | | | Sight | 1 to 7 days | over 7 to 15 days | over 15 days to 1 month | over 1 month to 3 months | over 3 to 6 months | over 6 to 12 months | over 1 year | Over 5 years | Indefinite |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | **Cash assets** | | **154** | | **7** | | **1,511** | | | | | |
| | A1 | Gov't securities | | | | | | | | | | |
| | A2 | Listed debt securities | | | | | | | | | | |
| | A3 | Holdings in UCIs | | | | | | | | | | |
| | A4 | L&As | 154 | 622 | 7 | | 1,511 | | | | | |
| | | - to banks | 154 | | | | | | | | | |
| | | - to customers | | 622 | 7 | | 1,511 | | | | | |
| | | | | | | | | | | | | |
| **B** | **Cash liabilities** | | **0** | | | | | | | | | |
| | B1 | Deposits and A/C | 0 | | | | | | | | | |
| | | - from banks | 0 | | | | | | | | | |
| | | - form customers | | | | | | | | | | |
| | B2 | Debt securities | | | | | | | | | | |
| | B3 | Other liabilities | | | | | | | | | | |
| | | | | | | | | | | | | |
| **C** | **OBS transactions** | | | **380** | **(1,639)** | | | | | | | |
| | C1 | Financial derivatives with capital exchange | | (1,259) | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | 1,259 | | | | | | | | |
| | C2 | Financial derivatives without capital exchange | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C3 | Deposits and loans to be settled | | 1,639 | (1,639) | | | | | | | |
| | | * long positions | | 1,639 | | | | | | | | |
| | | * short position | | | 1,639 | | | | | | | |
| | C4 | Irrevocable commitments to disburse funds | | | | | | | | | | |
| | | * long positions | | | | | | | | | | |
| | | * short position | | | | | | | | | | |
| | C.5 | Financial guarantees issued | | | | | | | | | | |

## Section 4 – Operational risk

### QUALITATIVE INFORMATION

### A. General aspects

Banca UBAE calculates its capital requirement against operational risks by applying the Basic Indicator Approach, in conformity with central bank regulations.
At the moment there are no plans to apply for a shift to the Standardized Approach.

### B. Risk management processes and measuring methods

To improve the quality and smooth flow of all processes, the Regulatory Development Dept. conducts yearly self risk appraisal sessions with backing from the Risk Management and Compliance Unit and Internal Auditing. Attended by the heads of the Bank's main business and supporting units, they aim to identify the areas where operational risk is a potential problem and devise appropriate remedies where needed .
Before any new products or services are introduced, a thorough assessment of the risks associated with the new activity is drawn up by the Treasury Division jointly with the IT & Organization Division, the Risk Management unit and the Internal Auditing. and is then submitted to Senior Management.

### QUANTITATIVE INFORMATION

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| **OPERATIONAL RISK** | | **7,659** | **6,840** |
| 1 | Basic indicator approach | 7,659 | 6,840 |
| 2 | Standardized approach | | |
| 3 | Advanced method | | |

## Section 5 – Other Risks: Counterparty and Settlement Risk

### QUALITATIVE INFORMATION

### A. General aspects, risk management processes and measuring methods for counterparty risk

Dealing in OTC interest- and exchange-rate derivatives generates the risk that a counterparty will default on its contractual payment obligations when these fall due.

Counterparty risk is monitored, both as a whole and with reference to specific kinds of exposure, by the MF front-office system which manages the entire limit framework.

Banking and corporate counterparties authorized to negotiate forward derivatives are granted ad hoc credit lines by the Board of Directors, the Credit Committee or other competent bodies or officials.

Limits are monitored by MF through the daily recalculation of all outstanding positions on the basis of the latest prices.

A warning signal is triggered on reaching (90%) of the limit so that the situation can be duly analysed and appropriate action taken including, possibly, a freeze on dealings with the counterparty concerned.

### B. General aspects, risk management processes and measuring methods for settlement risk

Settlement risk is kept to a minimum because the negotiation of forex and other financial instruments both listed and unlisted (aside from OTC derivatives, which generate counterparty risk) is always subject to a payment-versus-delivery clause.

**Section 1 – Shareholders' equity**

**A.QUALITATIVE INFORMATION**

**B.QUANTITATIVE INFORMATION**

B.1 Shareholders' equity: Composition

| | | Total 2010 | Total 2009 |
|---|---|---|---|
| 1 | Share capital | 151,061 | 151,061 |
| 2 | Share premium account | 16,702 | 16,702 |
| 3 | Reserves: | 25,418 | 17,333 |
| | of equity: | 25,418 | 17,333 |
| | a) Legal reserve | 9,703 | 9,298 |
| | b) Extraordinary reserve | | |
| | c) own shares | | |
| | d) other | 15,715 | 8,035 |
| | other reserves | | |
| 4 | Capital instruments | | |
| 5 | (Treasury stock) | | |
| 6 | Valuation reserves | 733 | 285 |
| | -Financial assets available for sale | 733 | 285 |
| | -Tangible fixed assets | | |
| | -Intangible fixed assets | | |
| | -Hedging for foreign investments | | |
| | -Cash flow hedges | | |
| | -Forex differentials | | |
| | -Non-current assets being divested | | |
| | -Actuarial profit (loss) on defined-benefit plans | | |
| | -Valuation reserves booked to shareholders' equity | | |
| | -Special revaluation laws | | |
| 7 | Profit (Loss) for the year | 8,401 | 8,085 |
| | **Total** | **202,315** | **193,466** |

B2. Valuation reserves relating to financial assets available for sale: composition

| | | Total 2010 | | Total 2009 | |
|---|---|---|---|---|---|
| | | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1 | Debt securities | 733 | | 285 | |
| 2 | Equities | | | | |
| 3 | Holdings in UCI | | | | |
| 4 | Loans | | | | |
| | **Total** | **733** | | **285** | |

B3. Valuation reserves relating to financial assets available for sale: Yearly variations

| | | | Debt Securities | Equity and | Holdings in UCI | Loans |
|---|---|---|---|---|---|---|
| **1** | | **Opening Balance** | **285** | | | |
| **2** | | **Increases** | **449** | | | |
| | 2.1 | Fair value adjustments | 449 | | | |
| | 2.2 | Income statement reversal of negative reserves | | | | |
| | | - from impairment | | | | |
| | | - from disposals | | | | |
| | 2.3 | Other increases | | | | |
| **3** | | **Decreases** | **1** | | | |
| | 3.1 | Fair value adjustments | 1 | | | |
| | 3.2 | Impairment write-downs | | | | |
| | 3.3 | Income statement reversal of positive reserves: from | | | | |
| | 3.4 | Other decreases | | | | |
| **4** | | **Closing Balance** | **733** | | | |

**Section 2 – Regulatory capital and capital ratios**

2.1 Regulatory capital

**A. QUALITATIVE INFORMATION**

1. Tier 1 capital

Tier 1 capital includes the following accounting items:
1. share capital
2. legal reserve
3. extraordinary reserve
4. share premium account
5. FTA–IAS reserve
6. IAS 2005 retained profit reserve
7. retained profit

net of residual value of intangible assets.

2. Tier 2 capital

Tier 2 capital includes:
1. subordinated loans
2. 50% of valuation reserves, reckoned after tax

3. Tier 3 capital

Consisting in the portion of subordinated loans exceeding 50% of Tier 1 capital, Tier 3 capital formed part of the Bank's regulatory capital in the 2008 balance sheet but was non-existent as at 31.12.2009 and 31.12.2010

**B. QUANTITATIVE INFORMATION**

| | | | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **A** | **Tier 1 capital before prudential filters** | | **199,362** | **192,833** |
| B | Tier 1 capital prudential filters | | | |
| | B.1 | positive IAS/IFRS prudential filters | | |
| | B.2 | negative IAS/IFRS prudential filters | | |
| **C** | **Tier 1 capital before deductible items (A+B)** | | **199,362** | **192,833** |
| D | Tier 1 deductible items | | | |
| **E** | **Total capital (TIER1)(C-D)** | | **199,362** | **192,833** |
| F | TIER 2 capital before prudential filters | | 78,346 | 85,876 |
| G | Tier 2 capital prudential filters | | (247) | (96) |
| | G.1 | positive IAS/IFRS prudential filters | | |
| | G.2 | negative IAS/IFRS prudential filters | (247) | (96) |
| H | Tier 2 capital before deductible item (F+G) | | 78,099 | 85,780 |
| I | Item to be deducted from Tier 2 capital | | | |
| **J** | **Total Tier 2 capital (H-I)** | | **78,099** | **85,780** |
| K | Items to be deducted from Tier 1 and Tier 2 combined total | | | |
| **L** | **Eligible capital (E+J-K)** | | **277,461** | **278,613** |
| M | Tier 3 capital (TIER 3) | | | |
| **N** | **Eligible capital inclusive of TIER 3 capital (L+M)** | | **277,461** | **278,613** |

2.2 Capital adequacy

**A. QUALITATIVE INFORMATION**

The Bank's capital adequacy self-assessment process was designed to reflect the proportionality principle as allowed by Banca d'Italia for Class 3 credit institutions. Its purpose is to guarantee ongoing compliance with capital requirements - in relation both to Pillar I risks and to those Pillar II risks that are quantifiable by accepted simplified methods - as well as to provide the Board of Directors and Senior Management with the information they need to chart the Bank's capital enhancement policies effectively and efficiently.

To achieve that dual aim, and granted the degree of approximation which the use of standardized methods implies, the process focuses on measuring and monitoring four key quantities:

- *total internal capital*, i.e., the sum of capital requirements against the various types of risk contemplated in Pillar I (credit risk, market risk, operational risks) and Pillar II (credit concentration risk associated with individual counterparties or groups of connected counterparties, interest rate risk in the banking book), as applying at the end of the relevant accounting period;

- *total internal capital under stressed conditions*, i.e., total internal capital as applying at the end of the relevant accounting period but modified to take account of stress scenarios for credit risk, single-name credit concentration risk and interest rate risk in the banking book;

- *prospective internal capital*, i.e., the total internal capital amount that obtains by applying standardized computation methods to the Bank's assets and liabilities as approved following the planning-and-budgeting process;

- *total capital*, i.e., the sum of all capital resources and hybrid capitalization tools available to the Bank for the purpose of meeting its internal capital requirement and thus the unexpected losses associated with the various types of risk. Total capital will sometimes exceed eligible capital, since the definition of the former includes factors which may not be included in the latter.

**B. QUANTITATIVE INFORMATION**

| | Categories/Values | | Non-Weighted amount | | Weighted amount | |
|---|---|---|---|---|---|---|
| | | | Total 2010 | Total 2009 | Total 2010 | Total 2009 |
| **A** | **RISK ASSETS** | | | | | |
| A1 | **Credit and counterparty risk** | | | | | |
| | 1 | Standard methodology | 3,937,734 | 3,259,771 | 1,503,077 | 1,235,841 |
| | 2 | Methodology based on Internal ratings | | | | |
| | | 2.1 based | | | | |
| | | 2.2 advanced | | | | |
| | 3 | Securitization | 0 | 1,548 | 0 | 19,348 |
| | | | | | | |
| **B** | **CAPITAL REQUIREMENTS** | | | | | |
| B1 | **CREDIT AND COUNTERPARTY RISK** | | | | **120,246** | **100,415** |
| B2 | **MARKET RISK** | | | | **2,911** | **2,418** |
| | 1 | Standard Methodology | | | 2,911 | 2,418 |
| | 2 | Internal Models | | | | |
| | 3 | Credit concentration Risk | | | | |
| B3 | **OPERATIONAL RISK** | | | | **7,659** | **6,840** |
| | 1 | Basic indicator approach | | | 7,659 | 6,840 |
| | 2 | Standardized approach | | | | |
| | 3 | Advanced method | | | | |
| B4 | **Other capital requirements** | | | | | |
| B5 | Other factors | | | | | |
| B6 | **TOTAL CAPITAL REQUIREMENTS** | | | | **130,816** | **109,673** |
| | | | | | | |
| **C** | **RISK ASSETS AND CAPITAL RATIOS** | | | | | |
| C1 | Risk weighted assets | | | | 1,635,198 | 1,370,908 |
| C2 | Tier 1 capital ratio (Tier 1 capital/risk weighted assets) | | | | **12.19%** | **14.07%** |
| C3 | Total capital ratio (Eligible capital/risk weighted assets) | | | | **16.97%** | **20.32%** |

# PART G
# MERGERS INVOLVING CORPORATE UNITS OR LINES OF BUSINESS



**Section 1 – Transactions completed during the period**

1.1 Mergers

1.1.1 Other information relevant to mergers

1.2.1 Yearly variations in goodwill

1.2.2 Other

**Section 2 – Transactions completed after year-end**

2.1 Mergers

# PART H
# DEALINGS WITH CONNECTED PARTIES

**1. Compensation of Directors, Auditors and Management**

| | Description | | | | 2010 |
|---|---|---|---|---|---|
| **(1)** | **Short-term benefits** | | | | **2,429** |
| | - Directors | | 1,024 | | |
| | - Auditors | | 120 | | |
| | - Management | | 1,285 | | |
| **(2)** | **Post-severance benefits** | | | | **58** |
| **(3)** | **Other benefits** | | | | **372** |

(1) fixed and variable amounts payable to Directors and Auditors plus senior managers' salaries and social charges
(2) allocations to the severance fund
(3) other benefits sanctioned by the law or the Internal Regulations including Directors' travel expenses

**2. Dealings with connected parties**

2.1 Dealings with the lead shareholder

Dealings with the Bank's lead shareholder form part of its ordinary business operations and are conducted at market prices, as with unrelated parties of similar credit standing.

| | Description | 31/12/2010 |
|---|---|---|
| | Financial assets | 126 |
| | Financial liabilities | 1,481,912 |
| | Guarantees outstanding | 17,913 |

As far as costs and revenues:

| | Description | Costs | Revenues | |
|---|---|---|---|---|
| | Letters of Credits | 2 | 100 | |
| | Letters of Guarantees | 120 | | |
| | Deposits | 5,048 | | |
| | Subordinated Loans | 2,166 | | |
| | Current Accounts | 324 | | |
| | | | | |

# PART I
# PAYMENT AGREEMENTS BASED ON THE BANK'S OWN CAPITAL INSTRUMENTS



**QUALITATIVE INFORMATION**

1. Description of payment agreements based on the bank's own capital instruments

**QUANTITATIVE INFORMATION**

1. Yearly changes

2. Other information

# PART L
# SEGMENT REPORTING