

Liquidity risk

Qualitative information

A. General aspects, processes for the management and methods for measurement of liquidity risk

Liquidity risk relates to the capacity or incapacity of the Group to meet its payment obligations and/or to raise additional funding (funding liquidity risk), or to the possibility that the amount obtained from the liquidation of some of its assets might be significantly different from the present market values (asset liquidity risk).

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

The primary objective is to meet the Group's payment obligations and/or to raise additional funding at a minimum cost and without prejudice to future potential income.

The following are responsible for liquidity risk management:

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

The main objective of the analysis is to measure the degree of cover for the liquidity requirement of the Group and individual companies.

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

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

The consolidated liquidity requirement as at 31st December 2007 was entirely covered by liquidable assets, as was the case in the two previous financial years.

As part of the project for the second and third pillars of the Basel 2 programme, the UBI Banca Group has started the definition of a stress testing programme to measure the effects on liquidity management of specific events (sensitivity analysis) or of the combined changes in a set of economic and financial variables, hypothesising adverse scenarios (scenario analysis).

The scenarios are divided into three types:

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

Each specific crisis and market scenario is assessed according to three different levels of gravity.

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

The Group has also set a specific initiative in motion to draw up an emergency contingency funding plan to deal with liquidity crises, with the following characteristics:

- identification of crisis signals;
- definition of procedures and strategies for taking action.

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

Consistent with the liquidity risk and structural balance guidelines in place at consolidated level, a policy was formulated which defines rules designed to pursue and maintain structural balance in the sources and uses of finance by the network banks and the product companies, by means of co-ordinated and efficient policies of funding and lending.

The objective of the policy, which replaces previous rules and operational procedures, is to standardise both the operating procedures and the criteria for identifying rates and charges across all Group member companies, identifying *a priori* any specific exceptions there may be.

Quantitative information

1.1 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: euro

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	TOTAL EURO
On-balance sheet assets	28.897.211	631.403	935.414	2.270.181	4.824.158	2.955.951	4.665.789	23.100.916	27.948.211	96.229.234
A.1 Government securities	-	-	171.996	-	228.084	379.363	166.421	963.996	280.758	2.190.618
A.2 Listed debt securities	23	-	-	2	1	2	6.038	1.748	56.199	64.013
A.3 Other debt securities	60.799	-	-	77.945	48.183	58.217	349.512	647.387	535.436	1.777.479
A.4 Units in OICR	481.991	-	-	-	11	-	-	24.507	35.786	542.295
A.5 Financing	28.354.398	631.403	763.418	2.192.234	4.547.879	2.518.369	4.143.818	21.463.278	27.040.032	91.654.829
- Banks	2.300.016	52.472	157.139	86.792	465.769	72.724	16.909	289.578	88.656	3.530.055
- Customers	26.054.382	578.931	606.279	2.105.442	4.082.110	2.445.645	4.126.909	21.173.700	26.951.376	88.124.774
On-balance sheet liabilities	-39.956.565	-349.334	-166.932	-936.711	-2.673.674	-2.339.578	-5.099.842	-23.515.581	-3.362.552	-78.400.769
B.1 Deposits	-39.727.876	-247.849	-122.295	-245.441	-977.690	-389.179	-3.575	-87.093	-104.410	-41.905.408
- Banks	-266.037	-794	-	-9.452	-476.324	-	-1.860	-4.459	-9.820	-768.746
- Customers	-39.461.839	-247.055	-122.295	-235.989	-501.366	-389.179	-1.715	-82.634	-94.590	-41.136.662
B.2 Debt securities	-228.689	-101.485	-44.637	-691.270	-1.695.984	-1.950.399	-5.096.267	-23.428.488	-3.258.142	-36.495.361
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	376.366	169.450	41.866	6.458	198.803	-85.409	-493.189	-1.251.145	140.665	-896.135
C.1 Financial derivatives with exchange of principal	-358	8.301	42.471	-9.270	226.246	-52.895	-470.547	-781.786	-658	-1.038.496
- Long positions	14	214.490	65.848	1.402.354	1.392.274	268.930	332.229	751.871	8.553	4.436.563
- Short positions	-372	-206.189	-23.377	-1.411.624	-1.166.028	-321.825	-802.776	-1.533.657	-9.211	-5.475.059
C.2 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	600	2.000	-	-	2.600
- Short positions	-	-	-	-	-	-600	-2.000	-	-	-2.600
C.3 Irrevocable commitments to disburse funds	376.724	161.149	-605	15.728	-27.443	-32.514	-22.642	-469.359	141.323	142.361
- Long positions	403.007	213.394	2.423	53.604	45.492	44.840	108.637	344.429	469.567	1.685.393
- Short positions	-26.283	-52.245	-3.028	-37.876	-72.935	-77.354	-131.279	-813.788	-328.244	-1.543.032

1.2 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: US dollar

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
On-balance sheet assets	372.685	102.462	44.022	81.196	130.451	46.929	31.458	315.015	35.711
A.1 Government securities	-	-	-	-	-	-	2	1	0
A.2 Listed debt securities	-	-	-	-	-	-	-	5.453	3.330
A.3 Other debt securities	-	-	-	-	-	1	85	8.083	61
A.4 Units in OICR	244.945	-	-	-	-	-	-	-	4.408
A.5 Financing	127.740	102.462	44.022	81.196	130.451	46.928	31.371	301.477	27.912
- Banks	31.203	62.773	20.325	30.851	34.628	6.280	11.600	7.721	-
- Customers	96.538	39.690	23.697	50.345	95.822	40.648	19.770	293.756	27.912
On-balance sheet liabilities	-604.197	-124.488	-70.034	-124.736	-84.649	-22.194	-10.064	-12.882	-383
B.1 Deposits	-593.983	-123.220	-67.757	-119.443	-74.037	-14.647	-9.102	-2.493	-348
- Banks	-72.614	-70.079	-38.757	-86.442	-50.341	-2.549	-6.022	-2.488	-
- Customers	-521.369	-53.141	-28.999	-33.001	-23.696	-12.098	-3.081	-5	-348
B.2 Debt securities	-359	-1.268	-2.277	-4.829	-10.089	-7.547	-962	-10.389	-35
B.3 Other liabilities	-9.855	-	-	-465	-523	-	-	-	-
Off-balance sheet transactions	-32.124	27.205	-17.831	-82.064	-190.605	-55.795	-15.727	-31.611	74.815
C.1 Financial derivatives with exchange of principal	358	-3.377	-17.907	-48.018	-190.590	-56.077	-15.782	8.511	-
- Long positions	372	33.753	29.674	793.911	894.273	341.906	580.639	124.980	-
- Short positions	-14	-37.131	-47.581	-841.929	-1.084.863	-397.983	-596.421	-116.469	-
C.2 Deposits and loans receivable	-	32.606	-	-35.324	-	-	-	-	2.717
- Long positions	-	32.606	-	-	-	-	-	-	2.717
- Short positions	-	-	-	-35.324	-	-	-	-	-
C.3 Irrevocable commitments to disburse funds	-32.482	-2.024	76	1.278	-15	282	55	-40.122	72.097
- Long positions	879	11.441	76	1.278	325	283	64	17.254	72.199
- Short positions	-33.361	-13.465	-	-	-340	-1	-9	-57.377	-102

1.3 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: Swiss franc

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
On-balance sheet assets	75.968	19.861	15.059	32.629	65.417	31.292	29.162	145.846	84.867
A.1 Government securities	-	-	-	-	-	-	-	-	-
A.2 Listed debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	3.847	963	10.555	777
A.4 Units in OICR	-	-	-	-	-	-	-	-	-
A.5 Financing	75.968	19.861	15.059	32.629	65.417	27.445	28.199	135.290	84.090
- Banks	4.916	2.862	2.373	7.191	6.517	372	687	1.043	-
- Customers	71.053	16.999	12.687	25.438	58.900	27.072	27.512	134.247	84.090
On-balance sheet liabilities	-191.481	-12.734	-11.656	-18.563	-42.227	-872	-270	-9	-
B.1 Deposits	-191.388	-12.719	-11.644	-18.514	-33.800	-763	-270	-	-
- Banks	-11.375	-12.249	-11.209	-15.473	-32.563	-377	-194	-	-
- Customers	-180.013	-470	-435	-3.041	-1.237	-387	-76	-	-
B.2 Debt securities	-93	-15	-12	-49	-8.426	-109	-	-9	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-1.544	-19.037	-8.923	1.932	-109.690	-542	-596	-	1.544
C.1 Financial derivatives with exchange of principal	-	-19.037	-8.923	1.932	-109.662	-491	-596	-	-
- Long positions	-	60	273	2.086	3.989	7.343	24.770	-	-
- Short positions	-	-19.097	-9.196	-154	-113.651	-7.834	-25.366	-	-
C.2 Deposits and loans receivable	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to disburse funds	-1.544	-	-	-	-28	-51	-	-	1.544
- Long positions	-	-	-	-	-	-	-	-	1.544
- Short positions	-1.544	-	-	-	-28	-51	-	-	-

1.4 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: UK sterling

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
On-balance sheet assets	15.430	29.066	11.344	11.105	14.387	861	1.467	1.457	4.102
A.1 Government securities	-	-	-	-	-	-	-	-	-
A.2 Listed debt securities	-	-	-	-	-	-	-	-	17
A.3 Other debt securities	-	-	-	-	-	-	10	43	87
A.4 Units in OICR	11.363	19.515	7.574	8.565	10.524	585	972	1.414	3.998
A.5 Financing	4.066	9.551	3.770	2.540	3.864	276	486	-	-
- Banks	4.066	9.551	3.770	2.540	3.864	276	486	-	-
- Customers	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	-40.530	-1.373	-304	-8.350	-669	-278	-100	-	-
B.1 Deposits	-40.167	-1.373	-296	-7.892	-282	-11	-100	-	-
- Banks	-838	-672	-296	-873	-282	-7	-100	-	-
- Customers	-39.330	-701	-	-7.020	-	-4	-	-	-
B.2 Debt securities	-363	-	-8	-458	-386	-267	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	17.793	1.364	176.534	36.889	18.915	28.687	-	-
C.1 Financial derivatives with exchange of principal	-	18.168	1.364	176.534	35.764	18.915	28.687	-	-
- Long positions	-	18.168	1.364	176.534	35.764	18.915	28.687	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.2 Deposits and loans receivable	-	-375	-	-	750	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-375	-	-	750	-	-	-	-
C.3 Irrevocable commitments to disburse funds	-	-	-	-	375	-	-	-	-
- Long positions	-	-	-	-	375	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

1.3 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: Japanese yen

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
On-balance sheet assets	17.981	9.099	11.983	9.441	24.811	10.670	581	612	-
A.1 Government securities	-	-	-	-	-	-	-	-	-
A.2 Listed debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	-	-	-	-
A.4 Units in OICR	-	-	-	-	-	-	-	-	-
A.5 Financing	17.981	9.099	11.983	9.441	24.811	10.670	581	612	-
- Banks	5.511	4.764	5.646	3.364	3.342	1.989	443	0	-
- Customers	12.470	4.335	6.337	6.077	21.469	8.681	138	612	-
On-balance sheet liabilities	-43.141	-201.605	-137.180	-388.694	-1.143.960	-549.395	-151.888	-9.990	-183
B.1 Deposits	-40.111	-12.427	-4.526	-7.653	-8.767	-5.046	-365	-	-
- Banks	-8.723	-9.059	-4.431	-6.498	-7.950	-4.028	-362	-	-
- Customers	-31.387	-3.368	-95	-1.155	-817	-1.018	-3	-	-
B.2 Debt securities	-3.020	-189.178	-132.653	-381.041	-1.135.193	-544.349	-151.524	-9.990	-183
B.3 Other liabilities	-10	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	1.384	-88	-11.775	-10.253	-8.643	-19.794	-	-
C.1 Financial derivatives with exchange of principal	-	1.536	-88	-11.775	-8.260	-8.643	-19.794	-	-
- Long positions	-	31.143	17.732	409.575	250.897	27.350	344.017	-	-
- Short positions	-	-29.608	-17.820	-421.350	-259.158	-35.993	-363.811	-	-
C.2 Deposits and loans receivable	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to disburse funds	-	-152	-	-	-1.993	-	-	-	-
- Long positions	-	0	-	-	152	-	-	-	-
- Short positions	-	-152	-	-	-2.145	-	-	-	-

1.6 Time distribution of the contractual residual maturity of financial assets and liabilities - currency: Other currencies

	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
On-balance sheet assets	441.639	303.838	88.409	128.722	300.978	7.902	6.604	10.537	12.441
A.1 Government securities	-	-	-	-	-	-	-	-	-
A.2 Listed debt securities	-	-	-	-	-	-	-	-	-
A.3 Other debt securities	-	-	-	-	-	1	95	8.126	148
A.4 Units in OICR	-	-	-	-	-	-	-	-	4.408
A.5 Financing	196.695	303.838	88.409	128.722	300.978	7.901	6.508	2.410	7.886
- Banks	150.773	289.367	88.041	121.738	282.807	4.714	5.237	-	-
- Customers	45.922	14.472	368	6.984	18.171	3.187	1.271	2.410	7.886
On-balance sheet liabilities	-465.797	-207.669	-79.786	183.906	-90.858	-956	-14.106	-5.760	-346
B.1 Deposits	-440.190	-207.657	-77.835	-183.818	-89.538	-246	-5.246	-	-
- Banks	-206.268	-205.015	-77.835	-183.818	-88.526	-243	-5.237	-	-
- Customers	-233.922	-2.643	-	-	-1.012	-3	-9	-	-
B.2 Debt securities	-	-12	-39	-88	-1.317	-710	-8.861	-5.760	-346
B.3 Other liabilities	-25.607	-	-1.912	-	-	-	-	-	-
Off-balance sheet transactions	-	-21.991	-65.310	-54.108	-259.716	-46.212	-31.121	4.330	-
C.1 Financial derivatives with exchange of principal	-	-21.991	-65.310	-54.108	-259.716	-46.212	-31.121	4.330	-
- Long positions	-	44.601	28.532	1.319.471	870.291	130.201	476.503	39.820	-
- Short positions	-	-66.592	-93.842	-1.373.579	-1.130.007	-176.412	507.624	-35.490	-
C.2 Deposits and loans receivable	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-
C.3 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-

2. Distribution of financial liabilities by sector

Exposures/Counterparties	Governments and Central Banks	Other public authorities	Financial companies	Insurance companies	Non financial companies	Other
1. Due to customers	268.510	664.257	4.478.252	631.196	10.520.933	33.132.503
2. Securities in issue	61	16.480	4.906.562	6.511	112.272	35.775.943
3. Financial assets held for trading	-	283	31.835	387	53.563	779.139
4. Financial liabilities at fair value	-	-	-	-	-	-
31/12/2007	268.571	681.020	9.416.649	638.094	10.686.768	69.687.585
31/12/2006	369.240	464.819	6.514.661	107.642	7.021.941	40.786.100

3. Geographical distribution of financial liabilities

Exposures/Counterparties	Italy	Other European countries	America	Asia	Rest of the world
1. Due to customers	47.590.329	1.635.198	247.803	10.132	212.189
2. Due to banks	4.247.029	3.759.828	18.678	157.196	22.027
3. Securities in issue	39.249.240	792.725	766.791	300	8.813
4. Financial liabilities held for trading	533.426	290.338	40.419	14	1.010
5. Financial liabilities at fair value	-	-	-	-	-
31/12/2007	91.620.024	6.478.089	1.073.691	167.642	244.039
31/12/2006	56.824.682	3.808.463	584.863	83.424	240.253