

SME CDOs
Italy
New Issue

UBI Finance 2 S.r.l.

Analysts

Alessandro Cipolla
+39 02 879 087 238
alessandro.cipolla@fitchratings.com

Lars Jebjerg
+44 20 7417 6289
lars.jebjerg@fitchratings.com

Selena Dewitya
+44 20 7070 5841
selena.dewitya@fitchratings.com

Pablo Mazzini
+44 20 7417 3540
pablo.mazzini@fitchratings.com

Performance Analytics
Jeffery Cromartie, CFA
+44 20 7664 0072
jeffery.cromartie@fitchratings.com

Related Research

Core Criteria

- [Global Criteria for Cash Flow Analysis in Corporate CDOs \(April 2008\)](#)
- [Global Rating Criteria for Corporate CDOs \(April 2008\)](#)

Other Research

- [Counterparty Risk in Structured Finance: Qualified Investment Criteria \(September 2007\)](#)
- [Counterparty Risk in Structured Finance Transactions: Hedge Criteria \(August 2007\)](#)
- [Special-Purpose Vehicles in Structured Finance Transactions \(June 2006\)](#)
- [Commingling Risk in Structured Finance Transactions \(June 2004\)](#)

Final Rating

Class	Amount (EURm)	Final Maturity	Credit Enhancement ^b (%)	Rating ^a	Outlook
A	1,559.50	Jan 2046	25.0	'AAA'	Stable
B	519.85	Jan 2046	-	NR	
Total issuance	2,079.35				

The rating is based on information provided by the issuer as of the closing date. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase

^a Class A is rated for the ultimate return of principal and the timely payment of interest, according to the terms and conditions of the notes.

^b Credit enhancement in the form of subordination only

Transaction Summary

Under this balance sheet securitisation, UBI Finance 2 S.r.l. (the issuer) has issued floating rate notes secured by a EUR2,079.39m portfolio of loans to Italian small- and medium-sized businesses (SMEs). The loans were originated by Banco di Brescia (BBS; owned by UBI Banca UBI rated 'F1'/'A+' /Stable Outlook) in its normal course of business prior to being transferred to the issuer. The issuer is a special-purpose vehicle (SPV) incorporated in accordance with the Italian Law of 30 April 1999, No. 130.

Key Rating Drivers

- **Defaults:** the rated notes have sufficient credit enhancement to withstand a five-fold increase to the originator's historical default rate with recoveries at one-third of the historical average.
- In addition, the rated notes benefit from substantial de-leveraging over the first two years due to amortisation, and from trapping of excess spread.
- **Concentration:** the rated notes have sufficient subordination to withstand a default of the largest 10 obligors, which represent 13.4% of the portfolio.
- **Exposure to originator:** UBI fulfils several roles in the transaction including interest rate swap counterparty, account bank, and servicer. Structural mitigants are in place to significantly reduce the risk if the credit quality of UBI deteriorates. However, the notes could be vulnerable to a sudden jump to default of UBI from its current ratings ('F1'/'A+' with Stable Outlook and a Support Rating of 2).

The ratings are based on the credit enhancement provided to the rated notes, structural protection and available excess spread. The rated notes benefit from 25% subordination on the closing date and excess spread is reserved for the benefit of the rated notes until these have been redeemed in full. Fitch Ratings assumed very limited excess spread benefit in its analysis; this assumption is likely to prove conservative.

Rating Sensitivity¹

The rated notes have sufficient subordination - without accounting for the additional protection afforded by excess spread trapping, prepayments and

¹ These sensitivities only describe the model-implied impact of a change in one or more of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

scheduled de-leveraging of the securitised portfolio - to withstand losses of 6.5 times the originator's historical average loss experience, or the default of the largest 10 obligors without taking losses. The notes also have enough subordination to withstand a five-fold increase to the originator's historical default rate with recoveries at one-third of the originator's historical average.

Model-only sensitivity tests imply that the rated note is likely to remain stable against mild to moderate changes in individual key assumptions and changes to multiple factors. Severe changes to assumptions imply larger negative potential rating actions.

Fitch surveils the transaction based on a fuller assessment of all relevant factors. Changes to individual assumptions may be exacerbated, or offset, by other factors and a downgrade may or may not occur.

Rating Sensitivity to Defaults²

The structure is robust to increases in default probability beyond the originator's average historical experience. Model results, when instantaneously increasing the portfolio default rate by 10%, indicate that class A would maintain its 'AAA' rating, while a 25% increase shows a one notch model implied downgrade:

Rating Sensitivity to Defaults

	Class A
Fitch base default rate assumption (0.8% in one year, 8.4% over six years)	AAA
A 10% increase in the assumed portfolio default rate (0.9% in one year: 2 times originator's historical rate, 9.2% over six years: 1.5 times originator's historical rate)	AAA
A 25% increase in the assumed portfolio default rate (1.0% in one year: 2.2 times originator's historical rate, 10.5% over six years: 1.7 times originator's historical rate)	AA+

Source: Fitch

Rating Sensitivity to Correlation

The model results show reasonable robustness to increases in assumed correlation. A 3% absolute correlation increase (40% stress to the correlation assumption) results in a one notch model-implied downgrade. A 10% absolute correlation increase (125% stress to the original assumption) results in a four-notch model implied downgrade:

Rating Sensitivity to Correlation

	Class A
Fitch base correlation assumption (average portfolio correlation 7%)	AAA
A 3% absolute increase to industry correlation (average portfolio correlation 10%, relative parameter stress of 40%)	AA+
A 10% absolute increase to industry correlation (average portfolio correlation 16%, relative parameter stress of 125%)	A+

Source: Fitch

Rating Sensitivity to Recovery Rates

The rated notes show good stability to changes in recovery rates. Haircutting the assumed recovery rates by 25% or 50% (to approximately 1/4 and 1/5, respectively, of the originators historical recoveries) does not impact the model-implied rating:

Rating Sensitivity to Recovery Rates

	Class A
Fitch base recovery rate assumption (portfolio weighted average recovery rate 23%)	AAA
A relative recovery rate haircut of 25% (portfolio weighted average recovery rate 17%)	AAA
A relative recovery rate haircut of 50% (portfolio weighted average recovery rate 11%)	AAA

Source: Fitch

² This section provides a greater insight into model-implied rating sensitivities. The results in this section show one potential outcome; however, in reality the transaction is exposed to multiple dynamic risk factors

Model-only sensitivity tests imply that the rated note remains 'AA' category in a mild combined stress; however, if high and severe combined stresses were to materialise immediately it could suffer a downgrade to 'A+' or 'BBB'.

Rating Sensitivity to Shifts in Multiple Factors

The table below summaries the rating sensitivity to stressing multiple factors immediately and concurrently. Three scenarios are evaluated to demonstrate the sensitivity of the rating to varying degrees of stress to the expected level of defaults, recoveries and correlation. Two of these scenarios, High and Severe, represent significant stresses not only to Fitch's assumptions but even more so compared to the originator's historical data. Please refer to the preceding page for more information on each stress component.

Rating Sensitivity to Shifts in Multiple Factors

	Class A
Original rating	AAA
Mild stress: default rate increase of 10%, recovery rate haircut of 10% and industry correlation increase of 5%	AA-
High stress: default rate increase of 25%, recovery rate haircut of 25% and industry correlation increase of 5%	A+
Severe stress: default rate increase of 25%, recovery rate haircut of 50% and industry correlation increase of 10%	BBB

Source: Fitch

The model-implied results of the combined stresses show that class A, with an initial rating of 'AAA', would suffer a downgrade of three notches in a mild stress scenario, a downgrade of four notches in a high stress scenario, and a downgrade of eight notches in a severe stress scenario. These results assume that the stress materialises immediately, before the transaction has benefited from de-leveraging or trapping of excess spread and that the stress affects only the highest paying assets.

Increased correlation is the main driver contributing to the model-implied results; however, increased default rates also have a significant impact. The impact of decreased recovery rates in the combined stresses is lower, predominantly due to Fitch's assumption of a seven year recovery lag for defaulted Italian assets (which is longer than other Western European countries).

Model, Criteria Application and Data Adequacy

Default and recovery data provided by UBI for the period 2000-2008 was used in Fitch's analysis. Fitch also relied on its European and Italian SME default rate and recovery rate benchmarks, which are, amongst other sources, based on data from Bank of Italy.

The originator provided vintage default data for up to 36 quarters after origination. There were no clear trends in the vintages or defaults over time. Data has been supplied based on sofferenze (hard defaults). Data from 2005 was also supplied based on the 180 days past due (dpd) default definition used in the transaction. This data shows a declining trend but the length of the time series is too short to draw any conclusions with confidence.

BBS supplied internal credit scores and expected probabilities of default (PD) for the obligors in the portfolio. These were considered in the qualitative assessment and found to show lower expected default rates than the values assumed by Fitch. These were not relied on directly in Fitch's quantitative analysis; however, Fitch will use this information in its ongoing surveillance of the portfolio.

Asset PDs were initially derived from the originator's historical data. The default rate assumptions used in the final analysis closely reflect Fitch's Italian PD benchmarks.

Recovery rate assumptions are based on Fitch's benchmarks, which imply lower recovery rates than the historical average recovery rate achieved by BBS.

Several models were used in assigning the rating to the notes. Fitch's Portfolio Credit Model (PCM) version 2.1.0 was used in the analysis of the asset portfolio. Fitch's Proprietary Cash Flow Model was used to further analyse the transaction's cash flows and liability structure. Fitch's Cash Flow Model was customised to account for the specific structure of the transaction.

For further information, please refer to section "Portfolio Credit Analysis".

Transaction and Legal Structure

The transaction is a balance sheet securitisation of secured and unsecured loans to small businesses in Italy, predominantly north west Italy. The loans have been transferred to UBI Finance 2 S.r.l., an SPV, prior to the transaction closing.

The issuer is owned 10% by UBI and 90% by Stichting Brixia, a Dutch foundation. Call and put agreements enable UBI to purchase all shares of the issuer six months after the senior notes have been fully repaid.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

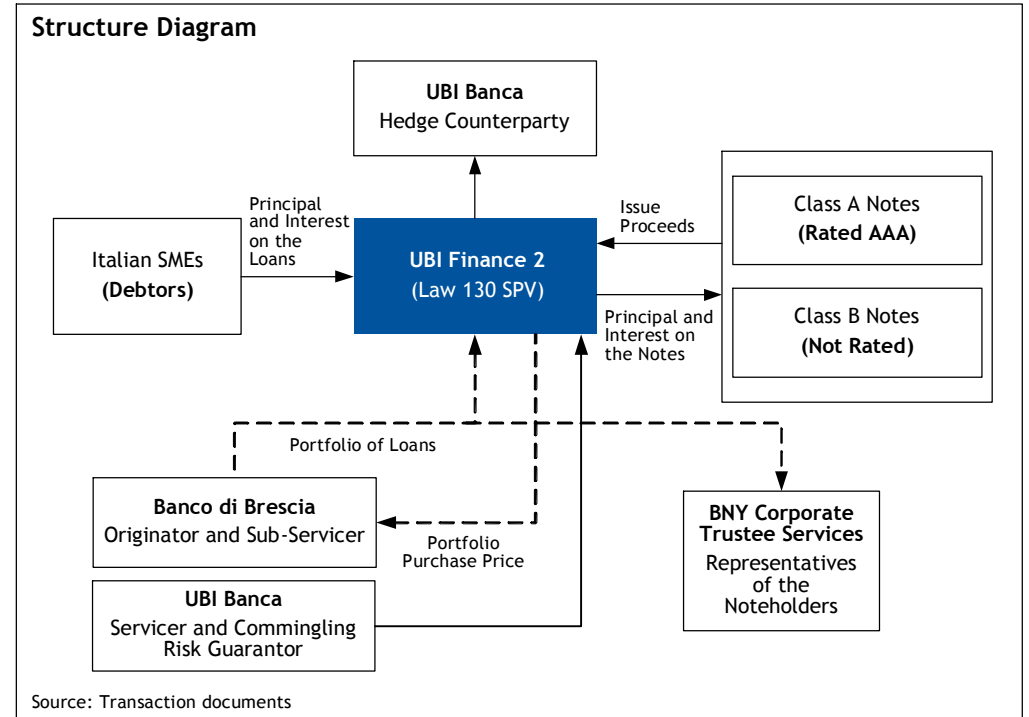
Support Ratings

UBI's Support Rating offers Fitch's view of a third-party's propensity and ability to support the bank

UBI's current Support Rating of '2' is the second highest possible Support Rating, indicating a high probability of external support from the state.

The Italian state is highly rated ('F1+'/'AA-'/Stable Outlook') but may not in all scenarios have the capability to support UBI.

Further information on Support Ratings and Support Rating Floors is available on Fitch's web site.



The Originator and its Parent Bank UBI

The loans were originated by BBS in its normal course of business prior to being transferred to the issuer; BBS is fully owned by UBI (rated 'F1'/'A+'/Stable Outlook). UBI fulfils several roles in the transaction including basis swap counterparty, interest rate swap counterparty for the 13% of fixed rate collateral, account bank, and servicer. However UBI, in its capacity as servicer, has delegated to BBS as sub-

servicer all the activities relating to the administration, management and recovery of the loans. It has also granted in favour of the issuer an autonomous first demand guarantee in relation to the due and punctual performance by BBS with respect to the transfer of all amounts collected by BBS as sub-servicer.

Although structural mitigants are in place, the rated notes could be vulnerable to a sudden default of UBI from its current ratings.

UBI is one of the five largest Italian banks. It focuses on retail and SME business and has a good track record. UBI has no known large individual risks. UBI will release financial statements for FY08 at end-March, which will be reviewed by Fitch's Financial Institutions Group ("FIG"). FIG expects a deterioration in asset quality for all Italian banks, but UBI should be better positioned than many of its peers, given its good knowledge of the markets it operates in and its good track record on managing assets.

The 'F1'/'A+' rating is Stable. UBI's Long-Term IDR was upgraded to this level in December 2008. The upgrade was driven by the bank's sound performance and the completion of its post-merger integration. The bank is likely to be supported by the Italian state if necessary. The bank's Support Rating is 2, which partly reflects the Italian Sovereign Rating of 'AA-', ie below the 'AAA' rating of many other European sovereigns. Of the Italian banks, only Unicredit and Intesa Sanpaolo - which are internationally important - have a Support Rating of '1'. Three other Italian banks have a Support Rating of '2' and the remaining banks mainly have Support Ratings of '3' (except for some special cases).

Mitigants to UBI Exposure

If UBI gets downgraded below 'F1'/'A', it must collateralise its exposure under the basis and fixed-to-floating interest rate swaps. If UBI gets downgraded below 'F2'/'BBB+', it must be replaced as swap counterparty, or obtain a guarantee, or take other action that does not result in a downgrade of the rated notes.

UBI, in its capacity as Italian account bank, guarantor of the Luxembourg account bank, and guarantor of BBS, must be replaced within 30 days upon downgrade of its Fitch Short-Term Rating below 'F1'. It must also arrange for the prompt transfer of all issuer-available funds standing to the credit of the Italian account bank, or Luxembourg account bank, to the newly appointed eligible entity.

Finally, in case UBI is downgraded at or below 'BBB' the issuer will appoint a back-up servicer.

Claw Back Risk

The transaction is subject to claw back risk if BBS defaults within three months of the portfolio transfer date. To mitigate the risk for the SPV, UBI has provided solvency certificates executed by BBS itself, the competent Court of Brescia and the Chamber of Commerce (*Camera di Commercio*) of Brescia.

Fitch has assumed that claw back risk pursuant to Article 65 of the Italian bankruptcy law is not material because no benefit to prepayments made by the borrowers is given in the analysis.

Commingling and Set-Off Risk

As mentioned above, BBS (unrated) as sub-servicer receives all payments from the underlying obligors. The transaction has a one day commingling risk exposure to BBS before payments are transferred to the collection account, held at UBI in the name of the issuer. As a mitigant to this risk, UBI has granted in favour of the issuer an autonomous first demand guarantee for a maximum amount of EUR119m in relation to the due and punctual performance by BBS. This is in respect to the transfer of all amounts collected by BBS in its capacity as sub-servicer.

Collections and recoveries from the underlying loans stand to the credit of the collection account held at UBI for one day only, and are then transferred to the interest and principal accounts held in the name of the issuer at the Luxembourg account bank (UBI Banca International SA, unrated), where they will remain deposited for a maximum period of six months. UBI has granted in favour of the issuer an autonomous first demand guarantee for a maximum amount of EUR74m in relation to the due and punctual performance by the Luxembourg account bank, with respect to the transfer of all amounts deposited in the interest and principal accounts. Note: as soon as the amounts standing to the credit of the interest or principal accounts exceed EUR5m, such amounts shall be transferred to the investment account held in the name of the issuer at the Bank of New York Mellon, London Branch (rated 'AA-'/'F1+'/'Stable).

The underlying obligors have a current account with BBS, and may keep their funds with the bank. In the event of an insolvency of the bank, they may try to set-off any losses suffered on their deposits against amounts they owe to the banks under their loan, creating a risk for noteholders. Compared to other European jurisdictions, crystallisation of set-off rights occurs earlier in Italy, as this potential set-off risk is limited to claims of the borrowers towards BBS that have arisen before the later of: (i) the date of publication of the notice of transfer in the Official Gazette; and (ii) the date of registration of the transfer with the companies' registrar. The maximum set-off amount is equal to EUR138m as of the closing date. If UBI's Short-Term Rating falls below 'F1', a set-off reserve will be funded using the issuer available funds as envisaged in the Priority of Payment (see below). The set-off reserve account is held in the name of the issuer at the Luxembourg account bank.

Priorities of Payment

Priorities of payment (pre-enforcement):

1. taxes, fees and expenses;
2. amounts payable to the swap counterparty (except upon a swap counterparty event of default);
3. class A notes' interest;
4. set-off reserve amounts (conditional upon UBI rating);
5. class A notes' principal;
6. class B notes' additional return;
7. upon redemption in full of class A notes, termination payments due to the swap counterparty under a swap counterparty event of default;
8. class B notes' principal;
9. upon redemption in full of class A and class B notes, any excess amount will be paid to the class B noteholders.

Events of Default

Events of default under the notes include:

- non-payment of interest and principal on class A notes by the issuer on the due date or within three business days (in the case of interest) or five business days (in the case of principal);
- issuer defaults in the performance of its obligations for 30 days;
- breach of Representations and Warranties by the issuer;
- insolvency of the issuer;
- it is or will become unlawful for the issuer to perform or comply with its obligations.

Portfolio Characteristics

Current Portfolio:

EUR2,079.39m

Mortgage Secured: 61%

Fixed/Floating:

13.5%/86.5%

WAS (floating only): 105bps

WAC (fixed only): 5.14%

Number of Obligor: 7,190

Key Information

Type of Assets: secured loans to small- and medium-sized businesses in Italy

Weighted Average Months to Maturity: 89

Max Months to Maturity: 355

Reinvestment Period: none

Non-Call Period: 18 months

Asset Analysis

The collateral at closing comprises 8,018 assets from 7,190 obligors. All assets have been originated by BBS in the course of its normal business.

Each asset must comply with the eligibility criteria at the time of inclusion.

Eligibility Criteria

Under Italian securitisation law, the portfolio eligibility criteria must be applied to all assets on the originator's book and the criteria must be made public in the Official Gazette. For this securitisation, receivables arise from loans that:

- have been granted to companies or individuals by BBS in relation to their commercial operations and are governed by Italian law;
- are fully drawn, pay monthly, quarterly, semi annual or annual instalments in euro, and interest payments are either fixed or variable;
- mature no earlier than 31 December 2009 and the outstanding principal is at least EUR10,000;
- on the closing date, have paid at least one instalment and are not in arrears;
- can be assigned;
- are economically first ranking mortgages, unsecured, or unguaranteed, and which are not secured by real estate types such as hospitals, prisons, schools, beaches, or bills of exchange.

Bank assets excluded from the securitisation portfolio include loans granted to charities (enti morali) or religious institutions, agricultural loans, loans where the borrower has a UBI credit score greater than 9, subsidized loans, and certain other categories.

If further loans on BBS's balance sheet are found to be eligible under the above criteria - due to error in the initial asset selection or transfer process - then these assets will be automatically transferred to the securitisation, and any payments that may be due to UBI following such transfer will rank junior to the rated notes.

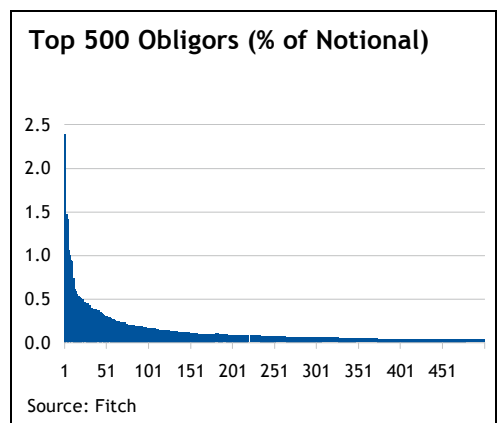
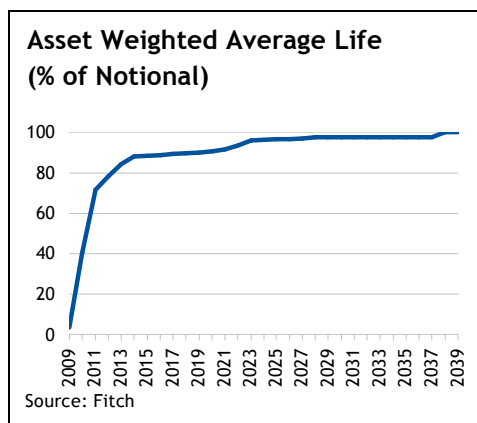
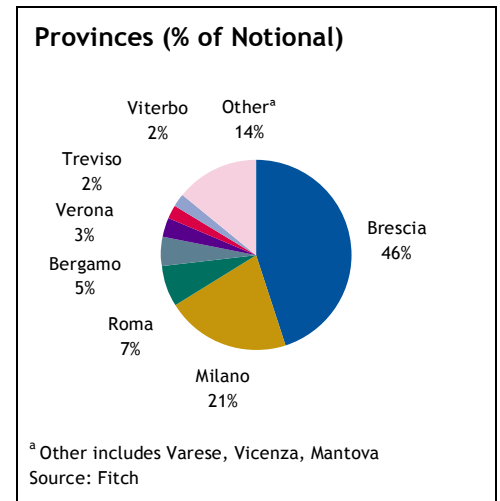
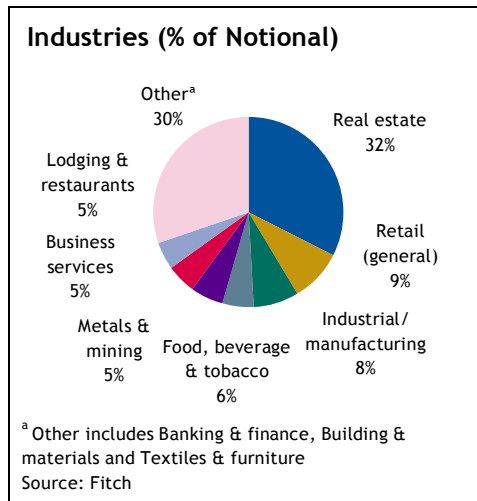
Default Definition

Assets will be classified as defaulted when payment has not been made for a period of more than 180 days or an asset has been classified as impaired (crediti ad incaglio), non performing (crediti in sofferenza) or restructured (crediti ristrutturati) under the Bank of Italy's Instructions. No assets were in default or in arrears on the closing date.

Portfolio Stratification

All assets are located in Italy with a high concentration in north west Italy, especially Brescia (45%) and Milan (21%).

Industry concentration is high. The three largest sectors account for 54% of the portfolio; 32% of the portfolio by volume (23% by count) is in real estate, 9% (16% by count) in retail and 8% (9% by count) is in industry and manufacturing. No industry appears to present systematically higher risk, based on a review of the PDs assigned by the originator to each obligor in the portfolio.



As can be seen in the Asset Weighted Average Life chart above, the portfolio is scheduled to de-leverage quickly. The portfolio notional is expected to reduce by 18% during the first year and by 36% over the first two years. Loans to the largest ten obligors are scheduled to amortise in line with the overall portfolio.

The portfolio, although granular, has some obligor concentration. The two largest obligors each account for 2.4% of the portfolio notional, while nine obligors make up more than 0.8% of the portfolio notional each; the ten largest obligors collectively represent 13.4% of the portfolio.

Portfolio Credit Analysis

The default rates (PDs) Fitch applied in its analysis are higher than the default rates derived from the originator’s historical default data. This is true even after applying a +30% long-term mean (LTM) adjustment factor (based on historical default data sourced from the Bank of Italy) to the originator’s historical default rate, in order to better capture the average default rate expected over a full economic cycle.

Default Rates (%)

Term	1 year	6 years
Fitch assumption	0.8	8.4
Originator default rate, with LTM adjustment	0.6	8.0
Originator reported historical default rate	0.4	6.1

Source: Fitch

Fitch modelled all assets in the portfolio with a one-year default probability of 0.8% (comparable to the historical performance of 'BB+' rated assets). This assumption was not applied to the nine obligor groups that each comprise more than 0.8% of the initial pool; these assets were assessed individually by Fitch's corporate ratings group, based on key financial indicators. This assessment indicated a lower credit quality (between 'BB' and 'CCC') for the large obligor groups compared to the granular part of the portfolio, and this was reflected in Fitch's analysis. This reduced the weighted average portfolio credit quality to 'BB'.

Fitch stressed its base assumptions for the five largest obligors, all of which represent between 1.1% and 2.4% of the portfolio at closing: these obligors were modelled with recovery rates 25% below the base case (i.e. 0.75 times the base recovery rate) and correlation increased by 50% (absolute amount), as is consistent with the OCU (Obligor Concentration Uplift) stress pursuant to Fitch's corporate CDO criteria (see "*Global Rating Criteria for Corporate CDOs*", published April 2008).

Sixty-one percent of the assets are secured on first ranking mortgages or equivalent security. Fitch has been provided with collateral information for each asset. The agency applied lower recovery rates in its analysis compared to the originator's historical experience.

The use of higher default rates and lower recoveries compared to UBI's historical data was motivated by a number of factors, including:

- while the data provided by UBI covers a period of nine years, data from the Bank of Italy shows that the Italian default rate peaked in the early 1990s; this stress is incorporated in Fitch's assumptions;
- the base one-year portfolio default rate of 0.8%, which Fitch assumed in its analysis, is in line with the agency's Italian SME benchmark default rate. Fitch does not believe that SME obligors *on average* will behave like investment grade companies and hence this default rate, while above the originator's historical experience, is at the higher end of the agency's expectations;
- the ten largest obligors account for 13.4% of the portfolio notional. Fitch has reviewed financial information for these obligors and applied additional stresses in its analysis;
- recovery rate studies indicate average recoveries for SME loans that are lower than those achieved by UBI historically. Fitch has assumed recoveries closer to the market average level, whilst differentiating by the type and level of collateral for each loan;
- Fitch has further reduced its assumed recovery rates by 30% to reflect the fact that recoveries may be substantial below historical averages in a 'AAA' stress.

Fitch based its credit analysis on a definition of default equal to insolvency (hard default). Furthermore:

- no credit has been given to prepayments in Fitch's analysis;
- under the servicing agreement, the maturity date of up to 20% of assets can be renegotiated. Fitch has thus modelled maturity extensions for 20% of the portfolio.

The section below shows the result of the asset analysis.

Asset Rating Default Rate

PCM Results

Rating stress (%)	Rating default rate (RDR)	Rating loss rate (RLR)
'AAA'	30	23

Source: Fitch

In its credit analysis, the agency used the Fitch Portfolio Credit Model (PCM) to determine the hurdle default rate (rating default rate, RDR) for the 'AAA' rated note. The PCM is Fitch's main quantitative portfolio analysis tool. The model simulates the joint default behaviour for a portfolio of credit exposures, taking into account asset specific PDs, recovery rates, and default correlations. See the reports "Global Rating Criteria for Corporate CDOs" and "Global Criteria for Cash Flow Analysis in Corporate CDOs", both dated 30 April 2008, for further details.

Cash Flow Modelling (Liability Analysis)

In the second step of Fitch's analysis the structural protection and the excess spread were analysed in a customised proprietary cash flow model. The resulting breakeven default rates (which show the maximum default rate a tranche could withstand without a loss) for each tranche and rating level were compared to the hurdle rates produced by PCM. For a tranche to pass, the breakeven default rate had to be above the PCM hurdle rate.

Fitch applied a weighted average margin compression stress, where defaults are applied to the highest yielding assets first. This stress meant that Fitch gave very limited benefit to excess spread trapping in its analysis. This assumption is likely to be conservative in reality.

The analysis showed that the protection provided for the class A tranche would be sufficient to withstand the default hurdles/losses produced by the PCM model for the individual rating assigned to that tranche. The simulations also highlighted the sensitivity of the transaction to defaults occurring early in the transaction life - as the assumed recovery lag for Italy is longer than for other Western European jurisdictions - and to increasing interest rates, when the cost of funding of the transaction increases while excess spread remains limited, due to early defaults. The driving Fitch default scenarios, break-even default rates, and the cushions for the base cases are highlighted below:

UBI Finance 2 S.r.l. Break-Even Default Rates

Class	A
Expected rating	AAA
Breakeven default rate (BDR) (%)	32.40
PCM default hurdle (%)	29.90
Default cushion (%)	2.50
Driving scenario	
Default timing	Front
Euribor	Rising

Source: Fitch

The cushion noted in the table above also results from the transaction structure, whereby the class A tranche receives all the benefit of excess spread until redeemed in full. In a front-loaded default stress, excess spread helps maintain timely interest on the class A notes and also contributes to the faster repayment of class A principal (compared to using just principal proceeds). In the mid-loaded and back-loaded default timings, expected amortisation on the portfolio significantly reduces the class A note principal, before defaults begin to disrupt class A cash flows. Default timing scenarios have been determined based on Fitch's "Global Criteria for Cash Flow Analysis in Corporate CDOs", published April 2008.

The transaction has the following hedges in place to address index mismatches between the assets and the liabilities which pay six-month Euribor:

1. fixed rate vs six-month Euribor (the convertible rate loans are initially hedged under this agreement);
2. one-month Euribor vs six-month Euribor;
3. three-month Euribor vs six-month Euribor (the Rendibor loan is hedged under this agreement);
4. 12-month Euribor vs six-month Euribor.

There are two loans in the portfolio that currently pay a fixed rate and convert to a floating rate in the next two years. These loans are included in the first swap above, while paying a fixed rate; if/when they convert to a floating rate, they will be included in the appropriate basis swap (depending on the index they will pay). There is one loan in the portfolio, referenced to Rendibor, which is included in the third swap above; however, portfolio exposure to this one loan is limited.

Counterparty Risks

UBI fulfils several roles in the transaction, including basis swap counterparty, interest rate swap counterparty (for the 13% of fixed rate assets), account bank, guarantor for sub-servicer commingling risk, and servicer. The transaction documents include mitigation - such as counterparty replacement upon downgrade and a cash sweep for account bank balances above a specified threshold - that comply with Fitch's current counterparty criteria. However, the class A notes would be vulnerable to a sudden and direct default of UBI Banca. UBI Banca currently has a Stable Outlook and a Support Rating of '2' and is well-positioned as one of the five largest Italian domestic banks.

Fitch is currently reviewing its counterparty criteria. Please see the 15 October 2008 commentary entitled, "*Fitch: Counterparty Criteria for Global Structured Finance under Review*", available on the agency's public website, www.fitchratings.com.

Hedging Arrangements

The basis and fixed-to-floating interest rate hedge counterparties (UBI at closing) will be subject to replacement conditions that comply with Fitch's swap criteria (see "*Counterparty Risk in Structured Finance Transactions: Hedge Criteria*", dated 1 August 2007 and available at www.fitchratings.com). In particular, if the Short-Term Rating of the hedge counterparty is lowered below 'F1' or its Long-Term Rating is lowered below 'A', the counterparty must, within 30 calendar days, and at its own expense, take one of the following actions:

- find a replacement counterparty or guarantor with the minimum ratings sought by Fitch; or
- post collateral in favour of the issuer that satisfies Fitch's swap criteria.

The proposed mechanisms are in line with Fitch's current criteria for counterparty risk exposure. The transaction is exposed to a counterparty defaulting prior to a downgrade below 'A'/'F1', and a default within 30 days of such downgrade. However, such risk is deemed to be commensurate with a 'AAA' rating under Fitch's current criteria.

Investment Account Bank and Eligible Investments

The issuer available funds standing to the credit of the investment account will be invested by the cash manager (Bank of New York Mellon, London branch) on behalf of the issuer in eligible investments, subject to the following conditions (see "*Counterparty Risk in Structured Finance: Qualified Investment Criteria*", dated 27 September 2007 and available at www.fitchratings.com):

Key Parties

Italian account bank	UBI ('A+'/'F1'/Stable)
Luxembourg account bank	UBI Banca International S.A. (NR, guaranteed by UBI)
Servicer/sub-servicer	UBI/BBS (NR, guaranteed by UBI)
Swap counterparty	UBI ('A+'/'F1'/Stable)
Rep of Noteholders	BNY Corporate Trustee Services Ltd

Source: Transaction documents

- they must be denominated in euro;
- they are rated at least 'AA-' and/or 'F1+' for securities and 'AAA' and/or 'V1+' for money market funds; and
- they mature prior to the following payment date, or can be liquidated without penalty before the next payment date.

If the Bank of New York is downgraded below 'F1', the issuer must find a replacement cash manager with a minimum rating of 'F1' within 30 days (see "*Commingle Risk in Structured Finance Transactions: Servicer and Account Bank Criteria*", dated 9 June 2004 and available at www.fitchratings.com).

The proposed mechanisms are in line with Fitch's current criteria for counterparty risk exposure, and limit credit risk exposure to eligible investments.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events, with a review conducted at least yearly. Events which may trigger a review include, but are not limited to, the following:

1. asset delinquencies and defaults;
2. portfolio migration (the quarterly servicer report will include loan-by-loan information with regards to, among others, the internal rating assigned to the obligors by BBS);
3. counterparty rating downgrade or jump to default.

The surveillance process follows the same two-step process outlined above in the *Asset Analysis* and *Cash Flow Modelling* sections; however, all analysis is conducted on the basis of the then current portfolio. Fitch's structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

BBS supplied internal credit scores and expected PDs for the obligors in the portfolio. These were reviewed but not relied on in Fitch's quantitative analysis. As mentioned above, Fitch will use this information in its ongoing surveillance of the portfolio.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing surveillance.

Appendix A: Transaction Overview

UBI Finance 2 S.r.l. - Credit Products/Italy

Capital Structure - Total Issuance EUR2.079B

Class	Rating	Size (EURm)	CE (%) ^a	PMT freq	Basis	Spread coupon (%)	First IPD	Maturity	ISIN
A	AAA ^b	1,559.50	25.00	Semi-annual	Euro floater	0.40	20 Jul 2009	20 Jan 2046	IT0004456197
B	NR	519.85		Semi-annual	Euro floater	n.a.	20 Jul 2009	20 Jan 2046	IT0004456171

^a Credit enhancement in the form of subordination only (calculated on a portfolio of EUR2.079B)

^b Timely payment of interest rating

Source: Transaction documents

Key Information

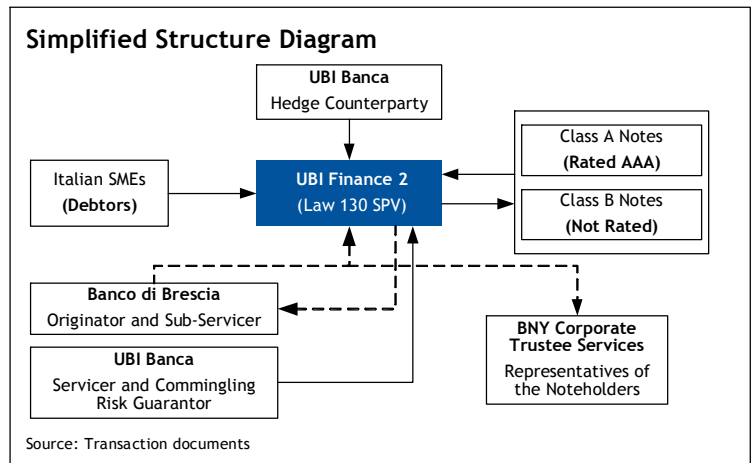
Purpose	Balance sheet	Role	Party (trigger)
Location of assets	Italy	Italian account bank	UBI Banca ('F1')
Structure	Pass-through, sequential	Luxembourg account bank	UBI Banca International S.A.
Credit enhancement type	Overcollateralisation, excess spread	Collateral administrator	TMF Management Italy S.r.l.
Portfolio composition	Primarily Italian senior secured loans	Principal paying agent	The Bank of New York (Luxembourg) Italy S.A.
Location of SPV	Italy	Luxembourg account bank guarantor	UBI Banca ('A+'/'F1')
Primary analyst	alessandro.cipolla@fitchratings.com	Issuer	UBI Finance 2 S.r.l.
Performance analyst	jeffery.cromartie@fitchratings.com	Trustee	BNY Corporate Trustee Services Limited
		Swap counterparty	UBI Banca ('A+'/'F1')

Source: Transaction documents

Structural Information

Reinvestment period	None
Closing date	27 February 2009

Source: Transaction documents



Key Rating Drivers

- **Defaults, Recovery Rates & Correlation:** the key first order drivers behind the ratings are the assumptions for the expected levels of defaults, recovery rates and the correlation such a pool would exhibit. Fitch's assumptions for each of these are highlighted in this report and the sensitivity to these drivers is covered within the *Rating Sensitivity* section. For example, increasing the probability of default (PD) of each loan in the PCM by a factor of 25%, using a relative haircut of the tiered asset-specific recovery rate of 50%, and increasing the industry correlation by 10% (*Moderate Stress*) results in a model-implied five notch downgrade of the class A from 'AAA' to 'A+'. However, actual rating volatility may be different to model-implied rating volatility, as multiple variables may shift simultaneously.
- **Obligor Concentration:** the largest 10 obligors represent 13.4% of the total portfolio. Fitch performed credit assessments on these top 10 exposures. Additionally, the class A notes have sufficient subordination to withstand the estimated default of these top 10 obligors (see *Transaction Summary* and *Portfolio Stratification*).
- **Servicer Commingling Risk:** BBS, as sub-servicer, receives all payments from the underlying obligors. BBS retains control over these payments for one day before transferring the payments to the collection account at UBI, which is held in the name of the issuer. The transaction mitigates this one day commingling risk via a guarantee by UBI, up to a maximum amount of EUR119m, for the punctual performance by BBS in its role as sub-servicer (see *Commingling and Set-Off Risk*).
- **Account Bank Commingling Risk:** UBI Banca International S.A., the Luxembourg account bank, retains control over the issuer's interest and principal accounts - in which collections and recoveries from the underlying loans are deposited - for a maximum period of six months. The transaction mitigates the six-month commingling risk via a guarantee by UBI, up to a maximum amount of EUR74m, for the punctual performance by UBI Banca International S.A. in its role as Luxembourg account bank. Furthermore, once the balance of the interest or principal account exceeds EUR5m, all amounts are transferred to the investment account held in the name of the issuer at the Bank of New York Mellon, London Branch (rated 'AA-'/'F1+' / Stable) (see *Commingling and Set-Off Risk*).
- **Set-Off Risk:** the transaction is exposed to the set-off risk of amounts standing to the credit of the underlying borrower accounts, as of the transfer date of the loans to the issuer. Any amounts deposited into borrower accounts after the transfer date are not eligible to claim set-off under in the Italian jurisdiction. As a result, the maximum potential amount of claims under set-off are quantifiable. Should the rating of UBI fall below 'F1', a set-off reserve will be funded in the priority of payments (see *Commingling and Set-Off Risk*).
- **Basis Risk:** assets that are not indexed to six-month Euribor - the index of the liabilities - are hedged via four basis swaps, thereby mitigating the basis mismatch between assets and liabilities (see *Cash Flow Modelling*).

Source: Transaction documents

Appendix B:

Transaction Comparison

Transaction name	UBI Finance 2 S.r.l.	PMI Uno Finance S.r.l.	PMI 2 Finance S.r.l.	TdA Sa Nostra Empresas 1, FTA
Originator and Servicer	UBI Banca	Unicredit Banca d'Impresa	Unicredit Banca d'Impresa	Caja de Ahorros y Monte de Piedad de Las Baleares
Closing date	Feb 09	Apr 04	Nov 04	Nov 08
Reinvestment period (years)	n.a.	n.a.	n.a.	n.a.
Transaction size (EURm)	2079.35	231.8	307.3	250
Capital structure (% credit enhancement)				
'AAA' (class A)	25.0	14.2	11.8	35.4
Portfolio overview (subject to change)	Actual	Actual	Actual	Actual
Number of loans	8018	472	737	830
Number of obligors	7190	472	737	746
Largest obligor (%)	2.4	0.86	0.49	4
Largest 10 obligors (%)	13.4	8.59	3.99	23.5
Fitch weighted average rating factor	BB	BBB-/BB+	BBB-/BB+	BB-/B+
Fitch weighted average recovery rate ('AAA')	22.7	14.3	14.3	52.8
Weighted average coupon on fixed collateral (%)	5.14	n.a.	n.a.	5.9
Weighted average margin on float collateral (%)	1.05	1.53	1.52	1.1
Floating rate securities (%)	86.5	100	100	92.8
Weighted average life (years)	6	3	2.75	10.6
Portfolio composition (%)				
Mortgage loans	61	0	0	54.1
Unsecured loans	39	100	100	45.9

n.a. - Not applicable

Source: Transaction documents and Fitch

Copyright © 2009 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.