BANCA

UBAE

مصرف اليوباي

2013

Annual Report & Financial Statements
Forty-First Financial Year

Mission

Finding global and local banking solutions for our clients internationally oriented.

Vision

To be the best niche bank in Italy for Italian import/export firms, due to our strong relationship in a number of emerging markets, especially in Mena region and Libya.

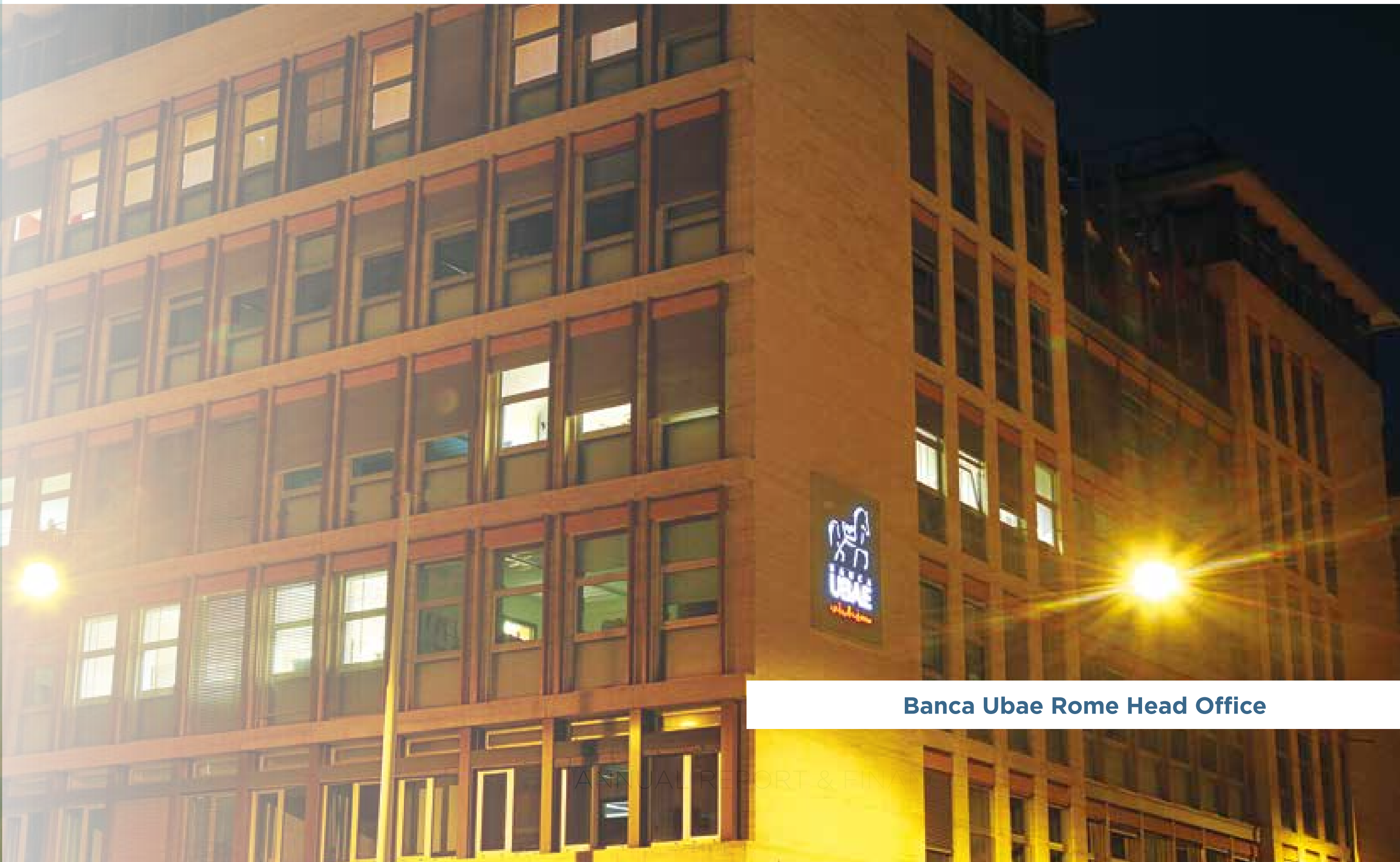
Strategy

To maintain long-term sustainable growth, creating value for our customers, shareholders and employees.

Share Capital	Euro 151,060,800 fully paid up
Reserves (as at 31 December 2013)	Euro 47,270,594

Shareholder by Percentage

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%



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Arch of Marcus Aurelius, Tripoli – Libya

BOARD OF DIRECTORS 2012 – 2014

Chairman
Abdullatif El Kib *

Vice Chairman
Alberto Rossetti *

Directors
Omran M. Abosrewil
Radaedin M. Banuga
Mohamed Benchaaboun
Luigi Borri
Abdelrazak M. Elhoush *
Omran M. Elshaibi
Ernesto Formichella *
Abdusslam A. Gehawe
Ahmed A. Omar Ragib *

*** member of the Executive Committee**

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

BOARD OF AUDITORS

Chairman
Marco Leotta (1)
Cosimo Vella (2)

Statutory Auditors
Fabio Gallassi
Francesco Rocchi (3)

Alternate Auditors
Daniele Terenzi

(1) Deceased 18 November 2013.
(2) Replaced Mr. Leotta as Chairman of the Board of Auditors as of 19 November 2013 in accordance with Art. 2401 of the Civil Code.
(3) Replaced Mr. Vella as Statutory Auditor as of 19 November 2013 in accordance with Art. 2401 of the Civil Code.

MANAGEMENT

General Manager
Mario Sabato (1)

Deputy General Manager
Ezzedden Amer (2)

Assistant General Manager Operations
Adel Aboushwesha

Chief Commercial Officer
Massimo Castellucci

Chief Administrative Officer
Fabio Fatuzzo

Representative, Tripoli
Mahmud Ali Elesawi

(1) Replaced Mr Biagio Matranga on 1 June 2013.
(2) Already appointed Assistant General Manager Finance and Deputy General Manager ad interim on 8 March 2013 and confirmed in the role of Deputy General Manager on 1 December 2013.

Key company data and financial/economic ratios

EUR

FINANCIAL DATA	1 MAR 2012 – 31 DEC 2012	31 DEC 2012 FOR INTERNAL PURPOSES	31 DEC 2013
FINANCIAL ASSETS	494,247,213	494,247,213	368,294,291
BANKS FINANCING	219,153,986	219,153,986	200,706,221
DEPOSITS TO BANKS	1,107,986,117	1,107,986,117	736,417,903
CUSTOMER FINANCING	502,804,813	502,804,813	385,396,142
EARNING ASSETS	2,324,192,129	2,324,192,129	1,690,814,557
TOTAL ASSETS	2,377,071,704	2,377,071,704	1,741,190,063
DEPOSITS FROM BANKS	1,077,961,227	1,077,961,227	1,004,935,386
FREE DEPOSITS AND A/C WITH BANKS	503,354,583	503,354,583	285,400,065
SUBORDINATED LOANS	100,120,771	100,120,771	100,000,000
CUSTOMER FUNDING	442,710,367	442,710,367	111,673,358
TOTAL FUNDING	2,124,146,948	2,124,146,948	1,502,008,809
RESERVES	43,677,511	43,677,511	47,270,594
SHARE CAPITAL	151,060,800	151,060,800	151,060,800
NET PROFIT	15,983,577	22,863,946	10,152,522
GROSS WORTH	210,721,888	217,602,257	208,483,916
NET INTEREST INCOME	24,759,729	32,652,319	26,308,875
NET COMMISSIONS	15,564,578	18,700,904	12,800,450
NET FINANCIAL INCOME	2,087,338	5,153,660	-132,540
NET TRADING INCOME	42,411,645	56,506,883	38,976,785
OPERATING CHARGES	-22,377,904	-26,552,259	-27,047,743
NET OPERATING PROFIT	20,033,741	29,954,624	11,929,042
NET PROFIT	15,983,577	22,863,946	10,152,522
TURNOVER LETTERS OF CREDIT OIL	804,068,000	2,208,180,000	1,499,080,000
TURNOVER LETTERS OF CREDIT NO OIL	496,031,000	1,527,230,000	1,037,670,000
TURNOVER GUARANTEES	128,223,911	113,295,080	166,356,350
OUTSTANDING GUARANTEES	342,560,880	343,969,810	337,625,650
GROSS WORTH/TOTAL ASSETS	9.00%	9.15%	11.97%
LOANS/DEPOSITS RATIO	45.66%	45.66%	45.42%
INTERBANK RATIO	83.93%	83.93%	72.63%
IMPAIRED LOANS/EARNING ASSETS	0.22%	0.22%	0.13%
ROE NET PROFIT/PAID CAPITAL	11.43%	13.63%	6.05%
ROE NET PROFIT/GROSS WORTH	9.10%	10.51%	4.87%
ROI NET PROFIT / FUNDING & EARNING ASSETS	0.43%	0.51%	0.32%
ROA NET PROFIT/TOTAL ASSETS	0.81%	0.96%	0.58% *
OPERATING CHARGES /NET TRADING INCOME	52.76%	46.99%	69.39%
NET PROFIT/NUMBER OF EMPLOYEES	115,544	137,735	60,074
NUMBER OF EMPLOYEES	166	166	169
TOTAL CAPITAL RATIO	17.54%	17.54%	24.27%
TIER I CAPITAL RATIO	11.68%	11.68%	16.36%
ELIGIBLE NET WORTH	294,832,554	294,832,554	306,996,148

* as per art. 90-CRD IV (EU Directive 36/2013)


Antique Roman Glass Vase (Lybia)

ANNUAL REPORT

1 January – 31 December 2013

Mr. Abdullatif El Kib

Chairman's Statement

Dear Shareholders,

Over the course of 2013, the world economy performed noticeably better than in the previous year, although growth remained modest and was unevenly distributed.

In the eurozone, stringent fiscal policies designed to contain sovereign debt placed a significant drag on economic activity. With financial conditions tightening, countries with the highest public debt were the most penalized. In fact, countries that had long been living beyond their means – notably Greece, Ireland, Portugal, Spain and to a lesser extent perhaps Italy itself – set the recession in train and went on to suffer its consequences, albeit to varying degrees.

Across the eurozone, GDP fell by 0.4% in 2013, while this year should see a modicum of growth (+ 1% approx.) in spite of three enduring risk factors: the brittleness of the region's economic recovery, lurking sovereign-debt crises, and the vulnerability of the eurozone's banks.

In Italy, faint signs of an easing of the recession may be discerned in the fact that GDP contracted by 1.8% in 2013, compared with 2.5% in 2012. Unfortunately, unemployment continued to rise, almost hitting 12% by the end of last year.

The very serious straits which the Italian economy is going through reflect Impairedd conditions in many countries that had become Italy's established trading partners as well as diminishing domestic consumption and investment. As widely acknowledged, it is chiefly small and medium-sized firms that have had to close down or suspend operations for lack of bank credit. In turn, Italian banks in general and the larger ones in particular have witnessed profits fall even as the volume of their bad debts surged, resulting in significant cuts to both branch networks and personnel, combined with a tendency to standardize products and services.

While comparatively less penalized by the global financial crisis, economies in North Africa and the Middle East – Banca UBAE's traditional markets – have also been weakened, with growth held back by regional conflicts, political crises and/or stalled reform processes. Oil prices fluctuated within a fairly narrow range, in any case, thus averting highly disruptive speculative phenomena. Most oil-exporting countries continued to enjoy steady growth (often backed by high levels of public spending) in their non-oil sectors. On average, however, Banca UBAE's target countries performed less strongly in 2013, as energy exports were occasionally interrupted and domestic demand slumped, yet conditions are expected to improve in 2014. GDP in the region should rise by 3.3% this year (up from 2.2% in 2013) and nearly 5% in 2015 according to IMF forecasts.

For those countries, the main challenges over the medium term are economic diversification and the development of the private sector to provide the revenue and above all the jobs which the state is no longer in a position to offer.

Although Europe was still in recession in 2013 as mentioned, its banks began to feel the benefits of the ECB's expanded remit; for besides setting the eurozone's monetary policy to preserve currency and interest-rate stability, the institution will now wield direct supervisory powers over national banking systems, hence will be a powerful instrument for the promotion of eurozone-wide financial stability.

Against the economic backdrop represented by 2013 – an adverse year for sure – public debt remains the true unknown as far as 2014 is concerned. Meaningful structural reforms are under way in Europe, but will take time to make a visible impact on macro-economic data. So while balance-of-trade figures improved last year (with export volumes pointing to even better results in 2014) and the public finances were fixed in several countries, growth is still some way from pre-2011 levels. In the eurozone generally and in Italy specifically, in fact, a genuine recovery will only become apparent in late 2014 and the early months of 2015. As things stand, analysts expect the Italian economy to grow by 0.6% in 2014 and 1.1% in 2015, compared with 1% and 1.4% respectively for the eurozone as a whole.

2014 has been defined by a number of economists as a year of transition and tensions, a time when many countries around the world – in the "old continent" in particular and Italy being the most prominent in this group – will have to undertake far-reaching structural reforms and take tough, unpopular decisions in the economic sphere in order for an upturn to materialize towards the end of the year, and more crucially to lay the groundwork for far more vigorous and robust patterns of growth thereafter.

In the very challenging context outlined above the results achieved in 2013 by Banca UBAE, an internationally oriented niche institution, have been more than satisfactory. As for the future, we feel confident that the strategy adopted by its governing bodies will guide the Bank – with the continued support of its Shareholders – towards even more ambitious results in 2014, confirming its status as a worthwhile and profitable investment.

Breakdown of italian imports/exports and UBAE's share of yearly totals

EUR/mn

COUNTRIES	2013		2012		2011	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
TURKEY	5,507	10,084	5,257	10,618	5,978	9,628
UAE	1,299	5,511	651	5,511	862	4,736
SAUDI ARABIA	5,502	4,503	7,483	4,042	7,209	3,718
ALGERIA	6,275	4,268	8,972	3,767	8,275	3,018
SOUTH KOREA	2,359	3,805	2,804	3,465	3,258	2,932
TUNISIA	2,299	3,220	2,251	3,170	2,575	3,049
INDIA	3,976	2,975	3,751	3,349	4,782	3,740
LIBYA	8,094	2,849	12,874	2,404	3,972	613
EGYPT	1,872	2,835	2,296	2,863	2,528	2,590
MALTA	212	1,549	249	1,690	260	1,401
MOROCCO	657	1,530	587	1,367	615	1,477
LEBANON	43	1,294	34	1,243	35	1,331
IRAQ	2,950	1,270	3,512	634	2,857	490
QATAR	1,704	1,076	2,329	1,026	2,060	766
IRAN	137	1,055	2,240	1,407	5,328	1,866
KUWAIT	142	796	99	835	80	580
JORDAN	42	711	54	667	58	628
OMAN	141	435	94	465	126	330
PAKISTAN	477	430	430	611	584	492
CYPRUS	54	419	112	560	89	666
BANGLADESH	865	273	770	235	715	312
SRI LANKA	318	206	352	206	399	220
BAHRAIN	147	159	161	196	217	163
YEMEN	11	146	34	79	14	54
SUDAN	16	136	15	160	242	138
SYRIA	27	125	61	244	960	906
MAURITANIA	193	55	179	58	211	36
BURKINA FASO	4	38	3	39	12	37
CHAD	2	26	0	26	3	17
TOTAL	45,324	51,782	57,654	50,937	54,304	45,934
UBAE'S SHARE	774	1,500	1,042	2,022	878	1,188
UBAE PERCENTAGE	1.71	2.90	1.81	3.97	1.62	2.59

Antique Roman Glass Vase (Lybia)

SUMMARY OF OPERATIONS

1 January – 31 December 2013

INTRODUCTION

The results illustrated in these Financial Statements for 2013 are compared to those for a ten-month period in 2012 (1 March 2012-31 December 2012), given that the Bank's spell in "extraordinary administration", due to the well-known events in Libya and the fact that Banca UBAE's majority shareholder was headquartered in that country, ended on 29 February 2012.
In the light of the above, and in line with Banca d'Italia directives, closing balances for each of the two above mentioned periods have been used for the purpose of comparison.

Given the non-homogeneous nature of the accounting periods compared, to make the information more meaningful financial data in the Summary of Operations also includes reclassified accounting data for the 12-month period 1 January – 31 December 2012. All such reclassified data must be considered pro-forma and are unaudited.

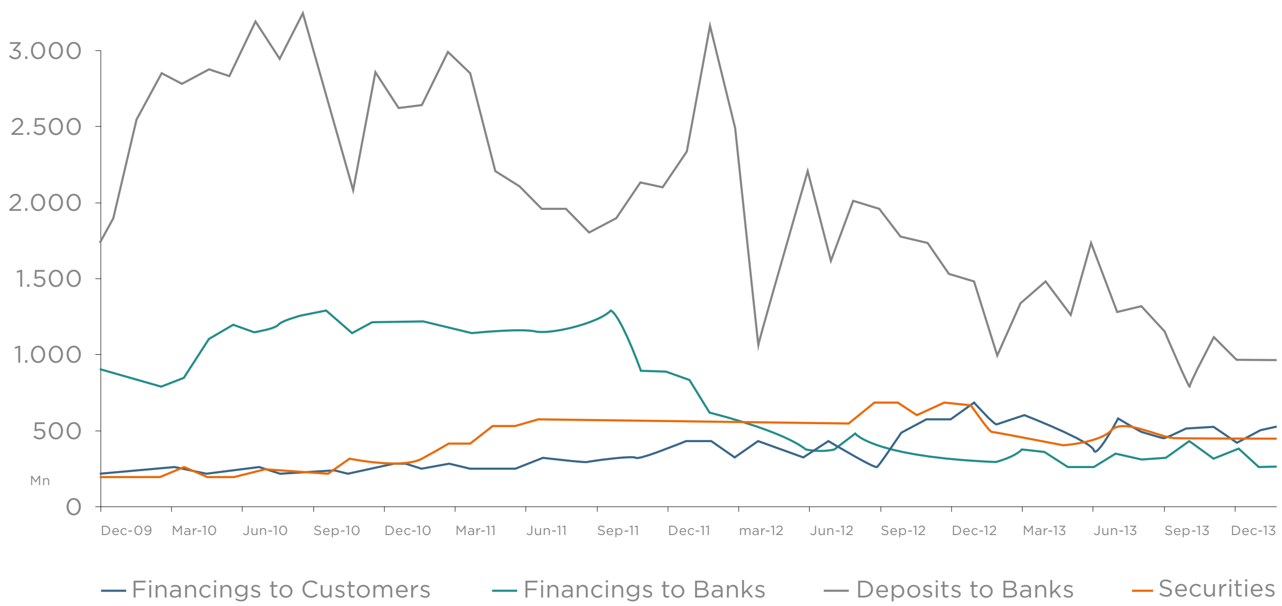
BANKING OPERATIONS

Loans and Advances

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, while retail credit plays only a marginal role.

During the past year difficulties created by the protracted financial and economic crisis in world markets have had a negative impact on loans and advances, which decreased for both banking and other customers.

These reductions are reflected in a deliberate adjustment to the Bank's lending policy in favour of a more balanced structure:



Given their riskiness and above all their extraneousness to the Bank's core business, short-term loans to corporate clients for purposes other than trade finance are kept to a minimum and are reserved for parties who do business with Banca UBAE on a regular basis. Credit risk is thus generally modest.

Commercial Operations on Foreign Markets

Again during the past year commercial activity with selected countries was the mainstay of UBAE's banking operations and a significant source of revenue that enabled the Bank to cope with the adverse conditions in financial markets. The international scene in 2013 proved especially complex, on the one hand, because political unrest continued following "Arab Spring" uprisings in several North African and Middle Eastern countries and indeed by a worsening climate in certain other countries (Syria, Egypt and Sudan), on the other, the uncertain financial situation that in particular hit Europe and Italy itself.
Despite this recessive economic scenario, thanks to the market position the Bank has gained in past years it managed to react promptly and effectively by focusing its efforts on business development, identifying new customer targets and broadening the range of services offered to existing commercial counterparties. This policy has made it possible to limit the negative impact of recessive situations in markets where the Bank operates.

Also operations developed by the Bank in the purchase of receivables without recourse area produced a significant return. Simultaneously the Bank has continued to analyze and monitor customers very carefully so as to be in a position to deal with any credit, market and operational risks effectively.

The Bank continued to pursue its core activities during the year despite having to face a period marked by reorganization of various economic sectors in countries of interest, both because of a suspension of oil product exports and a downturn for global demand in importer countries.

During the year the Bank supported internationally-oriented customers with increasingly tailor-made products and services, basing these activities on certain fundamental pillars:

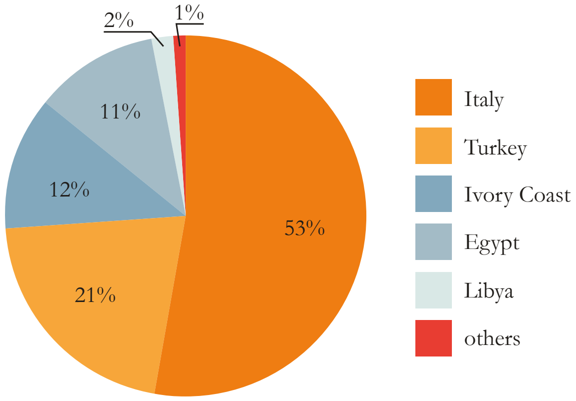
A) specialized consultancy through its existing worldwide network of consultants, Rome he adquarters, the Milan branch and the representative office in Tripoli, Libya;
B) international products and services, often with the support of Sace or other similar international agencies;
C) pinpointing the right domestic and international partners (Chambers of Commerce, regional banks, foreign banks) with whom to identify business opportunities;
D) targeted meetings in Italy and abroad, using both B2B contacts and forums, with multinationals and domestic/foreign groups in the corporate sector;
E) precise knowledge of international reference markets, signalling to customers any overseas business opportunities.

2013 was marked by a substantial boost to business based on vigorous and altogether successful marketing campaigns aimed both at consolidating existing market shares being threatened by international competition and at penetrating new, fast-growing markets. Despite the already mentioned decrease in "oil" flows because of lower Libyan crude oil exports to Italy, the Bank kept a very careful eye on any positive signs in this sector, which in fact were seen in the latter part of the year, in order to lay the foundations for more profitable action in the future.

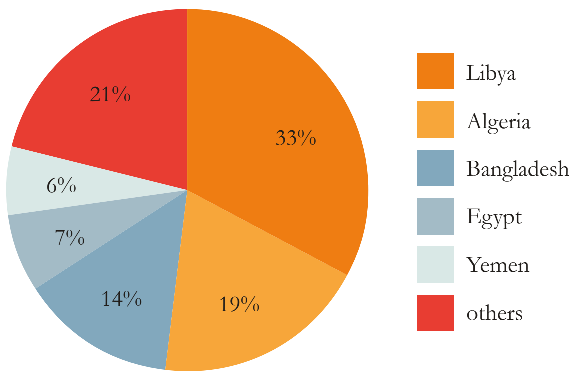
Furthermore, the Bank established significant operations during the year with leading Italian companies, large banks and important public-sector operators. These agreements are an indication of the high standing achieved by the Bank in the business field over the years, especially considering Italy's rather depressed current economic situation.

The breakdown for Letters of Credit business by country of origin can be summarized as follows:

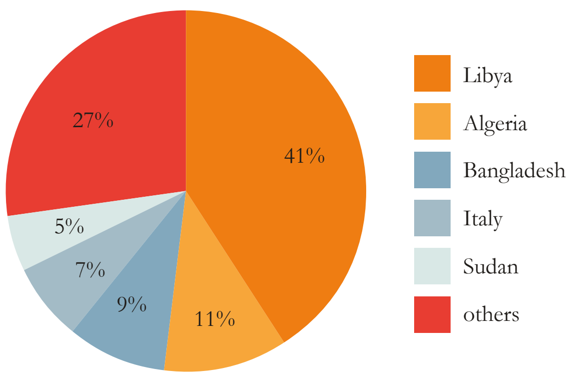
OIL L/Cs – TURNOVER 2013



NON OIL L/Cs – TURNOVER 2013



L/Cs – COMMISSIONS

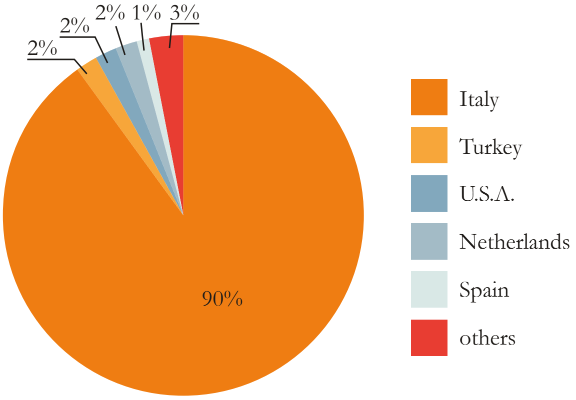


Guarantees were mostly issued on behalf of leading domestic and EU-based export firms and/or companies performing contract works in the Bank's target countries – despite ongoing political turmoil in some countries turnover increased (+ 46.8%). The higher volume had a positive impact on revenue, which remained substantially in line (- 1.8%) with the result seen in the previous year.

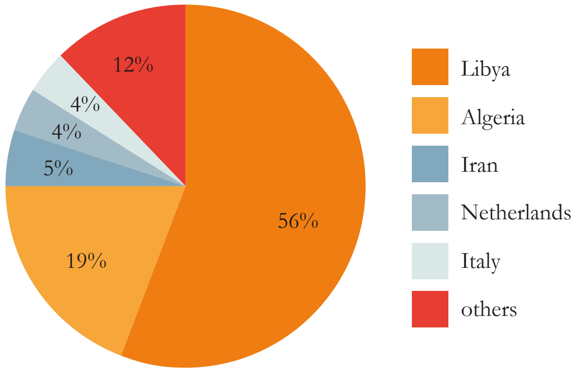
EUR/000

	2013		2012		2011	
	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
GUARANTEES ISSUED IN YEAR	166,356	46.83	113,295	-24.53	150,123	-55.74
GUARANTEES: OUTSTANDING AT EOY	337,626	-1.84	343,970	-10.19	383,000	-17.86
COMMISSIONS RECEIVED	3,178	-1.79	3,236	8.16	2,992	-31.67

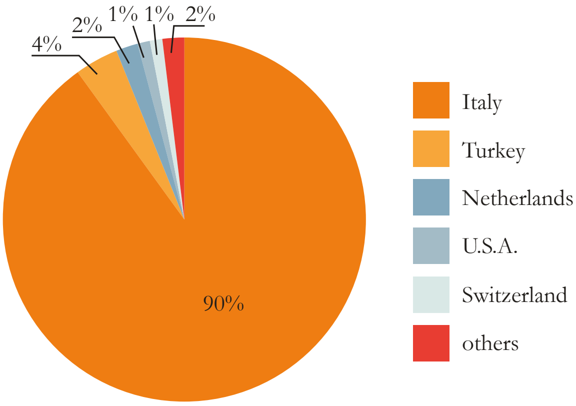
L/Gs – APPLICANT



L/Gs – BENEFICIARY



L/Gs – COMMISSIONS



Financial Market Operations

Throughout 2013 the Bank endeavoured to find the most profitable ways to employ funding, despite lower deposits from institutional corporate counterparties, and a reduction in other cash flows. Amounts managed during the year fell by 29%.

The reduction in funding was affected especially by Libya's need to channel financial resources to re-establish the country's political-economic set-up. This meant that Libyan Foreign Bank was forced to withdraw funds deposited with the Bank in previous years.

Despite the political and economic crisis Banca UBAE continued to channel funds for Libya's reconstruction and financing trade flows.

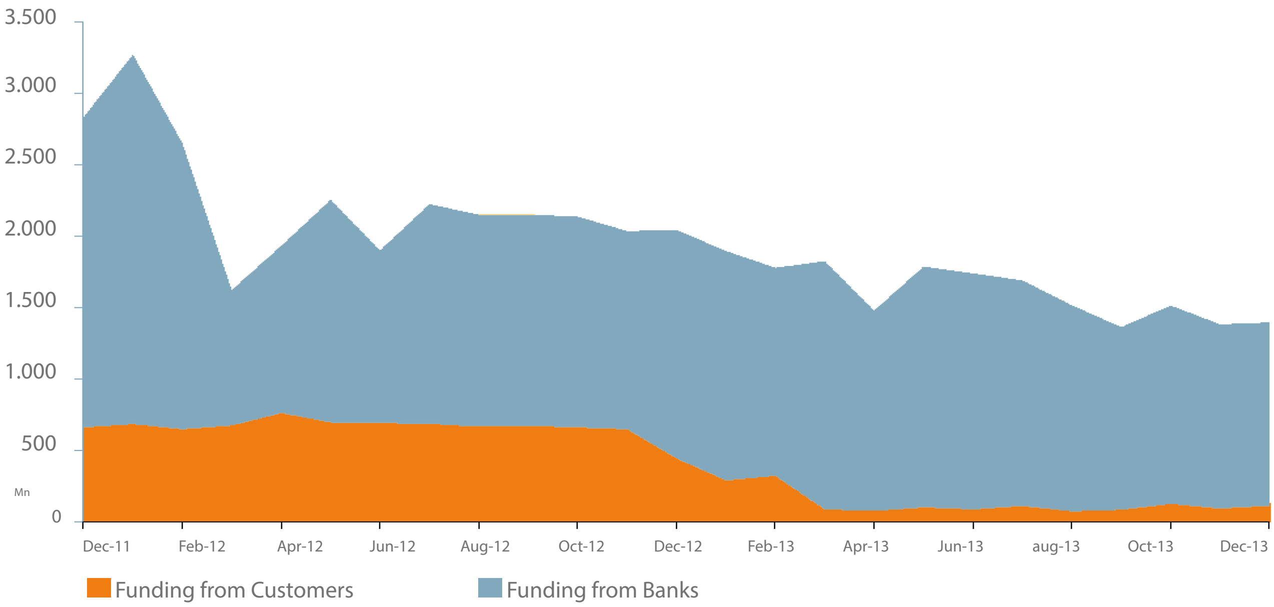
In furtherance of this, Libyan Foreign Bank signed two "security agreements" with UBAE for USD 515 mn, with the aim of stabilizing the Bank's funding and promoting increased business transactions between group companies. The positive effects of these operations will be seen, in particular, during 2014.

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

EUR/000

FUNDING2013							
FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
1,933,662	-10.73	1.769,164	-8.51	1,621,164	-8.37	1,531,641	-5.52

A monthly breakdown is provided in the following chart:



Managing Financial Assets

Transaction volumes for the various classs of financial instrument managed saw a downturn during the year. In spite of this the Bank always attempted to ensure yields in line with those for other earning assets.
The overall trend for the sector combined with enduring liquidity shortages and financial crises in some countries prompted the Bank to screen counterparties closer and assess margins carefully, yet also encouraged trading activity geared to seizing the most profitable opportunities offered by the market. However, turnover in the trading (HFT) portfolio remained largely stable.
The Bank continued to lend to other credit institutions, including through private placements of debt issues discountable with the ECB.
The breakdown of the portfolio at year end showed investments mainly in bonds, with an average residual life of 1.67 years for the trading (HFT) portfolio and 1.43 years for the investment (HTM) portfolio. Use of derivatives to mitigate management of interest rate risk resulted in average durations of 8 months for the HFT portfolio and 5.5 months for the HTM portfolio. In essence, the Bank maintained very low credit and interest rate risk profiles for both portfolios.
Moreover, the Bank's policy was to limit operations in the equity market, with very close monitoring of current and future risks. New investments were limited to either variable or fixed interest rate bonds, the latter linked to derivatives purchased to contain risks due to uncertainty of interest rate trends.
Results show how the Bank managed to achieve acceptable yields for trading activities (securities, derivatives and forex) despite a market marred by financial crisis, widespread political instability and the downgrading of numerous banks, business enterprises and sovereign states by credit-rating agencies. Once again it is worth recalling that the Board of Directors (hereinafter BD) resolved to forgo the 2008 option offered by Banca d'Italia of moving issues from the HFT to the HTM portfolio.

The introduction of additional, specific software tools enabled Banca UBAE to keep its securities position under even more stringent control, in harmony with a policy that emphasizes the close monitoring of risks alongside portfolio performance.

Agreed guidelines for the purchase of securities led to privilege:

- **for the HTM portfolio** (issues held to maturity/available for sale),
  - floating rate issues with a substantial spread, resulting in yields higher than the interbank rate;
  - fixed rate issues classifiable as short-term by virtue of the hedging instruments implied by asset swap strategies;
  - fixed and floating rate issues subscribed with Italian credit institutions (private placements) in order to contain liquidity risk by increasing the Bank's liquidity buffer.

- **for the HFT portfolio**,
  - fixed or floating rate issues chosen for their aptitude to yield short-term capital gains;
  - shares in top-tier, highly capitalized domestic and international companies, and futures on share indexes (FIB).

In spite of a sluggish economy and turbulence across financial markets, Banca UBAE's securities portfolios performed well relative to the industry average. Given general market conditions (and indications from its own customers), however, the Bank opted to defer the use of new formulas and novel instruments, such as harmonized financial products and OICRs, for proprietary trading purposes.

Interbank Transactions

Problems that emerged in financial markets worldwide, especially in Europe, and difficulties seen in the banking sector in addition to steps taken by the BCE to discourage currency speculation, definitely affected dollar and euro interest rates, which remained low throughout 2013.
Rates were also affected by Europe's failure to emerge from recession and by the ECB's repeated efforts to avert possible liquidity crises by recourse to exceptional measures. The ECB continued to finance the European banking system and so created a monetary policy aimed at maintaining accommodating conditions.

The treasury management strategy adopted by Banca UBAE in this scenario proved successful in limiting the negative impact and in fact earnings for the year were quite reasonable given the fall in volume from the previous year.
Short-term lending in the interbank market and short and medium-term loans to foreign banks dropped although the transaction level achieved was quite acceptable. The overall amount managed by the treasury remained at a countervalue of around EUR 1.9 bn (the countervalue in the prior year was EUR 2.3 bn).
Given the uncertain market situation, to support current and prospective mediumterm lending the Bank has launched an action to consolidate funding by obtaining an extension of the duration of deposits made by certain counterparties.

Furthermore, with the aim of diversifying sources of funding to support new business/financial activities, in the second half of 2013 the Bank made transactions on the open market amounting to EUR 100 mn guaranteed by securities lodged with the BCE with a 3-month maturity.

Year-End Results

Net profit for 2013 was EUR 10.15 mn, a reduction from the previous accounting period. This result confirms UBAE's ability to generate a more than reasonable level of profitability without prejudicing its customary prudent approach adopted in former years. It also highlights a unique flexibility in the way the Bank dealt with the difficulties that emerged in the European and international political and economic environment.

The Bank's gross operating result was EUR 14.56 mn (-31.17% compared to 31 December 2012). The fall was influenced by a drop in net commissions and trading activities compared to the previous year.

Partially offsetting this there was an increase in the interest margin (+ 6.26%), an indication of the efficient management of available funding.

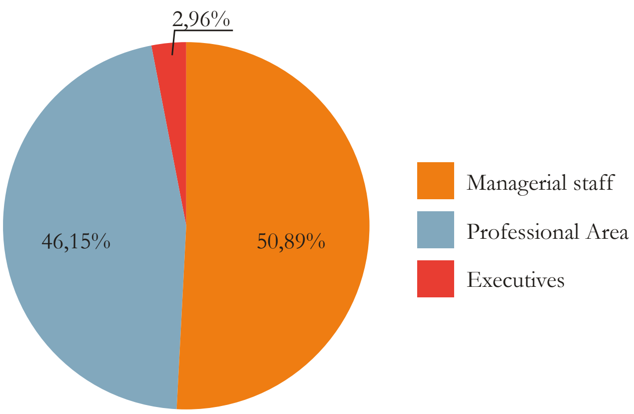
Value adjustments and provisioning reflect the BD's prudential approach in the valuation of the Bank's assets. In line with the criteria adopted in the past, the amount allocated for credit risk in target countries was deemed adequate. As a result of this valuation and taking into account the lower exposure to risk in target countries, especially Mena region, at 31 December 2013, a write-back was recorded of EUR 3 mn.

Net income tax totalled EUR 5.66 mn, 2.29% less than for the previous year. As indicated in the Notes (cf. Part C, "Information on the Income Statement", Section 18, page 131), the difference reflects a pre-tax result at 31 December that was 27.38% short of the figure recorded as at 31 December 2012 and generated EUR 4.2 mn of gross tax liabilities (vs. EUR 7.3 mn).
Prepaid and deferred taxes for the year of around EUR 1.5 mn were another negative factor, compared to a positive tax effect of about EUR 1.5 mn recorded in the prior year.

ORGANIZATION AND PERSONNEL

1. Personnel

Reorganisation of the workforce continued during the year in line with the Bank's marketing goals, also by setting up a hiring policy aimed at strengthening the core processes as well as the handover to another generation.



In this sense, these activities have led to the hiring of 12 people (2 executives, 4 managerial staff, 6 professional area employees) and the exit of 9 people (1 executive, 3 managerial staff, 5 professional area employees), for a total workforce of 169 people. In relation to the main groupings, the personnel is distributed as follows:

- 2.96% executives
- 50.89% managerial staff
- 46.15% professional areas

The table on the right highlights the workforce breakdown by level in 2012 and 2013:

	31/12/13		31/12/12	
	Nº	%	Nº	%
EXECUTIVES	5	2.96	4	2.41
MANAGERIAL STAFF	86	50.89	80	48.19
PROFESSIONAL AREAS	78	46.15	82	49.40
	169		166	

Action continued during the year to convert fixed-term work contracts into their open- ended equivalents in order to improve stability of the Bank's workforce.

Several steps were taken to optimize the Bank's policy concerning management and development of the Bank's human resources, including:

1. maintaining and updating the performance management system to better understand and assess staff performance;
2. consolidation of a career development policy supported by internal mobility and career advancement paths; the promotion system (in terms of career and compensation) has been improved by the introduction of mechanisms to develop the Bank's human capital;
3. implementation of simple and effective compensation and professional development systems aligned with both the Bank and HR's strategies and a continuously changing regulatory framework;
4. promotion of safety and security in the workplace by means of informative and training activities;
5. continuation of an integrated 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. Activities have been designed to provide the knowledge and skills needed for a fruitful bank-client relationship as regards both UBAE's core processes (L/Cs, credit facilities, accounting and budgeting) and in the light of recent regulatory developments. This, in addition to mandatory training (updating required in areas such as management of personal data, safety and security in the workplace and prevention of money-laundering) covering specialist and managerial aspects. Training activities have involved 94% of the workforce for a total of 650 man-days. Investment in training has been focused on the following issues: Basel 3, new supervisory authority instructions, transparency, MiFID and updating all staff on the main regulations governing banking activities.

The complexity of today's business environment combined with the challenging objectives in our strategic plan required the Bank to continue to invest in leadership. To achieve this the Bank has promoted the professional growth of the workforce by encouraging the development of the staff members' potential.

2. Internal Organization

Activity in the organizational sphere mainly focused on launching procedures to replace the Bank's IT outsourcer, an activity that will be completed during the first half of 2014.

In line with a proposal to and subsequent approval by the BD the Bank selected a new IT outsourcer in order to equip itself with a more appropriate IT system for its operational requirements.

The main objectives of this strategic decision, endorsed by both the BD and the General Manager, were to equip UBAE with a more efficient IT system, one that exploits the opportunities offered by technology to increase the quality and efficiency of the Bank's processes, improve information flows within the Bank and extend and improve the range of products and services available to customers.

Notwithstanding the organizational effort indicated above the competent internal unit continued to manage relations efficiently with the existing IT outsourcer, both as regards changing IT procedures based on new

regulations and in response to changed operating requirements.
These efforts enabled the Bank to pursue its activities during the IT changeover period with no interruption without running any risk of failure to perform or incorrect functioning of the IT system. In the last quarter of 2013 the update of Banca d'Italia circular No. 263/2006 led to a further analysis of the existing situation to define the gap with the new regulations and the identification of a new operating process that, mainly during 2014, will lead to total compliance with the regulatory requirements concerned.

The main projects defined during the past year involved various internal units in planning, implementation and operational activities for the IT system.

During 2013:

- a new platform for financial information services and on-line trading was implemented;
- activities for the CRM (Customer Relationship Management) platform, Salesforce, were completed, which aims to boost the efficiency of commercial actions by setting up a single database shared by all Bank units;
- business continuity tests were carried out at the Milan branch and simultaneously a review was performed of the relative operating manuals;
- successful completion of disaster recovery tests;
- with a particular focus on logical and physical safety, and in terms of adopting systems to protect the Bank's property, steps were taken to ensure compliance with relevant regulations so as to protect the Bank from possible third-party liability;
- activities to verify, monitor and update procedures continued to ensure they comply with the provisions of regulations concerned;
- there was a special focus on developing a new procedure for managing and consulting internal regulations to enable all Bank staff to rapidly consult new regulations introduced;
- activities were launched to pinpoint the impact that the American
- Regulations denominated FATCA (Foreign Account Tax Compliance Act) will have on the Bank's customers, also based on meeting with the new IT outsourcer to finalize and implement the necessary procedural requirements. It should be noted that in January 2014 the Italian and US governments have planned to sign a bilateral agreement that will act as the regulatory framework concerned for Italian banks. This agreement will have two important deadlines, namely:
    - 1 July 2014: implementation of adequate measures to verify both the pre- existing account holders (due diligence procedures) and new ones (on-boarding procedures);
    - 31 December 2014: registration on the US tax authority's portal and identification of the Banks' FACTA officer.

3. Marketing

Marketing & Product Development Department objectives and activities focused mainly on value added projects aimed at concentrating interest on the customer, consolidating the relationship and strengthening customer loyalty by means of: developing new products and services, support for business growth and opening up new markets, creating an effective system of institutional and external communication. Efforts during the year revolved around four broad areas of activity.

A) Strategic Analysis

Analyses and preparation of reports to provide an overview for General Management and the Business Development Division concerning issues of interest in support of strategic decisions. The following analytical documents wereprepared:

- analysis of potential new markets: Ghana, the Philippines, Angola, Monzambique, Croatia;
- strategic analysis concerning the volumes of L/Cs received from foreign banks that participated in the 2013 edition of the Trade Banking Seminar with their delegate in order to evaluate the results of this activity of training and marketing;
- monitoring, analysis and development of the service provided by our Phonetica external switchboard, coordination of UBAE's internal task force;
- preparation of presentations for General Management and Business Development Division used in round tables, seminars and conventions in which UBAE participated with speakers the major events were the PROMOS Milan Convention on emerging markets and financial tools in support of internationalization of companies; AIAF Convention on Islamic Finance - Rome; 5th edition of the Euro-Arab Banking Dialogue Rome; Workshop entitled "The new Libya: what are the opportunities?" organized by the Udine Chamber of Commerce - Udine.

B) Business Development

Performed in concert with the Business Development Divisions, activity in this area focused on increasing the Bank's strategic opportunities as a way to expand business and consolidate relations with top domestic and international customers and banks. These were the main initiatives.

- Trade Banking Seminar, 10-13 June 2013. A residential two waks seminar organized around the international business model for our foreign correspondents and structured based on requests made by participating banks with the aim of presenting Banca UBAE's and its activities. This seminar 2013 saw the participation of 21 banks from 5 countries in which the Bank operates: Bangladesh, Egypt, Jordan, Libya, Yemen.
- Organization of the III edition of the annual meeting of Banca UBAE's network of overseas Consultants held on 6-7 November 2013. UBAE's General Management and Business Development Division participated in the meeting that saw a constructive discussion on opportunities in the various countries and possibilities to take further steps in the area of mutual cooperation.
- Coordination of Training-on-the-job sessions in May, June, July and September 2013. Theoretical-

practical training courses in which personnel from our major foreign correspondents work alongside expert Bank staff. 2013 saw the participation of personnel from major Libyan and Sudanese banks.

- Seminar organized in cooperation with PROMOS, Milan Chamber of Commerce, on opportunities in emerging North African and Middle East markets held on 8 November 2013. External UBAE consultants participated as speakers in the round table and presented participating companies business updates and opportunities in their markets.
- Sponsorship and participation in the "Foreign investments in Italy: opportunities for Islamic investors" seminar organized by AIAF (Associazione Italiana degli Analisti e consulenti Finanziari) on 18 October 2013.
- Sponsorship and participation in the 5th edition of the "Euro-Arab Banking Dialogue" held on 1 November 2013. Event organized by the Union of Arab Banks together with AIB and focused on the theme of Islamic investments and finance.
- The forum, in which the UBAE General Manager was a speaker, saw the participation of minsters, of some foreign countries central bank governors and representatives of major banks from many different parts of the world.

C) Institutional Marketing and External Communication

This type of communication plays an important role within Marketing & Product Development Department activities inasmuch as it must handle the Bank's reputation correctly and develop relations with institutional bodies and parties with the aim of promoting cooperation agreements aimed at increasing visibility of the Bank. During 2013, in addition to consolidating external communication activities, the bank has signed three important cooperation agreements with Confindustria Arezzo, Grosseto and Siena, Banca Popolare di Bari and the Ministry for Foreign Affairs respectively. The common aim of the three memorandums of understanding was to offer concrete support to the Italian business system in its internationalization process involving expanding overseas markets.

Coordination and management of the following external communication tasks:

- Press Office activities: relations with journalists, Italian and international press agencies, preparation of press releases and articles;
- management of the News section in the Bank's intranet site, with publication of information concerning the Bank's main activities;
- handling relations with all associations of which the Bank is a member.

D) Corporate Identity and Operational Aspects

Below is a list of the main marketing operational activities started:

- updating and production of sales material kits available to General Management and the Business Development Division: institutional brochure denominated “About us”, brochure with operational contacts;
- management, development and updating of the Bank’s Internet site;
- reviewing and updating the Bank’s forms;
- coordination of paging-up and printing of the Bank’s Financial Statements, Articles of Association and Internal regulations;
- selection and management of gadgets used by the Bank;
- review of stationery;
- layout review of cheques;
- end-of-year materials: broker’s calendars, table-top calendars, greeting cards, presents for the BD, Onlus donations;
- payment of membership fees for associations the Bank belongs to;
- updating of bank’s data in the publications also international.

4. Risk Management

The Bank has diligently applied the procedures and methods for calculating overall internal capital as described in the relevant ICAAP reports, while continuing to improve tools for identifying, analyzing and monitoring risks.

From an organizational standpoint the supervisory 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, and as regards quantifiable risks defines the internal capital requirement, correct stress test methods and forward-looking analysis techniques.

It should be emphasized that for the purposes of applying supervisory rules and in particular Pillar II risk measurement methods, UBAE is considered a Class 3 bank, which means it may adopt simplified methods for quantifiable risks and policies and procedures for mitigating non-quantifiable risks.

Pursuant to the rules governing risks that cannot be quantified, moreover, the Bank improved the process for managing liquidity risk by means of an internal policy and a contingency funding plan, as well as by adopting a system of internal operating limits that are monitored weekly.

Capital adequacy has been further safeguarded by the introduction of two additional supervisory assessment requirements concerning **country risk** and **geo-sector concentration risk**. These requirements are not prescribed by regulations but have been included in internal assessments of capital adequacy in order to take into account all significant risks involved in the Bank’s activities. In particular, country risk estimated in accordance with an internal calculation method takes into account the Bank’s exposure associated with its characteristic operations in specified countries. It should emphasized that also the new regulatory framework for the internal control system, which will come into force on 1 July 2014, includes the introduction of country risk among those risks to be analyzed for ICAAP purposes.

The supervisory review process aims to ensure ongoing compliance with established capital requirements (in relation both to the risks contemplated under Pillar I and to the quantifiable risks considered

in Pillar II and risks believed to be significant for the Bank). At the same time it provides the BD and Management with the information they need to devise policies that will strengthen the Bank's capital base effectively and efficiently.
More specifically, the process has served to pursue the following specific objectives:

- increase the governing bodies' awareness of issues related to risk and capital planning;
- improve the Bank's understanding of the exposure to various types of risk which its business operations entail;
- quantify previously unquantified risks (credit concentration risk, interest rate risk in the banking book and also country risk and geo-sector concentration risk) and bolster organizational safeguards concerning other risks (liquidity, reputational and strategic risks);
- emphasize the need to acquire ever-more efficient and effective risk measurement and risk monitoring tools;
- expand the time frame for internal (forward-looking) analyses and stress tests;
- improve the strategic planning process by introducing capitalization policies that are strictly linked to the Bank's risk profile, i.e., to results emerging from the ICAAP.

Furthermore, a management system was implemented covering exposures towards **related parties**, an issue that is particularly relevant for the Bank. Following the issue of the Internal Regulations an operating procedure was prepared to establish the roles and responsibilities for the various units involved in approval procedures and monitoring of approved limits. A controlling tool fed by the Bank's accounting system has been implemented to ensure control of exposures that can consolidate exposures by related party (correlated part and parties linked to it). It also provides a breakdown by time frame so as to enable monitoring of the so called 'grandfathering', immediate/5-year repayment plans and the global limit for each related party. Lastly, a monthly report has been prepared for the Bank's governing bodies informing them of the trend for exposures and impact generated, in terms of credit risk mitigation, by the security agreement in favour of the Bank.
As regards the introduction of the new supervisory directives based on national and European regulatory sources, the Bank has launched studies, impact analyses and internal development projects that also provide for specialist external support. This, in order to comply with the new regulatory framework by the deadline prescribed by the supervisory authority.

In particular:

- **15th update to Banca d'Italia circular No. 263/2006** dated 2 July 2013 – during the second half of 2013 the Bank carried out a gap analysis ending with the preparation of a self-assessment report as requested by Banca d'Italia. The above analyses led to the definition of a master plan covering the regulatory gaps identified and relative actions to be taken to eliminate these, including the scheduled timing. So 2014 will see an intense project activity involving several organization units, leading up to a series of improvements of a regulatory, organizational, procedural and strategic nature.
- **EU regulation No. 575/2013, EU Directive 2013/36 (so-called CRD IV), Banca d'Italia circular No. 285** dated 17 December 2013 – the EU-level supervisory directives have been changed

significantly with the issue of a new regulatory framework (so-called Basel 3). In December of that year, in addition to the introduction of CRD IV, Banca d'Italia gave indications of the operating procedure for national discretionary measures and so de facto provided a complete, systematic regulatory framework containing the EU instructions. In 2013 the Bank launched studies and impact analyses, and in particular in September prepared the Quantitative Impact Study (QIS) requested by Banca d'Italia concerning the breakdown of shareholders' equity and new measures as regards regulatory requirements (introduction of the credit valuation adjustment) and capital ratio. The internal projects launched in 2013 will be completed in 2014 and will provide the first results in time for the ICAAP report as at 31 December 2013, which will include a comparison between the old and new supervisory regime.

The ICAAP report relating to the situation at 31 December 2013 will have to be forwarded to Banca d'Italia by no later than April 2013. The Bank will meet public disclosure requirements by posting the qualitative and quantitative information called for in Basel 2, Pillar III on its website under "Financials" within the same time frame applying to the publication of its annual Financial Statements.

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:

- the systematic assignment of a credit access score for both bank and corporate borrowers;
- regular monitoring of loan performance and recording of any breach of internal limits (overruns) or external anomalies (Interbank Risk Service);
- periodic stress testing.

Aside from observance of approved borrowing limits, which is monitored by a dedicated unit within the Credit & L/Gs Reporting Division, exposure to credit risk is tracked by Risk Management Department in terms of the deterioration of portfolio quality and thus capital absorption.
In particular, the aforementioned Department produces a monthly report for the Risk Committee, the Internal Control Committee and the BD concerning exposures in countries of interest to the Bank and on compliance with country credit ceilings established internally.
For ICAAP purposes, furthermore, Risk Management Department also monitors credit concentration risk in terms of geo-sector and country risks and prepares for stress tests by performing scenario analyses simulating the impact of shocks such as sovereign defaults, industry-specific crises or economic downturns on the capital requirement concerned.
As for counterparty risk, which is primarily associated with exposures to sellers of OTC derivatives for the HFT portfolio, Risk Management Department cooperates with the Finance Division to monitor positions daily on a mark-to-market basis.

Market Risk

Business conducted by the Finance Division and compliance with the operational limits set out in the

Internal Regulations are monitored constantly by the functions charged with first, second and third-level controls, which rely extensively on the Master Finance front-office platform. Reports produced daily are posted on the Bank's intranet and are traceable to the desks that generated them. They are concerned with portfolio breakdown, daily, monthly and yearly performance, and with trends for risk and sensitivity indicators (potential loss, BPV, VaR, stop loss).
Observance of internal operating limits is monitored on a daily basis and any breaches are reported to the units concerned without delay to allow for prompt remedial action and/or the start of the relevant approval process in accordance with the Bank's Internal Regulations.
The Risk Management Department prepares a quarterly report on monitoring activities performed, problems found and trend analyses made, which is submitted to the Risk Committee, the Internal Control Committee and the BD.
The Bank does not intend to apply for the recognition of any internal models for calculating its capital requirement against market risks.

Operational Risks

Though it chose the Basic Indicator Approach for determining its capital requirement against operational risks under the supervisory regulations in force, UBAE is implementing a dedicated operational risk management system to evaluate and monitor exposure to operational risks and the losses these may entail.
In the course of 2013, a self-assessment of areas the Bank deemed most at risk was launched to map all relevant processes, categories of operational risks to which the Bank is exposed and a qualitative evaluation in terms of frequency and severity of possible adverse events.

Other Risks

- **Liquidity Risk**

Exposure to liquidity risk is subject to constant monitoring by the Treasury Department, while Risk Management Department is responsible for weekly checks on compliance with internal operating limits, as well as for weekly reports to Banca d'Italia.
The management process for this risk is governed by an internal policy that also includes a contingency funding plan. The internal operating limit system includes a risk tolerance threshold, gap operating limits, survival limits and an eligibility limit for financial instruments. Stress testing is performed quarterly based on three different scenarios (based on funding, loans and liquidity buffer). Lastly, trend monitoring is carried out concerning early warning and concentration funding ratio indicators.
The Bank's specific electronic tools include an online maturity ladder within the Master Finance platform plus an ALM product (ERMAS) that is fed directly from the accounting system and is used to generate the Bank's maturity ladder as well as supplying a database for stress testing.

• Credit Concentration Risk

The Pillar II of the european supervisory regulation calls for a specific capital requirement that takes into account concentration by counterparty or group of linked counterparties (by corporate portfolio). As regards quantification of internal capital (according to the simplified method prescribed in the regulations) the Bank uses a calculation tool fed by data from supervisory reports. For stress test purposes, Risk Management Department carries out internal simulations to gauge the impact of any shifts in strategy or operational approach.
As far as "single-name" concentration risk for bank counterparties is concerned, the Bank has a system of internal operating limits monitored on a quarterly basis to contain its exposure to this risk.
As regards concentration risk by business sector and geographical area, current regulations do not require any quantification and so the Bank has opted to adopt a qualitative assessment of the overall credit portfolio and application of the quantification method proposed by ABI for Italian corporate clients.

• Interest Rate Risk in the Banking Book

Risk Management Department is tasked to monitor each month the compliance with the relevant internal operating limit, which was set below the regulatory threshold as a measure of precaution.
For ICAAP purposes, the accounting system is used to provide direct inputs for ERMAS (the ALM application), which generates a maturity ladder and provides a basis for quantifying the Bank's exposure to interest rate risk (both by the simplified method allowed by Banca d'Italia and by the full evaluation method). The same tool is used for stress testing against hypothetical parallel and non-parallel shifts in the interest rate curve.

• Country Risk

Given the Bank's specific operating characteristics, a new internal capital requirement to guard against country risk was introduced in 2012. The amount was quantified by an in-house method based on data produced for UBAE's periodic supervisory reports and on ABI Country Risk Forum estimates for the probability of a banking or liquidity crisis in each country concerned.

• Reputational and Strategic Risks

As these risks are inherently tricky to quantify, they call for qualitative evaluations, risk mitigation policies and above all risk avoidance measures.
The Bank uses an internal policy for managing reputational risk that defines the role and duties of each unit potentially concerned, outlines a model of adverse events, sets out risk mitigation policies aimed at forestalling the occurrence or limiting the consequences of such events, and establishes a strategy for coping with a "reputation crisis". This policy is reviewed periodically as part of activities to update to new supervisory directives concerning the internal control system.
As for strategic risk, the Bank is in the process of finalizing a procedure for delineating scenarios required to prepare annual budgets and three-year plans, and to measure the variability of gross operating income, which is taken as an approximation of this particular risk.

5. IT Systems

The Bank was, on the one hand, busy also with completing several projects launched in the previous financial year, like, activities to transfer data to the new IT outsourcer.
Special attention was reserved by the Bank for updating systems and procedures affected by new regulatory and operational provisions introduced during the year in order to mitigate risks as a result of the incorrect use of IT procedures.
In order to implement recently issued supervisory instructions the Bank made an indepth review of organization and governance of the IT system, methods for managing IT risk, requirements to ensure IT security and the IT data management system.

In particular:
- obsolete equipment was replaced so that internal users always have efficient and updated models;
- special attention was given to data security systems to prevent the risk of unauthorized access to the Bank's system;
- work was carried out to update the Bank's IT data transmission, telephony and means of communication equipment and procedures (for instance, e-mail).

6. Performance Assessment Reports for Senior Management

The Bank further refined its information gathering and reporting tools to ensure Senior Management could draw on an increasingly well-organized and readily-accessible store of analytical and reconciled data on the Bank's performance. In this context, the Performance Control Department deployed a range of IT resources to reduce the information's "time to market", thus helping to meet the need for timely and accurate reporting to senior bodies and across the Bank's departments, all the while taking account of evolving planning and performance-control requirements. By using existing IT systems to their full potential, Performance Control achieved excellent results not just in terms of the efficacy and efficiency of the Bank's reconcilement tools; daily and monthly accounting data relevant to a proper evaluation of the Bank's assets and liabilities, its income-generating capabilities and the stability of revenue streams over time were also made easier to consult. As IT projects currently in progress boost integration the Bank should reap benefits on multiple fronts: greater accuracy and thoroughness of the information being generated, even shorter data processing times, the development of novel areas of analysis, and improved reporting quality.

7. Security Blueprint

Since the coming into force of Law Decree 5/2012 (as subsequently amended and converted into Law 35/2012, which was published in issue no. 82 of the Official Gazette on 6 April 2012), producing and updating a Security Blueprint is no longer mandatory for any class of business enterprise. Banca UBAE is still required to adopt the “other minimum security standards” referred to in articles 33-35 of Law Decree 196/2003 (commonly known as the personal data protection code).

8. Logistics

In addition to routine maintenance, a number of improvements were carried out to render the Rome and Milan offices more serviceable.
The premises housing the Bank’s archives also witnessed some renovation work to ensure proper upkeep of the building and the safety of its occupants. Certification of technical plant at the Milan Branch was updated by outside specialists working alongside UBAE’s own technical personnel. Based at the Branch, the team is responsible for all ordinary and extraordinary maintenance work, which is physically done by local firms.
Activities were launched to equip the Bank with a new air conditioning plant that meets new regulations concerning enery saving and pollution, a task that will be completed by 31 December 2014. Furthermore, approval was given for fitting out the Via XX settembre ground floor side so that the branch can then be relocated to the new space. This project is planned for completion in 2014.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT :		CHANGE	
	31.12.2013	31.12.12	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	1,504	129	1,375	1065.89
LOANS AND ADVANCES				
– TO CUSTOMERS	385,396	502,805	-117,409	-23.35
– TO BANKS	937,124	1,327,140	-390,016	-29.39
FINANCIAL ASSETS HELD FOR TRADING	48,949	49,223	-274	-0.56
FIXED ASSETS				
– FINANCIAL [1]	319,345	445,024	-125,679	-28.24
– TANGIBLE	23,226	23,818	-592	-2.49
– INTANGIBLE	1,437	1,616	-179	-11.08
OTHER ASSETS [2]	24,209	27,317	-3,108	-11.38
TOTAL ASSETS	1,741,190	2,377,072	-635,882	-26.75
LIABILITIES				
ACCOUNTS PAYABLE				
– TO CUSTOMERS	111,673	442,710	-331,037	-74.78
– TO BANKS	1,390,335	1,681,437	-291,102	-17.31
FINANCIAL LIABILITIES HELD FOR TRADING	2,296	4,925	-2,629	-53.38
EARMARKED PROVISIONS [3]	2,261	2,514	-253	-10.06
OTHER LIABILITIES [4]	26,141	34,765	-8,624	-24.81
SHAREHOLDERS' EQUITY				
– CAPITAL AND RESERVES	198,331	194,738	3,593	1.85
– NET PROFIT FOR THE YEAR	10,153	15,983	-5,830	-36.48
TOTAL LIABILITIES	1,741,190	2,377,072	-635,882	-26.75

[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	
	31.12.13 12 MONTHS	31.12.12 10 MONTHS	AMOUNT	%
NET INTEREST INCOME	26,309	24,759	1,550	6.26
NET NON-INTEREST INCOME [1]	13,539	17,465	-3,926	-22.48
GROSS OPERATING INCOME	39,848	42,224	-2,376	-5.63
PERSONNEL EXPENSES	-17,653	-13,779	-3,874	28.12
OTHER ADMINISTRATION EXPENSES AND OPERATING CHARGES [2]	-7,634	-7,289	-345	4.73
GROSS OPERATING RESULT	14,561	21,156	-6,595	-31.17
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	-1,608	-1,237	-371	29.99
PROVISIONING, WRITE-DOWNS AND WRITE-UPS [3]	2,863	1,860	1,003	53.92
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	15,816	21,779	-5,963	-27.38
INCOME TAX FOR THE YEAR	-5,663	-5,796	133	-2.29
NET PROFIT FROM CONTINUING OPERATIONS	10,153	15,983	-5,830	-36.48
NET RESULT FROM NON-CONTINUING OPERATIONS				
NET PROFIT FOR THE YEAR	10,153	15,983	-5,830	-36.48

[1] Inclusive of net commissions, dividends and net trading income and profits (losses) on disposal or repurchase of financial assets available for sale.
[2] Inclusive of other administration expenses and other operating income.
[3] Inclusive of net impairment adjustments and net provisioning for risk and charges.

COMMENTS

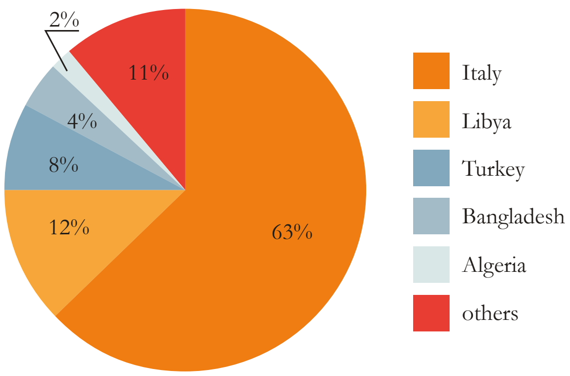
Comments on Balance-Sheet Items

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2013	31.12.2012	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	344,085	429,310	-85,225	-19.85
IN OTHER CURRENCIES	41,311	73,495	-32,184	-43.79
LOANS AND ADVANCES TO BANKS:				
IN EUROS	122,779	125,487	-2,708	-2.16
IN OTHER CURRENCIES	814,345	1,201,653	-387,308	-32.23
TOTAL	1,322,520	1,829,945	-507,425	-27.73

Below is a graphic representation of total values with a breakdown by country.

LOANS BY COUNTRY



Loans and Advances to Customers

Loans and advances to customers dropped by 23.35%, mainly due to a reduction in funding. Despite the reduction in sources of funding the Bank continued to support business activities, on the one hand, by taking into account the decrease in this sector and, on the other, by spreading credit risk in conformity with concentration limits posed by regulations governing "large risks".

The majority of transactions performed by UBAE were to provide financial support to Italian operators engaged in trade with the Bank's target countries, including by participation in pools organized by the Bank itself or other leading banks.

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

Loans and Advances to Banks

Loans and advances to banks fell by EUR 390 mn or 29.39%.

This reduction was mainly due to a drop in customer funding. Given this reduction short-term loans were concentrated on corporate financing, maintaining lending levels in this sector so as to achieve the Bank's business strategy objectives.

The net reduction in total business volumes was in particular the result of a drop in "oil" funds following the block on oil supplies that affected Libya for most of 2013 and that only saw a recovery in early 2014.

Impaired loans (cash and non cash)

EUR/000

	31/12/2013			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	42,227.43	-35,497.14	6,730.29	-84.1
BAD DEBTS	36,717.93	-31,776.18	4,941.75	-86.5
STANDSTILL POSITION	3,056.61	-2,261.27	795.34	-74.0
RESCHEDULED DEBTS	2,450.40	-1,459.44	990.96	-59.6
IMPAIRED PAST DUE POSITION	2.49	-0.25	2.24	-10.0
NON IMPAIRED ASSETS	1,363,585.72	-11,297.05	1,352,288.67	-0.8
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	1,407,182.53	-46,808.41	1,359,018.96	-3.3

EUR/000

	31/12/2012			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	45,427.47	-32,788.75	12,638.72	-72.2
BAD DEBTS	23,175.46	-18,509.18	4,666.28	-79.9
STANDSTILL POSITION	20,810.25	-14,255.12	6,555.13	-68.5
RESCHEDULED DEBTS	1,347.09	-14.98	1,332.11	-1.1
IMPAIRED PAST DUE POSITION	94,67	-9.47	85.20	-10.0
NON IMPAIRED ASSETS	1,559,732.21	-18,899.00	1,540,833.21	-1.2
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	1,605,159.68	-51,687.75	1,553,471.93	-3.2

Total impaired loans gross of value adjustments amount to EUR 42.22 mn, a reduction of EUR 3.2 mn compared to the EUR 45.42 mn reported for the previous year.
It should be noted that coverage percentages do not take into account impaired loans that have been cancelled from an accounting standpoint but for which collective proceedings are under way in which the Bank registered its claim concerning the debt as required. Value adjustments for a total of EUR 11.7 mn were made during the year for forecast losses on customer loans and to zero out bad debt positions for which no or only marginal recoveries are believed possible.
As regards prudential provisions with reference to the Bank's portfolio (that is, in bonis loans for both customers and banks, including loans to counterparties resident in countries at risk) made in prior years there was a recovery of about EUR 13.7 mn for repayment of positions previously classified at risk, especially based on country risk for Sudan, and profit on disposal of loans for about EUR 1 mn.

Financial Assets

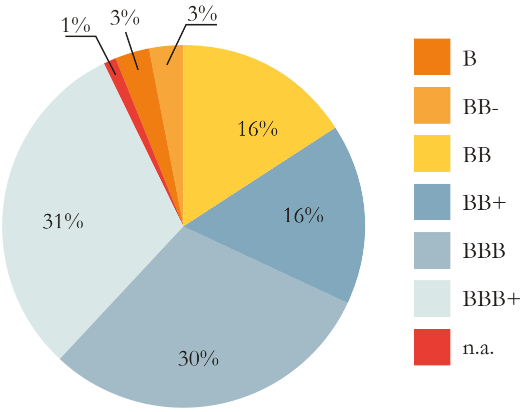
Financial assets, comprising securities, derivatives and minority equity stakes, amounted to EUR 365.9 mn, a net reduction from the previous year of EUR 123.3 mn. This variation is the result of limiting financial assets in the HTM portfolio. Given the financial crisis and despite the reduction in funding the Bank has pursued the investment policy towards banking counterparties, financing the latter by subscribing bond issues discountable with the BCE, assessing these investments both in terms of yield and the issuers' credit standing. In the second half of 2013 the Bank subscribed an EUR 100 mn open-market transaction with the ECB by pledging as collateral Euro 122 mn of securities (see Notes to the Financial Statements, part. B – Other information – tab. 2 Assets pledged as collateral for own liabilities and commitments page 116).
The Bank did not make any transfers between existing portfolios. On the whole, UBAE's policy in this department gave satisfactory results.

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2013	31.12.2012	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	48,949	49,223	-274	-0.56
LIABILITIES HELD FOR TRADING	-2,296	-4,925	2,629	-53.38
ASSETS AVAILABLE FOR SALE	48,240	56,908	-8,668	-15.23
ASSETS HELD TO MATURITY	271,105	388,116	-117,011	-30.15
TOTAL	365,998	489,322	-123,324	-25.20

Below is a graphic representation of HTM and AFS with a breakdown by rating.

HTM–AFS BY RATING



The criteria for valuing securities and for assigning issues to the investment or the trading portfolio are discussed in the Notes to the Financial Statements (see pages 64–66).

It should be noted that securities held for trading and derivatives were valued at market prices; other securities (HTM, AFS) were valued at amortized cost.
In conformity with the general prudential policy adopted by the Bank as regards credit risk, HTM financial assets were evaluated and this generated a provision of EUR 2.1 mn compared to EUR 4.1 mn at 31 December 2012, for a positive impact in the Income Statement of EUR 2 mn.

Accounts Payable

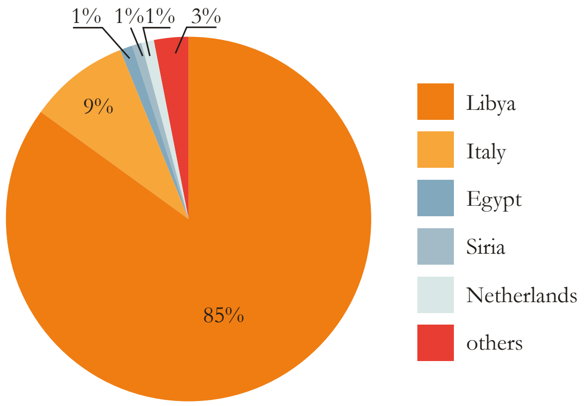
EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2013	31.12.2012	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	68,955	66,880	2,075	3.10
IN OTHER CURRENCIES	42,718	375,830	-333,112	-88.63
PAYABLE TO BANKS				
IN EUROS	482,050	608,064	-126,014	-20.72
IN OTHER CURRENCIES	908,285	1,073,373	-165,088	-15.38
TOTAL	1,502,008	2,124,147	-622,139	-29.29

Accounts payable to banks and customers are shown at amortized cost. The previous table gives a breakdown of changes in funding from banks and customers in euros and other currencies.
As already mentioned in the Report on Operations, during 2013 funding from institutional counterparties fell essentially because of the need to finance the Libyan state and the well-known events that led to the shutdown of Libyan oil wells for most of 2013. These events also affected the funding volume from corporate customers, above all counterparties located in the Bank's target countries, which led to a sizable reduction.

Below is a breakdown of existing payables by country.

FUNDING BY COUNTRY



Shareholders’ Equity

Movements in shareholders’ equity may be represented as follows:

EUR/000

	CAPITAL	SHARE PREMIUM	RESERVES	RETAINED PROFIT	NET PROFIT	TOTAL
31.12.2012	151,061	16,702	19,195	7,780	15,984	210,722
01.01.13 – 31.12.13 MOVEMENTS:			-198			210,524
APPROPRIATION OF PROFIT: RESERVES			11,459	-7,560	-3,899	0
DIVIDENDS					-12,085	-12,085
VALUATION RESERVE			-108			-108
NET PROFIT					10,153	10,153
31.12.2012	151,061	16,702	30,348	220	10,153	208,484

Banca UBAE’s shareholders’ equity, including the valuation reserve and net profit for the year ended 31 December 2013, amounted to EUR 208.5 mn, a slight drop from the previous year (EUR 210.7 mn).
It should be noted that during 2013 the Shareholders’ Meeting passed a resolution to award dividends amounting to a total of EUR 12.1 mn.

At year end Banca UBAE had a Tier 1 capital ratio of 16.36% compared to 11.68% at 31 December 2012. The total capital ratio rose from 17.64% for the previous year to 24.27% at year-end 2013.

Shares

As of 31 December 2013 share capital amounted to EUR 151,060,800, divided into 1,373,280 common shares of EUR 110 each.

Subordinated Loan

In 2008, in line with the recapitalization goals set out in its three-year business plan, the Bank finalized a ten-year subordinated loan agreement with Libyan Foreign Bank for a total of EUR 100,000,000 which has since been drawn in its entirety.
As per the contract, at the end of 2014 when the 5-year pre-amortization period is over a repayment will be made of one fifth of the loan, that is, EUR 20 mn.

COMMENTS ON THE INCOME STATEMENT

As indicated in the introduction, tables in this section include a recalibration of results over equal 12-month periods to allow for a more meaningful appreciation of the Bank's performance during the past two accounting periods. All reclassified figures are strictly pro-forma and are unaudited.

Reclassified results (over 12 months): 01.01.2012 – 31.12.2012

EUR/000

	31.12.2013 12 MONTHS	31.12.2012 12 MONTHS RECLASSIFIED FOR INTERNAL PURPOSES	CHANGE AMOUNT	CHANGE %
NET INTEREST INCOME	26,309	32,653	-6,334	-19.43
NET NON-INTEREST INCOME [1]	13,539	23,668	-10,129	-42.80
GROSS OPERATING INCOME	39,848	56,321	-16,473	-29.25
PERSONNEL EXPENSES	-17,653	-16,236	-1,417	8.73
OTHER ADMINISTRATION EXPENSES AND OPERATING CHARGES [2]	-7,634	-8,678	1,044	-12.03
GROSS OPERATING RESULT	14,561	31,407	-16,846	-53.64
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	-1,608	-1,517	-91	6.00
PROVISIONING. WRITE-DOWNS AND WRITE-UPS [3]	2,863	2,840	23	-0.81
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	15,816	32,730	-16,914	-51.68
INCOME TAX FOR THE YEAR	-5,663	-9,866	4,203	-42.60
NET PROFIT FROM CONTINUING OPERATIONS	10,153	22,864	-12,711	-55.59
NET RESULT FROM NON-CONTINUING OPERATIONS				
NET PROFIT FOR THE YEAR	10,153	22,864	-12,711	-55.59

[1] Inclusive of net commissions, dividends and net trading income and profits (losses) on disposal or repurchase of financial assets available for sale.
[2] Inclusive of other administration expenses and other operating income.
[3] Inclusive of net impairment adjustments and net provisioning for risk and charges.

Comparison with the year ended 31 December 2013 with the recalculated 12-month period for 2012 shows a net profit of EUR 10.15 mn against a profit of EUR 22.8 mn.

Net Interest Income

EUR/000

		BALANCE AS AT:		VAR 31.12.13/31.12.12	
		31.12.2013 12 MONTHS	31.12.2012 10 MONTHS	AMOUNT	%
10	INTEREST INCOME AND RELATED REVENUE	39,577	35,987	3,590	9.98
20	INTEREST CHARGES	-13,268	-11,227	-2,041	18.18
	NET INTEREST INCOME	26,309	24,760	1,549	6.26
30	DIVIDENDS AND OTHER PROCEEDS	14	84	-70	-83.33

EUR/000

		31.12.2013 12 MONTHS	31.12.2012 12 MONTHS	VAR 31.12.13/31.12.12	
			RECLASSIFIED FOR INTERNAL PURPOSES	AMOUNT	%
10	INTEREST INCOME AND RELATED REVENUE	39,577	48,421	-8,844	-18.26
20	INTEREST CHARGES	-13,268	-15,768	2,500	-15.85
	NET INTEREST INCOME	26,309	32,653	-6,344	-19.43
30	DIVIDENDS AND OTHER PROCEEDS	14	84	-70	-83.33

As highlighted in the section on Balance Sheet items, during 2013 the Bank saw a constant reduction in funding and so it had less funds available for core lending to corporate and banking counterparties.
Despite the significant reduction in funding the decrease in net interest income (-19.43%) was limited, confirming the Bank's ability to diversify loans, even in the face of the international crisis. The Bank constantly searched for adequate yields while respecting mismatching of maturities in line with regulatory provisions and indications given by the BD.
Compared with restated results at 31 December 2012 for a 12-month period, it can be noted that despite a linear trend for spreads and the impact of issues mentioned previously, the Bank recorded a significant amount of interest income.

Net Non-Interest Income

Non-interest income may be broken down as follows:

EUR/000

		BALANCE AS AT:		VAR 31.12.13/31.12.12	
		31.12.2013 12 MONTHS	31.12.2012 10 MONTHS	AMOUNT	%
40	COMMISSIONS RECEIVED	15,451	17,629	-2,178	-12.35
50	COMMISSIONS PAID	-2,651	-2,064	-587	28.44
	NET COMMISSIONS	12,800	15,565	-2,765	-17.76
80	TRADING ASSETS	-146	2,003	-2,149	-107.29
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF AFS	-351	-187	0	0
190	OTHER OPERATING PROCEEDS	1,984	854	1,130	132.32
	NET NON-INTEREST INCOME	14,287	18,235	-3,948	-21.65

EUR/000

		31.12.2013 12 MONTHS	31.12.2012 12 MONTHS	VAR 31.12.13/31.12.12	
			RECLASSIFIED FOR INTERNAL PURPOSES	AMOUNT	%
40	COMMISSIONS RECEIVED	15,451	21,231	-5,780	-27.22
50	COMMISSIONS PAID	-2,651	-2,529	-122	4.82
	NET COMMISSIONS	12,800	18,702	-5,902	-31.56
80	TRADING ASSETS	-146	5,069	-5,215	-102.88
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF AFS	-351	-187	-164	87.70
190	OTHER OPERATING PROCEEDS	1,984	1,108	876	79.06
	NET NON-INTEREST INCOME	14,287	24,692	-10,405	-42.14

Net non-interest income dropped considerably when compared to the previous twelve months.
It should, however, be borne in mind that the early months of 2012, especially January and February, were an extremely positive period for the Bank mainly due to the concentration of Libya's business recovery after the civil war. The remaining months showed a stable trend for UBAE's activities that, as already mentioned, felt the impact of the significant concentration of activities linked to the "oil" product export market, especially the Libyan market in which the Bank is very active.
But the ongoing effects of the "Arab Spring" and international economic crisis meant that it was not possible to recover completely on the international guarantees front, which is linked to execution of important projects for construction and modernization of public infrastructures in the Bank's target countries that, even today, have not yet begun to get off the ground again.
Agreements with Sace and other international counterparties have enabled the Bank to at least partially offset the negative international impacts by launching pool operations that, among other effects, had a positive impact on other income and charges. This line also includes extraordinary items.

Administration Expenses

EUR/000

	BALANCE AS AT:		VAR 31.12.13/31.12.12	
	31.12.2013 12 MONTHS	31.12.2012 10 MONTHS	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	9,837	8,087	1,750	21.64
SOCIAL SECURITY CONTRIBUTIONS	2,816	2,181	635	29.12
STAFF SEVERANCE PAYMENTS	605	518	87	16.80
OTHER EXPENSES	1,825	1,185	640	54.01
TOTAL EMPLOYEE EXPENSES	15,083	11,971	3,112	26.00
ADMINISTRATORS	2,028	1,321	707	53.52
STATUTORY AUDITORS	170	136	34	25.00
NON-STAFF ASSOCIATES	372	351	21	5.98
TOTAL PERSONNEL EXPENSES	17,653	13,779	3,874	28
B) OTHER ADMINISTRATION EXPENSES	9,618	8,143	1,475	18.11
TOTAL	27,271	21,922	5,349	24.40

EUR/000

	31.12.2013 12 MONTHS	31.12.2012 12 MONTHS RECLASSIFIED FOR INTERNAL PURPOSES	VAR 31.12.13/31.12.12 AMOUNT	VAR 31.12.13/31.12.12 %
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	9,837	9,721	116	1.19
SOCIAL SECURITY CONTRIBUTIONS	2,816	2,667	149	5.59
STAFF SEVERANCE PAYMENTS	605	733	-128	-17.46
OTHER EXPENSES	1,825	1,200	625	52.08
TOTAL EMPLOYEE EXPENSES	15,083	14,321	762	5.32
ADMINISTRATORS	2,028	1,397	631	45.17
STATUTORY AUDITORS	170	168	2	1.19
NON-STAFF ASSOCIATES	372	351	21	5.98
TOTAL PERSONNEL EXPENSES	17,653	16,237	1,416	8.72
B) OTHER ADMINISTRATION EXPENSES	9,618	9,786	-168	-1.72
TOTAL	27,271	26,023	1,248	4.80

Total administrative expenses were in general stable.

Personnel expenses were up by 5.32% due to the effects of contractual increases and costs for part-time staff to handle the general hiring freeze with the launch of an internal reorganization. Certain high-level personnel left the Bank but this only partially offset replacements.

Other administrative expenses in point b) show a reduction of 1.72%, even though during the year several projects started up again after being suspended for a time because of uncertainties due to events in North Africa.
This aspect is evidence of the Bank's careful cost management policy but without jeopardizing organizational efficiency.

Composition of the Bank's Net Result

EUR/000

	BALANCE AS AT:				VAR 31.12.13/31.12.12	
	31.12.2013 12 MONTHS		31.12.2012 10 MONTHS		AMOUNT	%
GROSS OPERATING PROFIT		14,561		21,156	-6,595	-31.17
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		-1,608		-1,237	-371	29.99
NET IMPAIRMENT ADJUSTMENTS:						
– TO LOANS	-669		1,461			
– TO FINANCIAL ASSETS AVAILABLE FOR SALE	499		-506			
– TO FINANCIAL ASSETS HELD TO MATURITY	1,554		-934			
– TO OTHER FINANCIAL OPERATIONS	1,631		1,911			
– NET PROVISIONING FOR RISKS AND CHARGES	-152		-72			
TOTAL		2,863		1,860	1,003	-53.92
PROFIT BEFORE TAX		15,816		21,779	-5,963	-27.38
INCOME TAX FOR THE YEAR		-5,663		-5,796	133	-2.29
NET PROFIT		10,153		15,983	-5,830	-36.48

Comparison of the two years based on results for the official reporting periods show a net profit of EUR 15.9 mn for 2012 and EUR 10.1 mn for 2013, after income tax for the year of EUR 5.6 mn (-2.29% compared to 2012).

The result at 31 December 2013 can certainly be considered positive given that it was achieved during a period of heavy recession.

EUR/000

	31.12.2013 12 MONTHS		31.12.2012 12 MONTHS RECLASSIFIED FOR INTERNAL PURPOSES		VAR 31.12.13/31.12.12	
					AMOUNT	%
GROSS OPERATING PROFIT		14,561		31,407	-16,846	-53.64
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		-1,608		-1,517	-91	6.00
NET IMPAIRMENT ADJUSTMENTS:						
– TO LOANS	-669		2,916			
– TO FINANCIAL ASSETS AVAILABLE FOR SALE	499		-401			
– TO FINANCIAL ASSETS HELD TO MATURITY	1,554		-865			
– TO OTHER FINANCIAL OPERATIONS	1,631		1,311			
– NET PROVISIONING FOR RISKS AND CHARGES	-152		-121			
TOTAL		2,863		2,840	23	-0.81
PROFIT BEFORE TAX		15,816		32,730	-16,914	-51.68
INCOME TAX FOR THE YEAR		-5,663		-9,866	4,203	42.60
NET PROFIT		10,153		22,864	-12,711	-55.59

The internal recalculation of figures for comparable 12-month periods show a significantly lower net profit at 31 December 2013 than the profit of EUR 22.9 mn for the previous 12-month period.
At 31 December 2013, during the prudential valuation of exposures and given the positive trend for certain loans reviewed in prior years, the Bank's governing bodies decided that provisions made previously were adequate and in some cases decreased these due to a reduction in exposures to risk.

The valuation of the Bank's VAT position for financial years 2005 through 2008, which is the subject of an ongoing dispute with the tax authorities, was, as held previously, deemed correct based on applicable legislation – also confirmed by the Bank's tax consultants – and so no provisions were made.

Further information is provided in the Notes (Part C, "Information on the Income Statement") whereas the BD's recommendations for allocating net profit are set out in the section entitled "Appropriation of Net Profit".

SIGNIFICANT POST-YEAR-END EVENTS

During the early months of 2014 the Bank continued the audit of its own IT system in preparation for migration to the new IT system in the first half of 2014. This confirms the intention to ensure that, in this delicate and strategic sector, it has software that is always in line with regulations and can support business strategies in an efficient manner.

In February 2014 Fitch Ratings confirmed its BB rating for the Bank with a stable outlook.

ADDITIONAL INFORMATION

The Bank does not conduct any research and development activity.

The Bank does not hold any treasury shares.

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

PROPOSAL TO THE SHAREHOLDERS

1. Approval of the Accounts for the Financial Year ended 31 December 2013

Gentlemen:
We hereby ask that you formally approve, on the basis of this Annual Report, the Financial Statements of Banca UBAE S.p.A. for year to 31 December 2013, including the Balance Sheet, Income Statement and Notes, considered both jointly and in their several postings, as proposed by this Board of Directors.

2. Appropriation of Net Profit

We propose, furthermore, that profit be allocated as follows:

- Net result	Eur	10,152,522.00	-
- Less 5% to the Legal Reserve			
(Art. 30, letter a) of the Articles of Association)	Eur	508,000.00	=
	Eur	9,644,522.00	-
- Profit retained from previous periods	Eur	220,674.56	=
	Eur	9,865,196.56	-
- Less allocation to the Extraordinary Reserve	Eur	9,800,000.00	=
- Profit to be carried forward	Eur	65,196.56	

If the above scheme is approved, Shareholders' Equity will therefore amount to EUR 208,483,916.23 and will be composed as follows:

- Share capital	Eur	151,060,800.00	+
- Share premium account	Eur	16,702,216.29	+
- Reserves	Eur	40,248,220.00	+
- Valuation Reserves	Eur	102,244.00	+
- Profit carried forward	Eur	65,196.56	+
- IAS-FTA reserve and carry-forward from IAS 2005 profit	Eur	305,239.38	=
	Eur	208,483,916.23	

Rome, 28 March 2014

THE CHAIRMAN

Antique Roman Glass Vase (Lybia)

FINANCIAL STATEMENTS

(Amounts in euros)

BALANCE SHEET: ASSETS

	ASSETS	31.12.2013	31.12.2012
10	CASH AND CASH EQUIVALENTS	1,504,021	128,607
20	FINANCIAL ASSETS HELD FOR TRADING	48,948,598	49,223,556
40	FINANCIAL ASSETS AVAILABLE FOR SALE	48,240,535	56,907,917
50	FINANCIAL ASSETS HELD TO MATURITY	271,105,158	388,115,740
60	LOANS AND ADVANCES TO BANK	937,124,124	1,327,140,103
70	LOANS AND ADVANCES TO CUSTOMERS	385,396,142	502,804,813
110	TANGIBLE FIXED ASSETS	23,225,654	23,818,374
120	INTANGIBLE FIXED ASSETS,	1,436,646	1,616,312
	OF WHICH: GOODWILL		
130	TAX ASSETS	23,216,342	26,294,765
	A) CURRENT	16,303,665	17,878,534
	B) DEFERRED	6,912,677	8,416,231
150	OTHER ASSETS	992,843	1,021,517
TOTAL ASSETS		1,741,190,063	2,377,071,704

BALANCE SHEET: LIABILITIES

	LIABILITIES	31.12.2013	31.12.2012	
10	ACCOUNTS PAYABLE TO BANKS	1,390,335,451	1,681,436,581	
20	ACCOUNTS PAYABLE TO CUSTOMERS	111,673,358	442,710,367	
40	FINANCIAL LIABILITIES HELD FOR TRADING	2,296,321	4,924,277	
80	TAX LIABILITIES	5,525,802	8,304,183	
	A) CURRENT	5,351,953	8,304,183	
	B) DEFERRED	173,849	0	
100	OTHER LIABILITIES	20,615,032	26,460,114	
110	STAFF SEVERANCE FUND	1,891,728	2,139,893	
120	PROVISIONS FOR RISKS AND CHARGES	368,455	374,401	
	A) PENSIONS AND SIMILAR			
	B) OTHER	368,455	374,401	
130	VALUATION RESERVES	102,244	407,874	*
160	RESERVES	30,466,134	26,567,421	*
170	SHARE PREMIUM RESERVE	16,702,216	16,702,216	
180	SHARE CAPITAL	151,060,800	151,060,800	
190	TREASURY STOCK			
200	NET PROFIT FOR THE YEAR	10,152,522	15,983,577	*
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,741,190,063	2,377,071,704	

* Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.

INCOME STATEMENT

	ITEMS	31.12.2013 (12 MONTHS)	31.12.2012 (10 MONTHS)	
10	INTEREST AND SIMILAR INCOME	39,576,966	35,987,283	
20	INTEREST CHARGES AND SIMILAR EXPENSES	(13,268,091)	(11,227,554)	
30	NET INTEREST INCOME	26,308,875	24,759,729	
40	COMMISSION INCOME	15,451,244	17,628,643	
50	COMMISSION EXPENSE	(2,650,794)	(2,064,065)	
60	NET COMMISSIONS	12,800,450	15,564,578	
70	DIVIDENDS AND SIMILAR INCOME	13,649	84,000	
80	NET TRADING INCOME	(146,189)	2,003,338	
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	870,931	(186,547)	
	A) TO LOANS AND ADVANCES	1,222,189	0	
	B) TO FINANCIAL ASSETS AVAILABLE FOR SALE	(351,258)	(186,547)	
	C) TO FINANCIAL ASSETS HELD-TO-MATURITY			
	D) TO OTHER FINANCIAL ASSETS			
120	GROSS OPERATING INCOME	39,847,716	42,225,098	
130	NET IMPAIRMENT ADJUSTMENTS:	3,015,192	1,932,251	
	A) TO LOANS AND ADVANCES	(669,085)	1,461,161	
	B) TO FINANCIAL ASSETS AVAILABLE FOR SALE	499,074	(505,927)	
	C) TO FINANCIAL ASSETS HELD-TO-MATURITY	1,554,149	(934,274)	
	D) TO OTHER FINANCIAL ASSETS	1,631,054	1,911,291	
140	NET INCOME FROM FINANCIAL OPERATIONS	42,862,908	44,157,349	
150	ADMINISTRATION EXPENSES:	(27,271,102)	(21,922,348)	
	A) PERSONNEL	(17,652,629)	(13,779,473)	*
	B) OTHER	(9,618,473)	(8,142,875)	
160	NET PROVISIONING FOR RISKS AND CHARGES	(152,584)	(72,247)	
170	NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS	(745,003)	(617,391)	
180	NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS	(863,456)	(619,932)	
190	OTHER OPERATING INCOME / CHARGES	1,984,402	854,014	
200	OPERATING CHARGES	(27,047,743)	(22,377,904)	
250	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	15,815,165	21,779,445	
260	INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS	(5,662,643)	(5,795,868)	
270	NET PROFIT FROM CONTINUING OPERATIONS	10,152,522	15,983,577	*
290	NET PROFIT FOR THE YEAR	10,152,522	15,983,577	

* Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2013 (12 MONTHS)	31.12.2012 (10 MONTHS)	
10	NET PROFIT (LOSS)	10,152,522	15,983,577	*
	OTHER COMPREHENSIVE INCOME AFTER TAX WITHOUT RECLASSIFICATION TO PROFIT OR LOSS			
20	TANGIBLE FIXED ASSETS			
30	INTANGIBLE FIXED ASSETS			
40	ACTUARIAL PROFIT (LOSS) ON DEFINED- BENEFIT PLANS	49,412	53,699	*
50	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL			
60	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY			
	OTHER COMPREHENSIVE INCOME AFTER TAX WITH RECLASSIFICATION TO PROFIT OR LOSS			
70	HEDGING OF FOREIGN INVESTMENTS			
80	FOREX DIFFERENTIALS			
90	HEDGING OF FINANCIAL FLOWS			
100	FINANCIAL ASSETS AVAILABLE FOR SALE	(156,819)		
110	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL			
120	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY			
130	OTHER SOURCES OF INCOME, AFTER TAX	(107,407)	53,699	
140	COMPREHENSIVE INCOME	10,045,115	16,037,276	

* Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.

STATEMENT OF CHANGES IN EQUITY 01.01.2013 – 31.12.2013

	BALANCE AS AT 31.12.2012	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2013	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	26,567,421		26,567,421	3,898,713		
B) OTHER						
REVALUATION RESERVES *	407,874	(198,223)	209,651			
CAPITAL INSTRUMENT						
OWN SHARES						
NET PROFIT FOR THE YEAR	15,983,577		15,983,577	(3,898,713)	(12,084,864)	
SHAREHOLDERS' EQUITY	210,721,888	(198,223)	210,523,665		(12,084,864)	

* The changes in the opening balances reflect the reclassification and the effects arising from the determination of deferred taxes on the valuation reserves connected to bonds classified in the AFS portfolio.

follow

INTERVENING VARIATIONS							SHAREHOLDERS' EQUITY AS AT 31.12.2013
CHANGES TO EQUITY							
NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2013	
							151,060,800
							16,702,216
							30,466,134
						(107,407)	102,244
						10,152,522	10,152,522
						10,045,115	208,483,916

STATEMENT OF CHANGES IN EQUITY 01.01.2012 – 31.12.2012

	BALANCE AS AT 29.02.2012	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.03.2013	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	33,818,776		33,818,776	587,100	(7,838,455)	
B) OTHER						
REVALUATION RESERVES *	294,292	(41,017)	253,275			100,900
CAPITAL INSTRUMENT						
OWN SHARES						
NET PROFIT FOR THE YEAR *	11,741,289	41,017	11,782,306	(587,100)	(11,195,206)	
SHAREHOLDERS' EQUITY	213,617,373		213,617,373		(19,033,661)	100,900

* The change reflects the reclassification and the effects deriving from the determination of items "Revaluation Reserves" and "Profit for the back application of the new version of IAS 19 R".

follow

INTERVENING VARIATIONS							SHAREHOLDERS' EQUITY AS AT 31.12.2012
CHANGES TO EQUITY							
NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 01.03.2012 – 31.12.2012	
							151,060,800
							16,702,216
							26,567,421
						53,699	407,874
						15,983,577	15,983,577
						16,037,276	210,721,888

CASH FLOW STATEMENT

	INDIRECT METHOD	31.12.2013	31.12.2012	
A	OPERATING ACTIVITIES			
1.	OPERATIONS	7,023,919	7,816,463	
	NET PROFIT FOR THE YEAR	10,152,522	15,983,577	*
	CAPITAL GAINS (LOSSES) ON FINANCIAL ASSETS HELD FOR TRADING AND FINANCIAL ASSETS/LIABILITIES CARRIED AT FAIR VALUE	(1,710,336)	(126,610)	
	CAPITAL GAINS (LOSSES) ON HEDGING ASSETS			
	NET IMPAIRMENT ADJUSTMENTS	(3,015,192)	(1,932,252)	
	NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE ASSETS	1,608,459	1,237,323	
	NET PROVISIONS FOR RISKS AND CHARGES AND OTHER REVENUES (COSTS)	(5,946)	9,013	
	UNSETTLED TAXES AND DUTIES	300,042	(7,509,187)	
	NET POST TAX ADJUSTMENTS TO GROUPS OF ASSETS EARMARKED FOR DISPOSAL			
	OTHER ADJUSTMENTS	(305,630)	154,599	*
2.	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	(521,121,192)	(738,339,695)	
	FINANCIAL ASSETS HELD FOR TRADING	(1,985,294)	(60,919,713)	
	FINANCIAL ASSETS CARRIED AT FAIR VALUE			
	FINANCIAL ASSETS AVAILABLE FOR SALE	(8,667,382)	46,382,920	
	LOANS AND ADVANCES TO BANKS: DEMAND	(390,015,979)	(973,541,868)	*
	LOANS AND ADVANCES TO BANKS: OTHER			
	LOANS AND ADVANCES TO CUSTOMERS	(120,423,862)	250,361,422	
	OTHER FINANCIAL ASSETS	(28,675)	(622,456)	
3.	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	(630,859,342)	(626,639,344)	
	ACCOUNT PAYABLE TO BANKS: DEMAND	(291,101,130)	(424,282,375)	*
	ACCOUNT PAYABLE TO BANKS: OTHER			
	ACCOUNT PAYABLE TO CUSTOMERS	(331,037,009)	205,380,248	
	OUTSTANDING SECURITIES			
	FINANCIAL LIABILITIES HELD FOR TRADING	(2,627,956)	1,690,279	
	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE			
	OTHER FINANCIAL LIABILITIES	(6,093,247)	1,333,000	
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	(102,714,231)	119,516,814	

* Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.

		31.12.2013	31.12.2012
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:	(116,174,509)	100,723,502
	PURCHASE OF EQUITY INVESTMENTS		
	PURCHASE OF FINANCIAL ASSETS HELD TO MATURITY	(117,010,582)	100,370,463
	PURCHASE OF TANGIBLE FIXED ASSETS	152,283	303,049
	PURCHASE OF INTANGIBLE ASSETS	683,790	49,990
	PURCHASE OF BUSINESS UNITS		
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/ DIVESTMENT ACTIVITIES	116,174,509	(100,723,502)
C	FUNDING		
	ISSUE (PURCHASE) OF TREASURY STOCK		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS		
	DISTRIBUTION OF DIVIDENDS AND OTHER	(12,084,864)	(19,033,661)
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	(12,084,864)	(19,033,661)
	NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR	1,375,414	(240,349)

RECONCILIATION	31.12.2013	31.12.2012
CASH AND CASH EQUIVALENTS AT START OF YEAR	128,607	368,956
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	1,375,414	(240,349)
CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
CASH AND CASH EQUIVALENTS AT THE YEAR END	1,504,021	128,607

NOTES TO THE FINANCIAL STATEMENTS

PART A
ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

As prescribed by Law Decree 38 of 28 February 2005, the Financial Statements of Banca UBAE S.p.A. for the year ended 31 December 2013 have been prepared in conformity with international accounting principles – International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) – issued by the International Accounting Standards Board (IASB) and relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission in accordance with EC Regulation No. 1606 of 19 July 2002. IFRS have been applied by also making reference to the Framework for Preparation and Presentation of Financial Statements.

In addition to instructions contained in Banca d'Italia circular No. 262 of 22 December 2005 "Bank financial statements: layout and rules for compilation", 2nd update issued on 21 January 2014, for purposes of interpretation reference has been made to documents concerning application of the IFRS in Italy prepared by the Italian Accountancy Board (OIC).

On 28/03/2014 the BD approved the Financial Statements and made them available to shareholders as prescribed by Art. 2435 of the Civil Code. These Financial Statements will be submitted for approval by the Shareholders' Meeting to be held on 30/04/2014 (first call) and 16/05/2014 (second call) and will be deposited within the term prescribed by Art. 2435 of the Civil Code. The Shareholders' Meeting is empowered to make changes to these Financial Statements. For purposes of the provisions of IAS 10.17, the date taken into account by the BD as regards preparation of the Financial Statements is 28/03/2014, the date of their approval by the BD.

- **Section 1 – Statement of conformity with international accounting principles**

As prescribed by IAS 1 to § 14, it is confirmed that the Financial Statements of Banca UBAE S.p.A. for the year ended 31 December 2013 are in conformity with all IAS/IFRS accounting principles, including the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretive documents, in force at the date of approval of these Financial Statements and as endorsed by the European Commission.

Furthermore, as regards interpretation and application of the new international accounting principles, reference has been made to the Framework for the Preparation and Presentation of Financial Statements issued by the IASB.

In terms of interpretation, reference has also been made to documents concerning the application of IAS/IFRS accounting principles prepared by the Italian Accountancy Board (OIC) AND Italian Banking Association (ABI).

- **Section 2 – General principles for preparation of the Financial Statements**

The Financial Statements for the period January-December 2013 (12 months) are compared, as prescribed by the regulations, to those prepared for the period March- December 2012 (10 months). It should be noted that the period during which Banca UBAE S.p.A. was subject to extraordinary administration ended on 29 February 2012. The Financial Statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement and these Notes, and are accompanied by the Board's Summary of Operations and situation of Banca UBAE S.p.A. The amounts reported in the Financial Statements correspond to the Bank's accounting records.

The Bank's Financial Statements have been prepared based on the assumption of business continuity and with reference to the general principles for preparation indicated below:

- principle of true, correct and complete presentation of the Balance Sheet, economic and financial situation;
- principle of accounting on an accrual basis;
- principle of consistency as regards presentation and classification from one year to the next;
- principle of precedence given to substance over form;
- principle of exercising due prudence when making estimates required in situations of uncertainty, so that assets or income are not overestimated and liabilities or costs are not underestimated, and that the aforesaid does not give rise to setting up hidden reserves or excessive provisions;
- principle of providing unbiased information;
- principle of providing relevant/significant information.

The Financial Statements have been prepared in conformity with the layout and rules for compilation prescribed in Banca d'Italia circular No. 262 of 22 December 2005, updated on 21 January 2014, including other requests for information indicated in later specifications issued by Banca d'Italia. Moreover, additional information believed to be opportune has been provided to supplement data included in the Financial Statements even when not specifically required by the regulations.

Amounts reported in the Balance Sheet and Income Statement, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow Statement are in whole euros, whereas amounts in the Notes are stated in thousands of euros, when not indicated otherwise. For purposes of comparison the Financial Statements and, where required, tables in the Notes, also show figures reported for the previous year.

No offsetting has been made between assets and liabilities, revenues and costs unless this has been approved or is required by international accounting principles or provisions made in the latest update of Banca d'Italia circular No. 262.

Line items in the Balance Sheet, Income Statement and Statement of Comprehensive Income are not shown if there are no amounts reported in them for the current and previous year. If an asset or liability item falls under more than one line item in the Balance Sheet, the fact that this refers to line items other than the one in which they are recognized is mentioned the Notes in cases where this is deemed necessary to provide a better understanding of the Balance Sheet.

Revenues in the Income Statement and relative section of the Notes are reported without brackets whereas costs are shown in brackets. In the Statement of Comprehensive Income negative amounts are indicated in brackets.

Criteria adopted for preparing these Financial Statements are unchanged from those adopted in the previous year.
Following discussions at international level between Regulators, Governments and Bodies responsible for preparing and interpreting accounting rules, during March 2009 the IASB approved an amendment to IFRS 7 in order to improve information concerning fair value measurement and strengthening previous requirements for information as regards liquidity risk linked to financial instruments.
Very briefly:

- the changes introduce requirements for information concerning criteria used to establish the fair value of financial instruments, in accordance with indications already given in SFAS 157 in terms of a hierarchy for fair value on three levels based on the significance of valuation inputs;
- as regards liquidity risk, a new definition of this is introduced (as being "the risk that an organization may find it difficult to fulfil obligations associated with financial liabilities to be regulated by means of delivery of cash or other financial assets") as well as the requirement for additional quantitative-Type information about the method for managing liquidity of derivative instruments.

The main innovation in the IFRS 7 amendment is the introduction of a Fair Value Hierarchy (hereinafter FVH) based on three different levels (Level 1, Level 2 and Level 3) in decreasing order of the possibility to examine inputs used for estimating fair value. As regards criteria for assessing fair value, reference is made to indications given in specific notes in point 4 below.

• Section 3 – Significant post-year-end events

During the period between the closing date for these Financial Statements and their approval by the BD on 28/03/2014 no significant events have occurred that would require either a change in the approved figures or the need for additional information.

Information concerning business continuity

As regards future business continuity, it should be noted that indications were given in Document No. 4 dated 3 March 2010 issued jointly by Banca d'Italia, Consob and Isvap, with reference to "Information to be provided in financial reports on audits covering the impairment of asset values (impairment test)" concerning contractual clauses for financial debts, debt restructuring and the "fair value hierarchy", and that referred to a corresponding Document No. 2 issued jointly by the three authorities on 6 February 2009. As of now the Bank can reasonably expect to continue operations for the foreseeable future and has therefore prepared these Financial Statements based on the assumption of business continuity.
More detailed information concerning the main issues and existing market variables is given in the Board's Summary of Operations.

• **Section 4 – Other aspects**

In accordance with Art. 14 and 16 of Law Decree No. 39 of 27 January 2010 the Financial Statements are subject to audit by BDO S.p.A., a firm of external auditors that was appointed for the period 2012-2020 by the Shareholders' Meeting held on 10/09/2012.

4a_New documents issued by IASB have been endorsed by the EU to be mandatorily adopted for Financial Statements for years starting from 1 January 2013 onward

DOCUMENT TITLE	DATE ISSUED	IN FORCE FROM	DATE ENDORSED	EU REGULATION YEAR OF PUBLICATION
IAS 19 - EMPLOYEE BENEFITS	June 2011	1 January 2013	5 June 2012	(EU) 475/2012
AMENDMENTS TO IFRS 7 – FINANCIAL INSTRUMENTS: ADDITIONAL INFORMATION	December 2011	1 January 2013	13 December 2012	(EU) 1256/2012
IFRS 13 - ASSESSMENT OF FAIR VALUE	May 2011	1 January 2013	1 January 2013	(EU) 1255/2012
IFRS 12 – INFORMATION CONCERNING INVESTMENTS IN OTHER ORGANIZATIONS	May 2011	1 January 2014 (for IASB 1 January 2013)	11 December 2012	(EU) 1254/2012
AMENDMENTS TO IAS 12 - INCOME TAXES	December 2010	1 January 2013 (for IASB 1 January 2013)	11 December 2012	(EU) 1255/2012
ANNUAL IMPROVEMENTS TO IFRSS (PERIOD 2009 - 2001)	May 2012	1 January 2013	27 March 2013	(EU) 301/2013 28 March 2013

The amendment of IAS 19 R – Employee benefits, as prescribed in EU Regulation 475/2012, came into force on 1 January 2013.
Introduction of the new IAS 19R accounting principle has eliminated the possibility to choose between different alternative accounting methods for actuarial profits and losses, which must now mandatorily be reported immediately and for the entire amount on the Statement of Comprehensive Income, with an impact on Shareholders' Equity. Specifically as regards UBAE, the application of IAS 19R has meant that actuarial profits and losses have been accounted for in Shareholders' Equity Valuation Reserves as opposed to on the Income Statement as was the previous practice. The introduction of IAS 19R has also meant that, in line with the provisions of IAS 8, data in the Balance Sheet and Income Statement has been reclassified for prior years to make the figures comparable.

The back application of Principle 19R of IAS also resulted in the re-statement of the comparative Balance Sheet data as at 31 December 2012 as follows:

- The net profit increased from EUR 15,833,000 to EUR 15,983,000; therefore the increase was equal to EUR 150,000;
- The balance of Retained Earnings increased from EUR 26,526,000 to EUR 26,567,000; therefore the increase was equal to EUR 41,000;
- The balance of Revaluation Reserves decreased from EUR 599,000 to EUR 408,000; therefore the decrease was equal to EUR 191,000.

The following table shows the items affected by restatement at 31 December 2012 and relative quantitative impacts:

EUR/000

		BALANCE AS AT 31/12/2012	IAS 8 EFFECT ON 2012	RESTATED BALANCE AS AT 31/12/2012
	SHAREHOLDERS' EQUITY			
130	VALUATION RESERVES	599	-191	408
160	RESERVES	26,526	41	26,567
200	NET PROFIT FOR THE YEAR	15,833	150	15,983
	INCOME STATEMENT			
150	ADMINISTRATION EXPENSES: A) PERSONNEL	13,929	-150	13,779
200	OPERATING CHARGES	22,528	-150	22,378
250	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	21,628	-150	21,478
260	INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS	-5,796		-5,796
270	NET PROFIT FROM CONTINUING OPERATIONS	15,833	150	15,983
290	NET PROFIT FOR THE YEAR	15,833	150	15,983
	STATEMENT OF COMPREHENSIVE INCOME			
10	NET PROFIT (LOSS)	15,833	150	15,983
90	ACTUARIAL PROFIT (LOSS) ON DEFINED BENEFIT PLANS		54	54
110	TOTAL OTHER INCOME ITEMS NET OF TAX	204	-204	
120	COMPREHENSIVE INCOME	16,037		16,037
	STATEMENT OF CHANGES IN EQUITY			
	RESERVES: A) FOR PROFIT – "CHANGE IN OPENING BALANCES" COLUMN	26,567		26,567
	VALUATION RESERVE – "CHANGE IN OPENING BALANCES" COLUMN	408	-198	210
	VALUATION RESERVE – "COMPREHENSIVE INCOME AT 31/12/2012" COLUMN	204	-150	54
	PROFIT (LOSS) FOR THE YEAR – "COMPREHENSIVE INCOME AT 31/12/2012" COLUMN	15,833	150	15,983

As regards the Balance Sheet at 31 December 2012, the previous effects are already included in items in Shareholders' Equity for Share Capital and Reserves based on the effect of allocating the net result achieved in prior years.

4b_Statement of Comprehensive Income

The Statement of Comprehensive Income introduced in 2009 is prepared in the light of amendments to IAS 1 and includes revenue and cost items that, in conformity with international accounting principles, are not reported in the Income Statement but in Shareholders' Equity.

So comprehensive income expresses the change in equity for the year as a result of both business operations that currently generate profit for the year and other operations net of tax effect. For example, these include changes in the value of AFS securities, tangible and intangible fixed assets, hedging of overseas investments and financial flows, exchange rate differences and actuarial profits or losses on employee benefit plans, accounted for in Shareholders' Equity based on a specific accounting principle.

4c_Use of estimates when preparing the Financial Statements (specifically as regards the provisions of IAS 1 paragraph 125 and Document No. 2 of 6 February 2009 issued jointly by Banca d'Italia/Consob/lsvap)

Preparation of the Financial Statements also requires recourse to estimates and assumptions that can have a significant effect on amounts recognized in the Balance Sheet and Income Statement, and also as regards information concerning potential assets and liabilities reported in the Financial Statements.

Preparing estimates implies using available information and subjective assessments, also based on past experience, utilized in order to formulate reasonable assumptions to account for facts concerning operations.

Given their nature estimates and assumptions can vary from period to period. It cannot be excluded therefore that in future years the actual amounts recognized in the Financial Statements may differ, even significantly, as a result of changes in the subjective assessments used.

The main cases for which the BD needs to resort to subjective assessments concern:

- quantification of losses for impairment of loans, advances, guarantees and, in general, other financial assets;
- assessment of the fair value for financial instruments to be used for purposes of information concerning the Financial Statements;
- use of evaluation models for assessing the fair value of financial instruments not listed on active markets;
- quantification of staff provisions and provisions for risks and charges;
- estimates and assumptions as regards recovery of deferred tax assets.

The description of accounting policies that apply to the main items provides the necessary details for identifying the principal assumptions and subjective assessments used when preparing the Financial Statements.

More detailed information concerning the breakdown and relative amounts recognized for items affected by the estimates in question can instead be found in specific sections of the Notes.

4d_Information has to be provided in financial reports on audits covering impairment of asset values (impairment test), with specific reference to the provisions in Document No. 4 issued jointly by Banca d'Italia/Consob/Isvap on 3 March 2010.

With reference to criteria used for the valuation of securities classified as being available for sale, when finalizing the Financial Statements the BD assesses if there is objective evidence of non-temporary reductions in value.

4e_LAW 147 OF 27 DECEMBER 2013 (STABILITY LAW)
Losses and write-downs on receivables (Art. 1, para. 158-160)
With effect from tax year 2013 losses and write-downs on customer receivables (line item 130 in the Income Statement) will be deductible both for IRES and IRAP purposes, calculated based on equal instalments in the year they are charged to the Income Statement and the four following years. The introduction of this provision replaces recognition of a 0.30% annual deductible amount on customer receivables, however, it aligns treatment of losses on receivables with that of write-downs, while deductibility is also extended to losses and write-downs on receivables for IRAP calculation purposes.

The timeframe for deductibility of write-downs on receivables is also reduced from 18 years to 5 years. As regards write-backs on receivables, the distinction is maintained between "valuation write-backs" and "payment write-backs". On this subject, it is understood that losses and write-downs on receivables deductible in 5 years are net of valuation write-backs recorded in the Income Statement, whereas payment write-backs will be taxed separately for IRES and IRAP purposes.

The only exception from the 5-year deductibility rule for losses and write-downs on receivables concerns losses on transferred receivables (recorded in line item 100 in the Income Statement) for which full deductibility remains in the year they occur for both IRES and IRAP calculation.

The rule concerning deductibility in 18 years remains in force for write-downs on receivables exceeding the annual quota of 0.30% of customer receivables established up to 31 December 2012.

4f_LAW DECREE 133 OF 30 NOVEMBER 2013 – increase of IRES rate (Art. 2, para. 2)
For tax year 2013, as an exception to provisions of the Taxpayers' Charter, an additional IRES of 8.5% applies for companies operating in the credit sector that increases the normal rate from 27.5% to 36%. The Decree states that this addition is not calculated on incremental changes as a result of applying Art. 106, para. 3 of the Consolidated Law on Banking.

A.2 MAIN BALANCE SHEET ITEMS

1 – FINANCIAL ASSETS HELD FOR TRADING

- **Recognition**

Financial assets held for trading (HFT assets) are recorded on their settlement date, derivatives 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 embedded derivative is unbundled 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 embedded derivatives that have been unbundled from host contracts.

- **Valuation**

After initial recording, HFT assets 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 applied in recent, comparable trades.

- **Derecognition**

HFT assets 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 HFT assets 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**

Included in this category are 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 related 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 remain there until disposal of the asset concerned. The changes are also 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 Valuation Reserves are recorded in the Income Statement at the time of disposal of the asset concerned as indicated above. Increases in value of equity instruments are not recorded in the Income Statement. Interest calculated using 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 (HTM assets) 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 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, HTM asset 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 calculated using 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 uncollectibility.

The amortized-cost method is not used for short-term financial assets, wich 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 calculated using the amortized-cost method based on actual interest rates. If objective evidence points to an impairment loss at the end of the financial year, this is recorded 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 been if no impairment loss had been recorded.

4 – LOANS, ADVANCES AND GUARANTEES ISSUED

- **Recognition**

Loans and advances (L&A) 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 part 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 commitments 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&A to Banks or L&A to Customers, except 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&A, as are operating loans and repurchase agreements.

- **Valuation**

After initial recognition, L&A 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 loan 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 90 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 based on reasonable estimates;
- the discontinue 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 deemed at risk) and positions that are overdue by, or display overruns extending for, more than 90 days are assessed collectively by 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.

As established in Banca d'Italia circular No. 272/2008, updated on 16 July 2013, impaired positions are subdivided into the following categories:

- Bad debts: loans formally recognized as impaired in cases where the customer is considered to be insolvent, although not legally declared bankrupt, or similar types of position;
- Standstill positions: loans to customers considered to be temporarily in difficulty but that are expected to be resolved within a reasonable time. As established in the above mentioned circular, overdue positions or overruns in excess of 270 days are objectively considered to be in a standstill position when the overdue/overrun amount is equal to at least 10% of the entire exposure for the customer concerned (excluding late-payment interest);
- Restructured exposures: these are exposures for counterparties with whom an agreement has been made that provides for a grace period for repayment of the debt and a simultaneous renegotiation of terms and conditions;
- Overdue exposures: these include the entire exposure for counterparties, other than those classified in the above categories, for whom loans at the date of reporting are overdue or show an overrun in excess of 90 days.

- **Derecognition**

Under the terms of IAS 39, the transfer of financial assets only leads to derecognition when all risks and benefits associated with the assets are effectively transferred to a third party. If the Bank has not effectively 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 been 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 HELD 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 impairment.
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 impairment 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 calculated net of disposal costs. Any shortfall in book value relative to recoverable value is recorded in the Income Statement. If the reasons for the write-down should cease to subsist, a write-back is recorded in the Income Statement. The write-back cannot result in a higher book value than that which the asset would have had after depreciation if no impairment 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 impairment 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 recorded 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 impairment had occurred.

10 – NON-CURRENT ASSETS BEING DIVESTED

There are no items in this category.

11 – CURRENT AND DEFERRED TAXES

- **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 to 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 calculated based on the temporary differences between assets and liabilities recorded in the Balance Sheet and the corresponding values recognized for tax purposes.

12 – PROVISIONS FOR RISKS AND CHARGES

- **Recognition and Classification**

Provisions for risks and charges are 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 allocated to provisions 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 provisions for Risks and Charges for the year.

- **Derecognition**

Provisions are used solely for 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.

13 – ACCOUNTS PAYABLE

- **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 a 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 difference from the effective purchase price 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 using the actual interest rate method, except for significant short-term liabilities that warrant recognition at fair value (i.e., the amount received adjusted for any directly related charges/proceeds). The method for determining amortized cost is indicated 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.

14 – FINANCIAL LIABILITIES HELD FOR TRADING

- **Recognition**

HFT liabilities are recognized at 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 difference between the two amounts 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 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 indicated 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.

15 – FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE

There are no items in this category.

16 – FOREX 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 recorded 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.

17 – OTHER INFORMATION

a) 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 or levels:

1. Level 1: Prices listed on active markets (mark-to-market), where valuation is based on the price commanded by the same instrument, unmodified and unrecombined, as listed on an active market. A market is considered active when its listed prices reflect normal market conditions, are regularly and readily available through stock exchanges, listing services and/or brokers, and represent actual and regular market operations.
2. Level 2: Methods based on observable market parameters, such as market prices for similar instruments, or 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 offer little scope for discretion since all parameters used, be it for the same or similar instruments, are ultimately drawn from the market, hence they 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 calculating the present value of future cash flows and estimating volatilities; models are revised during their development and periodically thereafter to ensure maximum and durable consistency. As methods in this group rely heavily on significant inputs from sources other than the market, the Bank's management will have to make estimates and assumptions.

The criteria used to determine the fair value of securities are as follows:

a) For securities traded on active markets fair value is represented by:

- the official price on the last trading day of the relevant period if the instrument is listed on the Italian stock exchange;
- the official price (or its equivalent) on the last day of the relevant period if it is listed on a foreign stock exchange.

b) For securities not traded on active markets fair value is represented by (in descending order of preference):

- the reference price from recent trades;
- price indications, if available and reliable, from sources such as ICMA, Bloomberg or Reuters;
- the price obtained by applying valuation methods generally accepted in the financial community, e.g.:
    - for debt instruments, the present value of future cash flows, based on the yield rates applying at the end of the period for an equivalent residual life and taking into account 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;
- the cost, adjusted to take into account any significant impairment if fair value cannot be determined reliably by any of the previously mentioned criteria.

c) For derivatives, fair value is 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 for the type of derivative being valued, i.e.:
  - interest rate contracts: the "replacement cost" obtained by calculating the present value of balances on the scheduled settlement dates between 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.

b) 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 instrument's fair value) is recorded 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.

c) Staff Severance Fund

- **Registration and classification**

The Staff Severance Fund (TFR) is recognized by the actuarial method prescribed in IAS 19 for staff defined-benefit plans.

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.

Application IAS 19R starting 1 January 2013 implied the inclusion in Shareholders' Equity Valuation Reserves of the actuarial losses on defined benefit plans previously recognized in the Income Statement; all other economic components of the severance pay flows are recognized in the Income Statement in the line item Administrative Expenses/Personnel.

- **Valuation and Recognition of Gains and Losses**

The present value of future TFR liabilities is calculated at year end by an independent accountant based on the Project Unit Credit Method. The year-end book value is adjusted by the fair value of any assets pertaining to the plan.
Following legislative reforms, only TFR liabilities outstanding as at 31 December 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.
Each year the TFR liability is determined on the basis of contributions due for that year. As a result of the legislative reform, based on the choice made by each individual employee, TFR amounts due from 1 January 2007 onward are transferred to an external pension fund or the INPS treasury fund and as such are no longer considered a defined-contribution plan.

d) Publication of the Financial Statements

The Board Meeting held on 28/03/2014, has authorized the publication of these Financial Statements after the approval of the Shareholders' Meeting to be held on 30/04/2014 firstcall or 16/05/2014 second call.

A.3 DETAILS OF TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

The Bank has not reclassified any financial assets during the year in question.

A.3.1 Reclassified financial assets: book value, fair value and impacts on comprehensive net income

A.3.2 Reclassified financial assets: impact on comprehensive income before transfer

The Bank has not reclassified any financial assets during the year in question.

A.3.3 Transfers of financial assets held for trading

A.3.4 Effective interest rate and expected future cash flows from reclassified assets

A.4 FAIR VALUE DETAILS
Qualitative information

A.4.1 Fair value levels 2 and 3: assessment and input techniques

Starting 1 January 2013 the Bank has applied the new IFRS 13 accounting principle. An assessment of the classification criteria and measurement method adopted for fair value revealed that these were essentially in line with the principle concerned. Techniques, valuation processes for financial instruments and criteria for determining fair value used by the Bank are illustrated in the Notes – Part A, point 17 "Other aspects".

A.4.2 Processes for and sensitivity of assessments

Based on the provisions of the new international IFRS 13 accounting principle the Bank has carried out a sensitivity analysis in order to determine the potential impact on valuation of instruments classified in fair value level 3 as a result of possible variations in the corresponding non-observable market parameters. This check did not reveal any significant impact of the situation presented.

A.4.3 Fair value hierarchy

With the introduction of IFRS 13 the aim was to include the rules for measuring fair value previously contained in several accounting principles in a single principle. Fair value is defined as the price obtained for the sale of an asset or as the amount paid when transferring a liability in a normal transaction between market operators at the date of valuation.

To determine the fair value of a financial instrument IFRS 13 draws on the hierarchical concept of measurement criteria used that was previously introduced by an amendment to IFRS 7. This stated that it was mandatory to classify valuations based on a hierarchy of levels reflecting the significance of inputs used to evaluate financial instruments.

The aim of this classification is to establish a hierarchy in terms of reliability of fair value based on the degree of subjectivity applied, giving precedence to observable parameters in the market that reflect the assumptions participants in the market would use when pricing the asset/liability concerned.

A.4.4 Other information

The Bank does not utilize the exception concerning the offsetting of groups of financial assets and liabilities as indicated in IFRS 13, paragraph 48.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities assessed at fair value on a comparable basis: breakdown by fair value

EUR/000

		31.12.2013			31.12.2012		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS HELD FOR TRADING	48,018	931		48,413	810	
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
3	FINANCIAL ASSETS AVAILABLE FOR SALE		48,176	64		56,030	878
4	HEDGING DERIVATIVES						
5	TANGIBLE FIXED ASSETS						
6	INTANGIBLE FIXED ASSETS						
TOTAL		48,018	49,107	64	48,413	56,840	878
1	FINANCIAL LIABILITIES HELD FOR TRADING		2,296			4,925	
2	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE						
3	HEDGING DERIVATIVES						
TOTAL			2,296			4,925	

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

No transfers of assets and liabilities between level 1 and level 2 have been made during the year.

levels

A.4.5.2 Annual changes in financial assets assessed at fair value on a comparable basis (level 3)

A.4.5.3 Annual changes in financial liabilities assessed at fair value on a comparable basis (level 3)

A.4.5.4 Assets and liabilities not assessed at fair value or assessed at fair value on a non-comparable basis: breakdown by fair value levels

Below are the types of asset/liability not measured at fair value:

EUR/000

		31.12.2013				31.12.2012			
		BV	FV			BV	FV		
			L1	L2	L3		L1	L2	L3
1	FINANCIAL ASSETS HELD TO MATURITY	271,105	273,103	1,323		388,116	386,620	1,541	
2	LOANS & ADV. TO BANKS	937,124			937,124	1,327,140			1,327,140
3	LOANS & ADVANCES TO CUSTOMERS	385,396			385,396	502,805			502,805
4	TANGIBLE FIXED ASSETS HELD FOR INVESTMENT								
5	NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED								
TOTAL		1,593,625	273,103	1,323	1,322,520	2,218,061	386,620	1,541	1,829,945
1	ACC.PAYABLE TO BANKS	1,390,335			1,390,335	1,681,437			1,681,437
2	ACCOUNTS PAYABLE TO CUSTOMERS	111,673			111,673	442,710			442,710
3	DEBT SECURITIES OUTSTANDING								
4	LIABILITIES ASSOCIATED WITH ASSETS BEING DIVESTED								
TOTAL		1,502,008			1,502,008	2,124,147			2,124,147

Legend:
BV = Book Value **FV = Fair value** **L1 = Level 1** **L2 = Level 2** **L3 = Level 3**

Financial assets held to maturity = They are recorded at amortized cost and comprise securities listed on an active market. The fair value is classified at level 1 and level 2.

Loans and advances to banks and customers = They are recorded at nominal value. The amount shown in the Financial Statements takes into account the write-down following a risk of default and characteristics of guarantees.

Payables to banks and customers = They are recorded at nominal value, which normally equates to the amount the Bank received originally. It is reasonable to assume that this is the fair value inasmuch as the Bank is able to cover its payables thanks to the high level of equity.

The Bank has never valued assets and liabilities at fair value on a non-recurrent basis.

A.5 Information on the "day one profit/loss"

During the year in question the Bank has not recorded positive/negative economic elements deriving from the initial measurement at fair value of financial instruments.

PART B
INFORMATION ON THE BALANCE SHEET

ASSETS

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

1.1 Cash and cash equivalents: breakdown

EUR/000

		31.12.2013	31.12.2012
a)	CASH	202	128
b)	FREE DEPOSITS WITH CENTRAL BANKS	1,302	1
TOTAL		1,504	129

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

2.1 Financial assets held for trading: breakdown by type

EUR/000

ITEMS/VALUES	31.12.2013 L1	31.12.2013 L2	31.12.2013 L3	31.12.2012 L1	31.12.2012 L2	31.12.2012 L3
A NON-DERIVATIVE ASSETS						
1 DEBT SECURITIES	48,018			47,702		
1.1 STRUCTURED SECURITIES						
1.2 OTHER DEBT SECURITIES	48,018			47,702		
2 EQUITY SECURITIES				711		
3 HOLDINGS IN UCI						
4 LOANS						
4.1 REPO						
4.2 OTHER DEBT SECURITIES						
TOTAL (A)	48,018			48,413		
B DERIVATIVES:						
1 FINANCIAL DERIVATIVES		931			810	
1.1 FOR TRADING		931			810	
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)		931			810	
TOTAL (A+B)	48,018	931		48,413	810	

Legend:
L1 = Level 1 L2 = Level 2 L3 = Level 3 UCI = Undertakings in collective investments
This item concerns debt securities issued by supervised counterparties for a total nominal par value of EUR 48.7 mn; part of these securities (EUR 32 mn) were used for 3-month LTRO operations.

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

EUR/000

	ITEMS/VALUES	31.12.2013	31.12.2012
A	NON-DERIVATIVE ASSETS		
1	DEBT SECURITIES	48,018	47,702
a)	GOVERNMENTS AND CENTRAL BANKS		
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS	42,680	42,311
d)	OTHER ISSUERS	5,338	5,391
2	EQUITY SECURITIES		711
a)	BANKS		
b)	OTHER ISSUERS		
	– INSURANCE UNDERTAKINGS		711
	– FINANCIAL COMPANIES		
	– NON-FINANCIAL COMPANIES		711
	– OTHER		
3	UNIT IN UCI		
4	LOANS		
a)	GOVERNMENTS AND CENTRAL BANKS		
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS		
d)	OTHER		
	TOTAL (A)	48,018	48,413
B	DERIVATIVES		
a)	BANKS	931	807
	– FAIR VALUE	931	807
b)	CUSTOMERS		3
	– FAIR VALUE		3
TOTAL (B)		931	810
TOTAL (A+B)		48,949	49,223

2.3 Financial assets held for trading: annual variation

EUR/000

	DEBT SECURITIES	EQUITIES	HOLDINGS IN UCI	LOANS	TOTAL
A OPENING BALANCE	47,702	711			48,413
B INCREASES	56,148	32,133			88,281
B.1 PURCHASES	55,000	31,806			
B.2 VARIATIONS (+) IN FV	132				
B.3 OTHER VARIATIONS	1,016	327			
C DECREASES	55,832	32,844			88,676
C.1 SALES		32,806			
C.2 REDEMPTIONS	54,653				
C.3 VARIATIONS (-) IN FV	431				
C.4 TRANSFERS FROM OTHER PORTFOLIOS					
C.5 OTHER VARIATIONS	748	38			
D CLOSING BALANCE	48,018	0			48,018

Line item B3 “Other variations” includes trading gains and accrued income at 31 December 2013. Line item C5 “Other variations” includes trading losses.

•Section 3 – Financial assets assessed at fair value – Item 30

3.1 Financial assets assessed at fair value: breakdown by type

3.2 Financial assets assessed at fair value: breakdown by class of debtor/issuer

3.3 Financial assets assessed at fair value: Yearly variations

• **Section 4 – Financial assets available for sale – Item 40**

4.1 Financial assets available for sale: breakdown by type

EUR/000

ITEMS/VALUES	31.12.2013			31.12.2012		
	L1	L2	L3	L1	L2	L3
1 DEBT SECURITIES		48,176			56,030	814
1.1 STRUCTURED						
1.2 OTHER		48,176			56,030	814
2 EQUITIES			64			64
2.1 VALUED AT FAIR VALUE						
2.2 VALUED AT COST			64			64
3 HOLDINGS IN UCI						
4 LOANS						
4.1 STRUCTURED						
4.2 OTHER						
TOTAL		48,176	64		56,030	878

Line item 1 "Debt securities" – level 2 includes securities issued by supervised counterparties for a total nominal value of EUR 50 mn, maturing within 2014. Level 2 comprises securities issued by foreign institutional counterparties for a nominal value of EUR 3.8 mn.

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

EUR/000

	ITEMS/VALUES	31.12.2013	31.12.2012
1	DEBT SECURITIES	48,176	56,844
a)	GOVERNMENTS AND CENTRAL BANKS	2,370	2,752
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS	45,806	54,092
d)	OTHER ISSUERS		
2	EQUITIES	64	64
a)	BANKS		
b)	OTHER ISSUERS	64	64
	– INSURANCE UNDERTAKINGS		
	– FINANCIAL COMPANIES	23	18
	– NON-FINANCIAL COMPANIE	41	46
	– OTHER		
3	HOLDINGS IN UCI		
4	LOANS		
a)	GOVERNMENTS AND CENTRAL BANKS		
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS		
d)	OTHER		
TOTAL		48,240	56,908

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

4.4 Financial assets available for sale: Yearly variation

EUR/000

	DEBT SECURITIES	EQUITIES	HOLDINGS IN UCI	LOANS	TOTAL
A OPENING BALANCE	56,844	64			56,908
B INCREASES	94,409	5			94,414
B.1 PURCHASES	91,553	5			
B.2 VARIATIONS (+) IN FV					
B.3 WRITE-BACKS	1,950				
- BOOKED TO INCOME STATEMENT	1,950				
-BOOKED TO SHAREHOLDERS' EQUITY					
B.4 TRANSFERS FROM OTHER PORTFOLIOS					
B.5 OTHER VARIATIONS	906				
C DECREASES	103,077	5			103,082
C.1 SALES	92,150	1			
C.2 REDEMPTIONS	7,377				
C.3 VARIATIONS (-) IN FV	310				
C.4 WRITE-DOWNS CAUSED BY IMPAIRMENT:					
- BOOKED TO INCOME STATEMENT					
-BOOKED TO SHAREHOLDERS' EQUITY					
C.5 TRANSFERS FROM OTHER PORTFOLIOS					
C.6 OTHER VARIATIONS	3,240	4			
D CLOSING BALANCE	48,176	64			48,240

Line item B5 "Other variations" refers to reversal to the Income Statement of valuation reserves for securities sold or reimbursed.
Line item C6 "Other variations" concerns a loss of about EUR 2 mn on the sale of a security held in the AFS portfolio.
This loss was offset using the relative provision, the positive value of which is in line item B.3 (write-backs).

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

5.1 Financial assets held to maturity: breakdown by type

EUR/000

		31.12.2013				31.12.2012			
		BV	FV			BV	FV		
			L1	L2	L3		L1	L2	L3
1	DEBT SECURITIES	271,105	273,103	1,323		388,116	386,620	1,541	
	1.1 STRUCTURED								
	1.2 OTHER	271,105	273,103	1,323		388,116	386,620	1,541	
2	LOANS								

Legend:
BV = Book Value FV = Fair value L1 = Level 1 L2 = Level 2 L3 = Level 3

This item refers to debt securities issued by supervised counterparties and government bonds for a total nominal value of EUR 272.7 mn; part of these securities (EUR 90 mn) were used for 3-month LTRO operations.

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

EUR/000

		31.12.2013	31.12.2012
1	DEBT SECURITIES	271,105	388,116
a)	GOVERNMENTS AND CENTRAL BANKS	51,862	1,810
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS	219,243	386,306
d)	OTHER ISSUERS		
2	LOANS		
a)	GOVERNMENTS AND CENTRAL BANKS		
b)	OTHER PUBLIC-SECTOR ENTITIES		
c)	BANKS		
d)	OTHER		
TOTAL		271,105	388,116
TOTAL FAIR VALUE		274,426	388,161

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

5.4 Assets held to maturity: Yearly variations

EUR/000

	DEBT SECURITIES	LOANS	TOTAL
A OPENING BALANCE	388,116		388,116
B INCREASES	104,629		104,629
B.1 PURCHASES	99,850		99,850
B.2 WRITE-BACKS	2,019		2,019
B.3 TRANSFERS FROM OTHER			
B.4 OTHER VARIATIONS	2,760		2,760
C DECREASES	221,640		221,640
C.1 SALES			
C.2 REDEMPTIONS	218,000		218,000
C.3 WRITE-DOWNS	465		465
C.4 TRANSFERS TO OTHER			
C.5 OTHER VARIATIONS	3,175		3,175
D CLOSING BALANCE	271,105		271,105

• **Section 6 – Loans and advances to banks – Item 60**

6.1 Loans and advances to banks: breakdown by type

EUR/000

		31.12.2013				31.12.2012			
		BV	FV			BV	FV		
			L1	L2	L3		L1	L2	L3
A	L&AS TO CENTRAL BANKS	991			991	2,887			2,887
1	TERM DEPOSITS								
2	MANDATORY RESERVE								
3	REPOS								
4	OTHER	991			991	2,887			2,887
B	L&AS TO OTHER BANKS								
1	LOANS	936,133			936,133	1,324,253			1,324,253
1.1	CURRENT ACCOUNTS AND FREE DEPOSITS	472,717			472,717	632,175			632,175
1.2	TERM DEPOSITS	262,710			262,710	475,811			475,811
1.3	OTHER								
	– REPOS								
	– FINANCIAL LEASES								
	– OTHER	200,706			200,706	216,267			216,267
2	DEBT SECURITIES								
2.1	STRUCTURED SECURITIES								
2.2	OTHER SECURITIES								
TOTAL		937,124			937,124	1,327,140			1,327,140

Legend:
BV = Book Value FV = Fair value L1 = Level 1 L2 = Level 2 L3 = Level 3

Line item A4 includes restructured exposures for EUR 991 th (EUR 1.3 mn in 2012).
Line item B.1.2 "Term deposits" concerns the mandatory reserve settled indirectly through Istituto Centrale Banche Popolari for EUR 12 mn (EUR 20.2 mn in 2012).
Line item B.1.3 "Other" includes impaired positions for EUR 113 th (EUR 988 th in 2012).

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: breakdown by type

EUR/000

	31.12.2013					
	BOOK VALUE			FAIR VALUE		
	BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
		BOUGHT	OTHER			
LOANS						
1 CURRENT ACCOUNTS	762		940			1,702
2 REPOS						
3 MORTGAGES	7,229		126			7,355
4 CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	1,924		20			1,944
5 FINANCIAL LEASES						
6 FACTORING						
7 OTHER LOANS *	374,395					374,395
DEBT SECURITIES						
8 STRUCTURED SECURITIES						
9 OTHER SECURITIES						
TOTAL	384,310		1,086			385,396

follow

EUR/000

	31.12.2012					
	BOOK VALUE			FAIR VALUE		
	BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
		BOUGHT	OTHER			
LOANS						
1 CURRENT ACCOUNTS	750		1,757			2,507
2 REPOS						
3 MORTGAGES	7,079		121			7,200
4 CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	1,948		37			1,985
5 FINANCIAL LEASES						
6 FACTORING						
7 OTHER LOANS *	491,113					491,113
DEBT SECURITIES						
8 STRUCTURED SECURITIES						
9 OTHER SECURITIES						
TOTAL	500,890		1,915			502,805

* The figure of Euro 374,395 th mainly consists of the following components: Euro 29,038 the active subsidies not regulated in current account at fixed rate; Euro 211,746 the discounted pro soluto; Euro133,532 the export financing.

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

EUR/000

		31.12.2013			31.12.2012		
		BONIS	IMPAIRED		BONIS	IMPAIRED	
			BOUGHT	OTHER		BOUGHT	OTHER
1	DEBT SECURITIES						
a)	GOVERNMENTS						
b)	OTHER PUBLIC-SECTOR						
c)	OTHER ISSUERS						
	– NON-FINANCIAL						
	– FINANCIAL COMPANIES						
	– INSURANCE COMPANIES						
	– OTHERS						
2	LOANS & ADVANCES TO	384,310		1,086	500,890		1,915
a)	GOVERNMENTS						
b)	OTHER PUBLIC-SECTOR				3,286		
c)	OTHERS	384,310		1,086	497,604		1,915
	– NON-FINANCIAL	331,733		930	460,282		1,744
	– FINANCIAL COMPANIES	42,618			20,028		
	– INSURANCE COMPANIES						
	– OTHER	9,959		156	17,294		171
TOTAL		384,310		1,086	500,890		1,915

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: breakdown by type of contract and levels

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedging

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

9.1 Adjustments to hedged assets: breakdown by portfolio hedged

9.2 Assets subject to macro interest rate risk hedging: breakdown

- **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 held for operational use: breakdown of assets carried at cost

EUR/000

ITEMS/VALUES		31.12.2013	31.12.2012
1	OWNED	23,226	23,818
a)	LAND	8,187	8,187
b)	BUILDINGS	14,640	15,198
c)	MOVABLES	149	175
d)	ELECTRONIC SYSTEMS	78	85
e)	OTHER	172	173
2	LEASED		
a)	LAND		
b)	BUILDINGS		
c)	MOVABLES		
d)	ELECTRONIC SYSTEMS		
e)	OTHER		
TOTAL		23,226	23,818

The Bank owns its Rome headquarters building and an apartment in Milan where the branch office is located. It also owns a property in Rome used for the Bank's archives.

11.2 Tangible fixed assets held for investments: breakdown of assets carried at cost

11.3 Tangible fixed assets held for operational use: breakdown of assets assessed at fair value or revalued

11.4 Tangible fixed assets held for investments: breakdown of assets assessed at fair value or revalued

11.5 Tangible fixed assets held for operational use: Yearly variations

EUR/000

		LAND	BUILDINGS	MOVABLES	ELECTRONIC SYSTEMS	OTHER	TOTAL
A	OPENING GROSS BALANCE	8,187	20,385	1,663	2,333	2,195	34,763
A.1	TOTAL NET WRITE-DOWNS		5,187	1,488	2,248	2,022	10,945
A.2	OPENING NET BALANCE	8,187	15,198	175	85	173	23,818
B	INCREASES		54	9	20	70	153
B.1	PURCHASES		54	9	20	70	153
B.2	IMPROVEMENTS CAPITALIZED						
B.3	WRITE-BACKS						
B.4	POSITIVE CHANGES IN FAIR VALUE BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
B.5	FOREX GAINS						
B.6	TRANSFERS FROM ASSETS HELD FOR INVESTMENT						
B.7	OTHER INCREASES						
C	DECREASES		612	35	27	71	745
C.1	SALES						
C.2	DEPRECIATION		612	35	27	71	745
C.3	WRITE-DOWNS FOR IMPAIRMENT BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
C.4	NEGATIVE CHANGES IN FAIR VALUE BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
C.5	FOREX LOSSES						
C.6	TRANSFERS TO:						
	A) TANGIBLE FIXED ASSETS HELD FOR INVESTMENT						
	B) ASSETS BEING DIVESTED						
C.7	OTHER DECREASES						
D	NET CLOSING BALANCE	8,187	14,640	149	78	172	23,226
D.1	TOTAL NET WRITE-DOWNS		5,799	1,523	2,275	2,093	11,690
D.2	GROSS CLOSING BALANCE	8,187	20,439	1,672	2,353	2,265	34,916
E	VALUATION AT COST	8,187	14,640	149	78	172	23,226
	DEPRECIATION RATE APPLIED	0%	3%	12%	20%	15-20-25%	

The above tangible fixed assets were recorded at cost plus any directly related accessory charges. They have been depreciated using the straight-line method based on their useful life and period of effective utilization.

11.6 Tangible fixed assets held for investment: Yearly variations

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

• Section 12 – Intangible fixed assets – Item 120

12.1 Intangible fixed assets: breakdown by type

EUR/000

		31.12.2013		31.12.2012	
		LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL				
A2	OTHER INTANGIBLE ASSETS	1,437		1,616	
	A2.1 ASSETS VALUED AT COST	1,437		1,616	
	A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
	B) OTHER ASSETS	1,437		1,616	
	A2.2 ASSETS ASSESSED AT FAIR VALUE				
	A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
	B) OTHER ASSETS				
TOTAL		1,437		1,616	

12.2 Intangible fixed assets: Yearly variations

EUR/000

	GOOD-WILL	OTHER: GENERATED IN-HOUSE		OTHER: GENERATED EXTERNALLY		TOTAL
		LIMITED	UNL	LIMITED	UNL	
A OPENING BALANCE				1,616		1,616
A.1 TOTAL NET WRITE-DOWNS						
A.2 NET OPENING BALANCE				1,616		1,616
B INCREASES				690		690
B.1 PURCHASES				690		690
B.2 INCREASES IN INTERNAL ASSETS						
B.3 WRITE-BACKS						
B.4 POSITIVE CHANGES IN FAIR VALUE BOOKED TO:						
A) SHAREHOLDERS' EQUITY						
B) INCOME STATEMENT						
B.5 FOREX GAINS						
B.6 OTHER INCREASES						
C DECREASES				869		869
C.1 SALES						
C.2 WRITE-BACKS						
– AMORTIZATION				869		869
– DEVALUATIONS						
A) SHAREHOLDERS' EQUITY						
B) CONTO ECONOMICO						
C.3 NEGATIVE CHANGES IN FAIR VALUE BOOKED TO:						
A) SHAREHOLDERS' EQUITY						
B) INCOME STATEMENT						
C.4 TRANSFERS TO NON-CURRENT ASSETS BEING DIVESTED						
C.5 FOREX LOSSES						
C.6 OTHER DECREASES						
D NET CLOSING BALANCE				1,437		1,437
D.1 TOTAL NET WRITE-DOWNS						
E GROSS CLOSING BALANCE				1,437		1,437
F VALUATION AT COST				1,437		1,437

12.3 Other information

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

13.1 Pre-paid tax assets: breakdown

EUR/000

		31.12.2013	31.12.2012
TOTAL		6,913	8,416
INCOME STATEMENT		6,913	8,416
1	TAX LOSSES		
2	LOAN LOSSES	6,095	8,162
3	OTHER	818	254
SHAREHOLDERS' EQUITY			
4	VALUATION RESERVES		
5	OTHER		

13.3.1 Changes in prepaid taxes as per Law 214/2011 (contra-item in the income statement)

13.2 Deferred Tax liabilities: breakdown

EUR/000

		31.12.2013	31.12.2012
TOTAL		174	
1	INCOME STATEMENT		
2	SHAREHOLDERS' EQUITY	174	
	VALUATION RESERVES	174	
	OTHER		

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

EUR/000

		31.12.2013	31.12.2012
1	OPENING BALANCE	8,416	6,993
2	INCREASES		1,513
2.1	PRE-PAID TAX ASSETS RECORDED DURING THE YEAR		1,513
	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	1,503	90
3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR	1,503	90
	A) REVERSALS	192	90
	B) WRITE-DOWNS FOR INTERVENING NON-RECOV.		
	C) DUE TO CHANGES IN ACCOUNTING POLICIES		
	D) OTHER	1,311	
3.2	REDUCTIONS IN TAX RATES		
3.3	OTHER DECREASES		
	A) TRANSFORMATION INTO TAX CREDITS AS PER LAW 214/2011		
	B) OTHER		
4	CLOSING BALANCE	6,913	8,416

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

EUR/000

		31.12.2013	31.12.2012
1	OPENING BALANCE		89
2	INCREASES		
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		89
3.1	DEFERRED TAX LIABILITIES ANNULLED DURING THE YEAR		89
	A) REVERSALS		89
	B) DUE TO CHANGES IN ACCOUNTING POLICIES		
	C) OTHER		
3.2	REDUCTIONS IN TAX RATES		
3.3	OTHER DECREASES		
4	CLOSING BALANCE		0

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

EUR/000

	31.12.2013	31.12.2012
1 OPENING BALANCE	198	
2 INCREASES		198
2.1 DEFERRED TAX LIABILITIES RECORDED DURING THE YEAR		
A) RELATING TO EARLIER YEARS		
B) DUE TO CHANGES IN ACCOUNTING POLICIES		198 *
C) OTHER		
2.2 NEW TAXES OR INCREASES IN TAX RATES		
2.3 OTHER INCREASES		
3 DECREASES	24	
3.1 DEFERRED TAX LIABILITIES ANNULLED DURING THE YEAR	24	
A) REVERSALS		
B) DUE TO CHANGES IN ACCOUNTING POLICIES	24	
C) OTHER		
3.2 REDUCTIONS IN TAX RATES		
3.3 OTHER DECREASES		
4 CLOSING BALANCE	174	198

*** Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.**

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: breakdown 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: breakdown

EUR/000

		31.12.2013	31.12.2012
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)	993	1,022
TOTAL		993	1,022

LIABILITIES

• Section 1 – Accounts payable to banks – Item 10

1.1 Accounts payable to banks: breakdown by type

EUR/000

		31.12.2013	31.12.2012
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	334,778	358,087
2	ACCOUNTS PAYABLE TO OTHER BANKS	1,055,558	1,323,350
	2.1 CURRENT ACCOUNTS AND FREE DEPOSITS	171,008	473,525
	2.2 TERM DEPOSITS	784,440	749,704
	2.3 LOANS	100,110	100,121
	2.3.1 REPO		
	2.3.2 OTHER	100,110	100,121
	2.4 LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY		
	2.5 OTHER LIABILITIES		
TOTAL		1,390,336	1,681,437
	FAIR VALUE LEVEL 1 FAIR VALUE LEVEL 2 FAIR VALUE LEVEL 3	1,390,336	1,681,437
TOTAL FAIR VALUE		1,390,336	1,681,437

Amounts due to central banks include Eur 100 million for the open market operations with the European Central Bank.

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

EUR/000

ACCOUNTS PAYABLE TO BANKS	
SUBORDINATED LIABILITIES	100,110

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: breakdown by type

EUR/000

		31.12.2013	31.12.2012
1	CURRENT ACCOUNTS AND FREE DEPOSITS	110,048	131,313
2	TERM DEPOSITS	1,625	311,397
3	LOANS		
	3.1 REPO		
	3.2 OTHER		
4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY		
5	OTHER ACCOUNTS PAYABLE		
TOTAL		111,673	442,710
	FAIR VALUE LEVEL 1		
	FAIR VALUE LEVEL 2		
	FAIR VALUE LEVEL 3	111,673	442,710
TOTAL FAIR VALUE		111,673	442,710

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: breakdown 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: breakdown by type

EUR/000

	31.12.2013					31.12.2012				
	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 OTHER										
3.2 OTHER SECURITIES										
3.2.1 STRUCTURED										
3.2.2 OTHER										
TOTAL A										
B DERIVATIVES										
1 FINANCIAL DERIVATIVES	147,137		2,296			221,060		4,925		
1.1 HELD FOR TRADING	147,137		2,296			221,060		4,925		
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	147,137		2,296			221,060		4,925		
TOTAL (A+B)	147,137		2,296			221,060		4,925		

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

• Section 5 – Financial liabilities assessed at fair value – Item 50

5.1 Financial liabilities assessed at fair value: breakdown by type

5.2 Detail of item 50 “Financial liabilities assessed at fair value”: Subordinated liabilities

5.3 Financial liabilities assessed at fair value: Yearly variations

• Section 6 – Hedging derivatives – Item 60

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

6.2 Hedging derivatives: breakdown by portfolio and type of hedging

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

7.1 Adjustment to hedged liabilities: breakdown by portfolio

7.2 Liabilities macro-hedged against interest rate risk: breakdown

• 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: breakdown

EUR/000

		31.12.2013	31.12.2012
1	LIABILITIES ARISING FROM THE IMPAIRMENT OF:	14,369	16,000
	A CONTINGENT EXPOSURES	14,369	16,000
	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)	6,246	10,461
TOTAL		20,615	26,461

• Section 11 – Staff severance fund – Item 110

11.1 Staff severance fund: Yearly variations

EUR/000

		31.12.2013	31.12.2012
A	OPENING BALANCE	2,140	2,021
B	INCREASES	38	206
	B.1 PROVISIONING FOR THE YEAR	38	206
	B.2 OTHER INCREASES		
C	DECREASES	286	87
	C.1 SEVERANCE PAYMENTS	237	87
	C.2 OTHER DECREASES	49	
D	CLOSING BALANCE	1,892	2,140
TOTAL		1,892	2,140

11.2 Rates

ANNUAL TECHNICAL	2.40%
ANNUAL INFLATION RATE	2.00%
REAL ANNUAL SALARY	n.a.
OVERALL ANNUAL SALARY	n.a.
GROSS ANNUAL SSF	3.00%

The following actuarial assumptions were used:
- demographic assumption: the basis was the RG48 life expectancy table published by the Italian General Accounting Office;
- economic assumption: the rate used to calculate present value was based on the Iboxx Corporate A index for a duration of 7 – 10 years, which now stands at 2.4%.

11.3 Reconciliation of actuarial valuations under IAS 19 R

EUR/000

	31.12.2013	31.12.2012
OPENING BALANCE	2,140	2,021
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	49	56
BENEFITS PAID	(237)	(87)
TRANSFERS		
EXPECTED LIABILITIES	1,952	1,990
ACTUARIAL LOSS	(60)	150
CLOSING BALANCE	1,892	2,140

11.4 Other information

EUR/000

PROVISIONING FOR THE YEAR	38
PENSION COSTS	
FINANCIAL CHARGES	49
ACTUARIAL LOSS	(60)
OTHER	49

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

12.1 Provisions for risks and charges: breakdown

EUR/000

		31.12.2013	31.12.2012
1	COMPANY PENSION PLANS		
2	OTHER PROVISIONS FOR RISKS AND CHARGES	369	374
	2.1 LITIGATION		
	2.2 STAFF CHARGES	369	374
	2.3 OTHER		
TOTAL		369	374

12.2 Provisions for risk and charges: Yearly variations

EUR/000

		COMPANY PENSION FUNDS	OTHER PROVISIONS	TOTAL
A	OPENING BALANCE		374	374
B	INCREASES		153	153
B.1	PROVISIONING FOR THE YEAR		153	
B.2	VARIATIONS DUE TO THE PASSING OF TIME			
B.3	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
B.4	OTHER INCREASES			
C	DECREASES		158	158
C.1	AMOUNT DRAWN DURING THE YEAR		158	
C.2	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
C.3	OTHER DECREASES			
D	CLOSING BALANCE		369	369

12.3 Company defined-benefit pension funds

1. details of provisions and associated risks
2. variations in the year for liabilities (assets) net of established benefits and reimbursement rights
3. details of fair value for assets included in the plan
4. definition of main actuarial assumptions
5. details of the amount, timing and uncertainties of financial flows
6. plans concerning other employers
7. established benefit plans that share risks between jointly controlled bodies

12.4 Provisions for risks and charges – other provisions

EUR/000

PROVISION FOR HOLIDAYS NOT TAKEN	369
OTHER	
TOTAL	369

• **Section 13 – Redeemable shares – Item 140**

13.1 Redeemable shares: breakdown

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

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

EUR/000

	ITEMS/VALUES	31.12.2013	31.12.2012	
1	SHARE CAPITAL	151,061	151,061	
2	SHARE PREMIUM ACCOUNT	16,702	16,702	
3	RESERVES	30,466	26,567	*
4	CAPITAL INSTRUMENTS			
5	(TREASURY STOCK)			
6	VALUATION RESERVES	102	408	*
7	PROFIT (LOSS) FOR THE YEAR	10,153	15,984	*
TOTAL		208,484	210,722	

*** Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.**

14.2 Share capital: Yearly variations in number of shares

EUR/000

		COMMON	OTHER
A	SHARES AT START OF YEAR	1,373,280	
	– FULLY PAID UP	1,373,280	
	– NOT FULLY PAID UP		
A.1	TREASURY STOCK		
A.2	SHARES OUTSTANDING: OPENING BALANCE	1,373,280	
B	INCREASES		
B.1	NEW SHARE ISSUES		
	RIGHTS ISSUES:		
	– COMBINATION OF COMPANIES		
	– CONVERSION OF BONDS		
	– EXERCISE OF WARRANTS		
	BONUS ISSUES:		
	– FOR EMPLOYEES		
	– FOR DIRECTORS		
	– OTHER		
B.2	SALE OF TREASURY STOCK		
B.3	OTHER INCREASES		
C	DECREASES		
C.1	CANCELLATIONS		
C.2	PURCHASE OF TREASURY STOCK		
C.3	DISPOSAL OF COMPANIES		
C.4	OTHER DECREASES		
D	SHARES OUTSTANDING: FISCAL CLOSING BALANCE	1,373,280	
D.1	TREASURY STOCK (+)		
D.2	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

14.4 Profit reserves: Other information

EUR/000

	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	30,466			
A) LEGAL RESERVE	11,510	B	11,510	
B) EXTRAORDINARY RESERVE	18,430	A, B, C	18,430	
C) FTA/IFRS RESERVES	(95)			
D) RETAINED PROFIT IFRS 2005	400			
E) RETAINED PROFIT	221	A, B, C	221	
OTHER RESERVES				
TOTAL	47,168			
AMOUNT NOT ALLOCATABLE	11,815			
AMOUNT ALLOCATABLE	35,353			

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

14.5 Stock: breakdown and yearly variations

14.6 Valuation reserves: breakdown

Other information

1. Guarantees issued and commitments

EUR/000

		31.12.2013	31.12.2012
1	FINANCIAL GUARANTEES ISSUED	41	40
	a) TO BANKS	41	40
	b) TO CUSTOMERS		
2	COMMERCIAL GUARANTEES ISSUED	771,946	784,823
	a) TO BANKS	422,620	403,182
	b) TO CUSTOMERS	349,326	381,641
3	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	1,577	547
	a) TO BANKS		
	I) DRAW-DOWN CERTAIN		
	II) DRAW-DOWN UNCERTAIN		
	b) TO CUSTOMERS	1,577	547
	I) DRAW-DOWN CERTAIN		
	II) DRAW-DOWN UNCERTAIN	1,577	547
4	COMMITMENTS UNDERLYING CREDIT DERIVATIVES: HEDGING SALES		
5	ASSETS PLEDGED AS COLLATERAL FOR THIRD-PARTY LIABILITIES		
6	OTHER COMMITMENTS	33,726	38,544
TOTAL		807,290	823,954

2. Assets pledged as collateral for own liabilities and commitments

EUR/000

		31.12.2013	31.12.2012
1	FINANCIAL ASSETS HELD FOR TRADING	32,988	
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE		
3	FINANCIAL ASSETS AVAILABLE FOR SALE		
4	FINANCIAL ASSETS HELD TO MATURITY	89,454	
5	LOANS & ADVANCES TO BANKS		
6	LOANS & ADVANCES TO CUSTOMERS		
7	TANGIBLE FIXED ASSETS		

These assets are used for open market operations with the European Central Bank.

3. Information on operational leasing

4. Asset management and brokerage services

EUR/000

	SERVICES		AMOUNT
1	TRADING IN FINANCIAL INSTRUMENTS ON BEHALF OF THIRD PARTIES		
	a)	PURCHASES	
		SETTLED	
		NOT YET SETTLED	
	b)	SALES	
		SETTLED	
		NOT YET SETTLED	
2	ASSET MANAGEMENT		
	a)	INDIVIDUAL	
	b)	COLLECTIVE	
3	CUSTODY AND ADMINISTRATION OF SECURITIES		432,796
	a)	THIRD-PARTY SECURITIES HELD AS PART OF DEPOSITARY BANK SERVICES (ASSET MANAGEMENT EXCLUDED)	
		1) ISSUED BY REPORTING BANK	
		2) OTHER	
	b)	OTHER THIRD-PARTY SECURITIES ON DEPOSIT (ASSET MANAGEMENT EXCLUDED)	57,692
		1) ISSUED BY REPORTING BANK	49,015
		2) OTHER	8,677
	c)	THIRD-PARTY SECURITIES DEPOSITED WITH THIRD PARTIES	7,660
	d)	SELF-OWNED SECURITIES DEPOSITED WITH THIRD PARTIES	375,104
4	OTHER TRANSACTIONS		

The Bank's Memorandum Accounts included EUR 2.6 bn-worth of third party-owned funds (EUR 2.7 bn at 31.12.2012) from third-party securities and related coupons tied up by an international judicial attachment. Since such funds are neither owned by nor immediately available to the Bank, the currently pending international dispute is not expected to generate any directly related liability for the Bank.

5. Financial assets netted in the balance sheet, or covered by frame agreements for netting or similar agreements

6. Financial liabilities netted in the balance sheet, or covered by frame agreements for netting or similar agreements

PART C
INFORMATION ON THE INCOME STATEMENT

• **Section 1 – Interest – Item 10 and 20**

1.1 Interest and similar income: breakdown

EUR/000

		DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	31.12.2013	31.12.2012
1	FINANCIAL ASSETS HELD FOR TRADING	841			841	1,488
2	FINANCIAL ASSETS AVAILABLE FOR SALE	2,105			2,105	1,552
3	FINANCIAL ASSETS HELD TO MATURITY	10,236			10,236	7,690
4	L&AS TO BANKS		14,269		14,269	15,294
5	L&AS TO CUSTOMERS		12,126		12,126	9,963
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE					
7	HEDGING DERIVATIVES					
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED					
TOTAL		13,182	26,395		39,577	35,987

Interest income from impaired L&As to customers amounted to EUR 83,415 compared to EUR 49,593 as at 31.12.12.
Interest income from impaired L&As to banks amounted to to EUR 10,315 compared to EUR 11,430 as at 31.12.12.

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

EUR/000

		PERFORMING ASSETS		IMPAIRED ASSETS	OTHER	31.12.2013	31.12.2012
		DEBT SECURITIES	LOANS				
1	FINANCIAL ASSETS HELD FOR TRADING	67				67	
2	FINANCIAL ASSETS AVAILABLE FOR SALE	226				226	461
3	FINANCIAL ASSETS HELD TO MATURITY	112				112	99
4	L&AS TO BANKS		12,745	10		12,755	11,331
5	L&AS TO CUSTOMERS		2,379			2,379	2,399
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
7	HEDGING DERIVATIVES						
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED						
9	OTHER ATTIVITÀ						
TOTAL		405	15,124	10		15,539	14,290

1.3.2 Interest income from leasing transactions

1.4 Interest charges ad similar expenses: breakdown

EUR/000

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2013	31.12.2012
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	2,524			2,524	2,651
2	ACCOUNTS PAYABLE TO BANKS	10,314			10,314	6,697
3	ACCOUNTS PAYABLE TO CUSTOMERS	430			430	1,879
4	SECURITIES OUTSTANDING					
5	FINANCIAL LIABILITIES HELD FOR TRADING					
6	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE					
7	OTHER LIABILITIES AND ALLOWANCES					
8	HEDGING DERIVATIVES					
TOTAL		13,268			13,268	11,227

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

EUR/000

	ITEMS/VALUES	ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2013	31.12.2012
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	657			657	1,791
2	ACCOUNTS PAYABLE TO BANKS	7,414			7,414	2,772
3	ACCOUNTS PAYABLE TO CUSTOMERS	397			397	1,770
4	SECURITIES OUTSTANDING					
5	FINANCIAL LIABILITIES HELD FOR TRADING					
6	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE					
7	OTHER LIABILITIES AND ALLOWANCES					
8	HEDGING DERIVATIVES					
	TOTAL	8,468			8,468	6,333

1.6.2 Interest charges on leasing transactions

• **Section 2 – Commission income and expense – Items 40 and 50**

2.1 Commission income: breakdown

EUR/000

		31.12.2013	31.12.2012
A)	GUARANTEES ISSUED	14,385	17,144
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT, BROKERAGE AND ADVISORY SERVICES	948	332
	1 TRADING IN FINANCIAL INSTRUMENTS	901	271
	2 FOREX	45	47
	3 ASSET MANAGEMENT		
	3.1 INDIVIDUAL		
	3.2 COLLETTIVE		
	4 CUSTODY AND ADMINISTRATION OF SECURITIES	2	14
	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 COLLETTIVE		
	9.2 INSURANCE PRODUCTS		
	9.3 OTHER PRODUCTS		
D)	COLLECTION AND PAYMENT SERVICES		
E)	SECURITIZATION SERVICING		
F)	FACTORING SERVICES		
G)	TAX AND DEBT COLLECTION SERVICES		
H)	MANAGEMENT OF MULTILATERAL TRADING SERVICES		
I)	KEEPING AND MANAGEMENT OF CURRENT ACCOUNTS	47	45
L)	OTHER SERVICES	71	108
TOTAL		15,451	17,629

2.2 Commission income: distribution channels of products and services

2.3 Commission expense: breakdown

EUR/000

		31.12.2013	31.12.2012
A)	GUARANTEES RECEIVED	1,857	1,831
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT AND BROKERAGE SERVICES	692	26
	1 TRADING IN FINANCIAL INSTRUMENTS	692	26
	2 FOREX		
	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	102	207
TOTAL		2,651	2,064

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

3.1 Dividends and similar income: breakdown

EUR/000

		31.12.2013		31.12.2012	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING	14		84	
B	FINANCIAL ASSETS AVAILABLE FOR SALE			4	
C	FINANCIAL ASSETS ASSESSED AT FAIR VALUE				
D	EQUITY INVESTMENTS				
TOTAL		14		88	

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

4.1 Net trading income: breakdown

EUR/000

		CAPITAL GAINS (A)	TRADING GAINS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET INCOME [(A+B)-(C+D)]
1	FINANCIAL ASSETS HELD FOR TRADING	132	938	431	38	601
	1.1 DEBT SECURITIES	132	99	431		(200)
	1.2 EQUITIES		327		38	289
	1.3 HOLDINGS IN UCI					
	1.4 LOANS					
	1.5 OTHER *		512			512
2	FINANCIAL LIABILITIES HELD FOR TRADING					
	2.1 DEBT SECURITIES					
	2.2 OTHER					
3	OTHER FINANCIAL LIABILITIES: FOREX DIFFERENTIALS		26		(2,032)	(2,006)
4	DERIVATIVES **	1,674	3,172	882	2,705	1,259
	4.1 FINANCIAL DERIVATIVES:	1,674	3,172	882	2,705	1,259
	- ON DEBT SECURITIES AND INTEREST RATES	1,196	650		1,726	120
	- ON EQUITIES AND EQUITY INDICES		448		467	(19)
	- ON FOREIGN CURRENCIES AND GOLD	478	2,074	882	512	1,158
	- OTHER					
	4.2 CREDIT DERIVATIVES					
TOTAL		1,806	4,136	1,313	711	(146)

* The amount indicates profits arising from currency negotiations with banking and corporate counterparties.
** The capital gains (Euro 1,674th) and losses (Euro 882th), reflecting the fair value of the financial derivatives on interest rates and on currency, are included respectively in item 20 of the assets (infra Euro 930th) and item 40 of liabilities (infra Euro 2,296 mn).

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

5.1 Net income from hedging activities: breakdown

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

6.1 Net income from disposals and repurchases: breakdown

EUR/000

		31.12.2013			31.12.2012		
		PROFIT	LOSS	NET RESULTS	PROFIT	LOSS	NET RESULTS
FINANCIAL ASSETS							
1	DUE FROM BANKS	1,222		1,222			
2	LOANS TO CUSTOMERS						
3	FINANCIAL ASSETS AVAILABLE FOR SALE		351	(351)		187	(187)
	3.1 DEBT SECURITIES *		347	(347)		187	(187)
	3.2 EQUITIES		4	(4)			
	3.3 QUOTAS OF UCI						
	3.4 LOANS						
4	FINANCIAL ASSETS HELD TO MATURITY						
TOTAL ASSETS		1,222	351	871		187	(187)
FINANCIAL LIABILITIES							
1	DUE TO BANKS						
2	DUE TO CUSTOMERS						
3	SECURITIES ISSUED						
TOTAL LIABILITIES							

* The loss refers to debt instruments that were purchased and subsequently disposed of during the period.

• Section 7 – Net result from financial assets/liabilities assessed at fair value – Item 110

7.1 Net result from financial assets/liabilities assessed at fair value: breakdown

• Section 8 – Net impairment adjustments – Item 130

8.1 Net impairment adjustments to loans and advances: breakdown

EUR/000

	OPERAZIONI/ COMPONENTI REDDITUALI	WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12. 2013 (1-2)	31.12. 2012 (1-2)
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITE-OFFS	OTHER		A	B	A	B		
A	L&AS TO BANKS					121		9,812	9,933	3,975
	- LOANS					121		9,812	9,933	3,463
	- SECURITIES									512
B	L&AS TO CUSTOMERS	15	7,630	2,984		27			(10,602)	(2,514)
	IMPAIRED LOAN BOUGHT									
	- LOANS									(2,514)
	- SECURITIES									
	OTHERS	15	7,630	2,984		27			(10,602)	
	- LOANS	15	7,630	2,984		27			(10,602)	
	- SECURITIES									
C	TOTAL	15	7,630	2,984		148		9,812	(669)	1,461

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

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

EUR/000

		WRITE-DOWNS (1)		WRITE-BACKS (2)		31.12.2013 (1-2)	31.12.2012 (1-2)
		SPECIFIC		SPECIFIC			
		WRITE-OFFS	OTHER	A	B		
A	DEBT SECURITIES				499	499	(506)
B	EQUITIES						
C	HOLDINGS IN UCI						
D	L&AS TO BANKS						
E	L&AS TO CUSTOMERS						
F	TOTAL				499	499	(506)

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

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

EUR/000

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2013 (1-2)	31.12.2012 (1-2)
		SPECIFIC		PORT-FOLIO	SPECIFIC		PORTFOLIO			
		WRITE-OFFS	OTHER		A	B	A	B		
A	SECURITIES			465				2,019	1,554	(934)
B	L&AS TO BANKS									
C	L&AS TO CUSTOMERS									
D	TOTAL			465				2,019	1,554	(934)

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

8.4 Net impairment adjustments to other financial instruments: breakdown

EUR/000

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2013 (1-2)	31.12.2012 (1-2)
		SPECIFIC		PORT-FOLIO	SPECIFIC		PORTFOLIO			
		WRITE-OFFS	OTHER		A	B	A	B		
A	GUARANTEES ISSUED		50			907		774	1,631	1,911
B	CREDIT DERIVATIVES									
C	COMMITMENTS TO DISBURSE FUNDS									
D	OTHER INSTRUMENTS									
E	TOTAL		50			907		774	1,631	1,911

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

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

9.1 Personnel expenses: breakdown

EUR/000

		31.12.2013	31.12.2012
1	STAFF	15,083	12,122
	a) WAGES AND SALARIES	9,837	8,087
	b) SOCIAL SECURITY CONTRIBUTIONS	2,816	2,181
	c) SEVERANCE PAYMENTS		
	d) PENSION PAYMENTS		
	e) ALLOCATIONS TO THE STAFF SEVERANCE FUND	38	56
	f) LLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		
	– DEFINED CONTRIBUTION	567	613
	– 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	1,825	1,185
2	NON-SALARIED PERSONNEL	372	351
3	DIRECTORS	2,198	1,457
4	RETIRED PERSONNEL		
5	EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS		
6	EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS		
TOTAL		17,653	13,930

9.2 Average number of staff: breakdown by category

A)	SENIOR MANAGERS	4
B)	EXECUTIVE CADRES	80
C)	OTHER STAFF	82
TOTAL		166

9.3 Company defined-benefit pension funds: Total cost

9.4 Other staff benefits

EUR/000

	31.12.2013	31.12.2012
EARLY RETIREMENT PAYMENTS	571	239
OTHER PAYMENTS	1,254	946
TOTAL	1,825	1,185

9.5 Other administration expenses: breakdown

EUR/000

	31.12.2013	31.12.2012
IT EXPENSES	1,628	1,242
EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:		
– RENTALS AND OTHER FEES	145	130
- OTHER	600	448
EXPENSES FOR THE PURCHASE OF GOODS AND NON- PROFESSIONAL SERVICES	2,838	2,539
EXPENSES FOR PROFESSIONAL SERVICES	2,931	2,328
INSURANCE PREMIUMS	78	87
ADVERTISING	316	206
INDIRECT DUTIES AND TAXES	527	467
OTHER	555	696
TOTAL	9,618	8,143

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

10.1 Net provisioning for risks and charges: breakdown

EUR/000

	31.12.2013	31.12.2012
LITIGATION		
OTHER RISKS AND CHARGES	153	72
TOTAL	153	72

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

11.1 Net adjustments to tangible fixed assets: breakdown

EUR/000

	DEPRECIATION (A)	IMPAIRMENT WRITE-DOWNS (B)	WRITE-BACKS (C)	NET RESULT (A+B-C)
A TANGIBLE FIXED ASSETS				
A.1 OWNED	745			745
– USED IN OPERATIONS	745			745
– HELD FOR INVESTMENT				
A.2 LEASED				
– USED IN OPERATIONS				
– HELD FOR INVESTMENT				
TOTAL	745			745

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

12.1 Net adjustments to intangible fixed assets: breakdown

EUR/000

	DEPRECIATION (A)	IMPAIRMENT WRITE-DOWNS (B)	WRITE-BACKS (C)	NET RESULT (A+B-C)
A INTANGIBLE FIXED ASSETS				
A.1 OWNED	863			863
- DEVELOPED IN-HOUSE				
- OTHER	863			863
A.2 LEASED				
TOTAL	863			863

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

13.1. Other operating charges: breakdown

EUR/000

	31.12.2013	31.12.2012
OTHER OPERATING CHARGES	160	301
TOTAL	160	301

13.2. Other operating income: breakdown

EUR/000

	31.12.2013	31.12.2012
DUTIES AND TAXES RECOUPED	36	30
RENTALS AND FEES	9	100
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	184	503
– OTHER	475	319
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	1,441	203
TOTAL	2,145	1,155

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

14.1 Profit (loss) from equity investments: breakdown

- **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: breakdown

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

16.1 Adjustments to goodwill: breakdown

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

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

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

18.1 Income tax for the year on continuing operations: breakdown

EUR/000

		31.12.2013	31.12.2012
1	CURRENT TAX (-)	(4,159)	(7,308)
2	VARIATIONS IN CURRENT TAX FOR PRIOR YEARS (+/-)		
3	CURRENT TAX REBATE FOR THE YEAR (+)		
4	VARIATION IN PRE-PAID TAXES (+/-)	(1,311)	1,423
5	VARIATION IN DEFERRED TAXES (+/-)	(192)	89
6	INCOME TAX FOR THE YEAR (-) (-1+/-2+-3+/-4+/-5)	(5,662)	(5,796)

18.2 Reconciliation of theoretical tax liability and actual book liability

EUR/000

	31.12.2013	31.12.2012
PROFIT BEFORE TAX	15,815	21,780
THEORETICAL IRES AND IRAP DUE (32.32%)	6,521	7,145
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES	407	455
IRAP ADJUSTMENTS FOR WRITE-OFFS	100	104
TAXES ON NON-DEDUCTIBLE COSTS	(2,922)	(403)
PRE-PAID AND DEFERRED TAXES	1,504	(1,513)
NET WORTH INCREASE BENEFIT	52	8
TOTAL TAXES	5,662	5,796
NET PROFIT	10,153	15,984

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

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

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

EUR/000

	31.12.2013	31.12.2012	
NET PROFIT	10,153	15,984	*
NUMBER OF SHARES	1,373,280	1,373,280	
PROFIT PER SHARE	7.39	11.64	

*** Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.**

21.2 Other information

PART D
COMPREHENSIVE INCOME DETAIL

EUR/000

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10	NET PROFIT (LOSS)			10.153
	OTHER COMPREHENSIVE INCOME AFTER TAX WITHOUT RECLASSIFICATION TO PROFIT OR LOSS			
20	TANGIBLE ASSETS			
30	INTANGIBLE ASSETS			
40	ACTUARIAL PROFIT (LOSS) ON DEFINED-BENEFIT PLANS	49		49
50	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL:			
60	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY			
	OTHER COMPREHENSIVE INCOME AFTER TAX WITH RECLASSIFICATION TO PROFIT OR LOSS			
70	HEDGING OF FOREIGN INVESTMENTS:			
	a) FAIR-VALUE ADJUSTMENTS			
	b) INCOME STATEMENT REVERSALS			
	c) OTHER ADJUSTMENTS			
80	FOREX DIFFERENTIALS:			
	a) VALUE ADJUSTMENTS			
	b) INCOME STATEMENT REVERSALS			
	c) OTHER ADJUSTMENTS			
90	HEDGING OF FINANCIAL FLOWS:			
	a) FAIR-VALUE ADJUSTMENTS			
	b) INCOME STATEMENT REVERSALS			
	c) OTHER ADJUSTMENTS			
100	FINANCIAL ASSETS AVAILABLE FOR SALE:	(181)	(24)	(157)
	a) FAIR-VALUE ADJUSTMENTS	(181)	(24)	(157)
	b) INCOME STATEMENT REVERSALS			
	- FROM IMPAIRMENT			
	- FROM DISPOSALS			
	c) OTHER ADJUSTMENTS			
110	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL:			
	a) FAIR-VALUE ADJUSTMENTS			
	b) INCOME STATEMENT REVERSALS			
	c) OTHER ADJUSTMENTS			
120	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY:			
	a) FAIR-VALUE ADJUSTMENTS			
	b) INCOME STATEMENT REVERSALS			
	- FROM IMPAIRMENT			
	- FROM DISPOSALS			
	c) OTHER ADJUSTMENTS			
130	OTHER SOURCES OF INCOME	(132)	(24)	(108)
140	COMPREHENSIVE NET INCOME	(132)	(24)	10,045

PREMESSA

Governance

UBAE has adopted a traditional type of governance model adapted to take into account the specific characteristics of the shareholders (from October 2010 Libyan Foreign Bank has held 67.55% of the share capital with voting rights) and the need to ensure complete functionality and effectiveness of the Bank's bodies.

Therefore based on the traditional model:

- the **Board of Directors** (comprising 9 to 11 members) (hereinafter BD) is both the strategic supervisory and management body;
- the **Executive Committee** (set up by the BD and comprising 5 to 7 members) is delegated by the BD to perform management activities based on powers assigned to it in by the Articles of Association;
- the **Managing Director**, appointed by the BD, participates in exercising the management function, acting in the capacity of chief executive officer, and is responsible for checking documents to be submitted to the BD and Executive Committee;
- the **Board of Auditors** is a control body.

UBAE's BD has decided to exercise its competencies and powers in terms of investigation and supervision through internal committees, each of which will include at least one of the independent Board members. The following are advisory committees without powers of approval:

- Internal Control Committee;
- Remuneration & Governance Committee;
- Risk Supervision Committee.

Each of the above committees has its own regulations governing their composition, duties and mode of operation.

Board of Directors

In addition to competencies assigned to it by law, the Articles of Association and sector regulations, the UBAE BD:

- defines and approves a strategy and policies for managing the Bank's risks, based on a thorough knowledge of the various risks the Bank is exposed to in connection with its business activity;
- defines and approves the Bank's organizational structure, notably the distribution of operational and signatory powers, so that duties and responsibilities are allocated in a clear and appropriate manner;
- defines and approves guidelines for the internal control system, ensuring consistency with established strategies and the approach to risk-taking;
- sees that the General Manager implements the necessary steps and actions to ensure the internal control system has an adequate structure in line with the BD's chosen approach to risk;
- ensures that Bank units charged with controls enjoy suitable independence and are qualitatively and quantitatively staffed, funded and equipped to function effectively;

- approves the activity plan and reviews annual reports prepared by the Internal Audit Department, Compliance & Anti-Money Laundering Department and Risk Management Department;
- ensures that an accurate, thorough and timely IT system is designed, adopted and maintained over time;
- ensures that the efficiency, efficacy and adequacy of internal controls are periodically evaluated and that the outcome of that evaluation is brought to the BD's attention on a timely basis.

Based on the Internal Regulations the BD exercises general powers concerning the granting of credit facilities and may approve credit lines within limits prescribed by the laws in force.
In general, based on a proposal made by the General Manager the BD takes decisions concerning losses and write-downs of impaired loan positions and also as regards agreements for restructuring loans exceeding delegated limits.
The BD delegates powers for granting credit facilities within pre-established limits to the Executive Committee, Credit Committee, Managing Director and Deputy General Manager.
Based on a specific procedure the BD is exclusively responsible for approving credit facilities governed by Art. 136 of the Banking Law and those concerning related parties.
In general, based on a proposal made by the General Manager, the BD takes decisions concerning losses and write-downs of impaired loans and any agreements to restructure loans exceeding pre-established limits delegated
As regards loan restructuring agreements, powers of approval are delegated, independent of duration, to the Executive Committee, General Manager and Deputy General Manager based on pre-established limits.
Furthermore, based on a proposal made by the General Manager, annually the BD approves an expenditure and investment plan for the following year containing, among other items, an annual budget for general expenses subdivided into expense categories and subcategories.
All acts of extraordinary administration concerning non-credit transactions are delegated to the Executive Committee and General Manager within pre-established limits.

Concerning human resource management the BD is empowered to:
- appoint and dismiss the General Manager, Deputy General Manager, Assistant General Managers and other Executives, establishing their remuneration and relative powers;
- appoint and dismiss (giving justification), in consultation with the Board of Auditors, heads of the Bank's control units;
- decide any ad interim positions within General Management;
- grant powers of representation and signature to employees at lower than executive level, based on a proposal made by the General Manager;
- approve the Bank's supplementary labour agreement, based on a proposal made by the General Manager;
- define the Bank's remuneration and incentive policies, as well as any securities-based schemes that must be submitted to an Ordinary Shareholders' Meeting for approval, in favour of Directors, staff members and individuals not employed directly by the Bank;

- hire non-executive personnel (executive cadres and clerical staff) on open-ended contracts;
- confer appointments/contracts of an ongoing nature to firms and experts for specific requirements of the Bank, based on proposals made by the General Manager.

Executive Committee

Based on Internal Regulations the Executive Committee:

- reviews and approves the Finance Division's risk/yield strategies, consistent with the guidelines established by the BD;
- receives reports about authorizations given to maintain an HFT portfolio position exceeding loss and risk limits.

General Manager

The General Manager submits documents and matters to the BD intended for its review and approval.
The General Manager participates in meetings of the Executive Committee in an advisory capacity without voting rights, presenting documents to be reviewed and approved by the Committee.
The General Manager:

- takes all management action required to transact the Bank's normal business and is responsible for implementing resolutions passed by the BD and Executive Committee;
- supervises operating units reporting directly to the General Manager.

Board of Auditors

The Board of Auditors supervises observance of the law and Articles of Association, conformity with correct administrative principles and especially the adequacy of the Bank's organizational, administrative and accounting set-up by means of steps taken at BD or individual level or jointly with other Bank bodies. Furthermore, it assesses the degree of efficiency and adequacy of internal control systems.
In order to perform its tasks the Board of Auditors receives appropriate information flows from other Bank bodies and control units.
The Board of Auditors also fulfils the role of Oversight Body as prescribed by Legislative Decree 231/2001 concerning the administrative responsibilities of organizations and oversees the functioning and observance of the Bank's organization and management models.

Advisory committees

Internal Control Committee

The Committee has solely a consultative and advisory role to the BD and an investigative role as regards the Internal Auditing Department, Compliance & Anti-Money Laundering Department and Risk Management Department.
In particular, the Committee:

a. evaluates and submits for review the activity plan and annual reports prepared by the Internal Auditing Department, Compliance & Anti-Money Laundering Department and Risk Management Department;
b. verifies the adequacy of measures taken in the face of any infringements or irregularities;

c. reports to the BD on the outcome of Internal Audit's inquiries;
d. refers at least quarterly to the BD on activities performed and the adequacy of internal controls;
e. follows up the findings contained in Banca d'Italia's reports and announcements with a bearing on internal controls, recommending appropriate courses of action and checking on the implementation of the measures adopted by the BD and Senior Management;
f. proposes changes to the Bank's regulatory and organizational set-up and relative administrative processes in order to improve the effectiveness and efficiency of internal controls;
g. when requested by the BD or its Chairman investigates and reports on any topic compatible with its institutional purpose.

As the Committee has solely a consultative and advisory role, the BD will always remain responsible for matters concerning internal controls.

Remuneration & Governance Committee

The Committee has solely an advisory role to the BD and provides support to the latter concerning the strategic supervision of activities as regards:

a. regulations covering the activities of the BD, composition of advisory committees, personal requisites for BD members, the Bank's general governance plan, including principles for self-assessment of the operation of the BD;
b. definition of the Bank's organizational structure and in particular the distribution of operating powers and delegation of powers of representation;
c. definition of methods for selecting and appointing the Bank's General Manager, Deputy General Manager, Assistant General Managers and other executives, including policies covering planning and replacement;
d. identification of the principles for establishing the variable component of staff remuneration (with the exception of key individuals for the functioning of the internal control system), in conformity with remuneration policies approved by the Shareholders' Meeting;
e. make a prior review of the compliance unit report concerning consistency of remuneration and incentive policies submitted for approval to the BD;
f. review of the annual internal audit report concerning the correct application of remuneration and incentive policies approved by the Shareholders' Meeting.

Risk Supervision Committee

The Committee has solely an advisory role to the BD and provides support to the latter concerning the strategic supervision of activities regarding:

- periodic assessment of the adequacy, efficiency and effectiveness of the risk management function and processes in order to ensure that risks to which the Bank is exposed are correctly identified, understood, monitored and managed;
- definition of general principles and methods for evaluating the compatibility of income performance with the risks accepted, also in relation to the Bank's individual risk-taker units.

Internal control system

UBAE's **internal control system** comprises a body of rules, procedures and organizational units that enables the sound and prudent execution of banking activities based on a process of identifying, measuring, managing and monitoring the Bank's main risks. The internal control system has been designed to be consistent with the regulatory and legislative framework, the Bank's organizational set-up and is in line with national and international standards and best practices.

Currently UBAE's internal control system and risk management comprises:

- **line controls** (a.k.a. "first level controls") that are intended to ensure transactions are carried out correctly. They are performed by the operating structures concerned (e.g. hierarchical, systematic and sample-type controls) and also by various units that report to the heads of operating structures, namely, as part of back office operations;
- **risk and conformity controls** (a.k.a. "second level controls") that are assigned to other than business structures. Among other things the units concerned are charged with ensuring the correct application of the risk management process, compliance with operating limits assigned to the various units and conformity with the Bank's operating rules. These controls are mainly the responsibility of the Risk Management Department and Compliance & Anti-Money Laundering Department. The Risk Management Department defines methods for measuring risks and monitoring conformity with risk limits, whereas the Compliance & Anti-Money Laundering Department verifies compliance with regulations concerned and in such cases performs a control function;
- **internal audits** (a.k.a. "third level controls"), which are intended to identify unusual trends, non-compliance with procedures and regulations and also to periodically assess the completeness, functionality and adequacy of the internal control system in terms of efficiency and effectiveness, including the IT system (ICT audit). These activities are performed by Internal Auditing Department on a scheduled basis established in relation to the nature and intensity of the risks concerned.

Below are indicated the main features of the Bank's internal control system.

The governance model

UBAE has a system of rules, procedures and organizational structures aimed at:

- compliance with the Bank's strategies;
- effectiveness of the Bank's processes;
- conformity of transactions with prescribed rules, supervisory instructions, internal regulations and procedures;
- protection of the Bank's system from losses.

Several players within the control system contribute to achieving these goals, each as regards its own area of competence. Below is a description of the roles and functions based on the set-up currently in force.

When planning the internal control system and risk management system the BD established certain internal managerial committees and approved their relevant regulations and tasks.

Internal managerial committees

Members of the **Credit Committee** are the General Manager, Deputy General Manager, Assistant General Manager Operations and Assistant General Manager Business.
The main tasks of the Credit Committee are: to discuss all issues concerning the granting of credit and monitoring relative risks; to propose the granting of credit facilities to be submitted to the BD and Executive Committee; to exercise powers to grant credit facilities within limits delegated by the BD.

Members of the **Risk Committee** are the General Manager, Deputy General Manager, Assistant General Manager Operations and Assistant General Manager Business.
The main tasks of the Risk Committee are: to assess periodically whether risk/yield objectives established by the BD have been reached; to discuss and evaluate reports prepared periodically by Risk Management Department and operating strategies adopted by the Finance Division; to discuss and evaluate the effectiveness of policies approved to identify, measure and manage risks; to assess both the adequacy of human resources and information systems in support of investment activities; to propose to the BD changes in operating limits and any exceptions concerning limits for the composition of portfolios. The Risk Committee is also the body charged with proposing guidelines for management of liquidity risk and reputational risk to the BD.
Periodically the General Manager reports on the workings of the above committees to the BD or Executive Committee.

Roles and responsibilities of the Bank's control units

- **Risk Management Department**

The Risk Management Department is a staff unit that reports to the General Manager. This Department provides support as part of strategic planning decided by top Bank bodies, ensuring the monitoring and reporting of every single risk category in the light of established operating limits.
The aim of this monitoring is to ensure that the effective risk profile (namely, overall internal capital) does not exceed the total approved risk level for each risk category.
The flow of information to and analyses of risk profile are performed by means of an appropriate and agreed reporting system subject to periodic independent review.
From an ICAAP standpoint the Department develops methods and tools for assessing the impact of and monitoring risks; it is in charge of risk management models and provides support for the capital management process.
The Department head participates in Risk Committee meetings without voting rights. Periodically it gives an account of its activities to the Internal Control Committee and Risk Supervision Committee.

- **Compliance & Anti-Money Laundering Department**

Control of conformity with regulations, or compliance, is handled by a staff unit that reports to the General Manager and is responsible for providing advice to all Bank units and General Management concerning application of internal and external regulations. It is also responsible for making a prior assessment of any procedural changes and/or new products or services that could lead to a risk of non-compliance with the aforementioned regulations.

The Department carries out the following tasks:

- identifies regulations applicable to the Bank and measures/assesses their impact on the Bank's processes and procedures;
- submits proposals for organizational and procedural changes to the General Manager, with the aim of minimizing or eliminating the above mentioned risk;
- verifies the effectiveness of proposed organizational updates (concerning operational and business structures, processes and procedures) recommended for prevention of non-conformity risk.

The Department's compliance unit uses two main methods to perform the tasks indicated above: internal consultancy, which represents the unit's primary institutional responsibility, and control of conformity with procedures, contractual documents, individual operations or transactions brought to its attention. Annually the compliance unit submits a report to the BD, or through the Internal Control Committee, and to the Board of Auditors concerning the previous year's activity, the activity plan for the current year and recommendations aimed at minimizing/eliminating the risk of non-conformity with regulations.

The Board of Auditors, Internal Control Committee and Oversight Body as per Legislative Decree 231/01 may also request the compliance unit for opinions, assessments and performance of specific controls of procedures potentially at risk of non-conformity.

There is an anti-money laundering unit within the Compliance & Anti-Money Laundering Department charged with overseeing efforts to prevent and manage the risks of money laundering and financing terrorism. The Compliance Officer is also responsible for the anti-money laundering unit. Responsibility for assessing and reporting suspect transactions is instead assigned to the Head of the Administration, Organization & IT Area.

- **Internal Auditing Department**

Audits within the Bank are the responsibility of the Internal Auditing Department, which reports directly to the BD or through the Internal Control Committee.

The Department's internal auditing activity is aimed at both controlling activities (a third level control activity), also by means of on-site audits to review trends for operations and risks, and evaluating the completeness, functionality and adequacy of the overall internal control system. It advises General Management and the BD as regards possible improvements to risk management policies and measurement and control tool these involve. Based on the results of internal audits the Department makes recommendations to Bank bodies.

This Department is independent, acting autonomously and professionally in conformity with regulations in force and overall guidelines for the Bank's internal control system. It has access to all activities, including those outsourced; it follows up removal of discrepancies found in control operations and functions; it performs audits requested by the Oversight Body, in addition to making available information pertinent to Legislative Decree 231/01.
Annually the Department submits a report to the BD, or through the Internal Control Committee, and to the Board of Auditors concerning the previous year's activity, the activity plan for the current year and possible improvements to be made to the Bank's processes. This report is also sent to the Bank's independent auditing firm.
Periodically the Department reports the results of audits performed to the BD or through the Internal Control Committee. Furthermore, on a half-yearly basis it reports the results of audits performed and relevant assessments to the Board of Auditors and the Oversight Body as per Legislative Decree 231/01.

Dissemination of the risk culture

UBAE attributes significant importance to dissemination of the risk culture within the organization. In furtherance of this it organizes in-house training programmes for all staff members to ensure they are updated continually on external regulatory changes and to improve the necessary skills required to perform their tasks in an correct and efficient manner.

During 2013 several training courses were held concerning particularly significant national and international regulations as regard the Bank's operations: Basel 3, Related parties, Mifid and Mifid2, Supervisory authority reports, Banking transparency, Sepa and PSD, FATCA. Participation ranged from 10% to 20% of the total workforce as regards specific competencies of each organizational unit.

Furthermore, from an internal procedural standpoint there are both alert systems that give a timely warning to relevant parties affected by the issue of new external regulatory sources and internal warning systems that provide indications concerning operating procedures to be implemented, organizational/ regulatory updates to be launched, impacts on the Bank's operations to be evaluated and any operating restrictions to be observed.

Risk Management Department also makes available on the Bank's web portal certain explanatory documentation concerning key significant issues. For instance, the general and detailed documentation provided by the BD that highlights regulatory developments and indicates possible impacts for UBAE has then been made available for all staff.

SECTION 1 – CREDIT RISK

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 and country;
- 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 and country of residence.

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 Department.

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.

Supervisory regulations prescribe that methods used for calculating capital requirements against market, credit (including counterparty risk) 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 the Basic Indicator Approach for calculating the requirement against operational risks.

Due to Basel 2 "supervisory review process" (Internal Capital Adequacy Assessment Process) banks have to estimate their own overall capital adequacy in relation to other types of risk not addressed under Pillar I.

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, for credit concentration risk by related counterparty or groups of related counterparties and interest rate risk in the banking book the regulations propose a calculation method entailing additional capital requirements with respect to regulatory requirements foreseen in Pillar I [1].

Furthermore, during 2013, to take into account UBAE's specific area of operations that mainly concerns higher risk countries, within the context of Pillar II the Bank has introduced a new additional capital requirement, although not prescribed by the regulations, as regards country risk. To also take into account all relevant risks for the Bank, a further capital requirement has been introduced to cover geo-sector concentration risk with the aim of quantifying the Bank's risk of a concentration of lending in macroeconomic sectors.
The activities conducted under the supervisory review process is reported annually to the Supervisor by the ICAAP report. The Bank's ICAAP report, compiled on data as at 31 December 2013, will be submitted to Banca d'Italia by April 2014.

[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 internal policies and a contingency funding plan.

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.

On 2 July 2013 Banca d'Italia issued the 15th update to its prudential supervisory directive (circular No. 263 of 26 December 2006) introducing specific instructions concerning internal control systems, IT systems and business continuity. To comply with the new instructions the Bank set up a task force to prepare a report to be sent to Banca d'Italia with a self-assessment of the Bank's situation as regards the new regulatory provisions (gap analysis) and indicating the time schedule the Bank intends to adopt in order to be fully compliant with the regulations.

Lastly, as regards the new requirements introduced by Basel 3, in 2013 the Bank launched an impact analysis of the macro-areas covered by the regulations: own funds, credit and counterparty risks, liquidity risk and excessive financial leverage risk. This analysis will continue in 2014 so as to pinpoint the new variables to be monitored and new ratios under observation, to be reported to Banca d'Italia.

2. Policies for Managing Credit Risk

2.1 Organizational aspects

Based on the Credit Committee's proposal and after investigation by competent units the BD/Executive Committee passes a resolution on the extension of credit facilities to eligible parties. In doing so the BD/Executive Committee 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 and an overall country limit (plafond).

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 Department performs daily checks to ensure lending limits applying to the recipients of facilities from the Finance Division are duly observed, while the trend for exposures is a matter for a separate function within the Credit Reporting & L/Gs 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].

Furthermore, in the light of Banca d'Italia regulations concerning related parties, during 2013 UBAE implemented an exposure management system for such parties in order to monitor the limits concerned.

Finally, in all cases where a position exceed its approved limits the procedure that needs to be set in train – including signatory powers and the quantitative and temporal terms on which the exposure must revert to approved status – is that described in the Internal Regulations.

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.

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

For the purposes of monitoring loan performance, the Credit Trend Control Department draws on assistance from the competent business departments 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 provide monthly updates to the Credit Trend Control Department 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 Trend Control Department without delay.
The Credit Trend Control Department 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 – Credit Trend Control Department promptly presents the General Manager with a written recommendation that a risk position be downgraded to standstill or bad-debt status.

Risk Management Department is responsible for monitoring the capital requirement against Pillar I credit risk 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 to be submitted to the Internal Control Committee/Risk Supervision Committee so they can evaluate the impact in terms of internal capital.
Risk Management Department collects quarterly data on large exposures and the Bank's individual lending limit (25% of eligible capital).
It is up to Risk Management Department 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 using the Herfindal simplified algorithm. Furthermore, in the light of the Bank's credit portfolio breakdown and significant weight of the banking component, an internal

operating limit system has been devised for concentration of exposures with banks. This system is monitored quarterly and a specific report submitted on this to the Risk Committee and BD. And lastly, credit concentration by business sector and geographical area is conducted for ICAAP purposes covering a qualitative evaluation of sector-specific indicators based on which to construct stress testing scenarios relevant to credit risk.
Finally, Risk Management Department calculates the new additional capital requirements not prescribed by the regulations but that relate to the Bank's specific area of operations. The first additional requirement concerns country risk, which is estimated based on an internal calculation method and aims to make up for the lack of an adequate distinction between the credit risk profile for the various countries concerned. The second covers geo-sector concentration risk and is calculated based on a method provided by ABI to cover an add-on capital requirement for credit risk that takes into account the greater concentration of the Bank's lending in the same business sector.

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 proposal submitted by the Credit Trend Control Department and after consulting with the heads of the competent business departments, the General Manager decides 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 Trend Control Department, 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 Trend Control Department and the Legal Department, the General Manager will update the Executive Committee and (on a quarterly basis) the Board of Directors on the trend for all situations reclassified as standstill positions, bad debts and rescheduled debts, including relative estimates of any forecast losses.

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)

EUR/000

	PORTFOLIO/ CREDIT QUALITY	BAD DEBTS	STANDSTILL POSITIONS	RESCHEDULED DEBTS	PAST-DUE POSITIONS		OTHER	TOTAL
					IMPAIRED	NOT IMPAIRED		
1	FINANCIAL ASSETS HELD FOR TRADING						48,019	48,019
2	FINANCIAL ASSETS AVAILABLE-FOR- SALE						48,177	48,177
3	FINANCIAL ASSETS HELD TO MATURITY						271,105	271,105
4	L&AS TO BANKS	114		991	2		936,017	937,124
5	L&AS TO CUSTOMERS	291	795			17	384,293	385,396
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE							
7	FINANCIAL ASSETS BEING DIVESTED							
8	HEDGING DERIVATIVES							
	31.12.2013	405	795	991	2	17	1,687,611	1,689,821
	31.12.2012	1,887	1,744	1,332	86		2,317,558	2,322,607

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

EUR/000

	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				48,019		48,019	48,019
2	FINANCIAL ASSETS AVAILABLE-FOR-SALE				48,199	22	48,177	48,177
3	FINANCIAL ASSETS HELD TO MATURITY				273,156	2,051	271,105	271,105
4	L&AS TO BANKS	4,714	3,607	1,107	938,027	2,010	936,017	937,124
5	L&AS TO CUSTOMERS	19,680	18,594	1,086	392,523	8,213	384,310	385,396
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE							
7	FINANCIAL ASSETS BEING DIVESTED							
8	HEDGING DERIVATIVES							
31.12.2013		24,394	22,201	2,193	1,699,924	12,296	1,687,611	1,689,821
31.12.2012		23,684	18,635	5,049	2,338,736	21,178	2,317,558	2,322,607

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

EUR/000

EXPOSURE TYPE/VALUES	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO WRITE-DOWNS	NET EXPOSURE
A CASH EXPOSURE				
a) BAD DEBTS	3,712	3,598		114
b) STANDSTILL POSITION				
c) RESCHEDULED DEBTS	1,000	9		991
d) IMPAIRED PAST DUE POSITIONS	2			2
e) OTHER ASSETS	1,247,797		4,049	1,243,748
TOTAL A	1,252,511	3,607	4,049	1,244,855
B OFF-BALANCE SHEET EXPOSURE				
a) IMPAIRED	4,477	2		4,475
b) OTHER	420,018		901	419,117
TOTAL B	424,495	2	901	423,592
TOTAL (A+B)	1,677,006	3,609	4,950	1,668,447

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

EUR/000

CAUSAL/CATEGORIES		BAD DEBTS	STANDSTILL POSITIONS	RESCHEDULED DEBTS	PAST DUE POSITIONS
A	OPENING GROSS EXPOSURE	9,390		1,347	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES	53			2
B.1	INFLOWS FROM PERFORMING POSITIONS				2
B.2	TRANSFERS FROM OTHER CLASSS OF IMPAIRED POSITIONS				
B.3	OTHER INCREASES	53			
C	DECREASES	(5,731)		(347)	
C.1	OUTFLOWS TO PERFORMING POSITIONS				
C.2	WRITE-OFFS	(51)			
C.3	ITEMS COLLECTED			(294)	
C.4	ITEMS ASSIGNED	(2,696)			
C.4 bis	LOSSES ON DISPOSAL	(2,818)			
C5	TRANSFERS TO OTHER CLASSS OF IMPAIRED POSITIONS				
C6	OTHER DECREASES	(166)		(53)	
D	CLOSING GROSS EXPOSURE	3,712		1,000	2
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				

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

EUR/000

CAUSAL/CATEGORIES		BAD DEBTS	STANDSTILL POSITIONS	RESCHEDULED DEBTS	PAST DUE POSITIONS
A	OPENING GROSS EXPOSURE	7,588		15	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES	166			
B.1	WRITE-DOWNS				
B.1 bis	LOSSES ON DISPOSAL	166			
B.2	TRANSFERS FROM OTHER CLASSS OF IMPAIRED POSITIONS				
B.3	OTHER INCREASES *				
C	DECREASES	(4,156)			
C.1	VALUATION WRITE-BACKS	(2,768)			
C.2	COLLECTION WRITE-BACKS				
C.2 bis	PROFIT ON DISPOSAL	(1,222)			
C.3	WRITE-OFFS				
C4	TRANSFERS TO OTHER CLASSS OF IMPAIRED POSITIONS				
C5	OTHER DECREASES *	(166)		(6)	
D	CLOSING GROSS EXPOSURE	3,598		9	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				

*** The increases and decreases of value adjustments expressed in the other up-and-down variations, reflect changes in the exchange rates.**

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

EUR/000

EXPOSURE TYPE/VALUES	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO WRITE-DOWNS	NET EXPOSURE
A CASH EXPOSURE				
a) BAD DEBTS	16,261	15,970		291
b) STANDSTILL POSITION	3,056	2,261		795
c) RESCHEDULED DEBTS	363	363		
d) IMPAIRED PAST DUE POSITIONS				
e) OTHER ASSETS	452,127		8,247	443,880
TOTAL A	471,807	18,594	8,247	444,966
B OFF-BALANCE SHEET EXPOSURE				
a) IMPAIRED	17,833	13,296		4,537
b) OTHER	380,262		170	380,092
TOTAL B	398,095	13,296	170	384,629

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

EUR/000

CAUSAL/CATEGORIES		BAD DEBTS	STANDSTILL POSITIONS	RESCHEDULED DEBTS	PAST DUE POSITIONS
A	OPENING GROSS EXPOSURE	10,487	2,365		95
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES	5,775	3,272	431	
B.1	INFLOWS FROM PERFORMING POSITIONS	3,597	2,972		
B.2	TRANSFERS FROM OTHER CLASSS OF IMPAIRED POSITIONS	2,153	73	428	
B.3	OTHER INCREASES	25	227	3	
C	DECREASES	(1)	(2,581)	(68)	(95)
C.1	OUTFLOWS TO PERFORMING POSITIONS				(22)
C.2	WRITE-OFFS			(45)	
C.3	ITEMS COLLECTED	(1)			
C.4	ITEMS ASSIGNED				
C.4 bis	LOSSES ON DISPOSAL				
C5	TRANSFERS TO OTHER CLASSS OF IMPAIRED POSITIONS		(2,580)		(73)
C6	OTHER DECREASES		(1)	(23)	
D	CLOSING GROSS EXPOSURE	16,261	3,056	363	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				

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

EUR/000

CAUSAL/CATEGORIES		BAD DEBTS	STANDSTILL POSITIONS	RESCHEDULED DEBTS	PAST DUE POSITIONS
A	OPENING GROSS EXPOSURE	10,402	621		9
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES	5,571	2,260	431	
B.1	WRITE-DOWNS	5,377			
B.1 bis	LOSSES ON DISPOSAL				
B.2	TRANSFERS FROM OTHER CLASSS OF IMPAIRED POSITIONS	193	7	428	
B.3	OTHER INCREASES	1	2,253	3	
C	DECREASES	(3)	(620)	(68)	(9)
C.1	VALUATION WRITE-BACKS				
C.2	COLLECTION WRITE-BACKS	(1)			(2)
C.2 bis	PROFIT ON DISPOSAL				
C.3	WRITE-OFFS			(45)	
C4	TRANSFERS TO OTHER CLASSS OF IMPAIRED POSITIONS		(620)		(7)
C5	OTHER DECREASES	(2)		(23)	
D	CLOSING GROSS EXPOSURE	15,970	2,261	363	
	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)

EUR/000

EXPOSURES		EXTERNAL RATING BANDS						UNRATED	TOTAL
		CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A	CASH EXPOSURES	360,847	80,674	403,027	14,916	13,037		889,093	1,761,594
B	DERIVATIVES							931	931
	B.1 FINANCIAL DERIVATIVES							931	931
	B.2 CREDIT DERIVATIVES								
C	GUARANTEES GIVEN	18,319	3,265	296,922	724	61,304		391,454	771,988
D	COMMITMENTS TO DISBURSE FUNDS			18,145		706		16,452	35,303
E	OTHER								
TOTAL		379,166	83,939	718,094	15,640	75,047		1,297,930	2,569,816

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

EXTERNAL RATINGS 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

EUR/000

	Net exposure value	Collateral (1)			
		Property		Securities	Other collater
		Mortgage	Financial leasing		
1 Cash exposures guaranteed	90,316				87,189
1.1 Fully guaranteed	86,131				86,131
- out of which, impaired					
1.2 Not fully guaranteed	4,185				1,058
- out of which, impaired					
2 Off-balance sheet exposures guaranteed	91,489				83,772
2.1 Fully guaranteed	81,199				81,199
- out of which, impaired					
2.2 Not fully guaranteed	10,290				2,573
- out of which, impaired					

follow

EUR/000

PERSONAL (2)									TOTAL 1+2
CREDIT DERIVATIVES					ENDORSEMENT				
CLN	OTHER DERIVATIVES				GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER	
	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER					
									87,189
									86,131
									1,058
									83,772
									81,199
									2,573

A.3.2 Esposizioni creditizie verso clientela garantite

EUR/000

	NET EXPOSURE VALUE	COLLATERAL (1)			
		PROPERTY		SECURITIES	OTHER COLLATER
		MORTGAGE	FINANCIAL LEASING		
1 CASH EXPOSURES GUARANTEED	162,255	7,356			1,994
1.1 FULLY GUARANTEED	55,994	7,356			1,994
- OUT OF WHICH, IMPAIRED	708	127			
1.2 NOT FULLY GUARANTEED	106,261				
- OUT OF WHICH, IMPAIRED					
2 OFF-BALANCE SHEET EXPOSURES GUARANTEED	105,909				3,514
2.1 FULLY GUARANTEED	80,070				2,114
- OUT OF WHICH, IMPAIRED	3,587				983
2.2 NOT FULLY GUARANTEED	25,839				1,400
- OUT OF WHICH, IMPAIRED					

follow

EUR/000

PERSONAL (2)										TOTAL 1+2
CREDIT DERIVATIVES					ENDORSEMENT					
	OTHER DERIVATIVES									
CLN	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER		
					114,467			17,577		114,467
					29,067			17,577		55,994
								581		708
					85,400					85,400
					39,799		8,979	46,880		99,172
					23,744		7,332	46,880		80,070
					2,242			362		3,587
					16,055		1,647			19,102

B. Credit distribution and concentration

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

EUR/000

EXPOSURES/ COUNTERPARTIES	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO WRITE-DOWNS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO WRITE-DOWNS	NET EXPOSURE
A CASH EXPOSURE							
A.1 BAD DEBTS							
A.2 STANDSTILL POSITIONS							
A.3 RESCHEDULED DEBTS							
A.4 PAST DUE POSITIONS							
A.5 OTHER ASSETS	54,232		12				47,956
TOTAL (A)	54,232		12				47,956
B OFF-BALANCE SHEET EXPOSURES							
B.1 BAD DEBTS							
B.2 STANDSTILL POSITIONS							
B.3 IMPAIRED							
B.4 OTHER	1,577			75			
TOTAL (B)	1,577			75			
TOTAL (A+B) 31.12.2013	55,809		12	75			47,956
TOTAL (A+B) 31.12.2012	4,562		38	3,361			25,419

follow EUR/000

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
					202	15,962		89	8	
					728	2,254		67	8	
						363				
	396				331,733		7,725	9,959		92
	396				332,663	18,579	7,725	10,115	16	92
					4,537	12,208				
						1,088				
					378,440		170			
					382,977	13,296	170			
	396				715,640	31,875	7,895	10,115	16	92
12	186				876,494	25,092	5,048	17,465	81	160

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

EUR/000

ESPOSIZIONI/ AREE GEOGRAFICHE	ITALY		OTHER EUROPEAN COUNTRIES	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
A CASH EXPOSURE				
A.1 BAD DEBTS	291	13.003		2.967
A.2 STANDSTILL POSITIONS	795	2.261		
A.3 RESCHEDULED DEBTS				
A.4 PAST DUE POSITIONS				
A.5 OTHER ASSETS	249.576	5.813	102.990	908
TOTAL (A)	250.662	21.077	102.990	3.875
B OFF-BALANCE SHEET EXPOSURES				
B.1 BAD DEBTS	4.537	12.208		
B.2 STANDSTILL POSITIONS				
B.3 IMPAIRED				
B.4 OTHER	339.716	167	2.235	1
TOTAL (B)	344.253	12.375	2.235	1
TOTAL (A+B) 31.12.2013	594.915	33.452	105.225	3.876
TOTAL (A+B) 31.12.2012	570.986	25.604	214.329	1.854

follow EUR/000

AMERICAS		ASIA		REST OF THE WORLD	
NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
			363		
2,938	27	20,680	193	67,696	1,306
2,938	27	20,680	556	67,696	1,306
			1,088		
		1,191	1	36,950	1
		1,191	1,089	36,950	1
2,938	27	21,871	1,645	104,646	1,307
17,083	171	78,100	2,344	46,803	675

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

EUR/000

ESPOSIZIONI/ AREE GEOGRAFICHE	ITALY		OTHER EUROPEAN COUNTRIES	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
A CASH EXPOSURE				
A.1 BAD DEBTS				
A.2 STANDSTILL POSITIONS				
A.3 RESCHEDULED DEBTS				
A.4 PAST DUE POSITIONS				
A.5 OTHER ASSETS	924,257	2,039	112,527	988
TOTAL (A)	924,257	2,039	112,527	988
B OFF-BALANCE SHEET EXPOSURES				
B.1 BAD DEBTS				
B.2 STANDSTILL POSITIONS				
B.3 IMPAIRED				
B.4 OTHER	134,230	66	43,041	21
TOTAL (B)	134,230	66	43,041	21
TOTAL (A+B) 31.12.2013	1,058,487	2,105	155,568	1,009
TOTAL (A+B) 31.12.2012	1,620,771	3,938	150,405	334

follow EUR/000

AMERICAS		ASIA		REST OF THE WORLD	
NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
		114	3,598		
				991	9
				2	
27,025		64,536	720	115,403	302
27,025		64,650	4,318	116,396	311
				4,474	2
7,858	4	47,821	720	186,166	90
7,858	4	47,821	720	190,640	92
34,883	4	112,471	5,038	307,036	403
13,845		135,772	9,842	299,277	11,052

B.4 Large Exposures

BOOK VALUE	1,699,041,646
WEIGHTED AMOUNT	972,241,193
NUMBER	19

C. Securitization and disposal of assets

C.1 Securitization

QUALITATIVE INFORMATION

QUANTITATIVE INFORMATION

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

C.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

A. Financial assets disposed of and not fully derecognized

QUALITATIVE INFORMATION

QUANTITATIVE INFORMATION

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.2.3 Disposal with liabilities having recourse only to the assets sold: fair value

B. Financial assets disposed of and fully derecognized with continued involvement

QUALITATIVE INFORMATION

QUANTITATIVE INFORMATION

C.3 Covered bonds

D. Credit risk measurement models

UBAE has an internal model for measuring credit risk exposure based on a combination of internal and external factors relating to probability of default (hereinafter PD).
However, by making recourse to an infoprovider service Risk Management Department has a database of defaults (with the associated PD and transition matrices) observed over a significant sample of counterparties and a timeframe of thirty years. This has enabled definition of a system to determine the risk spread exclusively for management and not regulatory purposes.
In fact, based on the score provided by Credit Department it is possible to determine the expected loss (EL) and unexpected loss (UL) values for each counterparty to be included in the pricing formula for credit transactions, which provides a minimum benchmark pricing to be applied for a customer (inclusive of the opportunity cost of regulatory requirements) in the light of a risk-adjusted performance measurement.

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 Department 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;
- equities and derivatives (index futures, stock 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 (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. Interest rate risk management processes and measurement 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 Department.

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

Risk Management Department 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

EUR/000

TYPE/RESIDUAL MATURITY	SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS
1 CASH ASSETS		8,396	
1.1 DEBT SECURITIES		8,396	
- WITH AN OPTION FOR EARLY REDEMPTION			
- OTHER		8,396	
1.2 OTHER ASSETS			
2 CASH LIABILITIES			
2.1 REPO			
2.2 OTHER LIABILITIES			
3 FINANCIAL DERIVATIVES		(84,464)	60,019
3.1 WITH UNDERLYING SECURITY:			
- OPTIONS			
LONG POSITIONS			
SHORT POSITIONS			
-OTHER DERIVATIVES			
LONG POSITIONS			
SHORT POSITIONS			
3.2 W/OUT UNDERLYING SECURITY:		(84,464)	60,019
- OPTIONS			
LONG POSITIONS			
SHORT POSITIONS			
- OTHER DERIVATIVES		(84,464)	60,019
LONG POSITIONS		43,604	60,019
SHORT POSITIONS		128,068	

follow

EUR/000

6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
22,389	16,878			
22,389	16,878			
22,389	16,878			
	(72,019)			
	(72,019)			
	(72,019)			
5,000				
5,000	(72,019)			

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

EUR/000

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		96,609	2					
3.1 WITH UNDERLYING SECURITY:								
– OPTIONS								
LONG POSITIONS								
SHORT POSITIONS								
– OTHER DERIVATIVES								
LONG POSITIONS								
SHORT POSITIONS								
3.2 W/OUT UNDERLYING SECURITY:		96,609	2					
– OPTIONS								
LONG POSITIONS								
SHORT POSITIONS								
– OTHER DERIVATIVES		96,609	2					
LONG POSITIONS		106,051	5,869					
SHORT POSITIONS		9,442	5,867					

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

EUR/000

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								
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		2,999	6,087					
SHORT POSITIONS		2,999	6,087					

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

EUR/000

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		(553)						
3.1 WITH UNDERLYING SECURITY:								
– OPTIONS								
LONG POSITIONS								
SHORT POSITIONS								
– OTHER DERIVATIVES								
LONG POSITIONS								
SHORT POSITIONS								
3.2 W/OUT UNDERLYING SECURITY:		(553)						
– OPTIONS								
LONG POSITIONS								
SHORT POSITIONS								
– OTHER DERIVATIVES		(553)						
LONG POSITIONS		86						
SHORT POSITIONS		639						

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

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

2.2 – Price and Interest rate risk – Banking book

QUALITATIVE INFORMATION

A. General aspects, interest rate risk management processes and measurement

Pillar II foresees an additional capital requirement against interest rate risk on the banking book 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 UBAE on account of the concentration of assets and liabilities within a 12-month time frame and the presence of derivatives mitigating their riskiness.

From a management standpoint the Bank's Internal Regulations have prudentially capped this particular risk at 5% of eligible capital as this is more consistent with the Bank's real exposure.

Once a month, Risk Management Department verifies compliance with the internal operating limit. For ICAAP purposes, it uses an ALM product to conduct quarterly maturity ladder analyses according to the simplified algorithm.

At least once a year as a minimum, finally, the Department 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-management hedge 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 Department in the Finance Area.

Furthermore the Finance may hold IRS associated with bonds carried in the HTM portfolio, always for the purpose of hedging interest rate risk.

QUANTITATIVE INFORMATION

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

EUR/000

TYPE/ RESIDUAL MATURITY	SIGHT	UP TO 3 MONTHS
1 CASH ASSETS	67,402	378,698
1.1 DEBT SECURITIES		170,003
- WITH AN OPTION FOR EARLY REDEMPTION		
- OTHER		170,003
1.2 L&AS TO BANKS	63,124	45,872
1.3 L&AS TO CUSTOMERS	4,278	162,823
- A/C	3,744	91
- OTHER LIABILITIES	534	162,732
WITH AN OPTION FOR EARLY REDEMPTION	106	26,827
OTHER	428	135,905
2 CASH LIABILITIES	181,857	248,926
2.1 DUE TO CUSTOMERS	68,424	531
- A/C	68,424	531
- OTHER LIABILITIES		
WITH AN OPTION FOR EARLY REDEMPTION		
OTHER		
2.2 DUE TO BANKS	113,433	248,395
- A/C	84,558	
- OTHER LIABILITIES	28,875	248,395
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		
4 OTHER TRANSACTIONS OFF BALANCE SHEET	(33,677)	
LONG POSITIONS		
SHORT POSITIONS	33,677	

follow EUR/000

3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
274,744	6,620	54,575	2,988	2,263	
99,829		45,807			
99,829		45,807			
13,419	364	113			
161,496	6,256	8,655	2,988	2,263	
		990			
161,496	6,256	7,665	2,988	2,263	
124,136	410	3,096	2,988	2,263	
37,360	5,846	4,569			
20,112					
20,112					
20,112					
	33,020	657			
	33,020	657			

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

EUR/000

TYPE/ RESIDUAL MATURITY	SIGHT	UP TO 3 MONTHS
1 CASH ASSETS	407,436	338,507
1.1 DEBT SECURITIES		3,643
- WITH AN OPTION FOR EARLY REDEMPTION		
- OTHER		3,643
1.2 L&AS TO BANKS	407,436	294,965
1.3 L&AS TO CUSTOMERS		39,899
- A/C		
- OTHER LIABILITIES		39,899
WITH AN OPTION FOR EARLY REDEMPTION		1,823
OTHER		38,076
2 CASH LIABILITIES	112,396	822,778
2.1 DUE TO CUSTOMERS	41,172	881
- A/C	41,172	881
- OTHER LIABILITIES		
WITH AN OPTION FOR EARLY REDEMPTION		
OTHER		
2.2 DUE TO BANKS	71,224	821,897
- A/C	38,905	
- OTHER LIABILITIES	32,319	821,897
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		
4 OTHER TRANSACTIONS OFF BALANCE SHEET	(1,577)	
LONG POSITIONS		18,145
SHORT POSITIONS	1,577	18,145

follow EUR/000

3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
108,805	885	12			
107,377	885	2			
1,428		10			
		10			
1,428					
1,428					
14,506					
14,506					
14,506					
1,577					
1,577					

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

EUR/000

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	329	180						
1.1 DEBT SECURITIES								
- WITH AN OPTION FOR EARLY REDEMPTION								
- OTHER								
1.2 L&AS TO BANKS	329	180						
1.3 L&AS TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2 CASH LIABILITIES	269	122	91					
2.1 DUE TO CUSTOMERS	11	122	91					
- A/C	11	122	91					
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2.2 DUE TO BANKS	258							
- A/C	257							
- OTHER LIABILITIES	1							
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								
4 OTHER TRANSACTIONS OFF BALANCE SHEET								
LONG POSITIONS								
SHORT POSITIONS								

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

EUR/000

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	819							
1.1 DEBT SECURITIES								
- WITH AN OPTION FOR EARLY REDEMPTION								
- OTHER								
1.2 L&AS TO BANKS	819							
1.3 L&AS TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2 CASH LIABILITIES	810							
2.1 DUE TO CUSTOMERS	438							
- A/C	438							
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2.2 DUE TO BANKS	372							
- A/C	372							
- OTHER LIABILITIES								
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								
4 OTHER TRANSACTIONS OFF BALANCE SHEET								
LONG POSITIONS								
SHORT POSITIONS								

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

EUR/000

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	89	398						
1.1 DEBT SECURITIES								
- WITH AN OPTION FOR EARLY REDEMPTION								
- OTHER								
1.2 L&AS TO BANKS	89	398						
1.3 L&AS TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2 CASH LIABILITIES	3							
2.1 DUE TO CUSTOMERS	3							
- A/C	3							
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2.2 DUE TO BANKS								
- A/C								
- OTHER LIABILITIES								
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								
4 OTHER TRANSACTIONS OFF BALANCE SHEET								
LONG POSITIONS								
SHORT POSITIONS								

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

EUR/000

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	1,690							
1.1 DEBT SECURITIES								
- WITH AN OPTION FOR EARLY REDEMPTION								
- OTHER								
1.2 L&AS TO BANKS	1,690							
1.3 L&AS TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2 CASH LIABILITIES	27							
2.1 DUE TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2.2 DUE TO BANKS	27							
- A/C								
- OTHER LIABILITIES	27							
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								
4 OTHER TRANSACTIONS OFF BALANCE SHEET								
LONG POSITIONS								
SHORT POSITIONS								

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

EUR/000

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	219	7						
1.1 DEBT SECURITIES								
- WITH AN OPTION FOR EARLY REDEMPTION								
- OTHER								
1.2 L&AS TO BANKS	219							
1.3 L&AS TO CUSTOMERS		7						
- A/C								
- OTHER LIABILITIES		7						
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER		7						
2 CASH LIABILITIES	1							
2.1 DUE TO CUSTOMERS								
- A/C								
- OTHER LIABILITIES								
WITH AN OPTION FOR EARLY REDEMPTION								
OTHER								
2.2 DUE TO BANKS	1							
- A/C								
- OTHER LIABILITIES	1							
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								
4 OTHER TRANSACTIONS OFF BALANCE SHEET	(49)				49			
LONG POSITIONS					49			
SHORT POSITIONS	49							

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 exchange rate derivatives (currency swaps) as dictated by its appreciation of the market and precise guidelines of the top management.

QUANTITATIVE INFORMATION

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

EUR/000

ITEMS	CURRENCIES					
	US DOLLAR USD	BRITISH POUND GBP	SWISS FRANC CHF	YEN JPY	UAE DINAR AED	OTHER
A FINANCIAL ASSETS	855,645	509	819	488	1,690	231
A.1 DEBT SECURITIES	3,643					
A.2 EQUITIES						5
A.3 L&AS TO BANKS	810,665	509	819	488	1,690	219
A.4 L&AS TO CUSTOMERS	41,337					7
A.5 OTHER FINANCIAL ASSETS						
B OTHER ASSETS	33	11		1		1
C FINANCIAL LIABILITIES						
C.1 DUE TO BANKS	949,680	482	810	3	27	1
C.2 DUE TO CUSTOMERS	907,627	258	372		27	1
C.3 DEBT SECURITIES	42,053	224	438	3		
C.4 OTHER FINANCIAL LIABILITIES						
D OTHER LIABILITIES						
E FINANCIAL DERIVATIVES	96,610			(553)		
OPTIONS						
LONG POSITIONS						
SHORT POSITIONS						
– OTHER DERIVATIVES	96,610			(553)		(1)
LONG POSITIONS	111,351	9,086		86		
SHORT POSITIONS	14,741	9,086		639		1
TOTAL ASSETS	967,029	9,086	819	575	1,690	232
TOTAL LIABILITIES	964,421	9,568	810	642	27	2
BALANCE (+/-)	2,608	38	9	(67)	1,663	230

2. Internal models and other sensitivity-analysis method

2.4 – Derivatives

A. Financial derivatives

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

EUR/000

UNDERLYING ASSETS/ DERIVATIVES TYPE	31.12.2013		31.12.2012	
	OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
1 DEBT SECURITIES AND INTEREST RATES	102,588		68,378	
a) OPTIONS				
b) INTEREST RATE SWAP	102,588		68,378	
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	126,445		295,876	
a) OPTIONS				
b) SWAP				
c) FORWARD	126,445		295,876	
d) FUTURES				
e) OTHERS				
4 GOODS				
5 OTHERS ASSETS				
TOTAL	229,033		364,254	
AVERAGE	88,593	530	380,900	

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

EUR/000

PORTFOLIO/ DERIVATIVES TYPE	POSITIVE FAIR VALUE – TOTAL 31.12.2013		POSITIVE FAIR VALUE – TOTAL 31.12.2012	
	OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A TRADING BOOK	931		810	
a) OPTIONS				
b) INTEREST RATE SWAP	453		298	
c) CROSS CURRENCY SWAP				
d) EQUITY SWAP				
e) FORWARD	478		512	
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	931		810	

A.4 Financial derivatives: negative gross fair value: by instruments

EUR/000

PORTFOLIO/ DERIVATIVES TYPE	NEGATIVE FAIR VALUE – TOTAL 31.12.2013		NEGATIVE FAIR VALUE – TOTAL 31.12.2012	
	OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A TRADING BOOK	2,296		4,925	
a) OPTIONS				
b) INTEREST RATE SWAP				
c) CROSS CURRENCY SWAP	1,415		2,851	
d) EQUITY SWAP				
e) FORWARD	881		2,074	
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	2,296		4,925	

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

EUR/000

CONTRACTS NOT INCLUDED UNDER NETTING AGREEMENTS	GOV'TS & CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FIN. COMPANIES	INSURANCE COMPANIES	NON FINANCIAL COMPANIES	OTHERS
1 DEBT SECURITIES AND INTEREST RATES							
– NOTIONAL VALUE			102,588				
– POSITIVE FAIR VALUE			453				
– NEGATIVE FAIR VALUE			1,415				
– FUTURE EXPOSURE			360				
2 EQUITIES AND EQUITY INDICES							
– NOTIONAL VALUE							
– POSITIVE FAIR VALUE							
– NEGATIVE FAIR VALUE							
– FUTURE EXPOSURE							
3 CURRENCIES AND GOLD							
– NOTIONAL VALUE			126,445				
– POSITIVE FAIR VALUE			478				
– NEGATIVE FAIR VALUE			881				
– FUTURE EXPOSURE			666				
4 OTHER							
– NOTIONAL VALUE							
– POSITIVE FAIR VALUE							
– NEGATIVE FAIR VALUE							
– UTURE 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

EUR/000

UNDERLYING ASSETS/ RESIDUAL MATURITY		UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
TRADING BOOK		157,013	72,019		229,032
A.1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES	30,569	72,019		102,588
A.2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
A.3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD	126,444			126,444
A.4	FINANCIAL DERIVATIVES ON OTHERS INSTRUMENTS				
BANKING BOOK					
B.1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES				
B.2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
B.3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD				
B.4	FINANCIAL DERIVATIVES ON OTHERS INSTRUMENTS				
TOTAL 31.12.2013		157,013	72,019		229,032
TOTAL 31.12.2012		323,640	40,614		364,254

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

Regarding the liquidity risk (defined as the Bank's inability 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), the banks which are allowed to use simplified accounting are not obliged to calculate an additional capital requisite (Pillar II). However, they must have an internal policy that establishes operating limits to be observed and procedures to be followed in the event of a liquidity crisis (contingency funding plan).

In particular, UBAE's policy not only provides management guidelines but also assigns roles and responsibilities among the internal units involved. The contingency funding plan, linked to a system of early-warning indicators, highlights possible crisis situations, defines strategies to be implemented in the event of liquidity problems and extraordinary procedures to be adopted in order to guarantee the Bank's survival even when facing stress conditions.

Pursuant to the policy for managing liquidity risk, Risk Management Department monitors the observance of internal operating limits and early-warning threshold indicators, and performs quarterly stress tests. Furthermore, it produces a weekly liquidity signalling report (in a standard format) submitted to Banca d'Italia, whereas for internal purposes it prepares a report on monitoring activities that is submitted to the Risk Committee, Internal Control Committee/Risk Supervision Committee and the BD.

In particular, the Risk Management Department builds the maturity ladder every week (on the basis of outflows and inflows distributed by maturity breakdown) and checks that internal operative limits are respected (threshold of risk tolerance, survival limits and gap operative limits) as well as the performance trend of early warning indicators. Then every month, the Department checks the respect of the eligibility limit of financial instruments to preserve the counterbalancing capacity and ratios relating to funding concentration.

Risk Management Department carries out a quarterly stress test based on three different scenarios that cover, respectively, assets, funding and the liquidity buffer, and that analyses the effect of these scenarios on one week and one month survival limits.

In the first scenario, which indicates a difficulty to free up deposits, the assumption is a failure to recover a fixed part of lending to banks within one month, excluding overnight positions (overnight lending is assumed to be always offset by overnight deposits), that leads to an increase in negative gaps at one week and one month. In the second scenario, which indicates a difficulty to find financing counterparties, the assumption instead is a move of funding from the over one month category to the overnight category that also in this case creates an increase in the negative gap at one week and one month. And lastly, in the third scenario the assumption is the downgrading (by an ECAI) of issuers of securities held in the Bank's portfolio (both the HFT and HTM portfolios). This downgrading creates a reduction in the liquidity buffer, or a loss of eligibility for a security or for an increase in the haircut applied.

QUANTITATIVE INFORMATION

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

EUR/000

	ITEMS/ MATURITY LADDER	SIGHT	1 TO 7 DAYS	OVER 7 TO 15 DAYS	OVER 15 DAYS TO 1 MONTH
A	CASH ASSETS	64,461	17,680	17,680	21,256
A.1	GOV'T SECURITIES				
A.2	LISTED DEBT SECURITIES				10,011
A.3	HOLDINGS IN UCIS				
A.4	L&AS	64,461	17,680	17,680	11,245
	– TO BANKS	63,131	4,179	4,179	1,752
	– TO CUSTOMERS	1,330	13,501	13,501	9,493
B	CASH LIABILITIES	181,857	3,200	15,873	114,348
B.1	DEPOSITS AND A/C	181,857	3,200	15,873	14,348
	– FROM BANKS	113,433	3,200	15,822	14,089
	– FORM CUSTOMERS	68,424		51	259
B.2	DEBT SECURITIES				
B.3	OTHER LIABILITIES				100,000
C	OBS TRANSACTIONS	(33,982)	(505)	(60,000)	(29,399)
C.1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		(505)	(60,000)	(29,399)
	LONG POSITIONS		3		601
	SHORT POSITION		508	60,000	30,000
C.2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE	(962)			
	LONG POSITIONS	453			
	SHORT POSITION	1,415			
C.3	DEPOSITS AND LOANS TO BE SETTLED				
	LONG POSITIONS				
	SHORT POSITION				
C.4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	(33,020)			
	LONG POSITIONS				
	SHORT POSITION	33,020			
C.5	FINANCIAL GUARANTEES ISSUED				
C.6	FINANCIAL GUARANTEES RECEIVED				
C.7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE				
	LONG POSITIONS				
	SHORT POSITION				
C.8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE				
	LONG POSITIONS				
	SHORT POSITION				

follow EUR/000

OVER 1 MONTH UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
151,654	196,696	20,216	212,790	5,294	12,025
503			50,000		
	10,212	13,361	150,519		
151,151	186,484	6,855	12,271	5,294	12,025
23,637	13,529	367	113		12,025
127,514	172,955	6,488	12,158	5,294	
15,088	20,000	120,110	260,439		
15,088	20,000	100,000	180,439		
14,866	20,000	100,000	180,439		
222					
		20,110	80,000		
(7,217)		33,020	657		
(6,560)					
6,000					
12,560					
(657)		33,020	657		
		33,020	657		
657					

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	406,986	72,170	32,852	45,711
A.1 GOV'T SECURITIES				
A.2 LISTED DEBT SECURITIES				
A.3 HOLDINGS IN UCIS				
A.4 L&AS	406,986	72,170	32,852	45,711
– TO BANKS	406,601	54,758	15,435	42,739
– TO CUSTOMERS	385	17,412	17,417	2,972
B CASH LIABILITIES	112,397	30,817	211,033	190,518
B.1 DEPOSITS AND A/C	112,397	30,817	211,033	190,518
– FROM BANKS	71,224	30,817	211,033	190,342
– FORM CUSTOMERS	41,173			176
B.2 DEBT SECURITIES				
B.3 OTHER LIABILITIES				
C OBS TRANSACTIONS	(1,577)	18,649	59,887	47,837
C.1 FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		504	59,887	29,692
LONG POSITIONS		507	59,887	29,779
SHORT POSITION		3		87
C.2 FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE				
LONG POSITIONS				
SHORT POSITION				
C.3 DEPOSITS AND LOANS TO BE SETTLED		18,145		18,145
LONG POSITIONS		18,145		
SHORT POSITION				18,145
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	(1,577)			
LONG POSITIONS				
SHORT POSITION	1,577			
C.5 FINANCIAL GUARANTEES ISSUED				
C.6 FINANCIAL GUARANTEES RECEIVED				
C.7 CREDIT DERIVATIVES WITH CAPITAL EXCHANGE				
LONG POSITIONS				
SHORT POSITION				
C.8 CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE				
LONG POSITIONS				
SHORT POSITION				

follow

OVER 1 MONTH UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
184,325	109,220	1,295	699	4,321	
				4,321	
		251			
184,325	109,220	1,044	699		
181,894	107,789	1,044	689		
2,431	1,431		10		
385,862	14,502				
385,862	14,502				
385,157	14,502				
705					
6,528	1,578				
6,528	1				
15,310	5,869				
8,782	5,868				
	1,577				
	1,577				

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 UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A CASH ASSETS	328				180					
A.1 GOV'T SECURITIES										
A.2 LISTED DEBT SECURITIES										
A.3 HOLDINGS IN UCIS										
A.4 L&AS	328				180					
– TO BANKS	328				180					
– TO CUSTOMERS										
B CASH LIABILITIES	269				122	91				
B.1 DEPOSITS AND A/C	269				122	91				
– FROM BANKS	258									
– FORM CUSTOMERS	11				122	91				
B.2 DEBT SECURITIES										
B.3 OTHER LIABILITIES										
C OBS TRANSACTIONS										
C.1 FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE										
LONG POSITIONS					2,999	6,087				
SHORT POSITION					2,999	6,087				
C.2 FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.3 DEPOSITS AND LOANS TO BE SETTLED										
LONG POSITIONS										
SHORT POSITION										
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
LONG POSITIONS										
SHORT POSITION										
C.5 FINANCIAL GUARANTEES ISSUED										
C.6 FINANCIAL GUARANTEES RECEIVED										
C.7 CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.8 CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										

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 UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A CASH ASSETS	819									
A.1 GOV'T SECURITIES										
A.2 LISTED DEBT SECURITIES										
A.3 HOLDINGS IN UCIS										
A.4 L&AS	819									
– TO BANKS	819									
– TO CUSTOMERS										
B CASH LIABILITIES	810									
B.1 DEPOSITS AND A/C	810									
– FROM BANKS	372									
– FORM CUSTOMERS	438									
B.2 DEBT SECURITIES										
B.3 OTHER LIABILITIES										
C OBS TRANSACTIONS										
C.1 FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.2 FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.3 DEPOSITS AND LOANS TO BE SETTLED										
LONG POSITIONS										
SHORT POSITION										
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
LONG POSITIONS										
SHORT POSITION										
C.5 FINANCIAL GUARANTEES ISSUED										
C.6 FINANCIAL GUARANTEES RECEIVED										
C.7 CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.8 CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										

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 UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A CASH ASSETS	89			442						
A.1 GOV'T SECURITIES										
A.2 LISTED DEBT SECURITIES										
A.3 HOLDINGS IN UCIS										
A.4 L&AS	89			442						
– TO BANKS	89			442						
– TO CUSTOMERS										
B CASH LIABILITIES	3									
B.1 DEPOSITS AND A/C	3									
– FROM BANKS										
– FORM CUSTOMERS	3									
B.2 DEBT SECURITIES										
B.3 OTHER LIABILITIES										
C OBS TRANSACTIONS				(552)						
C.1 FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE				(552)						
LONG POSITIONS				87						
SHORT POSITION				639						
C.2 FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.3 DEPOSITS AND LOANS TO BE SETTLED										
LONG POSITIONS										
SHORT POSITION										
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
LONG POSITIONS										
SHORT POSITION										
C.5 FINANCIAL GUARANTEES ISSUED										
C.6 FINANCIAL GUARANTEES RECEIVED										
C.7 CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										
C.8 CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
LONG POSITIONS										
SHORT POSITION										

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 UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A	CASH ASSETS	1,690									
A.1	GOV'T SECURITIES										
A.2	LISTED DEBT SECURITIES										
A.3	HOLDINGS IN UCIS										
A.4	L&AS	1,690									
	– TO BANKS	1,690									
	– TO CUSTOMERS										
B	CASH LIABILITIES	27									
B.1	DEPOSITS AND A/C	27									
	– FROM BANKS	27									
	– FORM CUSTOMERS										
B.2	DEBT SECURITIES										
B.3	OTHER LIABILITIES										
C	OBS TRANSACTIONS										
C.1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.3	DEPOSITS AND LOANS TO BE SETTLED										
	LONG POSITIONS										
	SHORT POSITION										
C.4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
	LONG POSITIONS										
	SHORT POSITION										
C.5	FINANCIAL GUARANTEES ISSUED										
C.6	FINANCIAL GUARANTEES RECEIVED										
C.7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										

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

EUR/000

ITEMS/ MATURITY LADDER		SIGHT	1 TO 7 DAYS	OVER 7 TO 15 DAYS	OVER 15 DAYS TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A	CASH ASSETS	219		7							
A.1	GOV'T SECURITIES										
A.2	LISTED DEBT SECURITIES										
A.3	HOLDINGS IN UCIS										
A.4	L&AS	219		7							
	– TO BANKS	219									
	– TO CUSTOMERS			7							
B	CASH LIABILITIES	1									
B.1	DEPOSITS AND A/C	1									
	– FROM BANKS	1									
	– FORM CUSTOMERS										
B.2	DEBT SECURITIES										
B.3	OTHER LIABILITIES										
C	OBS TRANSACTIONS					(49)			49		
C.1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.3	DEPOSITS AND LOANS TO BE SETTLED										
	LONG POSITIONS										
	SHORT POSITION										
C.4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS					(49)			49		
	LONG POSITIONS										
	SHORT POSITION					(49)			49		
C.5	FINANCIAL GUARANTEES ISSUED										
C.6	FINANCIAL GUARANTEES RECEIVED										
C.7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										
C.8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	LONG POSITIONS										
	SHORT POSITION										

2. Report on tied assets recorded in the Financial Statements

EUR/000

		TIED		FREE		31.12.2013	31.12.2012
		BV	FV	BV	FV		
1	CASH AND CASH EQUIVALENT			1,504	1,504	1,504	129
2	DEBT SECURITIES	122,884	122,385	244,416	248,235	367,300	493,373
3	EQUITIES			64	64	64	64
4	LOANS			1,322,520	1,322,520	1,322,520	1,829,945
5	OTHER FINANCIAL ASSETS			931	931	931	810
6	NON FINANCIAL ASSETS			48,871	48,871	48,871	52,751
TOTAL 31.12.2013		122,884	122,385	1,618,306	1,622,125	1,741,190	2,377,072
TOTAL 31.12.2012				2,376,258	2,377,117	2,377,072	3,011,180

Legend:
BV = Book Value **FV = Fair value**

3. Report on free assets owned recorded in the Financial Statements

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. Even though Banca UBAE has opted for the calculation method it is implementing an operational risk management system that, over time, can evaluate and monitor exposure to operational risks and the amount for losses that could be incurred. And so, on the one hand a project has been launched to revise all processes, on the other, an update is under way of qualitative risk estimates based on a self risk appraisal approach.

To ensure it is realistic, annual self risk appraisal sessions are conducted to improve the quality of all processes. These involve the heads of the Bank's main business and support units with the aim of identifying areas where operational risk is a potential problem and consequent corrective measures. Risk Management Department and Compliance& Anti-Money Laundering Department analyze the results and highlight the weak points, which therefore identifies areas requiring action to improve efficiency and security of procedures and processes. Lastly, during updating of flow charts Regulatory Development Department introduces any necessary procedural and/or organizational changes.

B. Operational risk management processes and measurement methods

Before any new products or services are launched a thorough assessment of the risks associated with the new activity is made up by the Finance Division jointly with the IT & Organization Division, Compliance & Anti-Money Laundering Department, Risk Management Department and Internal Auditing Department, which is then submitted to General Management with the expected added value with the adoption of the new product/service.

QUANTITATIVE INFORMATION

EUR/000

		31.12.2013	31.12.2012
OPERATIONAL RISK		7,136	7,762
1	BASIC INDICATOR APPROACH	7,136	7,762
2	STANDARDIZED APPROACH		
3	ADVANCED METHOD		

SECTION 5 – OTHER RISKS: COUNTERPARTY AND SETTLEMENT RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and counterparty risk measurement methods

Brokerage in OTC interest and forex derivative instruments generates the risk that, at maturity, the counterparty does not meet the commitment for payment based on contracts stipulated.

Counterparty risk is monitored both overall and as regards single types of exposure by means of the Master Finance (hereinafter MF) front office system that manages the internal operating limits system.

Each counterparty, whether bank or corporate, authorized to negotiate forward derivative instruments is granted an ad hoc credit line for this activity by the BD, the Credit Committee or other competent Bank body.

Limits are monitored by the MF system by means of a daily recalculation of all outstanding positions based on updated prices.

When 90% of the limit is reached the procedure generates a warning signal and sets off appropriate analyses that may even lead to blocking operations with the counterparty in question.

B. General aspects, settlement risk management processes and measurement methods

Except for transactions with OTC derivative instruments, which generate counterparty risk, the Bank negotiates both listed and unlisted financial and forex instruments exclusively with a payment versus delivery clause so limiting to the minimum the possibility of settlement risk.

PART F
INFORMATION ON SHAREHOLDERS' EQUITY

• **Sezione 1 – Shareholders' equity**

A. QUALITATIVE INFORMATION
B. QUANTITATIVE INFORMATION

B.1 Shareholders' equity: breakdown

EUR/000

		31.12.2013	31.12.2012	
1	SHARE CAPITAL	151,061	151,061	
2	SHARE PREMIUM ACCOUNT	16,702	16,702	
3	RESERVES	30,466	26,567	
	OF EQUITY:	30,466	26,567	
	a) LEGAL RESERVE	11,510	10,710	
	b) STATUTORY RESERVE			
	c) OWN SHARES			
	d) OTHER	18,956	15,857	*
	OTHER RESERVES			
4	CAPITAL INSTRUMENTS			
5	(TREASURY STOCK)			
6	VALUATION RESERVES	102	408	
	- FINANCIAL ASSETS AVAILABLE FOR SALE	244	408	*
	- 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	(142)		
	- VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY			
	- SPECIAL REVALUATION LAWS			
7	PROFIT (LOSS) FOR THE YEAR	10,153	15,984	
TOTAL		208,484	210,722	*

* Changes from the Financial Statements 2012 are due to retroactive application of the IAS19R principle that came into force on 1 January 2013.

B.2 Valuation reserves relating to financial assets available for sale: breakdown

EUR/000

		31.12.2013		31.12.2012	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBT SECURITIES	244		556	(155)
2	EQUITIES				
3	HOLDINGS IN UCI				
4	LOANS				
TOTAL		244		556	(155)

B.3 Valuation reserves relating to financial assets available for sale: Yearly variations

EUR/000

		DEBT SECURITIES	EQUITY AND SHARES	HOLDINGS IN UCI	LOANS
1	OPENING BALANCE	401			
2	INCREASES	565			
2.1	FAIR VALUE ADJUSTMENTS	565			
2.2	INCOME STATEMENT REVERSAL OF NEGATIVE RESERVES				
	- FROM IMPAIRMENT				
	- FROM DISPOSALS				
2.3	OTHER INCREASES				
3	DECREASES	722			
3.1	FAIR VALUE ADJUSTMENTS	515			
3.2	IMPAIRMENT WRITE-DOWNS				
3.3	INCOME STATEMENT REVERSAL OF POSITIVE RESERVES: FROM DISPOSALS				
3.4	OTHER DECREASES	207			
4	CLOSING BALANCE	244			

• **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

B. QUANTITATIVE INFORMATION

		31.12.2013	31.12.2012
A	TIER 1 CAPITAL BEFORE PRUDENTIAL FILTERS	206,945	196,421
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)	206,945	196,421
D	TIER 1 DEDUCTIBLE ITEMS		
E	TOTAL CAPITAL (TIER1) (C-D)	206,945	196,421
F	TIER 2 CAPITAL BEFORE PRUDENTIAL FILTERS	100,102	98,612
G	TIER 2 CAPITAL PRUDENTIAL FILTERS	(51)	(200)
	G.1 POSITIVE IAS/IFRS PRUDENTIAL FILTERS		
	G.2 NEGATIVE IAS/IFRS PRUDENTIAL FILTERS	(51)	(200)
H	TIER 2 CAPITAL BEFORE DEDUCTIBLE ITEM (F+G)	100,051	98,412
I	ITEM TO BE DEDUCTED FROM TIER 2 CAPITAL		
J	TOTAL TIER 2 CAPITAL (H-I)	100,051	98,412
K	ITEMS TO BE DEDUCTED FROM TIER 1 AND TIER 2 COMBINED TOTAL		
L	ELIGIBLE CAPITAL (E+J-K)	306,996	294,833
M	TIER 3 CAPITAL (TIER 3)		1,789
N	ELIGIBLE CAPITAL INCLUSIVE OF TIER 3 CAPITAL (L+M)	306,996	296,622

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

EUR/000

CATEGORIES/VALUES		NON-WEIGHTED AMOUNT		WEIGHTED AMOUNT	
		31.12.2013	31.12.2012	31.12.2013	31.12.2012
A	RISK ASSETS				
A.1	CREDIT AND COUNTERPARTY RISK				
	1 STANDARD METHODOLOGY	2,097,229	2,750,633	1,146,587	1,551,259
	2 METHODOLOGY BASED ON INTERNAL RATINGS				
	2.1 BASED				
	2.2 ADVANCED				
	3 SECURITIZATION				
B	CAPITAL REQUIREMENTS				
B.1	CREDIT AND COUNTERPARTY RISK			91,727	124,101
B.2	MARKET RISK			2,336	2,631
	1 STANDARD METHODOLOGY			2,336	2,631
	2 INTERNAL MODELS				
	3 CREDIT CONCENTRATION RISK				
B.3	OPERATIONAL RISK			7,136	7,762
	1 BASIC INDICATOR APPROACH			7,136	7,762
	2 STANDARDIZED APPROACH				
	3 ADVANCED METHOD				
B.4	OTHER CAPITAL REQUIREMENTS				
B.5	OTHER ITEMS				
B6	TOTAL CAPITAL REQUIREMENTS			101,199	134,494
C	RISK ASSETS AND CAPITAL RATIOS				
C.1	RISK WEIGHTED ASSETS			1,264,986	1,681,179
C.2	TIER 1 CAPITAL RATIO (TIER 1 CAPITAL/ RISK WEIGHTED ASSETS)			16.36%	11.68%
C.3	TOTAL CAPITAL RATIO (ELIGIBLE CAPITAL/RISK WEIGHTED ASSETS)			24.27%	17.54%

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

- **Section 3 – Retrospective Adjustments**

PART H
DEALINGS WITH RELATED PARTIES

In December 2011 Banca d'Italia published a new set of prudential rules governing risks, exposures and conflicts of interest arising from dealings with related parties, pursuant to and for the purposes of art. 53, paragraph 4 of the Banking Law. The provisions regulate dealings with individuals and entities that may exert a considerable influence, either directly or indirectly, over a bank's decision-making processes, thereby potentially undermining the latter's objectivity and impartiality.

In June 2012 the BD approved the Bank's Internal Regulations covering this area to ensure that its operating procedures conformed to the above mentioned rules. As stipulated by Banca d'Italia, the new rules became effective on 31 December 2012. Subsequently in addition, a procedure was issued giving a breakdown of roles and responsibilities for the various units involved as regards approval procedures and conformity with regulatory limits.

A tool has been created, with the support of external consultants, to ensure the control of exposures. It can group exposures for each related party and provide a breakdown by timeframe in order to facilitate monitoring ('grandfathering' and immediate an/five-year repayment plans).

The tables below show the Bank's outstanding economic and financial positions with related parties as at 31 December 2013.

1. Compensation of Directors, Auditors and Management

Compensation during 2013 for Directors, members of the Board of Auditors and General Management covers fiscal and social security contributions and charges gross of tax, and also includes any variable components.

The table below shows information required by IAS 24, paragraph 16 concerning executives with strategic responsibilities, intended as those officers having powers and responsibilities for planning, management and control, and also who have access to information concerning the compensation of the Bank's Directors and Statutory Auditors.

EUR/000

	DESCRIPTION		31.12.2013
(1)	SHORT-TERM BENEFITS		3,340
	– DIRECTORS	1,856	
	– AUDITORS	170	
	– MANAGEMENT	1,314	
(2)	POST-SEVERANCE BENEFITS		60
(3)	OTHER BENEFITS		960

(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

Following table depicts assets and liabilities with such individuals

EUR/000

DESCRIPTION	SENIOR CORPORATE OFFICIALS	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	48	101	149
FINANCIAL LIABILITIES	481	1	482
GUARANTEES OUTSTANDING			

2. Dealings with related parties

As prescribed by IAS 24, the Bank's dealings with related parties are in conformity with and in application of the relevant regulations in force and especially as regards:

- provisions concerning the interests of Directors, as per art. 2391 of the Civil Code;
- art. 136 of Legislative Decree 385/93 (Banking Law);
- Section V – Chapter 5 of prudential supervisory authority instructions contained in Banca d'Italia circular No. 263/06.

In particular, following the recent introduction of the aforementioned Section V, related parties are intended as those indicated below, by virtue of their relations with an individual bank or a supervised intermediary belonging to a group, with the parent holding company:

a. company officer;
b. stakeholder;
c. a party other than a stakeholder with individual powers to appoint one or more members of the management body or strategic supervisory body, including pursuant to agreements stipulated in whatsoever form or statutory clauses for the purposes or effect of exercising such rights or powers; a company or even an entity established in a non-company form over which the bank or banking group can exercise control or exert considerable influence.

In addition to the above, related parties also include parties linked to related parties, namely:

1. companies or entities established in a non-company form controlled by a related party;
2. parties that control one of the related parties indicated in points 2 and 3 of the relative definition, that is, parties either directly or indirectly subject to joint control with the same related party;
3. close family members of a related party and companies or entities controlled by the latter.

The tables below show the Bank's equity and economic relationships with related parties that fall within the above mentioned supervisory authority instructions (Libyan Foreign Bank and entities associated with it, and Unicredit Group).

Dealings with the majority shareholder Libyan Foreign Bank (LFB) and the Unicredit shareholder and their group companies fall within the scope of the Bank's normal business operations and are conducted at the same market terms and conditions as with other non-related counterparties having the same credit standing, among which the parent entity, Central Bank of Libya.

EUR/000

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	133	89,164	89,297
FINANCIAL LIABILITIES	665,466	477,484	1,142,950
GUARANTEES OUTSTANDING	8,464	80,848	89,312

EUR/000

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	34	101	135
FINANCIAL LIABILITIES			
GUARANTEES OUTSTANDING	42,465	131	42,596

As far as main business line are concerned, UBAE' profitability in connection with said transactions can be summarized as follows:

COSTS

EUR/000

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	5	97	102
COMM. ON LETTERS OF GUARANTEES	487	132	619
INTEREST	7,133	3,042	10,175
SUBORDINATED LOANS	2,245		2,245
TOTAL	9,870	3,271	13,141

REVENUES

EUR/000

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	492	1,488	1,900
COMM. ON LETTERS OF GUARANTEES		5	5
INTEREST	4	551	555
TRADING IN FINANCIAL INSTRUMENTS			
TOTAL	496	2,044	2,540

COSTS

EUR/000

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES			
INTEREST			
SUBORDINATED LOANS			
TOTAL			

REVENUES

EUR/000

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	21	2	23
INTEREST		23	23
TRADING IN FINANCIAL INSTRUMENTS			
TOTAL	21	25	46

Relations and dealings with related parties are not considered to be critical inasmuch as they fall within the Bank's normal credit and service activities.
No atypical or unusual transactions or dealings were conducted with related parties during the year that, in terms of significance or the amount concerned, could have given rise to doubts as regards safeguarding the Bank's equity position.
Dealings with related parties are duly conducted at market terms and conditions, and in any event always based on evaluations of economic convenience in conformity with the regulations in force, providing adequate substantiation as regards the reasons for and convenience of such dealings.
The Financial Statements do not include either provisions for or losses as a result of doubtful receivables from related parties. Concerning the latter, only an overall write-down for total receivables has been applied.

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

STATUTORY AUDITORS' REPORT PURSUANT TO AND FOR THE PURPOSES OF ART.2429 OF THE CIVIL CODE

To the Shareholders' Meeting of Banca UBAE S.p.A.

Dear Members,
We assure you that during the year ended 31 December 2013 we monitored observance of the law and the Bank's Articles of Association, and conformity with principles of correct administration. In performing our task we have borne in mind suggestions indicated in the "Rules of conduct for the Board of Auditors recommended by the National Council of Chartered Accountants". Furthermore, we assure you that we have participated in Board of Directors and Executive Committee meetings for our area of competence. These meetings were conducted in accordance with the law and Articles of Association, and we did not note any conflict of interest or, in any event, such that might compromise the soundness of shareholders' equity.
We have assessed and monitored the adequacy of the administrative, organizational and accounting set-up, and the reliability of the accounting system to represent the Bank's operations correctly. This was achieved by discussing and obtaining information with those responsible for the areas concerned and confirming the information received by a review of documentation, also with the benefit of results of the quarterly audit performed by the Bank's external auditors. No charges have been made concerning the provisions of Art. 2408 of the Civil Code.
We have carried out the function of Oversight Body as designated by the Board resolution of 3 May 2013 and in performing this task we did not note any critical matters that need to be highlighted in this report.
During the year, in compliance with the timing prescribed by regulations in force, we obtained information from the Directors concerning the general business trend and forecast developments. We were also given information on major operations in terms of size and characteristics carried out by the Bank and we can reasonably assure you that the actions taken were in conformity with the law and Articles of Association, and were not in conflict with resolutions passed by the Shareholders' Meeting. We did not note any atypical and/or unusual transactions, including those carried out with related parties.
With reference to aspects not linked to accounting controls concerning the Financial Statements for the year ended 31 December 2013, we have supervised the approach adopted in terms of overall conformity with the law as regards their preparation and structure. In particular, we noted that the Financial Statements have been prepared in accordance with Banca d'Italia instructions and international accounting principles. We have held meetings with the firm appointed to audit the accounts and no significant data and information emerged that needs to be highlighted in this report.

We have verified observance of legal provisions for preparation of the Report on Operations and have no particular observations to make in this regard. To our knowledge, in preparing the Financial Statements the Board of Directors has not failed to observe current legal provisions as prescribed in Art. 2423, para. 4 of the Civil Code. The Notes provide the information required by Legislative Decree 87 of 27 January 1992.

We have verified the correspondence of the Financial Statements with facts and information we have become aware of while performing our duties and have no observations to make in this regard.
In conclusion, also in consideration of activities performed by the firm of auditors – the results are contained in a specific report accompanying the Financial Statements – we have no exceptions to make to the draft Financial Statements proposed by the Directors. We therefore express our favourable opinion for approval of the Financial Statements for the year ended 31 December 2013 and the Report on Operations, as prepared by the Board of Directors.
We agree, moreover, with the appropriation of the result for the year proposed by the Directors.

Rome, 14 April 2014

THE BOARD OF AUDITORS
Cosimo Vella
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(Translation from the Italian original which remains the definitive version)

Auditors Report pursuant to
Articles 14 and 16 of Decree Law 27.1.2010, No. 39

To the shareholders of
Banca Ubae S.p.A.

1. We have audited the financial statements of Banca Ubae S.p.A. as of and for the year ended December 31, 2013 comprising of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes thereto. The Directors of the company are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards adopted by the European Union and the Italian regulations implementing Article 9 of Legislative Decree No. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing principles recommended by CONSOB (National Securities Exchange Commission). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes the financial statements include the data for the preceding year. As illustrated in the Notes to the Financial Statements, the directors have redetermined certain comparative data regarding the preceding year, *vis-à-vis* the data previously presented and subjected to audit by us, and on which we had issued our report dated 9 April 2013. The modalities of redetermination of the comparative data and the relative information presented in the Notes have been examined by us for purposes of expressing our opinion on the financial statements for the year ended 31 December 2013.

3. In our opinion, the financial statements of Banca Ubae S.p.A. for the period ended December 31, 2013 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing Article 9 of Legislative Decree No. 38/05; Accordingly, they have been prepared with clarity and present a true and fair view of its patrimonial and financial position, the results of operations and cash flow of the company for the year then ended.

4. The financial statements for the year ended 31 December 2013 are compared with those for the year ended 31 December 2012 relative to a period of ten months (from 1 March 2012 to 31 December 2012). For purposes of permitting an easier confrontation between the two non homogeneous periods, the "economic data" section of the management report reflects the re-elaboration of the pro-forma not subjected to legal audit relative to the twelve months of the year 2012 (from 1 January 2012 to 31 December 2012), to be compared with the accounting situation for the year under audit examination by us.

5. The Directors of Banca Ubae S.p.A. are responsible for the preparation of a report on operations, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the coherence of such report on operations with the financial statements, as foreseen by the law. Accordingly, we have performed the procedures indicated in Auditing Standard No. 001 emanated by the National Board of Public Accountants referred to above and recommended by CONSOB. In our opinion, such report on operations is coherent with the financial statements of Banca Ubae S.p.A. for the year ended December 31, 2013.

Rome, April 14, 2014

BDO S.p.A.
(signed in the original)

Felice Duca
(Partner)

RESOLUTIONS PASSED BY THE SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 16.05.2014

AGENDA

1. Review and approval of the accounts for the financial year ended 31 December 2013 and of the annual report on operations
2. Statutory Auditors' report
3. Legal Auditors' report
4. Proposal for the allocation of net profit, resolutions pertaining thereto
5. Approval of Banca UBAE's 2014 proposed remuneration-and-incentives policy for Directors, Auditors, salaried staff and personnel not in the Bank's direct employment (cf. Banca d'Italia's circular directive of 30 March 2011 containing "supervisory provisions on remuneration-and-incentives policies and practices for banks and banking groups" and the similarly-titled consultation paper circulated in December 2013)
6. Approval of a bonus for the members of the Board of Directors in relation to the Bank's 2013 profit results
7. Ratification of the appointment of Mr. Abdulhakim M. Eljabou and Mr. Elamari Mohamed Ali Mansur (both of whom had been co-opted by the 197th BD on 28 March 2014) as Directors of Banca UBAE replacing Messrs. Ahmed A. Omar Ragib and Redaedin M. Banuga, who had re-signed; resolutions pertaining thereto
8. Reconstitution of the Board of Auditors pursuant to art. 2401 of the Civil Code following the demise of that body's chairman
9. Ratification of the appointment of the Statutory Auditors to make up the Oversight Body man-dated by Legislative Decree 231/2001 (as approved by the 192nd BD on 3 May 2013)

Having taken cognizance of the Directors' annual report, the Statutory Auditors' report and the Legal Auditors' report accompanying the financial statements for the year to 31 December 2013, the AGM:

- unanimously **approved** the annual report, the financial statements themselves and the following allocation of net profit:

Net profit	Euro 10,152,522.00
Less 5% to Legal Reserve (art. 30, letter A of the Articles of Association)	Euro 508,000.00
	Euro 9,644,522.00
Plus profit retained from previous periods	Euro 220,674.56
	Euro 9,865,196.56
Less allocation to the Extraordinary Reserve	Euro 9,800,000.00
Profit to be carried forward	Euro 65,196.56

As a result, reserves will total € 57,423,116.23. Shareholders' equity (comprising share capital, re-serves, profit carried forward and the share premium account) will amount to € 208,483,916.23.

In addition, the AGM:
- unanimously **endorsed** the recommendation conveyed by the delegate representing Libyan Foreign Bank that the BD should take the necessary steps for a bonus increase of Banca UBAE's share capital, to be realized by drawing on part of the sum earmarked for reserves;
- unanimously **resolved** to appoint Mr. Abdulhakim Mohamed ELJABOU and Mr. Elamari Mohamed Ali MANSUR as Directors representing Libyan Foreign Bank for the period running up to the approval of the 2014 accounts in line with the other BD members' term of office;
- unanimously **resolved** to appoint Mr. Francesco ROCCHI as a Statutory Auditor and Mr. Carlo MEZZETTI as an Alternate Auditor of Banca UBAE. At the same time, the AGM designated Statutory Auditor Fabio GALLASSI to chair the Board of Auditors in lieu of Mr. Cosimo Vella, who would carry on as a Statutory Auditor;
- **voted** unanimously to ratify the appointment of the Statutory Auditors as members of the Oversight Body mandated by LD 231/2001.

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