

Your partner for International Business

A bridge between cultures since 1972 | جسر بين الثقافات منذ عام 1972

**43° ANNUAL REPORT
AND
BALANCE SHEET
2015**





MISSION

Identify the best banking solutions for our internationally oriented customers.

VISION

Be one of the best bank in Italy for International Business leveraging our close connections with emerging markets in the Middle East, North Africa and especially in Libya.

STRATEGY

Pursue sustainable growth in the long run, creating value for our customers, shareholders and associates.

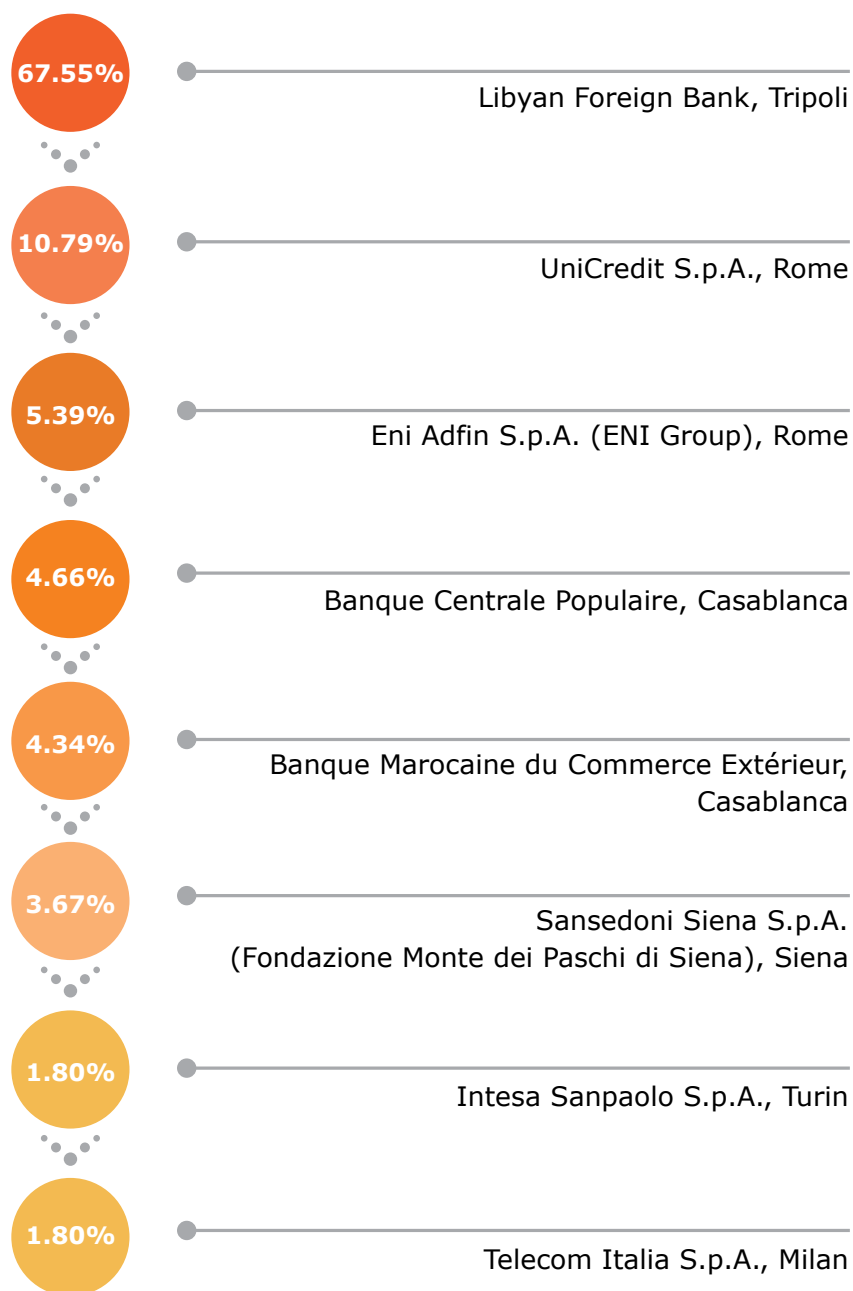


Share Capital

Eur 159,860,800 fully paid up

Reserves (as at 31 December 2015) Eur 53,489,480

Listed by percentage:



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BOARD OF DIRECTORS 2015-2017

Appointed by shareholders' meeting on 30 April 2015

Chairman Abdullatif El Kib (1)

Vice Chairman Alberto Rossetti

Directors

Omran M. Abosrewil
 Mohamed Benchaaboun
 Luigi Borri
 Amin A. F. Botlag (4)
 Abdelrazak M. Elhoush
 Abdulhakim M. Eljabou
 Omran M. Elshaibi
 Ernesto Formichella (2)
 Abduslam A. Gehawe (3)
 Andrea Gemma (5)
 Elamari M.A. Mansur

Secretary to Board of Directors and Executive Committee *

Priscilla Simonetta



The Board of Directors during a meeting

* Pursuant to article 22 of the Corporate Statute (approved by the Extraordinary Meeting on 15 June 2015) the Board of Directors decided – for the time being – to delay appointing the Executive Committee on the understanding that said Committee may be convened in the future, if and when the Board considers it necessary.

(1) Handed in resignation 19 February 2016. On 18 March 2016, the Board coopted Mr Sharef S.A. Shalabi as director, also appointing him Chairman of Banca UBAE's Board of Directors.

(2) Handed in resignation on 10 September 2015.

(3) Handed in resignation on 30 November 2015.

(4) Co-opted on 30 November 2015 replacing Mr Gehawe.

(5) Co-opted on 14 September 2015 replacing Mr Formichella.

BOARD OF AUDITORS **

Appointed by shareholders' meeting on 30 April 2015

Chairman Fabio Gallassi

Statutory Auditors

Francesco Rocchi
Elenio Bidoggia (6)

Alternate Auditors

Sergio Montedoro (7)
Daniele Terenzi

GENERAL MANAGEMENT

General Manager

Mario Sabato

Deputy General Manager

Ezzedden Amer

Assistant General Manager/Operations Area

Adel Aboushwesha

Assistant General Manager/Business Area

Esam Elrayas (8)

AREA MANAGERS

Chief Commercial Officer

Massimo Castellucci

Chief Administrative & IT Officer

Fabio Fatuzzo

Chief Credit & Risk Officer

Giovanni Gargasole

Chief Financial Officer

Antonino Sprizzi (9)

Head of Tripoli Representation Office

Mahmud Ali Elesawi

Human Resources

Barbara Camilli

Internal Audit

Mirella Biasco

Compliance & Anti Money-Laundering

Annabella Colesanti

Risk Management

Alessia Monterosso

** Members of the Supervisory Body, legislative decree no. 231/2001

The shareholders' meeting on 30 April 2015 appointed the members of the Auditing Board as members of the Supervisory Body, as per legislative decree no. 231/2001.

(6) Appointed by shareholders' meeting on 30 April 2015 replacing Mr Vella (statutory auditor).

(7) Appointed by shareholders' meeting on 30 April 2015 replacing Mr Mezzetti (alternate auditor).

(8) Appointed on 7 February 2014, with effect from 20 April 2015.

(9) Appointed on 14 September 2015.

KEY COMPANY DATA AND FINANCIAL/ECONOMIC RATIOS

Head Office Premises



FINANCIAL DATA	31 DEC 2013	31 DEC 2014	31 DEC 2015
FINANCIAL ASSETS	€ 368,294,291	€ 495,783,442	€ 591,166,976
BANKS FINANCING	€ 200,706,221	€ 322,949,190	€ 643,263,680
DEPOSITS TO BANKS	€ 736,417,903	€ 1,905,077,140	€ 1,163,243,204
CUSTOMER FINANCING	€ 385,396,142	€ 446,164,551	€ 325,664,738
EARNING ASSETS	€ 1,690,814,557	€ 3,169,974,323	€ 2,723,338,598
TOTAL ASSETS	€ 1,741,190,063	€ 3,392,055,257	€ 2,786,816,993
DEPOSITS FROM BANKS	€ 1,004,825,000	€ 2,673,179,411	€ 2,088,170,384
FREE DEPOSITS AND A/C WITH BANKS	€ 285,400,065	€ 323,470,649	€ 313,003,182
SUBORDINATED LOANS	€ 100,110,386	€ 100,000,000	€ 100,000,000
CUSTOMER FUNDING	€ 111,673,358	€ 149,384,820	€ 143,298,742
TOTAL FUNDING	€ 1,502,008,809	€ 3,246,034,880	€ 2,644,472,308
RESERVES	€ 47,270,594	€ 57,253,002	€ 53,489,480
SHARE CAPITAL	€ 151,060,800	€ 151,060,800	€ 159,860,800
NET PROFIT	€ 10,152,522	€ 9,552,846	€ 6,847,514
GROSS WORTH	€ 208,483,916	€ 217,866,648	€ 220,197,794
NET INTEREST INCOME	€ 26,308,875	€ 22,745,387	€ 18,557,121
NET COMMISSIONS	€ 12,800,450	€ 13,271,507	€ 13,247,423
NET FINANCIAL INCOME	€ (132,540)	€ 1,788,600	€ 5,355,805
NET TRADING INCOME	€ 38,976,785	€ 37,805,494	€ 37,160,349
OPERATING CHARGES	€ (27,047,743)	€ (28,629,327)	€ (29,678,348)
NET OPERATING PROFIT	€ 11,929,042	€ 9,176,167	€ 7,482,001
NET PROFIT	€ 10,152,522	€ 9,552,846	€ 6,847,514
TURNOVER LETTERS OF CREDIT OIL	€ 1,499,080,000	€ 993,710,000	€ 582,912,795
TURNOVER LETTERS OF CREDIT NO OIL	€ 1,037,670,000	€ 1,607,970,000	€ 773,322,066
TURNOVER GUARANTEES	€ 166,356,350	€ 281,374,620	€ 100,781,752
OUTSTANDING GUARANTEES	€ 337,625,650	€ 424,990,450	€ 384,143,173
GROSS WORTH/TOTAL ASSETS	11.97%	6.42%	7.90%
LOANS/DEPOSITS RATIO	45.43%	25.67%	40.35%
INTERBANK RATIO	72.63%	74.35%	75.23%
IMPAIRED LOANS/EARNING ASSETS	0.13%	0.68%	0.16%
ROE NET PROFIT/PAID CAPITAL	6.05%	5.69%	3.88%
ROE NET PROFIT/GROSS WORTH	4.87%	4.38%	3.11%
ROI NET PROFIT/FUNDING & EARNING ASSETS	0.32%	0.15%	0.13%
ROA NET PROFIT/TOTAL ASSETS	0.58%	0.28%	0.25%
OPERATING CHARGES/NET TRADING INCOME	69.39%	75.73%	79.87%
NET PROFIT/NUMBER OF EMPLOYEES	€ 60,074	€ 53,071	€ 36,230
NUMBER OF EMPLOYEES	169	180	189
TOTAL CAPITAL RATIO	24.27%	18.03%	17.04%
TIER I CAPITAL RATIO	16.36%	13.04%	11.67%
ELIGIBLE NET WORTH	€ 306,996,148	€ 289,377,942	€ 317,448,747

(*)

(*) ai sensi dell'art. 90-CRD IV (Capital Requirements Directives).

OUR OFFICES →



ANNUAL REPORT

1 January - 31 December 2015



Mr. Abdullatif El Kib

CHAIRMAN'S STATEMENT

To all shareholders

The global economic recovery continues, but it seems to be less robust, than expected and is still accompanied by some uncertainty. In fact, the weakness of emerging economies is hindering the development of world markets with an impact on the price of raw materials. For example, oil prices fell below the levels reached in 2008, and the Chinese economy is slowing down leading to tensions on world markets. Nevertheless, the global gross domestic product (GDP) in 2015 should reach around 2.9%, while forecasts for 2016 and 2017 are 3.3% and 3.6% respectively.

In the Eurozone, economic growth has been limited. The measures taken by the European Central Bank are proving effective in supporting economic activity, but the weakening of foreign demand and especially the fall in oil prices have resulted in new and alarming risks for inflation and reduced economic growth.

In 2015, the GDP was 1.5% in Europe, with slight growth forecast for 2016 (about +1.8%) and for 2017 (about +1.9%). Against this background, the main risks for the Eurozone are economic fragility, the sovereign debt crisis and the vulnerability of banks.

In Italy, economic activity has gradually started to pick up; for example, increased exports in the early months of 2015 accompanied by a gradual upswing in domestic demand. After years of low domestic demand, the increase in GDP is partly due to the consolidated recovery of private consumption and the gradual resumption of investments, contributing to a positive GDP (+0.8%) at the end of the period.

Forecasts are confirmed by figures for the first months of 2016, which show an upswing in the next two years reaching around +1.1% and +1.3%.

Improvements in the credit market are continuing, fostered by the cyclical recovery and the measures taken by the ECB Governing Council. After a prolonged period of weakness, lending to private non-financial customers stabilized in the summer of 2015, even though the credit dynamic is affected by the conditions of businesses in the various sectors (the cost of new corporate loans again showed a slight decline).

The overall amount of impaired loans accumulated during the long crisis remains high and will continue to affect credit risks and the profitability of banks. In 2015 the gross amount of NPLs was approximately Euro 200 billion showing an annual increase of about 13%.

Regarding the economies of North African and Middle Eastern countries – the Bank's traditional target markets – a significant upturn (+4%) is reported for 2015, as well as increases of 4.3% and 4.7% respectively for 2016 and 2017.

The greatest growth, according to the International Monetary Fund, is expected in Middle Eastern countries; but low oil prices – and in some cases geopolitical tensions and internal unrest – continue to weigh on growth prospects. Emerging markets should continue to grow at a steady pace, while the recession in Russia is expected to continue throughout 2016 due to low oil prices and international sanctions.

Most North African countries will see a gradual resumption of growth even though influenced by commodity prices which could have a negative impact especially on the larger economies in the area.

Many of the oil-producing countries, for whom oil revenues are generally a substantial portion of tax revenues, will have to revise their public accounts. In some of these countries, difficulties of a purely economic nature are combined with political and social problems which it is hoped may find appropriate solution in the course of 2016/17.

Once again at year's end, the UBAE Bank managed to achieve a tangible added value for its shareholders, customers and employees. It was a very eventful year with a wealth of initiatives as well as significant results.

In the second half of the year, UBAE was able to take advantage of business opportunities in international and domestic markets. The Bank correctly assessed the risk-map of foreign countries – risks that have stabilised to a certain degree in advanced markets, while there has been a significant increase in risk-factors for emerging countries and in some regions such as the Middle East and North Africa, the Bank's traditional core business area.

It should be noted that the Fitch rating agency has assigned UBAE with "BB stable" despite an extremely difficult situation with Libya, considered as a particular risk for UBAE since the country is home to the Bank's majority shareholder.

This rating can be considered objectively positive as it is not found in other Italian banks with much larger operations and with more capital resources available; the Fitch rating agency also recognized UBAE's prudent management despite the many signs – certainly not positive – arising from the Italian and international economies.

Referring to the report for a more detailed analysis of the Bank's accounts, I wish to emphasize that the positive economic results achieved are more than satisfactory given the continuing economic crisis that affects the countries where UBAE operates; also worth noting is the relatively small percentage of non-performing loans, a fact that confirms the continuation of the careful evaluation of the risks being undertaken, also pursued in 2015. At the end of 2015, in compliance with the introduction of new European "bail-in" procedures (Bank Recovery and Resolution Directive) to deal with bank crises using private-sector resources, UBAE was included with all the banks in the domestic system, to contribute financially to the rescue of four Italian banks; clearly, this initiative subtracted income from the year's results.

As proposed by the Board of Directors to the Shareholders' Meeting, the decision to use earned profits to increase the Bank's equity will help to stabilize the "total capital ratio" and "Tier 1", which stand respectively at 17.04% and 11.67% circa; these levels are considered effective to meet the newly-introduced Basel rules on capital.

As shareholders, it is important for you to know that the Bank's economic performance in 2015 was satisfactory in the economic context in which it operates, in spite of a scenario where a number of factors – not only economic but also political, strategic and military – make it difficult to produce reliable forecasts. Nevertheless, the Bank has acquired good positioning in geographical areas of interest and has established itself as a credit intermediary for certain niche markets, as well as offering more services to its customers; in these circumstances, we are confident that the Bank will continue its growth in 2016 with equally satisfactory results, confirming itself as a profitable investment of interest to shareholders.

It is timely to express appreciation for the commitment and dedication shown by the Directors, Statutory Auditors, General Management and staff in achieving the 2015 result.

Special thanks go to the shareholders for the support and confidence they have shown and especially the Libyan Foreign Bank for always having met the financial needs of their investee.

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

EUR/mn

COUNTRIES	2015		2014		2013	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
1 TURKEY	6,621	10,005	5,705	9,755	5,507	10,084
2 UAE	851	6,188	628	5,316	1,299	5,511
3 SAUDI ARABIA	3,354	5,138	4,191	4,824	5,502	4,503
4 SOUTH KOREA	3,198	4,506	3,833	4,316	6,275	4,268
5 ALGERIA	3,020	4,143	2,343	4,161	2,359	3,805
6 INDIA	4,001	3,351	2,205	3,282	2,299	3,220
7 TUNISIA	2,300	3,033	4,159	3,041	3,976	2,975
8 EGYPT	1,985	2,951	2,396	2,784	1,872	2,835
9 MALTA	272	1,563	4,543	2,209	8,094	2,849
10 LIBYA	3,420	1,488	210	1,510	212	1,549
11 MOROCCO	797	1,469	704	1,415	657	1,530
12 IRAN	468	1,211	30	1,207	43	1,294
13 LEBANON	37	1,188	441	1,156	137	1,055
14 QATAR	1,343	986	1,166	1,040	1,704	1,076
15 IRAQ	3,365	917	3,228	973	2,950	1,270
16 KUWAIT	184	777	187	743	142	796
17 JORDAN	50	666	51	530	42	711
18 OMAN	77	651	61	432	54	419
19 CYPRUS	77	495	557	422	477	430
20 BANGLADESH	1,287	474	39	421	141	435
21 PAKISTAN	578	440	1,057	317	865	273
22 BAHRAIN	79	203	74	225	147	159
23 SRI LANKA	366	186	396	219	318	206
24 SYRIA	22	139	17	178	27	125
25 SUDAN	16	126	18	139	16	136
26 BURKINA FASO	5	60	0	131	2	26
27 YEMEN	6	60	9	92	11	146
28 CHAD	48	38	150	89	193	55
29 MAURITANIA	139	27	15	37	4	38
TOTAL	37,968	52,478	38,411	50,964	45,324	51,782
UBAE'S SHARE	601	833	405	1,676	774	1,500
%	1.58	1.59	1.05	3.29	1.71	2.90

New branch premises in Via XX Settembre, Rome



Abstract graphic consisting of several overlapping, flowing, wavy lines in shades of blue and teal, creating a sense of movement and depth. The lines originate from the left side and curve towards the right, with varying opacities and colors ranging from light blue to deep teal.

SUMMARY OF OPERATIONS

1 January - 31 December 2015

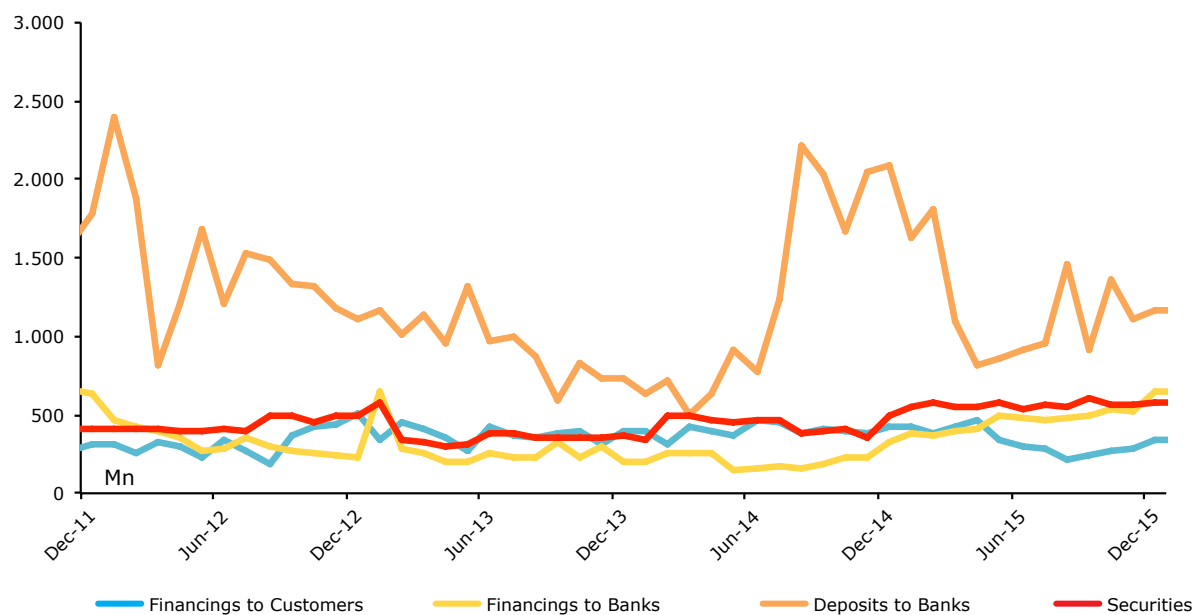
BANKING OPERATIONS IN 2015

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 minor role.

During the period under consideration, the protracted financial, economic and social crisis in world markets has impacted commitments which have shown a reduction towards banking counterparts and other entities.

This reduction has forced the Bank to reposition its activities whose structure is shown in the diagram below:



Given their riskiness and above all their extraneousness to the Bank's core business, short-term non-commercial loans to corporate clients are kept to a minimum and are reserved for parties who do business with Banca UBAE in the field of trade finance.

Generally speaking, credit risk is modest and thus appropriate to the Bank's scale.

Commercial Operations on Foreign Markets

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 2015 proved to be rather difficult due to the slowing down of the world economy, especially the countries of the BRIC area (Brazil, Russia, India and China) whose prospects of overall growth weakened slightly towards the end of the year.

The political and social crisis in some countries of North Africa and the Middle East continue to have a negative effect, with deterioration in certain areas (such as Libya, Syria and Yemen) and the uncertain financial and economic situation that affects Europe and Italy whose economies are struggling to consolidate and to grow at an acceptable pace.

Despite this economic scenario of recession, the Bank managed to react promptly and effectively, thanks to the market position gained in past years, 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.

Revenues coming from commercial activities amounted to Euro 26.07 million (formerly Euro 26.29 million) of which 43% derived from commissions on letters of credit and guarantees, and 57% from financing operations and trade discounting.

With reference to the geographical origin of the above revenues, worth noting is that they were generated 67% from abroad and 23% from Italy.

Also operations developed by the Bank in the purchase of receivables without recourse saw a further increase in 2015 and produced significant returns. At the same time, the Bank has continued to analyse and monitor customers very carefully so as to be in a position to deal with any operational risks effectively (credit, market and reputational risks).

In 2015 the Bank continued to pursue its core activities while effectively facing a period marked by reorganization of various economic sectors in countries of interest, together with the marked reduction of oil product exports and the sharp downturn in the price of crude oil; the latter event could have a negative impact on the main markets of the MENA area.

Several oil-producing countries, with whom UBAE has operated successfully for many years, may be forced to revise their budgets and consequently their investment policies.

Against this uncertain economic scenario, the Bank supported internationally-oriented customers with tailor-made products and services, always in line with commercial requirements. In particular the Bank:

- A. continued to provide specialist consultancy through its existing worldwide network of consultants, Rome headquarters, the Milan branch and the representation office in Tripoli (Libya), making available international products and services, also in collaboration with domestic and foreign credit insurance companies;
- B. chose the right domestic and international partners (Chambers of Commerce, Confindustria, regional banks, foreign banks) with whom to pursue business opportunities and set up partnership agreements;
- C. organized meetings with exporters (multinationals, large Italian and foreign groups in the corporate sector) active in areas of interest to the Bank, in order to satisfy mutual requirements through customized business solutions;
- D. continued to provide its knowledge and experience of international reference markets, signalling foreign business opportunities to customers in their fields;
- E. towards the end of 2015, UBAE boosted the current factoring sector by setting up a dedicated desk at the Milan branch.

In 2015, thanks to a significant commercial boost, promotional activities continued in order to develop work abroad, through business trips and trade missions to identify new opportunities for diversifying income sources with banks and corporate segments involved in international trade.

For instance, strong commercial action was undertaken to open up new and existing markets in the Far East (i.e. Bangladesh, Singapore, Malaysia, Indonesia, Philippines), Eastern Europe (i.e. Poland, Albania) and Africa (i.e. Kenya, Mozambique), all of which should lead to significant results in 2016/17.

Despite the ongoing economic crisis – accentuated by the sharp downturn in the price of crude oil which forced some countries to revise their growth prospects – the Banca UBAE kept a very careful eye on any positive signs in this sector in order to lay the foundations for more profitable action in the future.

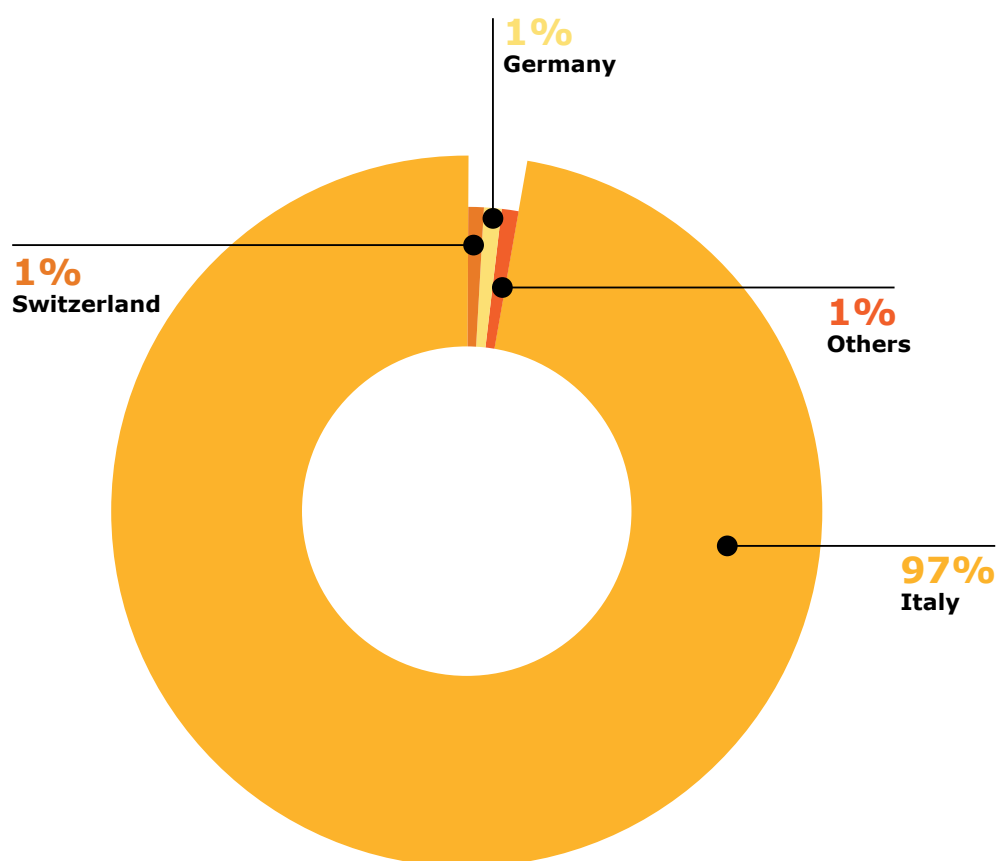
Furthermore, the Bank continued to establish significant operations during the year with leading Italian companies, large banks and important public-sector operators. These agreements are an indication of the high standing and experience achieved by the Bank in the business field.

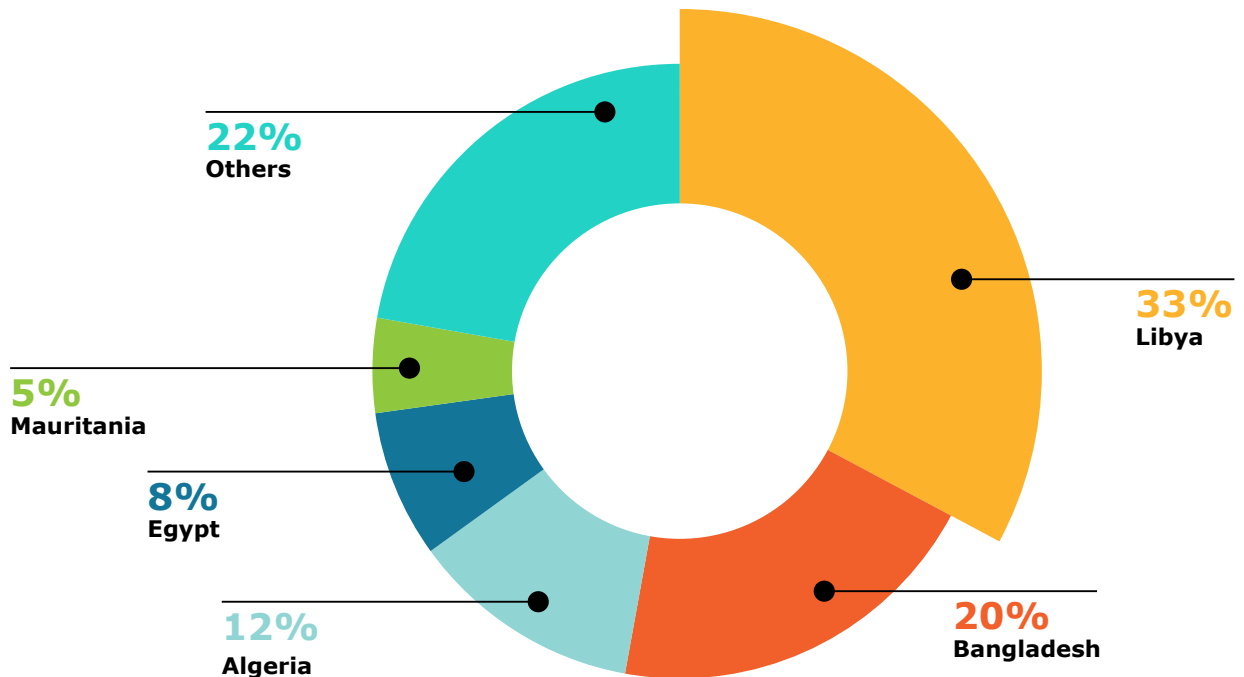
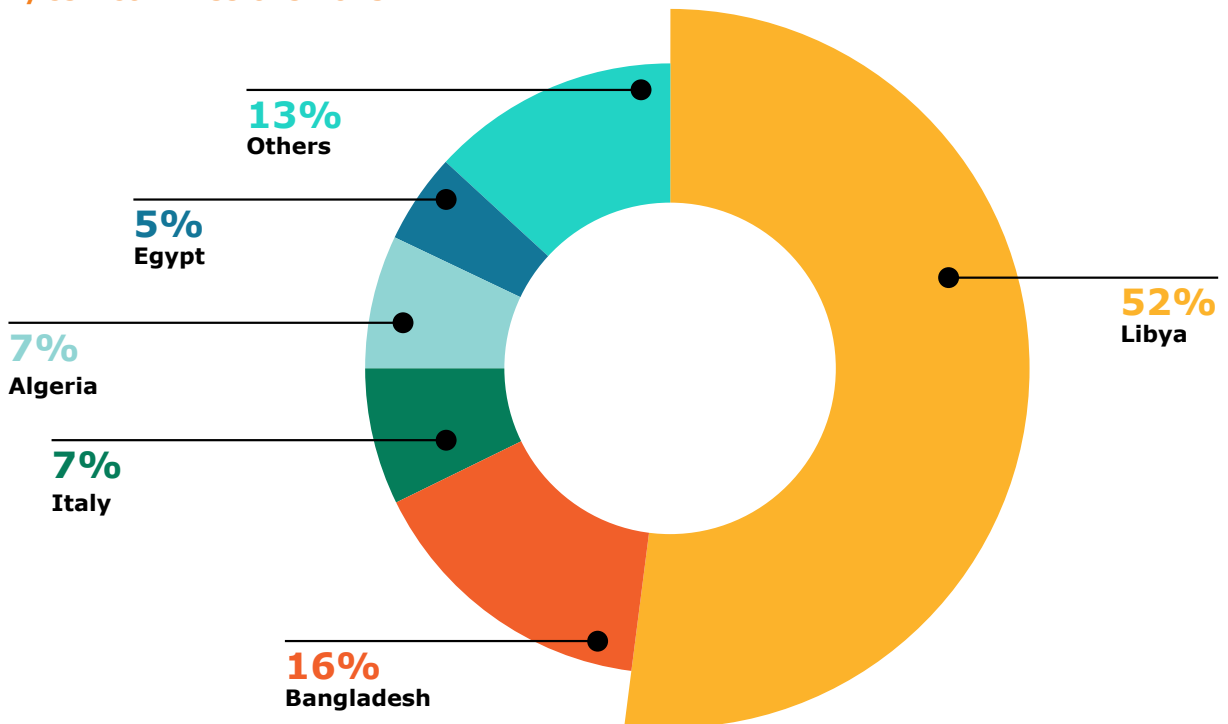
The main operations include some financial support for the working capital of the FCA group, and a growing number of syndicated loans for large amounts in favour of banks and/or corporate customers.

The credit risk associated with these operations is covered by insurance policies set up through specialised companies.

The business area for letters-of-credit received and mediated can be summarized as follows, by country of origin:

OIL L/Cs - Turnover 2015



NON OIL L/Cs - Turnover 2015**L/Cs - commissions 2015**

Analysis of annual data shows the following trend:

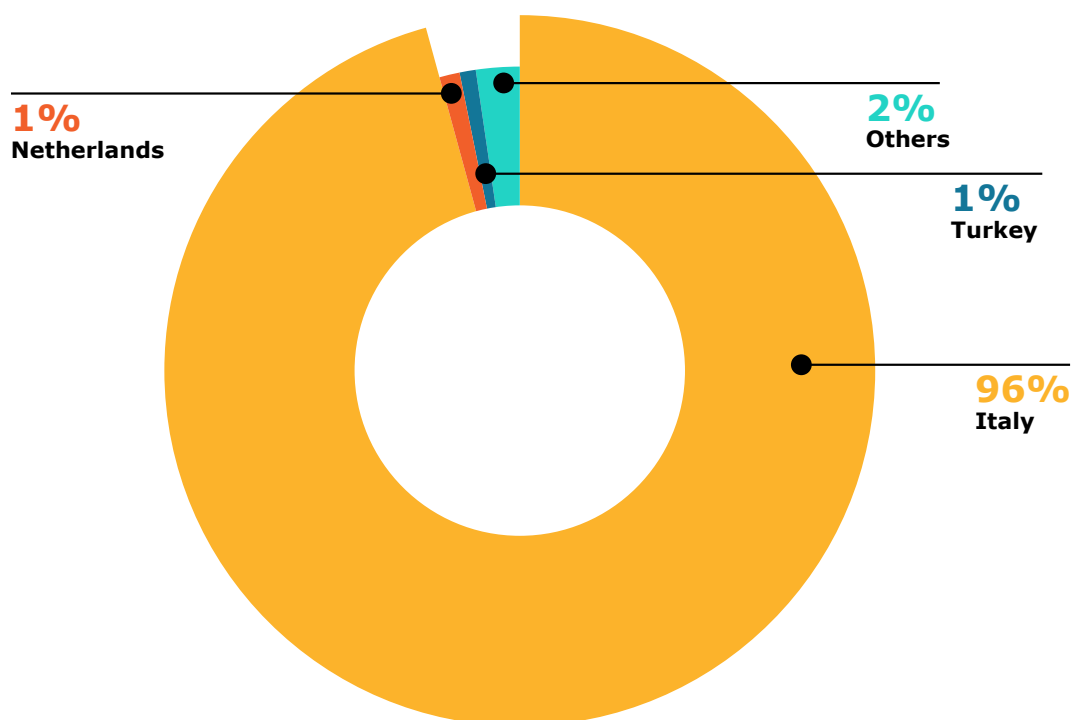
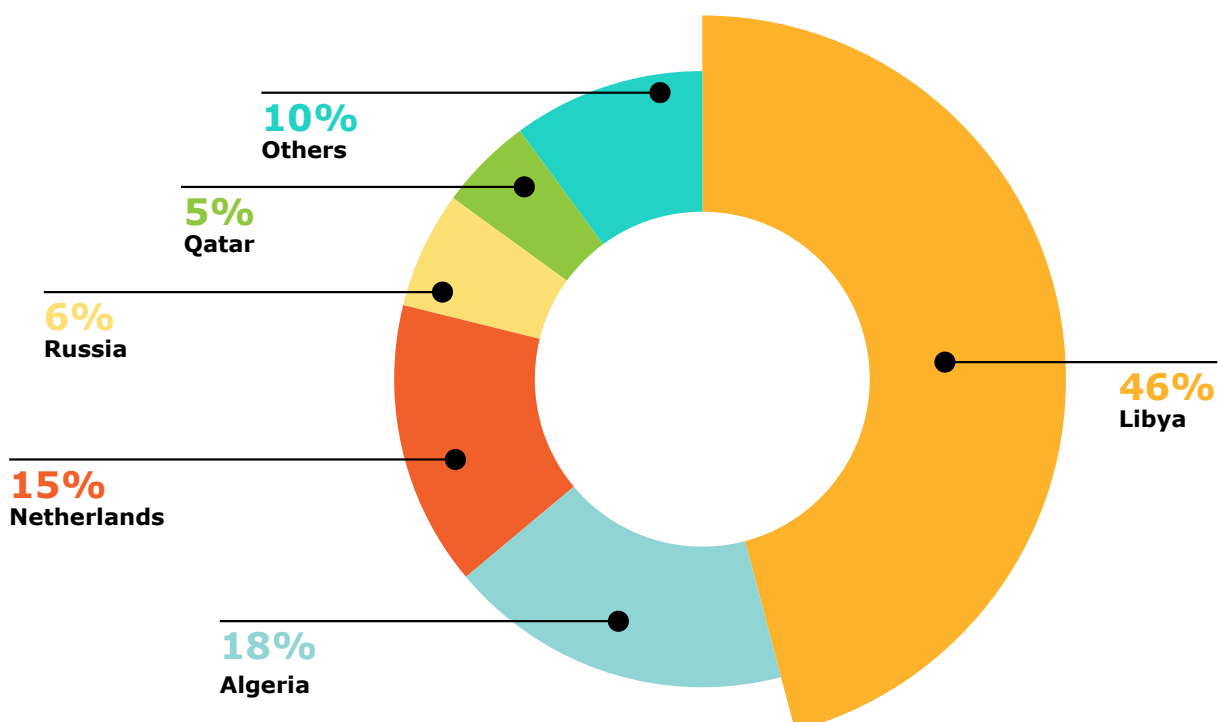
	EUR/000					
	2015		2014		2013	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
LETTERS OF CREDIT: NUMBER	3,063	(18.54)	3,760	(7.91)	4,083	(14.15)
NON OIL LETTERS OF CREDIT: TURNOVER	870,598	(43.17)	1,531,812	54.96	1,037,670	(32.06)
OIL LETTERS OF CREDIT: TURNOVER	614,583	(35.10)	947,031	(33.71)	1,499,080	(32.11)
% OF TOTAL EXPORTS		1.59		3.29		2.90
% OF TOTAL IMPORTS		1.58		1.05		1.71
COMMISSIONS ACCRUED	7,206	(23.22)	9,385	(0.37)	9,350	(38.54)

As previously mentioned, the decrease shows the difficult situation of some key countries - such as Egypt, Turkey and Algeria - which are going through periods of economic and political instability causing a direct negative impact on L/C volumes and consequently on revenues arising from them.

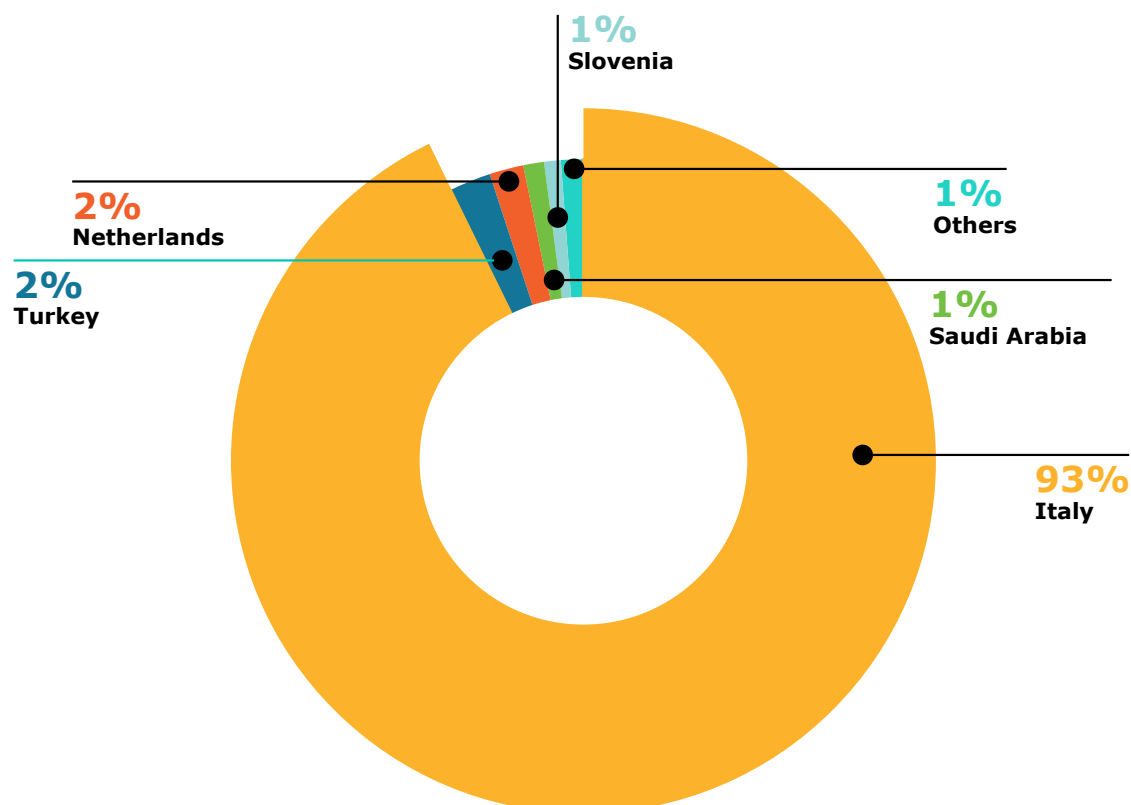
Analysis of data for the guarantee sector shows the following trend:

	EUR/000					
	2015		2014		2013	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
GUARANTEES ISSUED IN YEAR	100,782	(63.56)	276,587	69.14	166,356	46.83
GUARANTEES: OUTSTANDING AT EOY	384,143	(9.61)	424,990	25.88	337,626	(1.84)
COMMISSIONS RECEIVED	3,897	1.25	3,849	21.11	3,178	(1.79)

Guarantees were mostly issued on behalf of leading Italian export firms and/or companies performing contract works in the Bank's target countries; turnover in these countries decreased significantly (-63.56%) due mainly to the economic and financial situation of the markets. The lower volume did not have a negative impact on revenue which remained substantially in line with the previous year (+1.25%).

L/Gs - Applicant**L/Gs - Beneficiary**

L/Gs - Commissions 2015



Financial market operations

Throughout 2015 the Bank endeavoured to find the most profitable ways to employ the increased available funds resulting from deposits by institutional and corporate counterparties.

The average volumes handled during 2015 were substantially in line with those of the previous year.

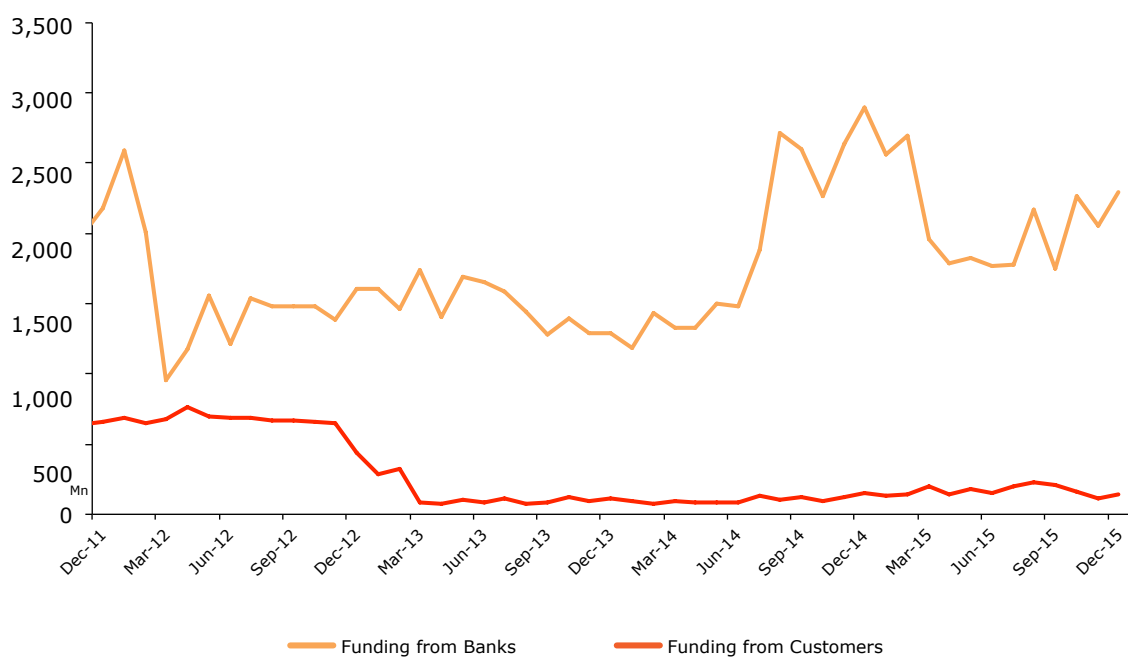
During 2015, funding activities showed an atypical trend: the first half of the year saw a reduction affected by Libya's need to allocate financial resources to the country's recovery, while in the second part of the year there was a sharp increase in volumes reaching a highly satisfactory level; these developments show that the majority shareholder (Libyan Foreign Bank) has confidence in UBAE's ability to pursue objectives of acceptable risks and returns based on sound and prudent fund management.

Despite the context of political and economic crisis, UBAE continued to allocate funds to forms of commercial support, facilitated by the Libyan Foreign Bank which has renewed two security agreements with UBAE for an overall amount USD 515 million aimed at stabilizing the Bank's deposits, among other things, and enabling an expansion of intra-group transactions in full compliance with the Banca d'Italia's current regulations on affiliated parties.

Total funding on average for the period under consideration (i.e. liabilities to banks and customers) and the percentage change compared to the previous quarter are shown in the table below.

FUNDING 2015						EUR/000	
FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
2,666,262	(5.62)	2,053,852	(22.97)	2,214,134	7.80	2,442,186	10.30

A monthly breakdown is provided in the following chart:



Managing financial assets

Transaction volumes for the various classes of financial instrument reached satisfactory levels during the year. The Bank always managed to ensure yields in line with those for other earning assets.

The overall trend for the sector combined with enduring liquidity shortages and financial crisis in some countries prompted the Bank to screen counterparties and assess margins carefully, yet also encouraged trading activity taking advantage of the most profitable opportunities offered by the market, mainly in the field of immobilised assets, to stabilise the flow of interest.

The Bank continued to lend to other credit institutions, including private placements of debt issues discountable with the ECB.

The breakdown of the portfolio at year's end showed investments mainly in bonds, issued by recognized counterparties, and government securities, with an average residual life of 1.29 years for the trading portfolio and 1.45 years for the investment portfolio (HTM).

Use of derivatives to mitigate management of interest rate risk resulted in average durations of 6.26 months for the trading portfolio and 4.39 months for the investment 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 made in variable or fixed interest-rate bonds, the latter linked to derivatives purchased to limit risks due to uncertainty of interest-rate trends.

The positive results show how the Bank managed to achieve very good yields for trading activities and investments (securities, derivatives and Forex) despite a market affected by financial crisis, widespread political instability and liquidity problems arising from decisions taken by the ECB.

Agreed guidelines for the purchase of securities can be summarized as follows:

- a. for the investment portfolio (issues held to maturity/available for sale):
 - floating rate issues with a substantial spread, resulting in yields higher than the interbank rate, to be held to maturity;
 - fixed rate issues classifiable as short-term by virtue of the hedging instruments implied by asset swap strategies, issued mainly by the Italian government in order to comply with the regulatory threshold for Liquidity Coverage Ratio (LCR);

- 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;
- b. for the trading portfolio:
 - fixed or floating rate issues chosen for their ability to yield short-term capital gains;
 - shares in top-tier, highly capitalized domestic and international companies, shares in investment funds (Exchange Traded Funds) as well as futures and options on share indexes (FTSE, MIB Futures and MIBO Options), as well as corporate shares and bonds.

Generally speaking, Banca UBAE's securities portfolios performed well with reference to the average market trend. Given the situation of financial markets (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

Activities in this area were affected especially by the intensification of the global financial crisis and the monetary policies adopted by the US authorities and the ECB through the Eurosystem program for purchasing securities ("quantitative easing").

In the second half of the year, the ECB took further action by introducing new expansionary measures for liquidity and expanding the purchase of securities; these measures were all aimed at increasing the money supply in the hope of promoting a boom in lending to businesses and families under acceptable economic conditions.

During the year 2015, the Bank was able to count on average deposit volumes that were in line with 2014, albeit with a trend that was not quite up to expectations.

The treasury management strategy adopted by Banca UBAE in the above scenario proved successful in limiting the negative impact and, in fact, earnings for the year were quite satisfactory.

Short-term lending on the interbank market and short and medium-term loans to foreign banks rose to good levels.

The overall amount managed by the treasury remained at around EUR 2.2 bn substantially in line with the previous year (contra value of EUR 2.1 bn).

Given the uncertain market situation and in order to support current and prospective medium-term lending, the Bank 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 and financial activities, throughout 2015 the Bank continued to conduct transactions on the open market for average amounts of about EUR 100 mn guaranteed by securities held by the ECB with three-month maturity.

Year-end results

Net profit for 2015 was EUR 6.8 mn, showing a reduction compared to the previous accounting period (-28.14%).

During 2015, several variables (already outlined) affected the Bank's result which, in view of the adverse economic conditions, both nationally and internationally, can be considered satisfactory. Summarizing briefly, these circumstances were:

- the net result was burdened by the decision of the Government (dated November 2015) requesting the entire banking sector in Italy to financially support four Italian banks which at that time were under bankruptcy proceedings. For Banca UBAE, this extraordinary contribution, made mandatory by European legislation, resulted in a payment of EUR 2.35 million paid to the National Resolution Fund held by the Banca d'Italia; the Bank's end-of-year result, not considering this amount, would have been Euro 8.4 million;
- the expansionary monetary policy adopted by the European Central Bank has had an impact on short-term interest rates, especially in the interbank sector – in which Banca UBAE is particularly active – causing the spread to drop to an extremely low level (almost zero).

However, 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 18.55 mn (-18.42% compared to 31 December 2014). The downturn was influenced by a drop in interest rates compared to the previous year.

There was a marked increase in net commissions (+23.38%), an indication of the Bank's efficient commercial policies, and an upturn in trading activities showing the Bank's ability to take advantage of market tensions.

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 and following a review of the methods used, the amount allocated as coverage for credit risk was deemed adequate.

As a result of this valuation and taking into account the lower exposure to risk for some customers, net value recorded an upswing of EUR 5.5 million as of 31 December 2015.

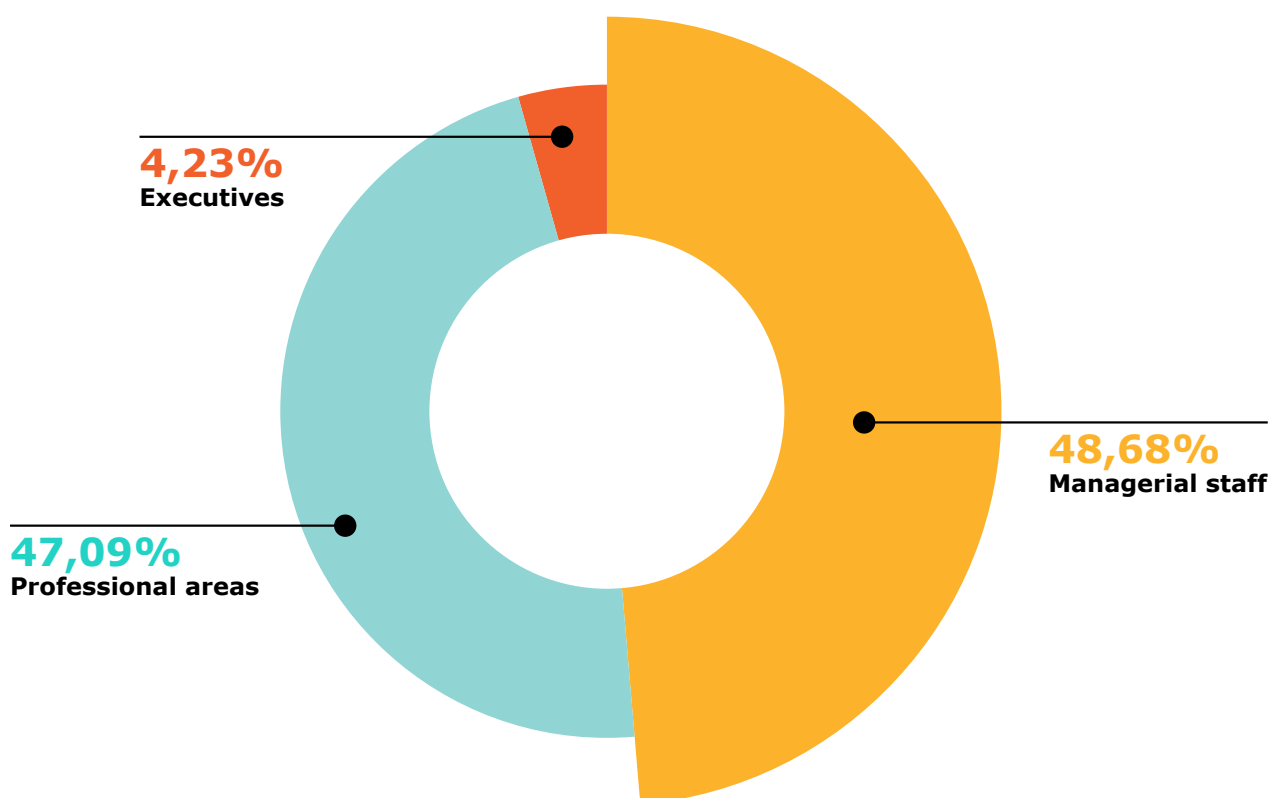
Net income tax totalled EUR 4.4 mn, 16.56% less than the previous year (Euro 5.3 mn). As shown in the Notes (see "Information on the Income Statement", Section 18, page 149), the difference reflects a pre-tax result at 31 December 2015 that was less than the figure on 31 December 2014.

ORGANIZATION AND PERSONNEL

1. PERSONNEL

During 2015, the Bank continued its efforts to build an organization based on people (and for people), their abilities and professional qualifications, their availability and immediate cooperation to satisfy customers and achieve positive economic objectives in the short and medium to long term.

This approach fuels the strategic drivers that make the Banca UBAE an organization that is constantly oriented and committed every day to the enhancement of its human capital. So the chosen path sees the Bank engaged in a continuous process of change based on the close interdependence between environment, strategy and structure through the activation of all the levers required for the care and development of its employees.



During the year, the Bank focused on strengthening the core business and organizational processes as well as the handover to a coming generation.

Accordingly, these activities have led to the hiring of 21 people and the exit of 12 people, making a total workforce of 189 people, divided as follows.

- 4.23% executives;
- 48.68% managerial staff;
- 47.09% professional areas.

The table shows the changes in the composition of the workforce by qualifications, for 2014 and 2015:

	31.12.2015		31.12.2014	
	N°	%	N°	%
EXECUTIVES	8	4.23%	6	3.33%
MANAGERIAL STAFF	92	48.68%	89	49.44%
PROFESSIONAL AREAS	89	47.09%	85	47.22%
	189		180	

Furthermore, 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.

The Bank's General Management undertook the following activities during the year:

1. maintaining and updating the performance management system, aimed at a better understanding and evaluation of professional activities; attention was therefore to guide the management's action towards objectives and behaviour that directly affect UBAE's business (identifying the critical factors for the Bank's success and translating them into management goals and behaviour patterns);
2. consolidating a policy of professional growth, also supported by actions of internal mobility and career paths; in this sense, the promotion system (economic and career) has been enhanced by elements linked to the development of the Bank's human capital;
3. start-up of projects on workloads and process analysis aimed at improving the efficiency and effectiveness of the Bank's overall structure;
4. consolidation of a reward system linked to performance and results;
5. promoting safety awareness in the workplace through training and information; in addition to activities governed by legislative decree no. 81/2009 (i.e. annual meetings, risk assessment, etc), the Banca UBAE intends to continue with the project "talk to your medical advisor"; this facility provides an interview with the company doctor not tied to mandatory surveys, as well as an opportunity for the company to take care of its employees through a reference point for their welfare;

6. maintaining an integrated training system. Since 2008, UBAE has begun the definition and implementation of training sessions aimed at the growth of its internal personnel through access to joint national inter-professional funds for continuous training in the areas of credit and insurance. These activities have been activated in order to provide the knowledge and skills necessary to effectively develop a bank-enterprise in relation to the Bank's core processes (i.e. foreign activities, credit operations together with the accounting and budget areas) as well as the recent regulatory innovations. Specifically, we have introduced training activities on specialized topics, in addition to mandatory sessions (regarding the need to update regulations on the management of personal data, safety in the workplace, and anti-money laundering).

Of particular importance was the initiative launched in 2014 on generational exchange, fully shared by the trade union representatives; the nature and impact of the project is mainly social, involving the expected turnover between parents and their offspring.

2. ORGANIZATION

The Organization and IT Systems Area is responsible for improving corporate operations, organizational structures, regulations and processes.

During 2015, UBAE pursued the main objective of stabilizing the introduction of the new IT banking system and continuing along the path of growth and renewal undertaken in recent years by means of planning and implementing several complex projects. The three main features are: security, revising and streamlining processes – innovation – cost control.

The main objectives for 2015 were therefore mainly concerned with boosting the processes of standardization and compliance of internal processes and IT systems to the regulatory framework, bringing the Bank's IT systems to an appropriate level of security and resilience.

This revision project, which started in 2015, will enable UBAE to standardize its processes in line with the classification models issued by the Italian Banking Association (ABI) and to adopt an appropriate IT platform that will integrate business processes with the new procedure for operational risks, also including IT risks. The new platform is one of the strategic objectives for 2016.

In line with decisions taken by the Board of Directors in 2014, the Bank adopted new tools in order to take advantage of business opportunities, by undertaking major projects in the field of multi-channel transactions enabling customers to use American Express cards while also introducing payment via the SEDA direct debit system.

The project began in 2015 and will be completed in the first quarter of 2016, enabling customers to use prepaid cards, debit cards, Internet access and corporate banking.

The activation of new interbank circuits will enable UBAE to introduce new products more rapidly, thereby reducing the digital gap on retail tools with respect to other banks.

Furthermore, in accordance with decisions taken by the Board of Directors, the Organization Department has selected appropriate software in order to set up a factoring procedure using a platform with technological and functional features in line with the Bank's requirements.

Consequently the Bank's entire organizational structure has been closely involved in the various projects mainly concerned with supervising and verifying new IT applications and multiple implementations introduced by the new system.

In spite of the additional workload, the department has efficiently managed the changes in IT procedures required not only by new internal operational needs but also by the new provisions of external regulations.

Below is a list of the main projects that have been completed during the year, involving several internal departments throughout the organization according to the needs of the various projects:

- policies on information security and IT risks have been prepared and submitted to the Board of Directors, after consultation with the outsourcer;
- policies and procedures have been drawn up in order to establish a first procedural and regulatory core for the Bank's IT governance, in particular the procedures for "change and incident management" have been issued;
- considerable effort was devoted to the field of business continuity with tests involving the Bank's whole organizational structure. During the last quarter of 2015, the following tests were carried out successfully: the first disaster recovery of the Cedacri system; disaster recovery of the Bank's IT infrastructure; business continuity tests simulating total unavailability of the Rome headquarters; further continuity tests assuming unavailability of the Rome branch and collaboration with a friendly bank to provide testing facilities;
- setting up a centralized system for terms and conditions, providing a single database with all the data for the Bank's products, greatly improving supervision and transparency;
- setting up an automated system for supervising operations conducted by affiliated parties;
- activating the "whistleblowing" procedure;
- activating the internal scoring system and establishing the probability of default (PD) used by Moody's; developing an application for standardizing balance sheets in order to normalize the flows to be sent to Moody's for calculation purposes;
- issuing new mobile devices and procedures governing their use to ensure security;
- aligning procedures to the norms for Guarantor 1 and Guarantor 2, Facta, Market Abuse;
- creating an application for automatically calculating a country's plafond limits providing end-of-day figures and online supervision;
- activating a system for analysing data requirements in order to produce daily figures for large exposures;
- examining the actions to be taken on management procedures and IT systems prior to introducing the new norms for LCR delegated legislation.

Activities also continued to comply with the 11th update of circular no. 285/2013, formerly no. 263/2006 -15th update. All major IT tasks have been completed except for data governance and IT governance, both of which will be finalized in 2016, also involving the outsourcer.

3. DEPARTMENT FOR DEVELOPING EXTERNAL AND INSTITUTIONAL RELATIONS

The department for developing external and institutional relations is responsible for promoting and consolidating domestic and international relations with ministries, embassies and multinational development banks, as well as dealing with marketing and product development activities.

The department deals with the quality of the products offered to customers (correspondent banks and corporate companies) by focusing on innovative projects to strengthen relations and to promote collaboration agreements with institutional counterparties.

The driving forces that have guided activities during the year are based on four main areas:

a) Strategic analysis

Preparing reports and analyses aimed at providing a clear and concise picture for the General Management and the Sales Department on issues of interest to support strategic decisions, such as:

- preliminary analyses of business potential with foreign countries and new products;
- strategic analysis on the trend of flows of individual products offered to domestic and international customers, letters of credit and guarantees received, as well as training seminars for banks and corporate delegates at our Bank;
- creating power-point presentations for the General Management to be used during conferences, round tables, workshops, etc.

b) Developing external and institutional relations

Projects linked to this sector of activity play a significant role within the department for developing external and institutional relations. Setting up synergies through collaborative arrangements with external and institutional organisations enhances the visibility of our Bank and supports business development.

During 2015 important cooperation agreements were finalized with chambers of commerce, trade associations and Italian banks with extensive branch networks, as well as Italian customers who work with foreign countries. The common goal of such partnership agreements is to offer tangible support to the Italian entrepreneurial system in its process of internationalization regarding the growing markets in which UBAE has consolidated experience and knowledge.

c) New products

A factoring desk has been set up at the Milan branch, with an office dedicated to new business activities. In more detail, the new products that UBAE offers its customers are: recourse and non-recourse factoring, maturity factoring, indirect factoring with or without recourse, and structured transactions.

d) Business Development

Business development is a combined effort by Commercial Management and the Finance Department to develop and boost the strategic opportunities of our Bank and to strengthen relations with leading Italian and foreign customers.

The initiatives implemented in 2015 mainly concerned training seminars and round tables specifically designed for our Italian and foreign customers.

The main activities for the benefit of Italian companies were:

- Sponsorship – annual assembly of Credimpex Italia, Palazzo Altieri, Rome. The speakers and participants (members of the association) addressed issues relating to operations and opportunities arising from internationalization;
- Participation in the international meeting “New Routes of Levante – southern enterprises and the challenge of internationalization” held in Bari, 15 September 2015, with the participation of political and institutional representatives from Italy and abroad. Banking and business leaders took part in a discussion on opening new markets and identifying development paths for Italian companies, especially those in southern Italy.

Events that were organized for foreign banks included:

- Trade Banking Seminars based on international business models aimed at our foreign correspondents and structured to the specific requests of the participating banks; the 2015 seminars were attended by representatives from major banking institutions in Albania, Algeria, Bangladesh, Egypt, Jordan, Lebanon, Morocco, Mauritania, Oman, Pakistan, Qatar, Sri Lanka, Tunisia, and Uganda;
- On-the-job training, theoretical and practical training courses with coaching by experienced UBAE staff, for bank staff and corporate customers.

e) Corporate identity and external communication

An integral part of the department's activities is managing corporate identity, through image coordination and external communication. Consistency in communications makes it possible to consolidate and increase brand awareness of UBAE towards the market, our customers and the competition. The most significant activities in this field are:

- the Press Office for relations with journalists, Italian and international press agencies, preparing press releases and articles;
- creating and producing brochures and sales materials;
- managing contents and graphics for the corporate website which is constantly updated for the benefit of users;
- revising and updating the forms and documents used by our Bank;
- coordinating graphic layout and printing of financial statements, and checking their compliance;
- selecting and handling business gift items for the General Management, Sales Management and Finance Department;
- year-end materials: staff roster, desk calendar, greeting cards;
- selecting non-profit associations for allocation of donations on the occasion of the New Year holidays;
- dealing with membership fees and relations with trade associations to which we belong;
- updating publications (i.e. Bankers' Almanac, ABI Yearbook) involving the offices concerned.

In 2015 the Department set up an agreement with the on-line news provider "Siena news" aimed at promoting and spreading the Banca UBAE brand with articles published daily concerning our activities, tax tables, events, specific banking matters, international market trends and news items relating to factoring.

4. RISK MANAGEMENT

UBAE continues to apply the procedures and methods for calculating overall internal capital as described in the relevant ICAAP reports. The Bank also acted in compliance with national and international regulations, maintaining close monitoring of exposure to business risks, especially strengthening the process of managing liquidity risk and integrating the analysis in terms of capital adequacy by measuring country risk and the geo-sectorial concentration risk, and by assessing the transfer risk and the risk of excessive financial leverage.

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

For the purpose of analysis, capital adequacy has been further safeguarded by the introduction of two additional supervisory assessment requirements concerning country risk and geo-sectorial 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 also be pointed out that the new regulatory framework for the internal control system includes the introduction of country risk (and transfer risk) among the risks to be analysed 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 Board of Directors 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 objectives:

- increasing the governing bodies' awareness of issues related to risk and capital planning;
- improving the Bank's understanding of the exposure to various types of risk which its business operations entail;
- quantifying even more types of risks (such as credit concentration risk, interest-rate risk in the banking book, as well as country risk and geo-sectorial concentration risk)

and bolstering organizational safeguards concerning other risks (liquidity, transfer, excessive leverage, as well as reputational and strategic risks);

- stressing the need to acquire ever-more efficient and effective risk measurement and risk monitoring tools;
- expanding the time frame for internal (forward-looking) analyses and stress testing;
- improving 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.

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 may also involve specialist external support.

In particular, the following subjects were examined:

- 15th update to Banca d'Italia circular no. 263/2006 of 2 July 2013. During 2015, design activities (started in 2014) moved ahead regarding in particular: establishing the market risk policy and the interest rate policy in the banking book, implementing the tools designed to integrate reporting on matters of liquidity risk, implementing the reporting process for monitoring the RAF, and finally, as part of the specific project on credit risk, developing the tools to provide the score and the correlated probability of default for each counterparty.

Regarding IT risks, the following documents were prepared: the strategy for governing information security, the outsourcing policy, risk analysis for IT methodology, information security policy, security policy for dealing with third parties. The following projects are planned for 2015: selection and implementation of a "data quality" solution and the definition of processes and possible use of tools for planning the work of IT personnel and for the economic evaluation of ICT projects;

- EU regulation no. 575/2013, EU Directive no. 2013/36 (known as CRD IV), Banca d'Italia circular no. 285 of 17 December 2013 – the EU-level supervisory directives have been changed significantly with the issue of a new regulatory framework (known as Basel 3). In December 2013, in addition to introducing CRD IV, Banca d'Italia gave indications of the operating procedure for national discretionary measures and de facto provided a complete, systematic regulatory framework containing the EU instructions;
- The Delegated Regulation (EU) 2015/61, integrating Regulation (EU) 575/2013 (CRR), concerns the new calculation approach in line with the requisites of the Liquidity Coverage Ratio (LCR) for credit organizations.

The ICAAP report relating to the situation at 31 December 2015 will be forwarded to Banca d'Italia no later than April 2016.

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 the heading “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 banking 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 actions.

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 the Risk Management Department in terms of the deterioration of portfolio quality and thus capital absorption.

In particular, the Risk Management Department produces a monthly report for the Risk Committee, the Internal Control Committee and the Board of Directors concerning exposures in countries of interest to the Bank.

The measurement of internal capital against credit risks is carried out by applying the standardized method set out in the current supervisory regulations.

For ICAAP purposes, furthermore, the Risk Management Department also monitors credit concentration risk in terms of geo-sectorial and country risks as well as transfer risk, and prepares for stress testing 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, the Risk Management Department cooperates with the Finance Division to monitor positions daily on a mark-to-market basis in order to check compliance with the credit lines granted to each individual counterparty.

The measurement of internal capital against counterparty risk is carried out by applying the current value method as required by the supervisory regulations.

In compliance with the new regulatory framework (Basel 3), a new capital requirement has been introduced regarding risk adjustment of creditworthiness assessment for the counterparty, called Credit Valuation Adjustment (CVA).

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 units charged with first, second and third-level controls, which rely extensively on the front-office platform ObjFin. 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, and with trends for risk and sensitivity indicators (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 and management bodies.

The measurement of internal capital against market risks is carried out by applying the standard methods set out in the supervisory regulations.

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

In 2015, the process for managing market risks was formalized by means of a specific internal policy containing not only the internal operational limits, but also thresholds of attention for internal authorizations, to be activated whenever the limit is exceeded.

Operational risks

Though UBAE chose the Basic Indicator Approach for determining its capital requirement against operational risks under the current supervisory regulations, the Bank intends to implement a dedicated operational risk management system to evaluate and monitor exposure to operational risks and the losses that may be entailed.

In 2014, the Bank started an internal project aimed at implementing a wide-ranging across-the-board tool containing a common mapping of processes and standards, to be used as an integral part of activities for risk assessment and loss data collection. Once the design phase is over, the internal policy will be defined for the process of operational risk management.

Handling other risks

Liquidity risk

Exposure to liquidity risk is constantly monitored by the Treasury desk, while the Risk Management Department is responsible for second-level 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 (recently revised) that includes a contingency funding plan. The system of internal operating limits includes a risk tolerance threshold, survival limits and an eligibility limit for financial instruments. Stress testing is performed quarterly based on three different scenarios (funding, loans and liquidity buffer). In addition, trend monitoring is carried out concerning early warning indicators and concentration funding ratios.

In 2015 the internal policy was revised to include the monitoring of new liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio) and the monitoring tools required by the international regulatory framework (Basel 3).

Regarding instruments, the Bank uses the JCompass tool as well as an ALM program (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 actions.

Credit concentration risk

The Pillar II 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 testing purposes, the Risk Management Department carries out internal simulations to gauge the impact of any shifts in strategy or operational approach.

Regarding "single-name" concentration risk for bank counterparties, UBAE has a system of internal operating limits monitored on a quarterly basis with reporting in order to limit its exposure to this risk.

As regards concentration risk by business sector and geographical area, current regulations do not require any quantification; so the Bank has adopted a qualitative assessment of the overall credit portfolio and application of the quantification method recommended by ABI for Italian corporate customers (geo-sectorial concentration risk).

Interest rate risk in the banking book

Using the integrated treasury program JCompass, the Risk Management Department conducts quarterly monitoring of compliance with the relevant internal operating limit, set below the regulatory threshold as a precautionary measure.

For ICAAP purposes, the Bank's accounting system provides 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 (by the simplified method approved 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.

In 2015 the process for managing interest-rate risk in the banking book was formalized by means of a specific internal policy containing not only the regulatory limit (risk indicator)

and the limits set by RAF, operational limits for the accumulated gap, but also the thresholds of attention and the internal authorizations, to be activated whenever the limit is exceeded.

Country risk and transfer risk

In light of the prevailing international operations, the political risk associated with some countries where business is focused, has led the Bank to devote increasing attention to political aspects.

From a management perspective, a credit limit is established for each country, under the responsibility of the Board of Directors, which regulates the credit facilities to countries that have a rating below BBB, or that are unrated.

From the perspective of quantifying risk exposure, in 2012 the Risk Management Department introduced an internal estimation system to determine an additional capital requisite for country risk, thereby completing the internal analysis in terms of capital adequacy. The rationale for this additional requirement is due mainly to the Bank's special operations in certain geographical areas.

This capital requirement, although not required by law, is calculated according to an internal methodology based on estimated exposure data for regulatory reporting and the likelihood of banking or liquidity crises differentiated country by country, taking into account allocations of assets for financial reporting purposes.

In 2015 the algorithm was revised to take into account the changes in techniques for estimating the probability of country crises, and to avoid double calculation of risk; in fact the decision taken by the European Commission on 12 December 2014 regarding the equivalence of supervisory requisites for some third-party countries and territories concerning treatment of exposures pursuant to EU Regulation no. 575/2013, for countries that are judged to be "not equivalent", already applied heavier weighting in terms of credit risk.

In light of the new regulatory framework, country risk and transfer risk are now regarded as full members of the risk category for ICAAP evaluation purposes. From the point of view of quantitative evaluation, the Bank will maintain the internal methodology already in place for calculating the capital requirement. From the point of view of assessment, monitoring and reporting, the internal policy governing each stage of the process for managing these risks was defined. 2015 saw the start of monitoring together with periodic reporting.

Regarding transfer risk the Bank has decided to include this factor, from the quantitative point of view, in the broader country risk. From a qualitative point of view, the material nature of the risk is assessed by analysing the composition of the loan portfolio and determining the relevance of exposures towards countries that have a high probability of currency or banking crises, as estimated by the competent authorities.

Risk of excessive financial leverage

In light of the new regulatory framework, the risk of excessive leverage has been included among the risks to be assessed for the ICAAP reports; while not providing for a regulatory minimum level, a specific ratio for leverage has been set (Leverage Ratio).

In 2014 the Bank's internal policy was defined containing guidelines for identifying, assessing, measuring and monitoring this risk. In particular, the Bank has decided to monitor the level of compliance with the leverage ratio by setting an internal limit and defining an early-warning threshold.

2015 saw the start of monitoring together with periodic reporting.

Reputational risk

Due to the difficulties involved in handling this risk, qualitative evaluations are required as well as risk mitigation policies and above all risk avoidance measures prior to the occurrence of a detrimental event.

While the quantification of capital absorption is not laid down, the Bank uses an internal policy for managing reputational risk (revised in 2014) which 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".

Strategic risk

This risk also involves a high level of complexity and requires qualitative and scenario assessments in order to quantify the possible impacts resulting from changes in the business and/or regulatory environment. The Bank is institutionalizing a process of formulating scenarios necessary for constructing the budget and the three-year plan, and for measuring the variability of total revenues intended as an approximation of the risk. In addition, as part of the project linked to the 15th update of the Banca d'Italia circular no. 263/06, UBAE intends to set up plans for analysing and implementing the necessary tools to support the integration of the Risk Appetite Framework, strategic planning and budgeting.

5. IT SYSTEMS

During 2015, UBAE aimed to finalize several projects which began in the previous year, including the standardization of activities for internal policies and procedures using the outsourcer's methodologies and measurement systems.

In particular, the Systems Department completed the upgrade of the IT infrastructures at the Rome and Milan operational units, achieving an optimum level of data redundancy with a minimum time gap in their synchronization, thus providing a higher degree of resilience for the Bank's IT systems.

In addition, Desktop Management (part of the Cedacri service) with help-desk and operational support for users has been added to the equivalent service in the UBAE system. The Bank's service desk now includes supervision of "change and incident management" procedures and, importantly, management of IT purchasing and contracts. The purpose of their activation is to monitor and control costs in an effort to target investments more effectively and efficiently.

Finally, always with the aim of improving security, the Bank acquired specific products for managing mobile devices and backup systems; in particular, the virtualization process for hardware environments is well established and has reached an appropriate level of maturity and efficiency.

A major task in 2016 will be introducing the new procedure for integrated IT risk management including operational risks.

On matters of "privacy", the Bank worked with expert consultants to complete an initial assessment phase, developing the organizational and/or IT implementations in accordance with the requirements of the relevant legislation; a plan has been drawn up that will run through 2016, taking into account the changed framework with the introduction of European privacy norms.

6. PERFORMANCE ASSESSMENT REPORTS FOR SENIOR MANAGEMENT

During the year, the Bank continued to improve the internal systems of management reporting in order to develop an information system that is prompt and able to ensure increased usability of analytical and reconciled data.

In this perspective, thanks to IT projects in progress, the Management Control has been trying to increase the time-to-market of management data supporting not only the communication needs of the governing bodies and the banking system as a whole, but also facing the evolution of planning and control of the results.

The transfer to the new outsourcer has led to a complete review of procedures for reporting and setting the parameters for the new system in order to get the full use and development of IT systems for optimal results, not only in terms of effectiveness and efficiency in the reconciliation tools but also in terms of greater availability of daily and monthly data reporting in order to assess the Bank's financial position, its earnings capacity and stability of income flows, also in terms of performance.

This integration will bring significant benefits in terms of correctness and completeness of the data allowing further reductions in processing time, the development of new areas of analysis and improved reporting.

7. LOGISTICS

The Bank continued to carry out improvements to the Rome and Milan offices in order to optimize the business premises in addition to regular maintenance activities. Significant work has been carried out for regulatory purposes and technical efficiency.

In particular, a new UPS system (Uninterrupted Power Supply) was installed and activated at the Milan branch, as well as restructuring some areas to provide space for the new factoring service.

In Rome, substantial work was carried out to restructure office spaces and to streamline the payment system. This logistics solution has led to a different and more rational use of office space at the Rome branch, providing benefits for the Bank's staff and customers.

Important work was also carried out on the physical security of the Rome building with the upgrading of fire doors and replacement of emergency lamps. Lighting installations are also being upgraded (replacing neon with LED technology) leading to lower electricity consumption with considerable savings and improved efficiency.

Negotiations have been completed for a new air conditioning system to comply with the updated regulations on energy saving and pollution to be finalized during 2016.

Such a solution will lead to significant energy saving.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT:		CHANGE	
	31.12.2015	31.12.2014	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	225,483	178,892	46,591	26.04
LOANS AND ADVANCES				
- TO CUSTOMERS	340,948	446,165	(105,217)	(23.58)
- TO BANKS	1,582,721	2,228,026	(645,305)	(28.96)
FINANCIAL ASSETS HELD FOR TRADING	69,008	123,343	(54,335)	(44.05)
FIXED ASSETS				
- FINANCIAL (1)	522,159	372,441	149,718	40.20
- TANGIBLE	23,278	22,541	737	3.27
- INTANGIBLE	1,468	1,630	(162)	(9.94)
OTHER ASSETS (2)	21,752	19,017	2,735	14.38
TOTAL ASSETS	2,786,817	3,392,055	(605,238)	(17.84)
LIABILITIES				
ACCOUNTS PAYABLE				
- TO CUSTOMERS	143,299	149,385	(6,086)	(4.07)
- TO BANKS	2,401,174	2,996,650	(595,476)	(19.87)
FINANCIAL LIABILITIES HEAD FOR	1,241	2,817	(1,576)	(55.95)
EARMARKED PROVISIONS (3)	2,334	2,909	(575)	(19.77)
OTHER LIABILITIES (4)	18,571	22,427	(3,856)	(17.19)
SHAREHOLDERS' EQUITY				
- CAPITAL AND RESERVES	213,350	208,314	5,036	2.42
- NET PROFIT FOR THE YEAR	6,848	9,553	(2,705)	(28.32)
TOTAL LIABILITIES	2,786,817	3,392,055	(605,238)	(17.84)

(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	
	31.12.2015	31.12.2014	AMOUNT	%
NET INTEREST INCOME	18,557	22,746	(4,189)	(18.42)
NET NON-INTEREST INCOME (1)	18,603	15,060	3,543	23.53
GROSS OPERATING INCOME	37,160	37,806	(646)	(1.71)
PERSONNEL EXPENSES	(18,817)	(17,926)	(891)	4.97
OTHER ADMINISTRATION EXPENSES AND OPERATING CHARGES (2)	(11,137)	(8,812)	(2,325)	26.38
GROSS OPERATING RESULT	7,206	11,068	(3,862)	(34.89)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	(1,333)	(1,175)	(158)	13.45
PROVISIONING, WRITE-DOWNS AND WRITE-UPS (3)	5,397	4,961	436	8.79
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	11,270	14,854	(3,584)	(24.13)
INCOME TAX FOR THE YEAR	(4,422)	(5,301)	879	(16.58)
NET PROFIT FROM CONTINUING OPERATIONS	6,848	9,553	(2,705)	(28.32)
NET RESULT FROM NON-CONTINUING OPERATIONS				
NET PROFIT FOR THE YEAR	6,848	9,553	(2,705)	(28.32)

(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

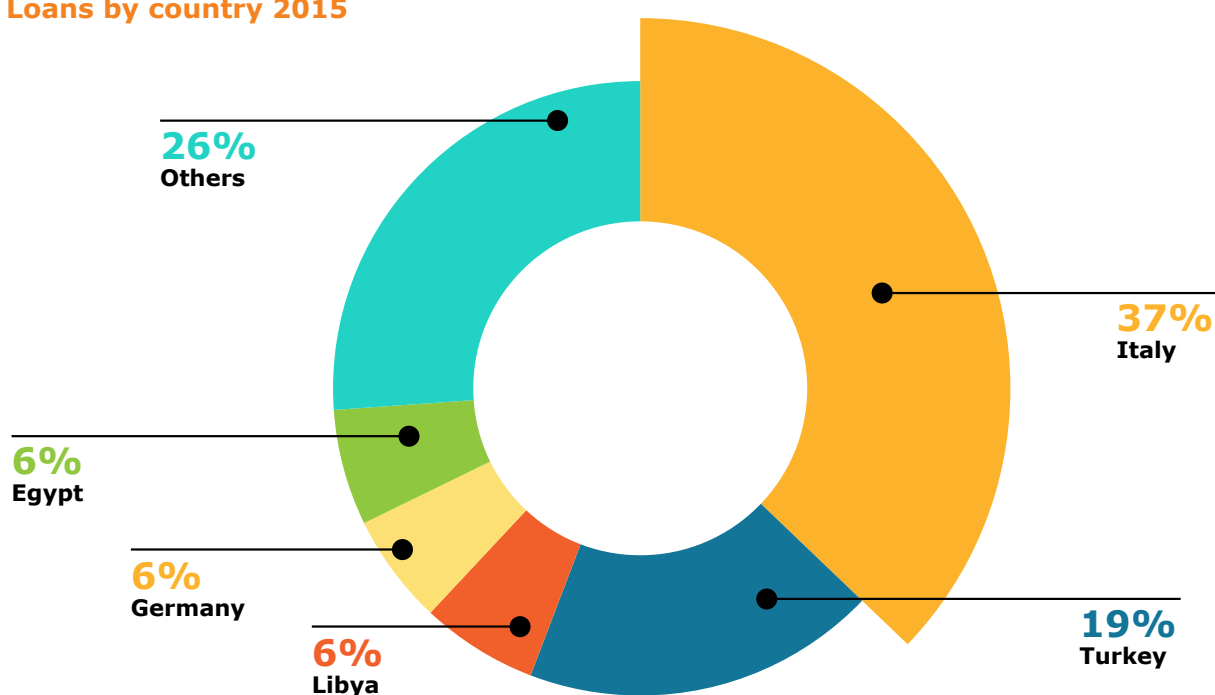
Credit

	BALANCE AS AT:		VARIATION	
	31.12.2015	31.12.2014	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	258,619	384,969	(126,350)	(32.82)
IN OTHER CURRENCIES	82,329	61,196	21,133	34.53
LOANS AND ADVANCES TO BANKS:				
IN EUROS	460,892	299,565	161,327	53.85
IN OTHER CURRENCIES	1,121,829	1,928,461	(806,632)	(41.83)
TOTAL	1,923,669	2,674,191	(750,522)	(28.07)

EUR/000

Below is a geographic representation of total amounts granted by UBAE as of 31 December 2015, with a breakdown by country.

Loans by country 2015



Loans and advances to customers

Loans and advances to customers decreased by 23.58 %, mainly due to the Bank's more conservative approach to lending, including creditworthiness assessments and establishing acceptable levels of risk.

During 2015, the Bank continued to support business activities by spreading credit risk in conformity with concentration limits posed by regulations governing "large risks exposure".

The majority of transactions performed by UBAE were to provide financial support to Italian operators engaged in trade finance with the Bank's core-business countries, including participation in pools organized by 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 (see page 94).

Loans and advances to banks

At year's end, loans and advances to banks, while showing a decrease of Euro 645 million approximately (-28.96%), remained on average consistent with those of the previous year. These volumes were affected by the lack of stability in the levels of funding, influencing the Bank's investment strategies.

The performance of funding activities was affected by the reduction of "oil" flows mainly due to the decrease in crude oil exports from Libya to Italy and the simultaneous decline in the price of crude oil below 30 USD a barrel, a factor that has had an adverse impact on the Bank's business with customers operating in the energy sector.

Consequently, UBAE decided to concentrate the bulk of commitments in the area of inter-bank deposits because of the relatively low risk involved.

Impaired loans (cash and non cash)

EUR/000

	31.12.2015			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	45,393	(33,697)	11,696	74.2%
BAD DEBTS	32,369	(28,701)	3,668	88.7%
	13,011	(4,995)	8,016	38.4%
IMPAIRED PAST DUE POSITION	13	(1)	12	10.0%
NON IMPAIRED ASSETS	2,224,649	(3,734)	2,220,915	0.2%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	2,270,042	(37,432)	2,232,610	1.6%

	31.12.2014			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	57,017	(36,063)	20,954	63.2%
BAD DEBTS	45,909	(31,818)	14,091	69.3%
	11,107	(4,245)	6,862	38.2%
IMPAIRED PAST DUE POSITION	1		1	0.0%
NON IMPAIRED ASSETS	1,605,241	(6,260)	1,598,981	0.4%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	1,662,258	(42,323)	1,619,935	2.5%

Total impaired loans, gross of value adjustments, amount to EUR 45.3 mn, a decrease of EUR 11.7 mn compared to EUR 57 mn for the previous year.

Value adjustments for a total of EUR 5.5 mn were made during the year for forecast losses on customer loans and to zero-out bad debt positions for which only marginal recovery amounts are believed possible.

As regards prudential provisions with reference to the Bank's portfolio (that is, in bonis loans for customers and banks, including loans to counterparties resident in countries at risk) made in previous years, there was a recovery of about EUR 7.2 mn for repayment of positions previously classified at risk, especially concerning corporate customers.

The ratio of loans (excluding bank deposits and securities) and gross non-performing loans (NPL) was 1.4% (previously 2.1%) and 0.16% (previously 0.7%) compared to the net NPLs. Both values are largely satisfactory when compared with those of the banking system (10.4% and 4.9%).

An overview of the Bank's impaired loans is shown in the table below:

HEDGING OF CREDITS BY STATUS	31.12.2015	31.12.2014
HEDGING OF BAD DEBTS	88.67%	69.31%
HEDGING OF PROBABLE IMPAIRMENTS	38.39%	38.22%
OVERALL HEDGING OF IMPAIRMENTS	74.23%	63.25%
HEDGING "IN BONIS"	0.17%	0.31%
OVERALL HEDGING OF CREDITS	1.65%	2.01%

PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31.12.2015	31.12.2014
CREDITS "IN BONIS"	99.48%	98.99%
IMPAIRED CREDITS:	0.52%	1.01%
- BAD DEBTS	0.16%	0.68%
- PROBABLE IMPAIRMENTS	0.36%	0.33%
- PAST DUE CREDITS	0.00%	0.00%

RISK RATIOS	31.12.2015	31.12.2014
GROSS IMPAIRED CREDITS/GROSS CREDITS	2.00%	2.70%
GROSS BAD DEBTS/GROSS CREDITS	1.43%	2.18%
NET IMPAIRED CREDITS/NET CREDITS	0.52%	1.01%
NET BAD DEBTS/NET CREDITS	0.16%	0.68%

The improvement of risk ratios is satisfactory, especially if compared to similar situations drawn from the Italian banking system.

Financial assets

Financial assets, comprising securities, derivatives and minority equity stakes, amounted to EUR 589.9 mn, representing a net increase of EUR 96.9 mn compared to the previous year.

This variation is the result of boosting financial assets in the trading and investment portfolios (HTM).

Given the financial crisis and its volatility, the Bank continued to pursue the investment policy towards banking counterparties, financing the latter by subscribing bond issues discountable with the ECB, assessing these investments both in terms of yield and the issuers' credit standing.

In addition, the number of government bonds increased in order to maintain the short-term coverage (Liquidity Coverage Ratio) at acceptable levels. As of 31 December 2015, the Bank had deposited (in pooling operations for guarantees with the Euro system) about EUR 90 mn of its own bonds, taking part in open-market operations for the same amount (see Notes to the Financial Statements, section B – Other information – table 2: Assets pledged as collateral for own liabilities and commitments page 135).

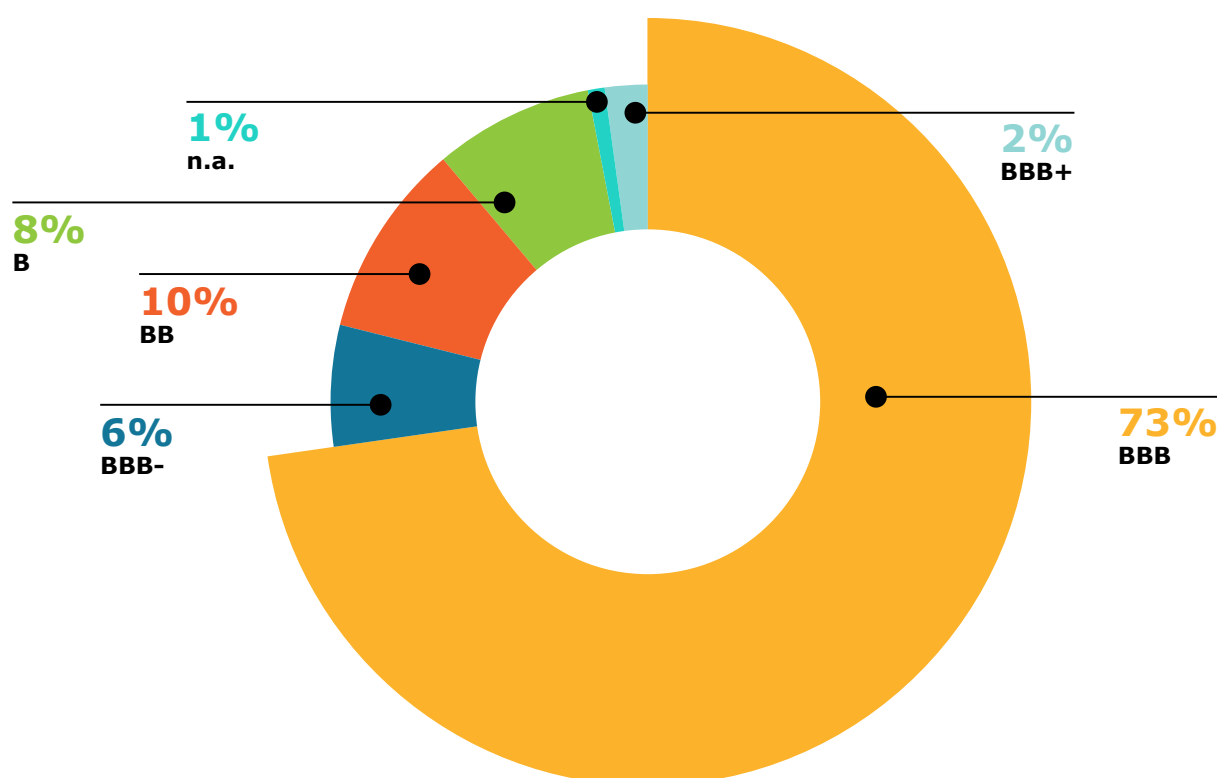
The Bank did not make any transfers between portfolios during the year.

On the whole, UBAE's policy in the financial assets sector gave satisfactory results.

	EUR/000			
	BALANCE AS AT:		VARIATION	
	31.12.2015	31.12.2014	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	69,008	123,343	(54,335)	(44.05)
LIABILITIES HELD FOR TRADING	(1,241)	(2,817)	1,576	(55.95)
ASSETS AVAILABLE FOR SALE	47,655	63,500	(15,845)	(24.95)
ASSETS HELD TO MATURITY	474,504	308,941	165,563	53.59
TOTAL	589,926	492,967	96,959	19.67

Below is a diagram of held-to maturity (HTM) and AFS activities showing the breakdown by rating.

HTM - AFS per rating



The criteria for evaluating securities and for assigning issues to the investment or the trading portfolio are discussed in the Notes to the Financial Statements (see pages 91-94).

It should be noted that securities held for trading and derivatives were valued at market prices, while other securities (HTM, AFS) were valued at amortized cost.

In conformity with the general prudential policy adopted by the Bank as regards credit risk, evaluation was carried out on financial assets to be held to maturity, with a negative effect on the income statement for EUR 42th.

Accounts Payable

	EUR/000			
	BALANCE AS AT:		VARIATION	
	31.12.2015	31.12.2014	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	56,515	76,712	(20,197)	(26.33)
IN OTHER CURRENCIES	86,784	72,673	14,111	19.42
PAYABLE TO BANKS				
IN EUROS	947,780	1,036,340	(88,560)	(8.55)
IN OTHER CURRENCIES	1,453,394	1,960,310	(506,916)	(25.86)
TOTAL	2,544,473	3,146,035	(601,562)	(19.12)

Accounts payable to banks and customers are shown at amortized cost.

The table above gives a breakdown of changes in funding from banks and customers in euros and other currencies.

As already mentioned in the Report on Operations, funding from institutional counterparties in 2015 had an anomalous trend, in spite of which the figures were similar to the average values of the previous year.

The funding volume from corporate customers – mainly counterparties located in the Bank's target countries – are substantially in line with the previous year.

Shareholders' equity

Movements in shareholders' equity may be represented as follows:

	EUR/000					
	CAPITAL	SHARE PREMIUM	RESERVES	RETAINED PROFIT	NET PROFIT	TOTAL
31.12.2014	151,061	16,702	40,481	70	9,553	217,867
01.01.15-31.12.15 MOVEMENTS:						217,867
APPROPRIATION OF PROFIT: RESE	8,800		(3,710)		(4,983)	107
DIVIDENDS					(4,570)	(4,570)
VALUTATION RESERVE			(54)			(54)
NET PROFIT					6,848	6,848
31.12.2015	159,861	16,702	36,717	70	6,848	220,198

Banca UBAE's shareholders' equity, including the valuation reserve and net profit for the year ended 31 December 2015, amounted to approximately EUR 220 mn, showing an increase compared to the previous year (EUR 217.8 mn).

When approving the balance sheet, the Shareholders' Meeting passed a resolution to transfer part of the year's profits to the reserves (Euro 4.9 mn) and part to the shareholders' dividend (Euro 4.5 mn).

In June 2015, the shareholders' extraordinary assembly deliberated a free capital increase (already approved by the Banca d'Italia) to be achieved by using the reserves (EUR 8.8 mn).

At year's end, the Banca UBAE had a Tier 1 capital ratio of 11.67% compared to 13.04% at 31 December 2014. The total capital ratio stood at 17.04% compared to 18.03% for the previous year 2014.

Analysis of capital ratios, examined in light of the new regulations, can be considered good; the total value of credits enabled the Bank to achieve an effective balance between increased capital risk and the new regulations.

Furthermore, following the review process and the prudential assessment conducted by the Banca d'Italia (SREP), the Supervisory Authorities established the new asset and equity requisites which UBAE should hold in addition to the minimum levels required by the current norms; to date, UBAE has proved to be in line with the new requisites set by the Supervisory Body.

Shares

As of 31 December 2015, share capital amounted to EUR 159,860,800 divided into 1,453,280 common shares of EUR 110 each.

Subordinated Loan

In 2008, according to the recapitalization goals set out in the business plan, the Bank finalized a ten-year subordinated loan agreement with the Libyan Foreign Bank for a total of EUR 100,000,000 fully paid up.

As part of a constant strengthening of second-level capital resources, the Libyan Foreign Bank, as majority shareholder, deliberated in 2015 a five-year extension of the subordinated loan, moving the date of maturity until the year 2023.

COMMENTS ON THE INCOME STATEMENT

Net Interest Income

	EUR/000			
	BALANCE AS AT:		VAR 31.12.14/31.12.13	
	31.12.2015	31.12.2014	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	31,504	34,281	(2,777)	(8.10)
20. INTEREST CHARGES	(12,947)	(11,535)	(1,412)	12.24
NET INTEREST INCOME	18,557	22,746	(4,189)	(18.42)
30. DIVIDENDS AND OTHER PROCEEDS	3	15	(12)	(80.00)

The net interest margin decreased by 18.42% to EUR 18.5 million (EUR 22.7 million in the previous year).

The result in 2015 was affected by the non-linear trend of funding which stabilized at 2014 levels only during the second half of the year, and by the expansionary policies of the ECB which laid the foundation for the availability of low-cost funding through long-term refinancing operations and “quantitative easing”, activated in the first quarter of 2015. This policy has led to a drastic fall in interbank rates to negative levels (close to zero) thus reducing the spread gap in the market where UBAE is very active.

Nevertheless UBAE is still seeking alternative and more profitable commitments in order to limit the adverse effects described above, and to maintain an appropriate return on investments from typical finance activities.

This activity enabled the Bank to achieve satisfactory results while taking care to comply with the “mismatching” of maturity dates and the guidelines put forward by the Board of Directors.

NET NON-INTEREST INCOME

Non-interest income may be broken down as follows:

	EUR/000			
	BALANCE AS AT:		VAR 31.12.14/31.12.13	
	31.12.2015	31.12.2014	AMOUNT	%
40. COMMISSIONS RECEIVED	19,061	18,382	679	3.69
50. COMMISSIONS PAID	(5,813)	(5,110)	(703)	13.76
NET COMMISSIONS	13,248	13,272	(24)	(0.18)
80. TRADING ASSETS	5,537	1,836	3,701	n.a
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF AFS	(185)	(63)	410	2.61
190. OTHER OPERATING PROCEEDS	2,025	2,053	(28)	-1.36
NET NON-INTEREST INCOME	20,625	17,098	3,527	20.63

Revenues from intermediation services and other sources have increased substantially compared to the previous year. The balance of net commissions was in line with 2014 standing at EUR 13.2 million.

Despite some negative factors – such as the continuing international economic crisis, the climate of political and social turbulence, the sharp drop in the price of crude oil – the Bank managed to achieve notable results not only with regard to fees on confirmed letters of credit, but also in terms of international guarantees related to the execution of major construction projects and modernization of public infrastructures in the countries of reference.

The Bank achieved positive results in trading activities which reached satisfactory figures despite market instability. The sum amounts to EUR 5.5 million at 31 December 2015 compared to a figure of EUR 1.08 million in the previous year.

ADMINISTRATION EXPENSES

EUR/000

	BALANCE AS AT:		VAR 31.12.14/31.12.13	
	31.12.2015	31.12.2014	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	10,926	10,532	394	3.74
SOCIAL SECURITY CONTRIBUTIONS	3,253	3,269	(16)	(0.49)
STAFF SEVERANCE PAYMENTS	709	790	(81)	(10.25)
OTHER EXPENSES	1,226	1,113	113	10.15
TOTAL EMPLOYEE EXPENSES	16,114	15,704	410	2.61
ADMINISTRATORS	1,881	1,668	213	12.77
STATUTORY AUDITORS	148	144	4	2.78
NON-STAFF ASSOCIATES	674	410	264	64.39
TOTAL PERSONNEL EXPENSES	18,817	17,926	891	4.97
B) OTHER ADMINISTRATION EXPENSES	13,162	10,865	2,297	21.14
TOTAL	31,979	28,791	3,188	11.07

At 31 December 2015, administrative expenses amounted to EUR 31.9 mn showing an increase of 11% compared to 2014 (EUR 28.7 mn).

Employee expenses, amounting to EUR 16.1 mn, were in line with the previous year (+2.61%). This effect was mainly due to the increase in the number of employees which rose by 9 people for the year.

Other administrative expenses, amounting to EUR 13.1 mn, were up by 20.7% compared to the previous year (EUR 10.8 mn). This increase was of an exceptional nature since it was mainly due to the contribution of EUR 2.3 mn paid to the National Resolution Fund held by the Banca d'Italia.

At year's end, not taking account of the above contribution, the figure for administrative expenses is in line with 2014, showing that the Bank pays close attention to containing general expenses.

COMPOSITION OF THE BANK'S NET RESULT

EUR/000

	BALANCE AS AT:				VAR 31.12.15/31.12.14	
	31.12.2015		31.12.2014		AMOUNT	%
GROSS OPERATING PROFIT		7,206		11,068	(3,862)	(34.89)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,333)		(1,175)	(158)	13.45
NET IMPAIRMENT ADJUSTMENTS:						
TO LOANS	5,764		(552)			
TO FINANCIAL ASSETS AVAILABLE FOR SALE	(3,848)		21			
TO FINANCIAL ASSETS HELD TO MATURITY	(42)		2,016			
TO OTHER FINANCIAL OPERATIONS	3,677		4,192			
NET PROVISIONING FOR RISKS AND CHARGES	(154)		(716)			
TOTAL		5,397		4,961	436	8.79
PROFIT BEFORE TAX		11,270		14,854	(3,584)	(24.13)
INCOME TAX FOR THE YEAR		(4,422)		(5,301)	879	(16.58)
NET PROFIT		6,848		9,553	(2,705)	(28.32)

Comparison of the two years at the respective reporting dates showed a profit of EUR 9.5 million at 31 December 2014 and EUR 10.15 million at 31 December 2013 after making provisions for income taxes amounting to EUR 5.3 mn (-6.39% compared to 31 December 2013).

The figure at 31 December 2015 is definitely positive considering that it was achieved during a period of prolonged economic recession.

At 31 December 2015, in the prudential assessment of exposures and in view of the positive trend of some loan situations which were being carefully watched in previous years, the deliberating bodies decided that the funds previously allocated were adequate, in some cases reducing the amounts as a result of lower risk exposure.

The repayments amounted to approximately EUR 5.5 million at 31 December 2015 against an amount of EUR 4.2 million at 31 December 2014.

Provisions for risks and charges moved from EUR 0.71 million at 31 December 2014 to EUR 0.15 million at 31 December 2015.

Regarding the Bank's VAT status for the years 2005 to 2008, the subject of litigation by the Inland Revenue Agency, it was decided – in line with earlier practice – not to make allocations since the Bank's conduct, as stated by the tax consultants, is viewed as complying with current regulations.

For more information on the above data, please refer to the Notes, Part C) Income Statement, while the proposal for profit distribution is outlined in the section "Allocation of net income".

SIGNIFICANT POST-YEAR-END EVENTS

In January 2016, the Fitch Agency confirmed the UBAE's long-term rating as BB with stable outlook.

The assigned ratings can be considered positive. More specifically, the Long-term Issuer Default Rating (IDR) is based on an assessment of the Bank's creditworthiness disregarding any type of external financial support, as shown by the Viability Rating which was confirmed as "BB".

ADDITIONAL INFORMATION

The Bank does not conduct research and development activities.

The Bank does not hold any treasury stock.

Information regarding the Bank's dealings with related parties may be found in the relevant section H of the Notes to the Financial Statements on page 226.

PROPOSAL TO THE SHAREHOLDERS

1. APPROVAL OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

To all shareholders

We hereby ask you to formally approve, on the basis of this Annual Report, the Financial Statements of Banca UBAE S.p.A. for the year ending 31 December 2015, considered jointly and in their several postings, as proposed by this Board of Directors.

2. APPROPRIATION OF NET PROFIT 2015

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

	EURO
NET PROFIT	6,847,514.00
LESS 5% TO LEGAL R (ART. 30 LETTER A OF THE ARTICLES OF ASSOCIATION)	345,000.00
	6,502,514.00
PLUS PROFIT RETAINED FROM PREVIOUS PERIODS	70,052.56
	6,572,566.56
LESS ALLOCATION TO THE EXTRAORDINARY RESERVE	6,570,000.00
PROFIT TO BE CARRIED FORWARD	2,566.56

IF THE ABOVE SCHEME IS APPROVED, SHAREHOLDERS' EQUITY WILL AMOUNT TO EUR 220,197,794.02 AND WILL BE COMPOSED AS FOLLOWS:

SHARE CAPITAL	159,860,800.00
SHARE PREMIUM ACCOUNT	16,702,216.00
RESERVES	43,632,211.44
PROFIT CARRIED FORWARD	2,566.56
	220,197,794.00

Rome, 05 April 2016

THE CHAIRMAN

The Arch of Marcus Aurelius, Tripoli, Lybia



FINANCIAL STATEMENTS

(amounts in euros)

BALANCE SHEET: ASSETS

ASSETS		31.12.2015	31.12.2014
10	CASH AND CASH EQUIVALENTS	225,482,685	178,892,249
20	FINANCIAL ASSETS HELD FOR TRADING	69,008,036	123,342,689
40	FINANCIAL ASSETS AVAILABLE FOR SALE	47,655,434	63,500,016
50	FINANCIAL ASSETS HELD TO MATURITY	474,503,507	308,940,737
60	LOANS AND ADVANCES TO BANKS	1,582,721,089	2,228,026,330
70	LOANS AND ADVANCES TO CUSTOMERS	340,948,035	446,164,551
110	TANGIBLE FIXED ASSETS	23,277,947	22,541,308
120	INTANGIBLE FIXED ASSETS, OF WHICH: GOODWILL	1,468,190	1,630,160
130	TAX ASSETS	17,421,052	17,997,165
	A) CURRENT	11,983,389	12,534,451
	B) DEFERRED	5,437,663	5,462,714
150	OTHER ASSETS	4,331,019	1,020,052
	TOTAL ASSETS	2,786,816,994	3,392,055,257

BALANCE SHEET: LIABILITIES

LIABILITIES		31.12.2015	31.12.2014
10	ACCOUNTS PAYABLE TO BANKS	2,401,173,566	2,996,650,060
20	ACCOUNTS PAYABLE TO CUSTOMERS	143,298,742	149,384,820
40	FINANCIAL LIABILITIES HELD FOR TRADING	1,241,314	2,817,189
80	TAX LIABILITIES	6,454,591	5,023,574
	A) CURRENT	6,356,323	4,921,404
	B) DEFERRED	98,268	102,170
100	OTHER LIABILITIES	12,116,528	17,404,475
110	STAFF SEVERANCE FUND	1,718,926	1,902,878
120	PROVISIONS FOR RISKS AND CHARGES	615,533	1,005,611
	A) PENSIONS AND SIMILAR		
	B) OTHER	615,533	1,005,611
130	VALUATION RESERVES	(14,238)	(67,868)
160	RESERVES	36,801,502	40,618,656
170	SHARE PREMIUM RESERVE	16,702,216	16,702,216
180	SHARE CAPITAL	159,860,800	151,060,800
190	TREASURY STOCK		
200	NET PROFIT FOR THE YEAR	6,847,514	9,552,846
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,786,816,994	3,392,055,257

INCOME STATEMENT

	ITEMS	31.12.2015	31.12.2014
10	INTEREST AND SIMILAR INCOME	31,504,262	34,280,619
20	INTEREST CHARGES AND SIMILAR EXPENSES	(12,947,141)	(11,535,232)
30	NET INTEREST INCOME	18,557,121	22,745,387
40	COMMISSION INCOME	19,060,833	18,381,609
50	COMMISSION EXPENSE	(5,813,410)	(5,110,102)
60	NET COMMISSIONS	13,247,423	13,271,507
70	DIVIDENDS AND SIMILAR INCOME	3,026	15,321
80	NET TRADING INCOME	5,537,387	1,835,829
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	(184,608)	(62,550)
	A) LOANS AND ADVANCES		
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	(184,608)	(62,550)
	C) FINANCIAL ASSETS HELD-TO-MATURITY		
	D) OTHER FINANCIAL ASSETS		
120	GROSS OPERATING INCOME	37,160,349	37,805,494
130	NET IMPAIRMENT ADJUSTMENTS:	5,549,470	5,677,351
	A) LOANS AND ADVANCES	5,762,889	(551,607)
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	(3,848,082)	20,526
	C) FINANCIAL ASSETS HELD-TO-MATURITY	(42,017)	2,016,194
	D) OTHER FINANCIAL ASSETS	3,676,680	4,192,238
140	NET INCOME FROM FINANCIAL OPERATIONS	42,709,819	43,482,845
150	ADMINISTRATION EXPENSES:	(31,978,349)	(28,790,865)
	A) PERSONNEL	(18,816,613)	(17,820,576)
	B) OTHER	(13,161,736)	(10,970,289)
160	NET PROVISIONING FOR RISKS AND CHARGES	(154,225)	(716,384)
170	NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS	(806,198)	(785,199)
180	NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS	(527,038)	(390,363)
190	OTHER OPERATING INCOME / CHARGES	2,025,302	2,053,484
200	OPERATING CHARGES	(31,440,508)	(28,629,327)
250	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	11,269,311	14,853,518
260	INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS	(4,421,797)	(5,300,672)
270	NET PROFIT FROM CONTINUING OPERATIONS	6,847,514	9,552,846
290	NET PROFIT FOR THE YEAR	6,847,514	9,552,846

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2015	31.12.2014
10	NET PROFIT (LOSS)	6,847,514	9,552,846
	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	61,530	(132,535)
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	(7,898)	(37,579)
110	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL		
120	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY		
130	OTHER SOURCES OF INCOME, AFTER TAX	53,632	(170,114)
140	COMPREHENSIVE INCOME	6,901,146	9,382,732

STATEMENT OF CHANGES IN EQUITY - 01.01.2015 - 31.12.2015

	BALANCE AS AT 31.12.2014	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2015	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2015
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	CHANGES TO EQUITY						COMPREHENSIVE NET INCOME 2015	
							NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS		
SHARE CAPITAL														
A) ORDINARY SHARE	151,060,800		151,060,800				8,800,000							159,860,800
B) OTHER SHARES														
SHARE PREMIUM ACCOUNT	16,702,216		16,702,216											16,702,216
RESERVES														
A) FROM PROFITS	40,618,656		40,618,656	4,982,846			(8,800,000)							36,801,502
B) OTHER														
REVALUATION RESERVES	(67,870)		(67,870)										53,632	(14,238)
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR	9,552,846		9,552,846	(4,982,846)	(4,570,000)								6,847,514	6,847,514
SHAREHOLDERS' EQUITY	217,866,648		217,866,648		(4,570,000)								6,901,146	220,197,794

STATEMENT OF CHANGES IN EQUITY - 01.01.2014 - 31.12.2014

	BALANCE AS AT 31.12.2013	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2014	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2014
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	CHANGES TO EQUITY					COMPREHENSIVE NET INCOME 2014		
							NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS		
SHARE CAPITAL														
A) ORDINARY SHARE	151,060,800		151,060,800											151,060,800
B) OTHER SHARES														
SHARE PREMIUM ACCOUNT	16,702,216		16,702,216											16,702,216
RESERVES														
A) FROM PROFITS	30,466,134		30,466,134	10,152,522										40,618,656
B) OTHER														
REVALUATION RESERVES	102,244		102,244										(170,114)	(67,870)
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR	10,152,522		10,152,522	(10,152,522)									9,552,846	9,552,846
SHAREHOLDERS' EQUITY	208,483,916		208,483,916										9,382,732	217,866,648

CASH FLOW STATEMENT

INDIRECT METHOD		31.12.2015	31.12.2014
A	OPERATING ACTIVITIES		
1	OPERATIONS	4,301,962	10,297,600
	NET PROFIT FOR THE YEAR	6,847,514	9,552,846
	CAPITAL GAINS (LOSSES) ON FINANCIAL ASSETS HELD FOR TRADING AND FINANCIAL ASSETS/ LIABILITIES CARRIED AT FAIR VALUE		62,550
	CAPITAL GAINS (LOSSES) ON HEDGING ASSETS		
	NET IMPAIRMENT ADJUSTMENTS	(5,549,470)	(5,677,351)
	NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	1,333,236	1,175,562
	NET PROVISIONS FOR RISKS AND CHARGES AND OTHER REVENUES (COSTS)	(390,078)	637,156
	UNSETTLED TAXES AND DUTIES	2,007,130	4,716,949
	NET POST TAX ADJUSTMENTS TO GROUPS OF ASSETS EARMARKED FOR DISPOSAL		
	OTHER ADJUSTMENTS	53,630	(170,112)
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	(822,939,495)	1,435,736,595
	FINANCIAL ASSETS HELD FOR TRADING	(54,334,653)	74,456,641
	FINANCIAL ASSETS CARRIED AT FAIR VALUE		
	FINANCIAL ASSETS AVAILABLE FOR SALE	(15,844,582)	15,259,481
	LOANS AND ADVANCES TO BANKS: DEMAND	(645,305,241)	1,290,902,206
	LOANS AND ADVANCES TO BANKS: OTHER		
	LOANS AND ADVANCES TO CUSTOMERS	(110,765,986)	55,091,058
	OTHER FINANCIAL ASSETS	3,310,967	27,209
3	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	(608,610,346)	1,641,347,532
	ACCOUNTS PAYABLE TO BANKS: DEMAND	(595,476,494)	1,606,314,609
	ACCOUNTS PAYABLE TO BANKS: OTHER		
	ACCOUNTS PAYABLE TO CUSTOMERS	(6,086,078)	37,711,462
	OUTSTANDING SECURITIES		
	FINANCIAL LIABILITIES HELD FOR TRADING	(1,575,875)	520,868
	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE		
	OTHER FINANCIAL LIABILITIES	(5,471,899)	(3,199,407)
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	218,631,111	215,908,537

INDIRECT METHOD		31.12.2015	31.12.2014
B	INVESTMENT/DIVESTMENT ACTIVITIES		
1	LIQUIDITY GENERATED BY:		
	DISPOSAL OF EQUITY INVESTMENTS		
	DIVIDENDS RECEIVED ON EQUITY INVESTMENTS		
	DISPOSAL OF FINANCIAL ASSETS HELD TO MATURITY		
	DISPOSAL OF TANGIBLE FIXED ASSETS		
	DISPOSAL OF INTANGIBLE FIXED ASSETS		
	DISPOSAL OF BUSINESS UNITS		
2	LIQUIDITY ABSORBED BY:	167,470,675	38,520,309
	PURCHASE OF EQUITY INVESTMENTS		
	PURCHASE OF FINANCIAL ASSETS HELD TO MATURITY	165,562,770	37,835,579
	PURCHASE OF TANGIBLE FIXED ASSETS	1,542,837	100,853
	PURCHASE OF INTANGIBLE FIXED ASSETS	365,068	583,877
	PURCHASE OF BUSINESS UNITS		
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/DIVESTMENT ACTIVITIES	(167,470,675)	(38,520,309)
C	FUNDING		
	ISSUE (PURCHASE) OF TREASURY STOCK		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS		
	DISTRIBUTION OF DIVIDENDS AND OTHER	(4,570,000)	
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	(4,570,000)	
	NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR	46,590,436	177,388,228

RECONCILIATION	31.12.2015	31.12.2014
CASH AND CASH EQUIVALENTS AT START OF YEAR	178,892,249	1,504,021
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	46,590,436	177,388,228
CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
CASH AND CASH EQUIVALENTS AT THE YEAR END	225,482,685	178,892,249



Official opening of the new branch premises in Rome - Via XX Settembre



NOTES TO THE FINANCIAL STATEMENTS

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements at 31 December 2014 of the Banca UBAE S.p.A, as prescribed by legislative decree no. 38 of 28 February 2005, 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", 4th update issued on 15 December 2015, 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 5 April 2016, the BD approved the Financial Statements and made them available to shareholders as prescribed by article 2429 of the Civil Code. These Financial Statements will be submitted for approval by the Shareholders' Meeting to be held on 22/04/2016 (first call) and 26/04/2016 (second call) and will be deposited within the term prescribed by article 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 5 April 2016, 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 preparing Financial Statements

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 in 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.

The Notes do not show the headings and tables required by the Banca d'Italia Provision no. 262/2005 relating to items that do not apply to the Banca UBAE.

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 1 April 2016, no significant events have occurred that would require either a change in the approved figures or the need for additional information. The annual fee, agreed at the time of accepting the appointment, amounts to Euro 56,000 plus VAT.

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 articles 14 and 16 of legislative 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 September 2012.

4a - New accounting standards or amendments to existing standards approved by the European Commission

The following table shows the changes to the principles and interpretations approved by the European Commission during 2015 or in previous years, whose application became compulsory from 2015, concerning which no significant impacts have been found affecting the drawing up of the current balance sheet.

4a.1 International accounting principles in force from 2015

REGULATION AND APPROVAL	PUBLICATION IN EU OFFICIAL GAZETTE	TITLES AND COMMENTS	IN FORCE FROM YEARS STARTING ON:
1361/2014 of 18 Dec 2014	Law no. 365 of 19 Dec 2014	<p>Annual cycle of improvements to IFRS 2011-2013 – Changes to IFRS 1</p> <p>"First adoption of International Financial Reporting Standards", IFRS 3 "Corporate Aggregations", IFRS 13 "Fair value assessment" and IAS 40 "Investment property".</p> <p>The cycle of improvements introduces minimal changes to the rationalization of the accounting principles. Such changes are intended to resolve some inconsistencies and to provide clarification on the methodology.</p>	1 July 2014

4a.2 International accounting principles IAS/IFRS and relative SIC/IFRIC interpretations approved by the European Commission, whose compulsory application came into force on 1 January 2016

Pursuant to IAS 8 paragraphs 30 and 31, below are the Regulations that introduced changes to the existing accounting principles, approved by the European Commission, whose compulsory application came into force – in the case of balance sheets coinciding with the calendar year – on 1 January 2016 or on a subsequent date. The Banca UBAE has not taken advantage of the early application option.

REGULATION AND APPROVAL	PUBLICATION IN EU OFFICIAL GAZETTE	TITLES AND COMMENTS	IN FORCE FROM YEARS STARTING ON:
28/2015 of 17 Dec 2014	Law no. 5 of 9 Jan 2015	Annual improvement cycle for IFRS 2010-2012 Change to IFRS 2 "Payments based on shares", to IFRS 3 "Corporate aggregations", to IFRS 8 "Operational sectors", to IAS 16 "Property, plant and machinery", to IAS 24 "Balance sheet information on transactions with affiliated parties", to IAS 38 "Intangible activities"	1 February 2015
29/2015 of 17 Dec 2014	Law no. 5 of 9 Jan 2015	Changes to IAS 19 "Benefits for employees" –established benefit plans: employees' contributions.	1 February 2015
2015/2231 of 2 Dec 2015	Law no. 317 of 3 Dec. 2015	Amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" –Clarification of acceptable methods of depreciation and amortisation	1 February 2015

4a.3 International accounting principles IAS/IFRS, amendments and interpretations issued by the IASB, still awaiting approval by the European Commission

For information, the table below shows the accounting principles, amendments and interpretations issued by the IASB, whose application depends on approval by the European Commission; consequently they do not apply to the current intermediate consolidated balance sheet.

PRINCIPLE/INTERPRETATION/ CHANGE	DATE OF IASB APPROVAL	INDICATIVE DATE FOR COMING INTO FORCE
IFRS 14 "Regulatory Deferral Accounts"	30 Jan 2014	for years starting from 1 January 2016
Amendment to IFRS 11 "Joint Arrangement" – Acquisition of interests in joint operations	06 May 2014	for years starting from 1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	28 May 2014	for years starting from 1 January 2018
IFRS 9 "Financial Instruments" 1st part	24 Jul 2014	for years starting from 1 January 2018
Amendment to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements	12 Aug 2014	for years starting from 1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11 Sep 2014	for years starting from 1 January 2016
Amendment to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting" – Annual Improvement to IFRS 2012-2014 Cycle	25 Sep 2014	for years starting from 1 January 2016

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/Ivass)

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 tests), 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. Illustration of the main new features introduced by the 4th update of circular no. 262 on 15 December 2015

On 15 December 2015, the Banca d'Italia published the 4th update of circular no. 262/2005 on the subject of balance sheet layouts and rules for compilation, applicable to balance sheets as of 31 December 2015.

This update was made necessary to adjust information on the note regarding credit quality to the new definitions of deteriorated financial activities, introduced with Regulation no. 227/2015 by the European Commission, as described in point 4 "Credit operations which are referred to".

Furthermore, in "Part E Information on risks and hedging policies", the tables of loan activities are abrogated, since they are already required as part of the information to the public, contained in the Third Pillar on prudential matters.

The integrative note introduces some optimization actions including:

- in Part B of the tables, eliminating references to portfolio movements of financial assets and liabilities;
- eliminating some details referring to securitization operations since they are considered redundant;
- simplifying Part E of the tables, referring to information on distribution by residual duration (date of re-pricing and contractual adjustment) of financial assets and liabilities, for which a representation separating "euros" and "other currencies" is permitted without operating any representation separated by currency.

For Banca UBAE, these updates have not led to any recalculation of the balance sheet items referring to the year 2014.

4f. Credit quality: new definitions and amendments of data as of 31 December 2014

On 9 January 2015, the European Commission approved the executive regulation 2015/227, published in the EU Official Gazette on 20 February 2015, providing the text of "Implementing Technical Standards (ITS)" of the EBA containing the definitions of deteriorated exposures ("Non-performing exposures") and exposures subject to tolerance measures di (known as "Forborne exposures"), in order to achieve a homogeneous classification at the European level, for the purposes of regulatory supervision.

The provisions of EU norms regarding new criteria for classifying credit quality were acknowledged by the Banca d'Italia by updating circular no. 272 relating to the accounting matrix, published on 20 January 2015, and the update of circular no. 262 relating to rules for balance sheet compilation, published on 15 December 2015.

Very briefly, the previous four categories of deteriorated exposures ("bad debts", "impaired positions", "overdue positions/deteriorated over-runs", "restructured positions") are now replaced by three new categories ("bad debts", "probable impairments", "overdue positions and/or deteriorated over-runs"), whose sum corresponds to the aggregate of "deteriorated exposures". For the purposes of comparison, the loan exposures classified on 31 December 2014 as "impaired positions" and "restructured positions", are therefore abolished, and replaced by the new category "probable impairments".

For more details on the contents of the circular, see point 4 "Credits".

The integrative note does not contain the comparative information on forborne exposures and movements during the year since they are not able to show the effects of the tolerance measures put in place during 2015. This approach is in line with the dispositions contained in the issuing act of circular no. 262, according to which the movement of gross exposures and value adjustments should be included on balance sheets prepared, or in preparation, as of 31 December 2016.

For the purposes of the current balance sheet, the information contained in the following tables is not provided:

- A.1.4 bis "Credit exposures at cash value towards banks: movement of exposures subject to gross concessions, set out by credit quality";
- A.1.7 bis "Credit exposures at cash value towards customers: movement of exposures subject to gross concessions, set out by credit quality";
- A.1.5 "Credit exposures at cash value towards deteriorated banks: movement of overall value adjustments", for details referring to "of which: exposures subject to concessions";

- A.1.8 "Credit exposures at cash value towards deteriorated customers: movement of overall value adjustments", for details referring to "of which: exposures subject to concessions".

4g. Contributions to systems for guaranteeing deposits and resolution mechanisms

With Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014 – respectively known as "Deposit Guarantee Schemes Directive (DGSD)" and "Bank Recovery and Resolution Directive (BRRD)" – and by setting up the Single Resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), the European legislators have made significant changes to the discipline for handling banking crises, with the strategic aim of strengthening the single market and system stability. As described later in more detail, the above norms have a significant impact on the economic and equity situation of credit providers, in relation to the obligation imposed on them to contribute to specific funds, starting from 2015.

Expenditure deriving from the Deposit Guarantee Schemes Directive (DGSD)

The Directive 2014/49/EU harmonizes the safeguards provided by national funds for protecting deposits (DGS) and their ways of intervening.

For this purpose, the above directive requires the national DGSs to prepare resources that are commensurate with the protected deposits – resources to be furnished by compulsory contributions by the credit providers. The new element for Italian banks is the mechanism for financing the fund; the change is from a system of ex-post contribution in which payments were requested in case of necessity, to a mixed system which requires payments to be made in advance until they reach, within 10 years of the directive coming into force (3 July 2024), a minimum target level equal to 0.8% of guaranteed deposits. The contributions made by each entity are calculated according to the ratio between the amount of its own deposits with respect to the overall amount of the country's protected deposits. In order to reach the target level, it is possible for the contribution to be made by payment pledges, at a maximum level of 30%.

Such commitments must be backed by guarantees consisting of low-risk activities, not burdened by third party rights, and must be fully available to national DGSs, as described in the guidelines published by the EBA on 28 May 2015.

For Italy, the national DGS is represented by the Interbank Fund For Protecting Deposits "*Fondo Interbancario di Tutela dei Depositi (FITD)*"; to comply with the aforementioned Directive 2014/49/EU, an extraordinary meeting of FITD shareholders on 26 November 2015 approved some changes to the Articles of Association. With reference to the ex-ante contribution ("available financial resources"), the new statute makes it possible to reach the target level, equal to 0.8% of the overall protected deposits, by ordinary contributions paid annually by the banks who are members of the fund on 30 September each year.

In addition, it is established that extraordinary contributions, should the "available financial resources" be insufficient to reimburse depositors, cannot exceed 0.5% of the overall protected deposits, on an annual basis.

For 2015, the ex-ante contribution required by the FITD from the bank consortium, fixed at 50% of the annual payment and commensurate with the amount of the protected deposits at 30 September 2015, amounting to 206 million; UBAE's share amounts to Euro 5000; the remaining portion of the 2015 contribution will be spread over the period (2016-2024), as announced by the FITD.

Expenditure deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU defines new resolution rules, applicable from 1 January 2015 to all EU banks in the presence of a state of instability, even if only deemed possible; the rules provide that the financing of the resolution can also be made, under certain circumstances, by the national resolution funds to be set up by each of the 28 member states.

For this purpose, the said Directive and the delegated Regulation no. 2015/63 require the national resolution funds to be equipped with ex-ante financial resources, created through compulsory contributions paid by the authorized credit providers; to this end, it is expected that payments should be made in advance until a minimum target level of 1% of the guaranteed deposits has been reached by 31 December 2024. The contributions of each entity are calculated on the basis of the ratio between the amount of its liabilities (net of own funds and protected deposits, and intercompany liabilities for entities belonging to a group) compared to the total amount of the liabilities of all the authorized credit providers in the country.

In order to reach the target level, the financial resources committed by credit providers may include payment pledges up to a maximum of 30%.

Furthermore, if the available financial means should not be sufficient to fund the resolution, an extraordinary ex-post contribution is envisaged, for a maximum of three times the annual amount of ordinary contributions.

The said EU Directive 2014/59/EU was received into the Italian legal system through legislative decree no. 180 of 16 November 2015; the Banca d'Italia, as the authority for national resolution, set up the national fund denominated National Resolution Fund, with a specific provision in November 2015.

In line with the dispositions of the delegated Regulation no. 2015/63, the ordinary contribution to be paid by Banca UBAE for the year 2015, amounts to Euro 576,000.

On 22 November 2015, the Italian government and the Banca d'Italia, launched an action to resolve the crisis of four banks under extraordinary administration.

The resolution mechanism was based on setting up four "good banks" (also known as "bridge banks") and one "bad bank". In particular, the "good banks" took over all the assets and liabilities of the four banks under extraordinary administration, except for impaired credits; the corporate capital was wholly underwritten by the National Resolution Fund. The "bad bank" took over all the impaired debts (for a value of 1.5 billion – compared to the original value of 8.5 billion) in order to better handle their recovery, and the corporate capital was wholly underwritten by the National Resolution Fund.

The action of the National Resolution Fund, to cover the losses of the original banks and the capitalization of the new banks, amounts to approximately 3.6 billion and was financed by 2.35 billion from the extraordinary contribution, in compliance with article 83 of the above legislative decree 180/2015 and article 4 of the Fund's Initial Provision.

The extraordinary contribution to be paid by Banca UBAE, equal to three times the ordinary contribution, amounts to Euro 1.73 million.

Accounting treatment of the contribution expenses deriving from the Bank Recovery and Resolution Directive

On the basis of the above situation, the expenses charged to the financial statement in the year 2015, corresponding to item "150. Other administrative expenses", amounting overall to Euro 2.3 million, equal to the sum of the ordinary contributions (Euro 0.57 million) and the extraordinary contribution (1.73 million), wholly paid up in 2015.

Considering that law no. 208/2015 (Stability Law) expressly established the full deductibility (IRES and IRAP) of ordinary and extraordinary contributions paid by banks to the resolution funds from 2015 onwards, the impact of these contributions on the year's results, net of relative fiscal elements, is negative for 1.6 million.

4h. Decree law no. 83 of 27 June 2015

Advance tax payments are subject to specific verification bearing in mind the probable economic forecasts for future years and the peculiarity of fiscal legislation in each country, in order to check whether there are future taxable incomes against which it would be possible to use them.

The decree law has changed the regime of fiscal deductibility regarding IRES and IRAP for value adjustments that differ from those deriving from realization, establishing the full and immediate deductibility in the financial year of the balance sheet. Moreover, the same decree includes a transitory discipline for the above net adjustments on credits entered on the balance sheet in 2015 (deductible at 75% in the same year) and for those entered on the balance sheet in years prior to 2015 and still not deducted. For the latter, together with the 25% of net adjustments entered on the balance sheet in 2015 and not immediately deductible, there is authorization for deductibility in subsequent years until 2025 according to percentages set by the decree.

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.

De-recognition

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.

De-recognition

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 the fact that they cannot be collected by any means whatsoever.

The amortized-cost method is not used for short-term financial assets, as applying it would not produce meaningful results; such assets are recorded at cost.

De-recognition

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 creation, loans are evaluated at amortized cost according to the ways already defined in the previous paragraph relating to evaluation of financial assets held to maturity. The criterion of amortized cost is not applied to short-term credits, to technical forms without definite maturity, and to revocable credit rapports, for which the effect of applying such a criterion is not considered significant. Such rapports are valued at cost.

Starting from 1 January 2015, the Banca d'Italia revised the way of classifying deteriorated financial activities (7th update of Circular no. 272 of 30 July 2008 – "Account Matrix" issued by the Banca d'Italia on 20 January 2015) in order to comply with the new definitions of Non-performing Exposures and Forbearance as defined in the executive Regulation (EU) no. 680/2014 of the European Commission, and subsequent changes and integrations ("Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures" - EBA/ITS/2013/03/rev1 24/7/2014).

In particular the said EBA standards introduced the definition of forborne exposures, in other words, exposures that are subject to concessions (forbearance) against a debtor who is facing (or about to face) financial difficulties.

The EBA standards define a concession as:

- a change in the previous terms and conditions of a contract that the debtor is considered unable to respect due to financial difficulties ("problematic debt") leading to insufficient resources to service the debt, which would not have been granted if the debtor had not been in financial difficulty;
- the total or partial refinancing of a problematic debt contract which would not have been granted if the debtor had not been in financial difficulty.

Forborne exposures can be classified in the categories "Non-performing exposures" and "performing exposures" as defined by the EBA standards. Regarding the assessment and allocation of forborne exposures, accounting policies follow the general criterion in line with the dispositions of IAS 39.

The same circular 272 classifies deteriorated or "non-performing" exposures (those that have the characteristics listed in paragraphs 58-62 of IAS 39) in the following categories:

- ◇ bad debts: pinpointing credit areas that are formally deteriorated, consisting of exposures towards customers who are under bankruptcy proceedings (even though not judicially certified) or in equivalent situations. Evaluation is generally on an analytical basis;
- ◇ probable impairments ("unlikely to pay"): these are exposures (cash and off-balance sheet) that lack the conditions to classify the debtor as a bad debt, and for which there is an assessment of improbability that, in the absence of actions such as enforcement of guarantees, the debtor is able to fully meet the credit obligations (in line with the capital and/or interest payments). Such evaluation takes place independently of any amounts (or instalments) that are overdue and unpaid. Classification as probable impairment is not necessarily linked to the explicit presence of anomalies (failure to reimburse), rather it is linked to elements indicating a situation of risk that the debtor may default. Probable impairment is generally assessed analytically, in other words, by applying certain calculated percentages for types of homogeneous exposures;
- ◇ exposures that are overdue and/or deteriorated over-runs: these are cash exposures different from those classified as bad debts or probable impairments, which have expired or over-run on the reference date. Overdue exposures and/or deteriorated over-runs can be determined by referring, alternatively, to individual debtors or individual transactions. Such exposures are assessed as forfeits on historical/statistical evidence applying (where available) the appropriate risk factor used for EU Regulation no. 575/2013 (CRR) relating to prudential requisites for loan providers and investment firms ("loss in case of impairment" or LGD - Loss Given Default).

Loans for which no objective evidence of loss due to impairment (i.e. normally performing loans, both to customers and to banks, including loans to counterparties resident in countries at risk), are subject to collective assessment of impairment by the creation of groups of positions with a similar risk profile. As regards the definition of the criteria for determining estimated value adjustments, the Risk Manager improved the methodology during 2015, with the support of General Accounting. It is based on UBAE's historical experience in analytical write-downs made during the last eight years (the Supervisory Body requires at least 5 years). Last year's methodology is still used, and differentiation is by type of counterparty (banks and customers) and by type of exposure (cash and signature); while the time horizon has been extended from 7 to 8 years to ensure greater historical depth for the analysis.

The amount recognized as a provision in accordance with IAS 37, represents the best estimate required to settle existing liabilities on the balance sheet date in connection with the financial guarantee valued analytically and collectively.

De-recognition

Under the terms of IAS 39, the transfer of financial assets only leads to de-recognition 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.

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.

De-recognition

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.

De-recognition

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.

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.

De-recognition

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.

De-recognition

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.

De-recognition

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

Recognition of Gains and Losses

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

16 - 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. Prices listed on active markets (mark-to-market)

Where valuation is based on the price commanded by the same instrument, unmodified and un-recombined, 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. 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. 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.

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

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

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

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

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

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

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 that governs the measuring of fair value and relative disclosure. 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 levels

		31.12.2015			31.12.2014		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS HELD FOR TRADING	58,088	10,920		121,345	1,998	
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
3	FINANCIAL ASSETS AVAILABLE FOR SALE	41,262	3,760	2,633	60,758	2,677	65
4	HEDGING DERIVATIVES						
5	TANGIBLE FIXED ASSETS						
6	INTANGIBLE FIXED ASSETS						
	TOTAL	99,350	14,680	2,633	182,103	4,675	65
1	FINANCIAL LIABILITIES HELD FOR TRADING		1,241			2,817	
2	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE						
3	HEDGING DERIVATIVES						
	TOTAL		1,241			2,817	

Legend:

L1= Level 1.

L2= Level 2.

L3= Level 3.

No transfers of assets and liabilities between level 1, level 2 and level 3 have been made during the year.

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

		31.12.2015				31.12.2014			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	FINANCIAL ASSETS HELD TO MATURITY	474,504	400,252	74,871		308,941	309,460	1,481	
2	LOANS & ADV. TO BANKS	1,582,721			1,582,721	2,228,026			2,228,026
3	LOANS & ADVANCES TO CUSTOMERS	340,948			340,948	446,165			446,165
4	TANGIBLE FIXED ASSETS HELD FOR INVESTMENT								
5	NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED								
	TOTAL	2,398,173	400,252	74,871	1,923,733	2,983,132	309,460	1,481	2,674,191
1	ACC.PAYABLE TO BANKS	2,401,174			2,401,174	2,996,650			2,996,650
2	ACCOUNTS PAYABLE TO CUSTOMERS	143,299			143,299	149,385			149,385
3	DEBT SECURITIES OUTSTANDING								
4	LIABILITIES ASSOCIATED WITH ASSETS BEING DIVESTED								
	TOTAL	2,544,473			2,544,473	3,146,035			3,146,035

Legend:

L1= Level 1.

L2= Level 2.

L3= Level 3.

BV= Book Value.

FV= Fair value.

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

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

	31.12.2015	31.12.2014
A) CASH	836	807
B) FREE DEPOSITS WITH CENTRAL BANKS (*)	224,647	178,085
TOTAL	225,483	178,892

(*) The item concerns an overnight deposit made at the Banca d'Italia.

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: breakdown by type

ITEMS/VALUES		31.12.2015			31.12.2014		
		L1	L2	L3	L1	L2	L3
A	NON-DERIVATIVE ASSETS						
1	DEBT SECURITIES	34,549	30,872		120,624		
	1.1 STRUCTURED SECURITIES	9,490	7,139		50,406		
	1.2 OTHER DEBT SECURITIES	25,059	23,733		70,218		
2	EQUITY SECURITIES	778			721		
3	HOLDINGS IN UCI	1,482	210				
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		36,809	31,082		121,345		
B	DERIVATIVES						
1	FINANCIAL DERIVATIVES		1,117			1,998	
	1.1 FOR TRADING		1,117			1,998	
	1.2 CONNECTED AT FAIR VALUE OPTION						
	1.3 OTHER						
2	CREDIT DERIVATIVES						
	2.1 FOR TRADING						
	2.2 CONNECTED AT FAIR VALUE OPTION						
	2.3 OTHER						
TOTAL (B)			1,117			1,998	
TOTAL (A+B)		36,809	32,199		121,345	1,998	

Legend:

L1= Level 1.

L2= Level 2.

L3= Level 3.

UCI= Undertakings in collective investments.

The item concerns government bonds and securities issued by supervised counterparties for an overall nominal value of EUR 73; part of these securities (EUR 10 million) was used for operations with the European Central Bank for a period of three months.

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

ITEMS / VALUES		31.12.2015	31.12.2014
A	NON-DERIVATIVE ASSETS		
1	DEBT SECURITIES	65,421	120,624
A)	GOVERNMENTS AND CENTRAL BANKS		30,300
B)	OTHER PUBLIC-SECTOR ENTITIES	9,803	
C)	BANKS	55,618	85,162
D)	OTHER ISSUERS		5,162
2	EQUITY SECURITIES	778	721
A)	BANKS		
B)	OTHER ISSUERS	778	721
	- INSURANCE UNDERTAKINGS	423	223
	- FINANCIAL COMPANIES		
	- NON-FINANCIAL COMPANIES	355	498
	- OTHER		
3	UNIT IN UCI	1,692	
4	LOANS		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL (A)		67,891	121,345
B	DERIVATIVES		
A)	BANKS	1,117	1,998
	- FAIR VALUE	1,117	1,998
B)	CUSTOMERS		
	- FAIR VALUE		
TOTAL (B)		1,117	1,998
TOTAL (A+B)		69,008	123,343

SECTION 3 – FINANCIAL ASSETS ASSESSED AT FAIR VALUE – ITEM 30

No data to report.

SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: breakdown by type

ITEMS/VALUES		31.12.2015			31.12.2014		
		L1	L2	L3	L1	L2	L3
1	DEBT SECURITIES	41,262	3,761		60,758	2,677	
	1.1 STRUCTURED						
	1.2 OTHER	41,262	3,761		60,758	2,677	
2	EQUITIES			2,633			65
	2.1 VALUED AT FAIR VALUE						
	2.2 VALUED AT COST			2,633			65
3	HOLDINGS IN UCI						
4	LOANS						
	4.1 STRUCTURED						
	4.2 OTHER						
TOTAL		41,262	3,761	2,633	60,758	2,677	65

Item 1 "debt securities" level 1 consists of bonds issued by the Italian State for an overall nominal value of Euro 40 million maturing in 2018, and bonds issued by foreign institutional counterparties and Italian companies for an overall nominal value of Euro 3.8 million (level 2).

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

ITEMS/VALUES		31.12.2015	31.12.2014
1	DEBT SECURITIES	45,022	63,435
A)	GOVERNMENTS AND CENTRAL BANKS	43,714	63,435
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER ISSUERS	1,308	
2	EQUITIES	2,633	65
A)	BANKS		
B)	OTHER ISSUERS	2,633	65
	- INSURANCE UNDERTAKINGS		
	- FINANCIAL COMPANIES		24
	- NON-FINANCIAL COMPANIES	2,633	41
	- OTHER		
3	HOLDINGS IN UCI		
4	LOANS		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		47,655	63,500

SECTION 5 – FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

5.1 Financial assets held to maturity: breakdown by type

		31.12.2015				31.12.2014			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	DEBT SECURITIES	474,504	400,252	74,871		308,941	309,460	1,481	
	1.1 STRUCTURED								
	1.2 OTHER	474,504	400,252	74,871		308,941	309,460	1,481	
2	LOANS								

Legend:

L1= Level 1.

L2= Level 2.

L3= Level 3.

BV= Book Value.

FV= Fair value.

The item comprises bonds issued by governments, supervised counterparties and Italian State securities for an overall value of Euro 467.7 million; part of these securities (nominal value: Euro 90 million) were used for operations involving the Central European Bank at 3 months.

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

		31.12.2015	31.12.2014
1	DEBT SECURITIES	474,504	308,941
A)	GOVERNMENTS AND CENTRAL BANKS	144,205	52,061
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS	330,299	256,880
D)	OTHER ISSUERS		
2	LOANS		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		474,504	308,941
TOTAL FAIR VALUE			310,941

SECTION 6 – LOANS AND ADVANCES TO BANKS – ITEM 60

6.1 Loans and advances to banks: breakdown by type

		31.12.2015				31.12.2014			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
A.	L&AS TO CENTRAL BANKS	457			457	784			784
1.	TERM DEPOSITS								
2.	MANDATORY RESERVE								
3.	REPOS								
4.	OTHER	457			457	784			784
B.	L&AS TO OTHER BANKS								
1.	LOANS	1,582,264			1,582,264	2,227,242			2,227,242
1.1	CURRENT ACCOUNTS AND FREE DEPOSITS	158,110			158,110	339,281			339,281
1.2	TERM DEPOSITS	780,486			780,486	1,565,012			1,565,012
1.3	OTHER	643,668			643,668	322,949			322,949
	3.1 REPOS								
	3.2 FINANCIAL LEASES								
	3.3 OTHER	643,668			643,668	322,949			322,949
2.	DEBT SECURITIES								
	2.1 STRUCTURED SECURITIES								
	2.2 OTHER SECURITIES								
	TOTAL	1,582,721			1,582,721	2,228,026			2,228,026

Legend:

L1= Level 1.

L2= Level 2.

L3= Level 3.

BV= Book Value.

FV= Fair value.

Line item A4 includes restructured exposures for EUR 457th (EUR 784th in 2014).

Line item B.1.2 "Term deposits" concerns the mandatory reserve settled indirectly through Istituto Centrale Banche Popolari for EUR 20.4 mn (EUR 21.8 mn in 2014).

Line item B.1.3 "Other" includes impaired positions for EUR 405th (EUR 262th in 2014).

SECTION 7 – LOANS AND ADVANCES TO CUSTOMERS – ITEM 70

7.1 Loans and advances to customers: breakdown by type

		31.12.2015					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
1. LOANS		337,199		3,749			340,948
1	CURRENT ACCOUNTS	14,503		781			15,284
2	REPOS						
3	MORTGAGES	8,745		95			8,840
4	CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	2,667					2,667
5	FINANCIAL LEASES						
6	FACTORING						
7	OTHER LOANS (*)	311,284		2,873			314,157
DEBT SECURITIES							
8	STRUCTURED SECURITIES						
9	OTHER SECURITIES						
TOTAL		337,199		3,749			340,948

follows

		31.12.2014					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
1. LOANS		438,058		8,107			446,165
1	CURRENT ACCOUNTS	24,417		543			24,960
2	REPOS						
3	MORTGAGES	7,944		132			8,076
4	CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	2,489		20			2,509
5	FINANCIAL LEASES						
6	FACTORING						
7	OTHER LOANS	403,208		7,412			410,620
DEBT SECURITIES							
8	STRUCTURED SECURITIES						
9	OTHER SECURITIES						
TOTAL		438,058		8,107			446,165

(*) The figure of Euro 311,283 mainly consists of the following components: Euro 204,336 the discounted pro soluto; Euro 106,873 the export financing.

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

		31.12.2015			31.12.2014		
		BONIS	IMPAIRED		BONIS	IMPAIRED	
			BOUGHT	OTHER		BOUGHT	OTHER
1	DEBT SECURITIES						
A)	GOVERNMENTS						
B)	OTHER PUBLIC-SECTOR ENTITIES						
C)	OTHER ISSUERS						
	- NON-FINANCIAL COMPANIES						
	- FINANCIAL COMPANIES						
	- INSURANCE COMPANIES						
	- OTHERS						
2	LOANS & ADVANCES TO	337,199		3,749	438,058		8,107
A)	GOVERNMENTS						
B)	OTHER PUBLIC-SECTOR ENTITIES	29,692			33,694		
C)	OTHER ISSUERS	307,507		3,749	404,364		8,107
	- NON-FINANCIAL COMPANIES	288,486		3,652	390,354		7,945
	- FINANCIAL COMPANIES	6,769			2,370		
	- INSURANCE COMPANIES				414		
	- OTHERS	12,252		96	11,226		162
TOTAL		337,199		3,749	438,058		8,107

SECTION 8 – HEDGING DERIVATIVES – ITEM 80

No data to report.

SECTION 9 – ADJUSTMENTS TO FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING ITEM 90

No data to report.

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

No data to report.

SECTION 11 – TANGIBLE FIXED ASSETS - ITEM 110

11.1 Tangible fixed assets held for operational use: breakdown of assets carried at cost

ITEMS/VALUES		31.12.2015	31.12.2014
1.1	OWNED	23,278	22,541
	A) LAND	8,187	8,187
	B) BUILDINGS	14,808	14,039
	C) MOVABLES	182	176
	D) ELECTRONIC SYSTEMS	24	48
	E) OTHER	77	91
1.2	LEASED		
	A) LAND		
	B) BUILDINGS		
	C) MOVABLES		
	D) ELECTRONIC SYSTEMS		
	E) OTHER		
TOTAL		23,278	22,541

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.

11.5 Tangible fixed assets held for operational use: Yearly variations

		LAND	BUILDINGS	MOVABLES	ELECTRONIC SYSTEMS	OTHER	TOTAL
A	OPENING GROSS BALANCE	8,187	20,462	1,734	2,362	2,271	34,916
	A1 TOTAL NET WRITE-DOWNS		6,423	1,558	2,314	2,180	11,690
	A2 OPENING NET BALANCE	8,187	14,039	176	48	91	23,226
B	INCREASES		1,437	36	11	50	100
	B1 PURCHASES		1,437	36	11	50	100
	B2 IMPROVEMENTS CAPITALIZED						
	B3 WRITE-BACKS						
	B4 POSITIVE CHANGES IN FAIR VALUE BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
	B5 FOREX GAINS						
	B6 TRANSFERS FROM ASSETS HELD FOR INVESTMENT						
	B7 OTHER INCREASES						
C	DECREASES		668	30	35	64	785
	C1 SALES						
	C2 DEPRECIATION		668	30	35	64	797
	C3 WRITE-DOWNS FOR IMPAIRMENT BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
	C4 NEGATIVE CHANGES IN FAIR VALUE BOOKED TO:						
	A) SHAREHOLDERS' EQUITY						
	B) INCOME STATEMENT						
	C5 FOREX LOSSES						
	C6 TRANSFERS TO:						
	A) TANGIBLE FIXED ASSETS HELD FOR INVESTMENT						
	B) ASSETS BEING DIVESTED						
	C7 OTHER DECREASES						
D	NET CLOSING BALANCE	8,187	14,808	182	24	77	23,278
	D1 TOTAL NET WRITE-DOWNS		7,091	1,588	2,349	2,244	13,272
	D2 GROSS CLOSING BALANCE	8,187	21,899	1,770	2,373	2,321	36,550
E	VALUATION AT COST	8,187	14,808	182	24	77	23,278
	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.

SECTION 12 – INTANGIBLE FIXED ASSETS – ITEM 120

12.1 Intangible fixed assets: breakdown by type

			31.12.2015		31.12.2014	
			LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL					
A2	OTHER INTANGIBLE ASSETS		1,468		1,630	
	A2.1	ASSETS VALUED AT COST	1,468		1,630	
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS	1,468		1,630	
	A2.2	ASSETS ASSESSED AT FAIR VALUE				
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B OTHER ASSETS				
TOTAL			1,468		1,630	

12.2 Intangible fixed assets: Yearly variations

			GOODWILL	OTHER: GENERATED IN-HOUSE		OTHER: GENERATED EXTERNALLY		TOTAL
				LIMITED	UNL	LIMITED	UNL	
A	OPENING BALANCE					1,630		1,630
	A1	TOTAL NET WRITE-DOWNS						
	A2	NET OPENING BALANCE				1,630		1,630
B	INCREASES					365		0
	B1	PURCHASES				365		
	B2	INCREASES IN INTERNAL ASSETS						
	B3	WRITE-BACKS						
	B4	POSITIVE CHANGES IN FAIR VALUE BOOKED TO:						
		- SHAREHOLDERS' EQUITY						
		- INCOME STATEMENT						
	B5	FOREX GAINS						
	B6	OTHER INCREASES						
C	DECREASES					527		527
	C1	SALES						
	C2	WRITE-DOWNS:						
		- AMORTIZATION				527		527
		- DEVALUATIONS						
		- SHAREHOLDERS' EQUITY						
		- INCOME STATEMENT						
	C3	NEGATIVE CHANGES IN FAIR VALUE BOOKED TO:						
		- SHAREHOLDERS' EQUITY						
		- INCOME STATEMENT						
	C4	TRANSFERS TO NON-CURRENT ASSETS BEING DIVESTED						
	C5	FOREX LOSSES						
	C6	OTHER DECREASES						
D	NET CLOSING BALANCE					1,468		1,103
	D1	TOTAL NET WRITE-DOWNS						
E	GROSS CLOSING BALANCE					1,468		1,103
F	VALUATION AT COST					1,468		1,468

Other intangible assets as of 31 December 2015 are amortized in constant proportions for an estimated period of five years from the date of coming into force.

SECTION 13 – TAX ASSETS AND TAX LIABILITIES - ITEM 130 (ASSETS) AND ITEM 80 (LIABILITIES)

13.1 Pre-paid tax assets: breakdown

		31.12.2015	31.12.2014
TOTAL		5,438	5,463
INCOME STATEMENT		5,438	5,463
1	TAX LOSSES		
2	LOAN LOSSES	4,666	4,666
3	OTHER	772	797
SHAREHOLDERS' EQUITY			
4	VALUTATION RESERVES		
5	OTHER		

13.2 Deferred Tax liabilities: breakdown

		31.12.2015	31.12.2014
TOTAL		98	102
1	INCOME STATEMENT		
2	SHAREHOLDERS' EQUITY	98	102
	VALUTATION RESERVES	98	102
	OTHER		

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

		31.12.2015	31.12.2014
1	OPENING BALANCE	5,463	6,913
2	INCREASES		
2.1	PRE-PAID TAX ASSETS 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	25	1,450
3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR	25	1,450
	A) REVERSALS	25	21
	B) WRITE-DOWNS FOR INTERVENING NON-RECOV.		
	C) DUE TO CHANGES IN ACCOUNTING POLICIES		
	D) OTHER		1,429
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	5,438	5,463

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

		31.12.2015	31.12.2014
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		

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

		31.12.2015	31.12.2014
1	OPENING BALANCE	102	174
2	INCREASES		
2.1	DEFERRED TAX LIABILITIES RECORDED DURING THE YEAR		
	A) RELATING TO EARLIER YEARS		
	B) DUE TO CHANGES IN ACCOUNTING POLICIES		
	C) OTHER		
2.2	NEW TAXES OR INCREASES IN TAX RATES		
2.3	OTHER INCREASES		
3	DECREASES	4	72
3.1	DEFERRED TAX LIABILITIES RECORDED DURING THE YEAR	4	72
	A) REVERSALS		
	B) DUE TO CHANGES IN ACCOUNTING POLICIES		
	C) OTHER	4	72
3.2	REDUCTIONS IN TAX RATES		
3.3	OTHER DECREASES		
4	CLOSING BALANCE	98	102

SECTION 14 – NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED AND ASSOCIATED LIABILITIES – ITEM 140 (ASSETS) AND ITEM 90 (LIABILITIES)

No data to report.

SECTION 15 – OTHER ASSETS – ITEM 150

15.1 Other assets: breakdown

		31.12.2015	31.12.2014
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PARTIES	4,331	1,020
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)		
TOTAL		4,331	1,020

LIABILITIES

SECTION 1 – ACCOUNTS PAYABLE TO BANKS - ITEM 10

1.1 Accounts payable to banks: breakdown by type

		31.12.2015	31.12.2014
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	313,003	339,759
2	ACCOUNTS PAYABLE TO OTHER BANKS	2,088,171	2,656,891
2.1	CURRENT ACCOUNTS AND FREE DEPOSITS	696,284	1,061,328
2.2	TERM DEPOSITS	1,291,887	1,495,549
2.3	LOANS	100,000	100,014
	2.3.1 REPO		
	2.3.2 OTHER	100,000	100,014
2.4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY		
2.5	OTHER LIABILITIES		
TOTAL		2,401,174	2,996,650
FAIR VALUE LEVEL 1			
FAIR VALUE LEVEL 2		2,401,174	2,996,650
FAIR VALUE LEVEL 3			
TOTAL FAIR VALUE		2,401,174	2,996,650

Amounts due to central banks include Eur 90 mn for the open market operations with the European Central Bank.

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

ACCOUNTS PAYABLE TO BANKS	
SUBORDINATED LIABILITIES	100,000

SECTION 2 – ACCOUNTS PAYABLE TO CUSTOMERS - ITEM 20

2.1 Accounts payable to customers: breakdown by type

		31.12.2015	31.12.2014
1	CURRENT ACCOUNTS AND FREE DEPOSITS	142,552	148,862
2	TERM DEPOSITS	745	523
3	LOANS		
3.1	REPO		
3.2	OTHER		
4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY		
5	OTHER ACCOUNTS PAYABLE	2	
TOTAL		143,299	149,385
FAIR VALUE LEVEL 1			
FAIR VALUE LEVEL 2			
FAIR VALUE LEVEL 3		143,299	149,385
TOTAL FAIR VALUE		143,299	149,385

SECTION 3 – DEBT SECURITIES OUTSTANDING - ITEM 30

No data to report.

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

			31.12.2015					31.12.2014				
			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		463,490		1,241		168,287		2,817		
		1.1	HELD FOR TRADING	463,490		1,241		168,287		2,817		
		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			463,490		1,241		168,287		2,817			
TOTAL (A+B)			463,490		1,241		168,287		2,817			

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

SECTION 5 – FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE – ITEM 50

No data to report.

SECTION 6 – HEDGING DERIVATIVES - ITEM 60

No data to report.

SECTION 7 – ADJUSTMENT TO FINANCIAL LIABILITIES SUBJECT TO MACRO-HEDGING ITEM 70

No data to report.

SECTION 8 – TAX LIABILITIES – ITEM 80

No data to report.

SECTION 9 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR DIVESTMENT ITEM 90

No data to report.

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities breakdown

		31.12.2015	31.12.2014
1	LIABILITIES ARISING FROM THE IMPAIRMENT OF:	3,848	10,177
	A CONTINGENT EXPOSURES	3,848	10,177
	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)	8,269	7,277
TOTAL		12,117	17,454

SECTION 11 – STAFF SEVERANCE FUND - ITEM 110

11.1 Staff severance fund: Yearly variations

		31.12.2015	31.12.2014
A	OPENING BALANCE	1,903	1,892
B	INCREASES	87	211
	B.1 PROVISIONING FOR THE YEAR	87	211
	B.2 OTHER INCREASES		
C	DECREASES	271	200
	C.1 SEVERANCE PAYMENTS	148	150
	C.2 OTHER DECREASES	123	50
D	CLOSING BALANCE	1,719	1,903
TOTAL		1,719	1,903

11.1.1 Rates

ANNUAL TECHNICAL	1.79%
ANNUAL INFLATION RATE	1.50%
REAL ANNUAL SALARY	n.a.
OVERALL ANNUAL SALARY	n.a.
GROSS ANNUAL SSF	2.63%

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 1.79%

11.1.2 Reconciliation of actuarial valuations under IAS 19

	31.12.2015	31.12.2014
OPENING BALANCE	1,903	1,892
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	27	50
BENEFITS PAID	(148)	(150)
TRANSFERS		
EXPECTED LIABILITIES	1,782	1,792
ACTUARIAL LOSS	63	111
CLOSING BALANCE	1,719	1,903

11.4 Other information

PROVISIONING FOR THE YEAR	87
PENSION COSTS	
FINANCIAL CHARGES	27
ACTUARIAL LOSS	60
OTHER	

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: breakdown

		31.12.2015	31.12.2014
1	COMPANY PENSION PLANS		
2	OTHER PROVISIONS FOR RISKS AND CHARGES	615	1,006
2.1	LITIGATION		443
2.2	STAFF CHARGES	615	563
2.3	OTHER		
TOTAL		615	1,006

12.2 Provisions for risks and charges: Yearly variations

		COMPANY PENSION FUNDS	OTHER PROVISIONS	TOTAL
A	OPENING BALANCE		1,006	1,006
B	INCREASES		154	154
B.1	PROVISIONING FOR THE YEAR		154	
B.2	VARIATIONS DUE TO THE PASSING OF TIME			
B.3	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
B.4	OTHER INCREASES			
C	DECREASES		545	545
C.1	AMOUNT DRAWN DURING THE YEAR		102	
C.2	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
C.3	OTHER DECREASES		443	
D	CLOSING BALANCE		615	615

12.4 Provisions for risks and charges – other provisions

PROVISION FOR HOLIDAYS NOT TAKEN	615
OTHER	
TOTAL	615

SECTION 13 –REDEEMABLE SHARES - ITEM 140

No data to report.

SECTION 14 – SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190, 200

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

		31.12.2015	31.12.2014
1	SHARE CAPITAL	159,861	151,061
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	36,801	40,619
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	(14)	-68
7	PROFIT (LOSS) FOR THE YEAR	6,848	9,553
	TOTAL	220,198	217,867

14.2 Share capital: Yearly variations in number of shares

			COMMON	OTHER
A	SHARES AT START OF YEAR		1,373,280	
		- FULLY PAID UP	1,373,280	
		- NOT FULLY PAID UP		
	A1	TREASURY STOCK		
	A2	SHARES OUTSTANDING: OPENING BALANCE	1,373,280	
B	INCREASES		80,000	
	B1	NEW SHARE ISSUES		
		RIGHTS ISSUES:		
		- COMBINATION OF COMPANIES		
		- CONVERSION OF BONDS		
		- EXERCISE OF WARRANTS		
		BONUS ISSUES:		
		- FOR EMPLOYEES		
		- FOR DIRECTORS		
		- OTHER		
	B2	SALE OF TREASURY STOCK		
	B3	OTHER INCREASES	80,000	
C	DECREASES			
	C1	CANCELLATIONS		
	C2	PURCHASE OF TREASURY STOCK		
	C3	DISPOSAL OF COMPANIES		
	C4	OTHER DECREASES		
D	SHARES OUTSTANDING: FISCAL CLOSING BALANCE		1,453,280	
	D1	TREASURY STOCK(+)		
	D2	SHARES AT END OF YEAR	1,453,280	
		- FULLY PAID UP	1,453,280	
		- NOT FULLY PAID UP		

Each of the Bank's 1,453,280 shares has a face value of EUR 110.

14.4 Profit reserves: Other information

	AMOUNT	OPTIONS FOR ALLOCATION	AVAILABLE PORTION	ALLOCATIONS OVER PAST THREE YEARS
SHARE CAPITAL	159,861			
CAPITAL RESERVES	16,702			
SHARE PREMIUM ACCOUNT	16,702	A,B,C	16,702	
RESERVES	43,653			
A) LEGAL RESERVE	12,496	B	12,496	
B) EXTRAORDINARY RESERVE	30,764	A,B,C	30,764	
C) FTA/IFRS RESERVES	(95)			
D) RETAINED PROFIT IFRS 2005	400			
E) RETAINED PROFIT	70	A,B,C	70	
OTHER RESERVES				
TOTAL	60,337			
AMOUNT NOT ALLOCATABLE	12,801			
AMOUNT ALLOCATABLE	47,536			

Legend:

A= capital increase.

B= cover for losses.

C= distribution to shareholders.

OTHER INFORMATION

1 GUARANTEES ISSUED AND COMMITMENTS

		31.12.2015	31.12.2014
1)	FINANCIAL GUARANTEES ISSUED	49	49
	A) TO BANKS	49	49
	B) TO CUSTOMERS		
2)	COMMERCIAL GUARANTEES ISSUED	695,442	900,827
	A) TO BANKS	349,045	430,739
	B) TO CUSTOMERS	346,397	470,088
3)	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	58,687	52,594
	A) TO BANKS		
	I) DRAW-DOWN CERTAIN		
	II) DRAW-DOWN UNCERTAIN		
	B) TO CUSTOMERS	58,687	52,594
	I) DRAW-DOWN CERTAIN		
	II) DRAW-DOWN UNCERTAIN	58,687	52,594
4)	COMMITMENTS UNDERLYING CREDIT DERIVATIVES: HEDGING SALES		
5)	ASSETS PLEDGED AS COLLATERAL FOR THIRD-PARTY LIABILITIES		
6)	OTHER COMMITMENTS		1,380
TOTAL		754,178	954,850

2 ASSETS PLEDGED AS COLLATERAL FOR OWN LIABILITIES AND COMMITMENTS

		31.12.2015	31.12.2014
1	FINANCIAL ASSETS HELD FOR TRADING	10,000	5,169
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE		
3	FINANCIAL ASSETS AVAILABLE FOR SALE		
4	FINANCIAL ASSETS HELD TO MATURITY	90,000	84,831
5	LOANS & ADVANCES TO BANKS		
6	LOANS & ADVANCES TO CUSTOMERS		
7	TANGIBLE FIXED ASSETS		

These activities concern open-market operations with the European Central Bank. At the date under consideration, the bank had deposited about EUR 100 mn in pooling of guarantees for operations with the Eurosystem, participating in open-market operations for EUR 100 mn.

4 ASSET MANAGEMENT AND BROKERAGE SERVICES

SERVICES		AMOUNT
1	TRADING IN FINANCIAL INSTRUMENTS ON BEHALF OF THIRD PARTIES	
	A) PURCHASES	
	1 SETTLED	
	NOT YET SETTLED	
	B) SALES	
	1 SETTLED	
	NOT YET SETTLED	
2	ASSET MANAGEMENT	
	A) INDIVIDUAL	
	B) COLLECTIVE	
3	CUSTODY AND ADMINISTRATION OF SECURITIES	597,673
	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)	23,661
	1 ISSUED BY REPORTING BANK	14,379
	2 OTHER	9,282
	C) THIRD-PARTY SECURITIES DEPOSITED WITH THIRD PARTIES	8,262
	D) SELF-OWNED SECURITIES DEPOSITED WITH THIRD PARTIES	574,012
D	OTHER TRANSACTIONS	

Note that the Bank's memorandum accounts include third-party funds for a countervalue of EUR 3.3 billion (EUR 2.9 billion as of 31 December 2014) consisting of third-party securities and relative coupons, subject to judicial and international constraints. It should also be pointed out that part of said funds, for a countervalue of Euro 1.7 billion, have been transferred to other intermediaries following a provision issued by foreign judicial authorities, while awaiting definitive assignment.

UBAE does not have ownership or immediate availability of such amounts.

It is difficult to forecast the outcome of the proceedings pending in the United States, but so far there are no signs of a negative outcome that would lead to liability for UBAE.

PART C: INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

		DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	31.12.2015	31.12.2014
1	FINANCIAL ASSETS HELD FOR TRADING	1,546			1,546	1,982
2	FINANCIAL ASSETS AVAILABLE FOR SALE	320			320	1,370
3	FINANCIAL ASSETS HELD TO MATURITY	8,248			8,248	9,884
4	L&AS TO BANKS		14,053		14,053	10,245
5	L&AS TO CUSTOMERS		7,337		7,337	10,800
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE					
7	HEDGING DERIVATIVES					
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED					
TOTAL		10,114	21,390		31,504	34,281

Interest income from impaired L&As to customers amounted to EUR 284,760 compared to EUR 264,516 as at 31.12.14.

1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.3.1 Interest income from financial assets denominated in foreign currency

		PERFORMING ASSETS		IMPAIRED ASSETS	OTHER ASSETS	31.12.2015	31.12.2014
		DEBT SECURITIES	LOANS				
1	FINANCIAL ASSETS HELD FOR TRADING	23				23	189
2	FINANCIAL ASSETS AVAILABLE FOR SALE	131				131	106
3	FINANCIAL ASSETS HELD TO MATURITY	915				915	72
4	L&AS TO BANKS						9,667
5	L&AS TO CUSTOMERS		11,698			11,698	2,252
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE		1,630				
7	HEDGING DERIVATIVES						
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED						
9	OTHER ASSETS						
TOTAL		1,069	13,328			12,767	12,286

1.4 Interest charges and similar expenses: breakdown

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2015	31.12.2014
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	122			122	1,559
2	ACCOUNTS PAYABLE TO BANKS	12,795			12,795	9,942
3	ACCOUNTS PAYABLE TO CUSTOMERS	30			30	34
4	SECURITIES OUTSTANDING					
5	FINANCIAL LIABILITIES HELD FOR TRADING					
6	FINANCIAL LIABILITIES ASSESSED AT FV					
7	OTHER LIABILITIES AND ALLOWANCES					
8	HEDGING DERIVATIVES					
TOTAL		12,947			12,947	11,535

1.6 INTEREST CHARGES AND SIMILAR EXPENSES: OTHER INFORMATION

1.6.1 Interest charges on liabilities denominated in foreign currency

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2015	31.12.2014
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	61			61	227
2	ACCOUNTS PAYABLE TO BANKS	9,248			9,248	6,643
3	ACCOUNTS PAYABLE TO CUSTOMERS	5			5	10
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		9,314			9,314	6,880

SECTION 2 - COMMISSION INCOME AND EXPENSE - ITEMS 40 AND 50

2.1 Commission income: breakdown

		31.12.2015	31.12.2014
A)	GUARANTEES ISSUED	14,886	15,206
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT, BROKERAGE AND ADVISORY SERVICES	52	208
	1 TRADING IN FINANCIAL INSTRUMENTS		
	2 FOREX	5	207
	3 ASSET MANAGEMENT		
	3.1 INDIVIDUAL		
	3.2 COLLECTIVE		
	4 CUSTODY AND ADMINISTRATION OF SECURITIES	47	1
	5 DEPOSITARY BANK SERVICES		
	6 PLACEMENT OF SECURITIES		
	7 COLLECTION OF ORDERS		
	8 ADVISORY SERVICES		
	8.1 IN MATTERS OF INVESTMENT		
	8.2 IN MATTERS OF FINANCIAL STRUCTURE		
	9 DISTRIBUTION OF THIRD-PARTY SERVICES		
	9.1 ASSET MANAGEMENT:		
	9.1.1 INDIVIDUAL		
	9.1.2 COLLECTIVE		
	- INSURANCE PRODUCTS		
	- OTHER PRODUCTS		
D)	COLLECTION AND PAYMENT SERVICES		
E)	SECURITIZATION SERVICING		
F)	FACTORING SERVICES		
G)	TAX AND DEBT COLLECTION SERVICES		
H)	MANAGEMENT OF MULTILATERAL TRADING SERVICES		
I)	KEEPING AND MANAGEMENT OF CURRENT ACCOUNTS	40	46
J)	OTHERS SERVICES	4,083	2,922
TOTAL		19,061	18,382

The item "Other services" includes receivable commissions relating to loans and discounts granted to customers and banks.

2.3 Commission expense: breakdown

		31.12.2015	31.12.2014
A)	GUARANTEES RECEIVED	3,833	751
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT AND BROKERAGE SERVICES	3	105
	1 TRADING IN FINANCIAL INSTRUMENTS	2	105
	2 FOREX	1	
	3 ASSET MANAGEMENT		
	3.1 OWN PORTFOLIO		
	3.2 THIRD-PARTY PORTFOLIOS		
	4 CUSTODY AND ADMINISTRATION OF SECURITIES		
	5 PLACEMENT OF SECURITIES		
	6 OFF-PREMISES DISTRIBUTION OF SECURITIES, PRODUCTS AND SERVICES		
D)	COLLECTION AND PAYMENT SERVICES		
E)	OTHER SERVICES	1,977	4,254
TOTAL		5,813	5,110

The item "Other Services" includes about Euro 0.7 mn of backdated commissions to banking counterparties on guarantees issued by UBAE, and about Euro 1.1 mn of backdated commissions to counterparties for their participation in loans granted by UBAE.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

		31.12.2015		31.12.2014	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING	3		15	
B	FINANCIAL ASSETS AVAILABLE FOR SALE				
C	FINANCIAL ASSETS ASSESSED AT FAIR VALUE				
D	EQUITY INVESTMENTS				
TOTAL		3		15	

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net trading income: breakdown

		CAPITAL GAINS (A)	TRADING GAINS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET INCOME (A+B)-(C+D)
1	FINANCIAL ASSETS HELD FOR TRADING	124	2,655	369	418	1,992
1.1	DEBT SECURITIES	124	1,360	299	375	810
1.2	EQUITIES		163	27	30	106
1.3	HOLDINGS IN UCI		214	43	13	158
1.4	LOANS					
1.5	OTHER		918			918
2	FINANCIAL LIABILITIES HELD FOR TRADING					
2.1	DEBT SECURITIES					
2.2	OTHER					
3	OTHER FINANCIAL LIABILITIES: FOREX DIFFERENTIALS (*)					1,175
4	DERIVATIVES (**)	170	1,540		1,225	2,370
4.1	FINANCIAL DERIVATIVES:	170	1,540		1,225	2,370
	- ON DEBT SECURITIES AND INTEREST RATES	170	910		682	398
	- ON EQUITIES AND EQUITY INDICES		630		543	87
	- ON FOREIGN CURRENCIES AND GOLD					1,885
	- OTHER					
4.2	CREDIT DERIVATIVES					
TOTAL		294	4,195	369	1,643	5,537

(*) The amount reflects the profit on the valuation of foreign currency.

(**) The capital gains and losses (Euro 1,885th), 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 1,117th) and item 40 of liabilities (infra Euro 1,241th).

SECTION 5 – NET INCOME FROM HEDGING ACTIVITIES – ITEM 90

No data to report.

SECTION 6 – NET INCOME FROM DISPOSALS AND REPURCHASES – ITEM 100

6.1 Net income from disposals and repurchases: breakdown

		31.12.2015			31.12.2014		
		PROFIT	LOSS	NET RESULTS	PROFIT	LOSS	NET RESULTS
FINANCIAL ASSETS							
1	DUE FROM BANKS						
2	LOANS TO CUSTOMERS						
3	FINANCIAL ASSETS AVAILABLE FOR SALE		185	(185)		63	(63)
3.1	DEBT SECURITIES (*)		185	(185)		63	(63)
3.2	EQUITIES						
3.3	QUOTAS OF UCI						
3.4	LOANS						
4	FINANCIAL ASSETS HELD TO MATURITY						
TOTAL ASSETS			185	(185)		63	(63)
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

No data to report.

SECTION 8 – NET IMPAIRMENT ADJUSTMENTS – ITEM 130

8.1 Net impairment adjustments to loans and advances: breakdown

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2015 (1-2)	31.12.2014
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		"WRITEOFFS"	OTHERS		A	B	A	B		
A	L&AS TO BANKS		334					823	489	532
	- LOANS		334					823	489	532
	- SECURITIES									
B	L&AS TO CUSTOMERS	255	221			4,656		1,094	5,274	(1,084)
	IMPAIRED LOAN BOUGHT									
	- LOANS									
	- SECURITIES									
	OTHERS	255	221			4,656		1,094	5,274	(10,602)
	- LOANS	255	221			4,656		1,094	5,274	(10,602)
	- SECURITIES									
C	TOTAL	255	555			4,656		1,917	5,763	(552)

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

		WRITE-DOWNS (1) SPECIFIC		WRITE-BACKS (2) SPECIFIC		31.12.2015 (1-2)	31.12.2014
		"WRITEOFFS"	OTHERS	A	B		
A	DEBT SECURITIES		1,308			(1,308)	21
B	EQUITIES		2,540			(2,540)	
C	HOLDINGS IN UCI						
D	L&AS TO BANKS						
E	L&AS TO CUSTOMERS						
F	TOTAL		3,848			(3,848)	21

Legend:

A = from interest.

B = other write-backs.

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

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2015 (1-2)	31.12.2014
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		"WRITEOFFS"	OTHERS		A	B	A	B		
A	SECURITIES			70				28	(42)	2,016
B	L&AS TO BANKS									
C	L&AS TO CUSTOMERS									
D	TOTAL			70				28	(42)	2,016

Legend:

A = from interest.

B = other write-backs.

8.4 Net impairment adjustments to other financial instruments: breakdown

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2015 (1-2)	31.12.2014
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		"WRITEOFFS"	OTHERS		A	B	A	B		
A	GUARANTEES ISSUED					3,677			3,677	4,192
B	CREDIT DERIVATIVES									
C	COMMITMENTS TO DISBURSE FUNDS									
D	OTHER INSTRUMENTS									
E	TOTAL					3,677			3,677	4,192

Legend:

A = from interest.

B = other write-backs.

SECTION 9 – ADMINISTRATION EXPENSES – ITEM 150

9.1 Personnel expenses: breakdown

		31.12.2015	31.12.2014
1	STAFF	16,113	15,704
	A) WAGES AND SALARIES	10,926	10,532
	B) SOCIAL SECURITY CONTRIBUTIONS	3,253	3,269
	C) SEVERANCE PAYMENTS		
	D) PENSION PAYMENTS		
	E) ALLOCATIONS TO THE STAFF SEVERANCE FUND		
	F) ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		
	- DEFINED CONTRIBUTION	708	790
	- DEFINED BENEFIT		
	G) ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		
	- DEFINED CONTRIBUTION		
	- DEFINED BENEFIT		
	H) COSTS ARISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
	I) OTHER BENEFITS TO STAFF	1,226	1,113
2	NON-SALARIED PERSONNEL	674	410
3	DIRECTORS	2,030	1,812
4	RETIRED PERSONNEL		
5	EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS		
6	EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS		
TOTAL		18,817	17,926

9.2 Average number of staff: breakdown by category

A)	SENIOR MANAGERS	8
B)	EXECUTIVE CADRES	92
C)	OTHER STAFF	89
TOTAL		189

9.4 Other staff benefits

	31.12.2015	31.12.2014
EARLY RETIREMENT PAYMENTS		
OTHER PAYMENTS	1,226	1,113
TOTAL	1,226	1,113

9.5 Other administration expenses: breakdown

	31.12.2015	31.12.2014
A) IT EXPENSES	1,849	1,916
B) EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:		
- RENTALS AND OTHER FEES	139	108
- OTHER	789	648
C) EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,793	3,262
D) EXPENSES FOR PROFESSIONAL SERVICES	3,807	3,487
E) INSURANCE PREMIUMS	50	117
G) ADVERTISING	307	318
H) INDIRECT DUTIES AND TAXES	552	549
I) OTHER :	2,876	460
OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)	2,309	
TOTAL	13,162	10,865

Item i) "Other" at 31 December 2015 includes the expenditure incurred for the National Resolution Fund, not only the ordinary share amounting to Euro 2.3 mn which was not owed for the previous year. From 2016 onward the annual amount will be Euro 0.57 mn (see page 89).

SECTION 10 – NET PROVISIONING FOR RISKS AND CHARGES – ITEM 160

10.1 Net provisioning for risks and charges: breakdown

	31.12.2015	31.12.2014
LITIGATION		442
OTHER RISKS AND CHARGES	154	274
TOTAL	154	716

SECTION 11 – NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS - ITEM 170

11.1 Net adjustments to tangible fixed assets: breakdown

			DEPRECIATION	IMPAIRMENT WRITE-DOWNS	WRITEBACKS	NET RESULT
			(A)	(B)	(C)	(A+B-C)
A	TANGIBLE FIXED ASSETS					
	A1	OWNED	806			806
		- USED IN OPERATIONS	806			806
		- HELD FOR INVESTMENT				
	A2	LEASED				
		- USED IN OPERATIONS				
		- HELD FOR INVESTMENT				
TOTAL			806			806

SECTION 12 – NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS – ITEM 180

12.1 Net adjustments to intangible fixed assets: breakdown

			DEPRECIATION	IMPAIRMENT WRITE-DOWNS	WRITEBACKS	NET RESULT
			(A)	(B)	(C)	(A+B-C)
A	TANGIBLE FIXED ASSETS					
	A1	OWNED	527			527
		- DEVELOPED IN-HOUSE				
		- OTHER	527			527
	A2	LEASED				
TOTAL			527			527

SECTION 13 – OTHER OPERATING INCOME / CHARGES – ITEM 190

13.1. Other operating charges: breakdown

	31.12.2015	31.12.2014
OTHER OPERATING CHARGES	254	1,576
TOTAL	254	1,576

13.2. Other operating income: breakdown

	31.12.2015	31.12.2014
DUTIES AND TAXES RECOUPED	32	18
RENTALS AND FEES	4	2
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	92	317
- OTHER	1,646	914
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	505	2,378
TOTAL	2,279	3,629

SECTION 14 – GAINS (LOSSES) FROM EQUITY INVESTMENTS - ITEM 210

No data to report.

SECTION 15 – NET ADJUSTMENTS TO FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS – ITEM 220

No data to report.

SECTION 16 – ADJUSTMENTS TO GOODWILL – ITEM 230

No data to report.

SECTION 17 – GAINS (LOSSES) FROM THE DISPOSAL OF INVESTMENTS - ITEM 240

No data to report.

SECTION 18 – INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS – ITEM 260

18.1 Income tax for the year on continuing operations: breakdown

		31.12.2015	31.12.2014
1	CURRENT TAX (-)	(4,388)	(3,851)
2	VARIATIONS IN CURRENT TAX FOR PRIOR YEARS (+/-)		
3	CURRENT TAX REBATE FOR THE YEAR (+)		
4	VARIATION IN PRE-PAID TAXES (+/-)	(33)	(1,341)
5	VARIATION IN DEFERRED TAXES (+/-)		(109)
6	"INCOME TAX FOR THE YEAR (-) (-1+ / -2+ / -3+ / -4+ / -5)"	(4,421)	(5,301)

18.2 Reconciliation of theoretical tax liability and actual book liability

	31.12.2015	31.12.2014
PROFIT BEFORE TAX	11,269	14,854
THEORETICAL IRES AND IRAP DUE (33,07%)	3,727	5,829
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES	656	772
IRAP ADJUSTMENTS FOR WRITE-OFFS	(2)	(446)
TAXES ON NON-DEDUCTIBLE COSTS	257	(2,139)
PRE-PAID AND DEFERRED TAXES	33	1,450
NET WORTH INCREASE BENEFIT	(250)	(165)
TOTAL TAXES	4,421	5,301
NET PROFIT	6,848	9,553

SECTION 19 – NET PROFIT (LOSS) FROM GROUPS OF ASSETS BEING DIVESTED - ITEM 280

No data to report.

SECTION 20 – OTHER INFORMATION

No data to report.

SECTION 21 – PROFIT PER SHARE

21.1 Average number of diluted common shares

	31.12.2015	31.12.2014
NET PROFIT	6,848	9,553
NUMBER OF SHARES	1,453,280	1,373,280
PROFIT PER SHARE	4.71	6.96

PART D: COMPREHENSIVE INCOME DETAIL

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10	NET PROFIT (LOSS)	6,848		6,848
	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	61		61
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:	(8)		(8)
	A) FAIR-VALUE ADJUSTMENTS	(8)		(8)
	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	53		53
140	COMPREHENSIVE NET INCOME	6,901		6,901

PART E: RISKS AND THEIR COVERAGE

GOVERNANCE

UBAE has adopted a traditional type of governance model adapted to take into account the specific characteristics of the shareholders (from October 2010, the 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; as envisaged by the Articles of Association, pursuant to article 2381 of the civil code, the Board – if deemed opportune – can delegate part of its functions and faculties, while respecting legal and statutory limitations, to an Executive Committee with a maximum of five directors;
- 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 by the Articles of Association¹;
- the **Managing Director**, appointed by the BD, participates in exercising the management function, acting in the capacity of chief executive officer (CEO), and is responsible for checking documents to be submitted to the BD and Executive Committee (if appointed);
- 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.

(1) Pursuant to article 22 of the Articles of Association (approved by the Extraordinary Assembly on 15 June 2015) the Board of Directors has decided to delay appointing – for the time being – the Executive Committee on the understanding that it may be set up in the future, if the Board deems it necessary.

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, ensuring their consistency with objectives and continually monitoring their effectiveness over time by introducing any changes that might be required;
- 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; and approving the constitution of the control bodies (Internal Audit, Compliance and Risk Management) appointing and revoking the people in charge;
- 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;
- approves the activity plan and reviews annual reports prepared by the Internal Auditing 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 the evaluation is brought to the BD's attention promptly;
- determines the setting up and closing down of branches and representation offices;
- deliberates the purchase or disposal of significant shareholdings;
- appoints and dismisses members of the Supervisory Body as per legislative decree no. 231/2001.

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.

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 Article 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 loan positions and also as regards agreements for restructuring loans exceeding delegated limits.

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 (if appointed) and General Manager within pre-established limits.

Concerning HR management, the Board is empowered to:

- appoint and dismiss the General Manager, Deputy General Manager, Assistant General Managers and other Executives, as well as the consultants forming part of the Bank's foreign commercial network, and those brought in to advise the Board;
- 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 by approving appropriate service orders, based on proposals made by the General Manager;
- approve the Bank's supplementary labour agreement, based on proposals 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;
- define the remuneration and incentives policies in favour of members of the governing bodies with strategic supervision, management and control and the remaining staff,

including any plans based on financial instruments and criteria for establishing the compensation to be granted in the event of early conclusion of employment contract or early termination of office, including the limits laid down for this amount in terms of the annual fixed remuneration and the maximum amount that results from their application, to be approved by the Ordinary Assembly;

- hire non-executive personnel (executive cadres and clerical staff) on open-ended contracts.

EXECUTIVE COMMITTEE

Based on Internal Regulations, the Executive Committee (if appointed):

- grants ordinary and urgent loan facilities, according to instructions received from the Board of Directors;
- examines and reviews current operating limits in the Finance Area, based on proposals put forward by the Risk Committee, according to the strategic guidelines set by the Board of Directors;
- authorizes disinvestment operations on the HTM portfolio (Held-To-Maturity), based on proposals made by the Risk Committee, in the event of urgent necessity.

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 (if appointed) 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 is responsible for ensuring observance of the law and the Articles of Association, respecting the principles of proper administration and the adequacy of the Bank's administrative and accounting organization. In particular, the Board of Auditors supervises the completeness, adequacy, functionality and reliability of the system of internal controls and the Risk Appetite Framework (RAF). In addition, the Board of Auditors is required to verify the effectiveness of all structures and control functions involved and the proper coordination of the same, promoting action to correct any deficiencies and irregularities.

The Board of Auditors shall immediately notify the Banca d'Italia of all acts or facts of which it has knowledge in the exercise of its duties, which may constitute an irregularity in the management of the bank or a breach of the rules governing banking activities.

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 no. 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;

- e. refers at least annually to the BD on the adequacy of internal controls;
- f. 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;
- g. 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;
- h. investigates and reports on any topic compatible with its institutional purpose, when requested by the BD or its Chairman;
- i. shares information periodically (at least quarterly) with the Risk Supervision Committee and the Remuneration and Governance Committee by sending and reading the respective minutes of meetings;
- j. chooses and proposes the heads of the corporate control bodies to be appointed, working together with the Remuneration and Governance Committee;
- k. checks that the corporate control bodies fully comply with the indications and guidelines set by the strategic supervisory body and assists the latter in drawing up the coordination document in line with oversight dispositions;
- l. checks the proper use of accounting principles for drawing up financial statements and consolidated balance sheets, working with the manager responsible for preparing accounting documents, and with the control body;
- m. with particular references to responsibilities for managing and controlling risks, the Committee carries out activities to support the strategic supervisory body:
 - defining and approving the strategic aims and policies of risk management. In the RAF field (Risk Appetite Framework), the Committee evaluates the situation and puts forward proposals so that the strategic supervisory body is in a position to establish and approve the risk appetite and risk tolerance objectives;
 - checking the proper activation of strategies and policies of risk management and the RAF.

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. defining the Bank's organizational structure and in particular the distribution of operating powers and delegation of powers of representation;
- c. defining the 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. identifying 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. carrying out a prior review of the compliance unit report concerning consistency of remuneration and incentive policies submitted for approval to the BD;
- f. reviewing the annual internal audit report concerning the correct application of remuneration and incentive policies approved by the Shareholders' Meeting.

The Remuneration & Governance Committee collaborates with the Internal Control Committee in order to choose the staff to be placed in charge of controls.

Risk Supervision Committee

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

- a. 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;
- b. 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;
- c. evaluating the internal control system, periodically sharing information with the Internal Control Committee by sending and reading the respective minutes of meetings;

- d. setting evaluation policies and processes for corporate activities, including verifying that the price and the conditions of operations with customers are consistent with the business model and the strategies regarding risks.

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 ("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 ("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 ("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 put forward proposals for granting credit facilities to be submitted to the BD and Executive Committee; to exercise powers to grant credit facilities within limits delegated by the BD; to discuss all issues concerning the granting of credit and monitoring the related risks.

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 discuss and assess the periodic reports submitted by the Risk Management Department relating to the absorption of regulatory and economic capital, monitoring the regulatory limits, the internal operational limits and the risk indicators, as well as the periodic simulations carried out by the department;
- to discuss and assess the ICAAP accounts prepared annually by the Risk Management Department;
- concerning the RAF sector, to analyse the periodic reports prepared by the Risk Management Department regarding the Bank's risk profile, issuing instructions to the risk-taker units whenever necessary and, should the limits be exceeded, advising the

BD to keep the measured risk profile or to adopt other measures deemed necessary;

- to put forward guidelines to the BD for managing all individual risks whether quantifiable or not;
- to discuss the operational strategies adopted by the Financial Management Department putting forward, if necessary, specific instructions for the Chief Officer;
- making proposals to the BD for changes in the operational limits assigned to individual portfolios, as well as any postponements;
- making proposals to the BD (or, in the event of urgent necessity, to the Executive Committee if appointed) regarding disinvestment operations on the HTM portfolio;
- to discuss and assess the effectiveness of the approved policies for detecting, measuring and managing all risks by periodically assessing the suitability of human resources, procedures and IT systems for safeguarding such policies.

The Personnel Committee is made up of the General Manager, the Deputy General Manager, as well as the following non-voting members: the Deputy Manager of the Operations Area, the Deputy Manager of the Business Area, and the HR Manager.

The Committee is responsible for:

- a. the preliminary examination of proposals for hiring personnel and drawing up the relative contracts;
- b. establishing career-path criteria for personnel, and the variable component of their salaries in line with remuneration policies set by the appropriate bodies;
- c. carrying out preliminary reviews of the corporate integrative contract, requests for advances on severance funds, and any other unusual or exceptional matter concerning personnel.

ROLES AND RESPONSIBILITIES OF THE BANK'S CONTROL UNITS

Risk Management Department

The Risk Management Department is a staff unit that reports to the BD. 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 the 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 and analyses of risk profiles are performed by means of an appropriate and agreed reporting system subject to periodic independent review.

From the standpoint of ICAAP (Internal Capital Adequacy Assessment Process), the Department develops methods and tools for assessing impact 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 acting as secretary. Periodically, the Department head gives an account of their 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 BD 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, measuring and assessing 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 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 no. 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 a specific unit to prevent money-laundering 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, adequacy, functionality and reliability of the organisational structure and the other components 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 no. 231/01.

The Internal Audit Department submits the audit plan annually to the BD (or through the Internal Control Committee, and to the Board of Auditors, also as the Oversight Body as per legislative decree no. 231/01), bearing in mind the inherent risks in the corporate business processes. It also submits annually a report on the previous year's activity outlining the verifications carried out, the results achieved, the weak points detected with suggestions for measures to be adopted to remove them.

This report is also sent to the Bank's independent auditing firm.

Periodically the Department submits to the BD, or through the Internal Control Committee, the results of the checks and inspections carried out. In addition, every six months, it submits to the Board of Auditors (also as the Oversight Body pursuant to decree no. 231/01) the results of the checks and inspections carried out with its overall assessment.

DISSEMINATION OF THE RISK CULTURE

UBAE attributes significant importance to disseminating the concept of risk awareness within the organization. To this end, it organizes in-house training sessions 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 a correct and efficient manner.

During 2015 several training courses were held regarding domestic and international regulations of particular relevance to business operations, especially the internal control system: Basel 3, new supervisory reporting, prevention of money-laundering, checks on loan performance and deteriorated credit, FACTA, worker safety, business continuity, Sepa and PSD. Participation varied between 75% and 85% of the total workforce in accordance with the specific skills 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 and regulatory updates to be launched, impacts on the Bank's operations to be evaluated and any operating restrictions to be observed.

The Bank also makes available on the web portal certain explanatory documentation concerning key significant issues. For instance, the general and detailed documentation provided by the BD highlighting regulatory developments and indicating possible impacts for UBAE, was then 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 framework 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 four 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, 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 market risks, together with the Basic Indicator Approach (BIA) for calculating the requirement against operational risks.

For the purposes of the Internal Capital Adequacy Assessment Process (ICAAP), individual banks must assess internally the overall adequacy of their assets with respect to other types of risks, not considered in the calculation of assets required by Pillar I of the prudential regulations.

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 bank.

For this reason, the 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.²

Furthermore, starting in 2013, the Bank introduced a new additional capital requirement within the context of Pillar II, although not prescribed by the regulations, as regards country risk, to take into account UBAE's specific area of operations that mainly concerns higher risk countries. Also taking 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 concentrated lending in macro-economic sectors.

(2) The other "quantifiable" risk, namely liquidity risk, does not require the allocation of additional assets, but rather the implementation of a business system that includes setting up a maturity ladder, conducting stress tests, and establishing an internal policy and a contingency funding plan.

The activities conducted under the supervisory review process are reported annually to the Supervisor by the ICAAP report. The Bank's ICAAP report, compiled on data as at 31 December 2015, will be submitted to Banca d'Italia by April 2016.

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.

Project activities, starting in 2014, continued throughout 2015 leading to the definition of policies regarding market risks and the interest rate risk on the banking book, and implementing previously established processes regarding liquidity risk and excessive financial leverage risk, country risk and transfer risk, as well as the Risk Appetite Framework (RAF).

In order to structure the new internal processes and provide for the inclusion of new activities introduced by the legislation, the Bank launched a number of projects in 2014 aimed at implementing an integrated management system of processes, rules and risk assessment and a new internal scoring system which also provides data on Probability Of Default (integrating processes of investigation, monitoring and accounting evaluation).

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 passes a resolution on the extension of credit facilities to eligible parties, establishing:

- 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.

For non-investment grade countries, the deliberating bodies (Board of Directors or Executive Committee) will first approve an overall exposure limit (country ceiling or plafond) within which all exposures of subjects resident there will be included. Subsequently, the deliberative bodies will approve loan proposals for individual subjects resident there.

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 high profile exposures, as calibrated to the Bank's eligible capital³.

Finally, in all cases where a position exceeds 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.

(3) As a prudential measure, UBAE has set an internal lending limit for corporate entities, lower than the regulatory level.

2.2 Systems for handling, measuring and monitoring credit risks

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

The score is arrived at through a dedicated software product enabling a comparison between the financials of the proposed borrower and those contained in various databases for similar banking and non-banking, domestic and foreign counterparties. Though based on peer analysis, the final score may take into account the analyst's own evaluation of the borrower from an organizational or other qualitative standpoint.

The weighting of each factor contributing to the final score is the result of a tried and tested methodology which the Bank has refined over the years.

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

For the purposes of monitoring loan performance, the Credit 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.

Whenever the Credit Control Department activates credit monitoring, it submits regular updates to the General Management.

In addition, every six months, the Legal Department reports to the Board of Directors on the situation regarding impaired-risk positions (doubtful loans, non-performing loans and probable default positions).

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, irrespective of the amount or technical format involved.

If deemed appropriate – and definitely in the event of occurrences that might impair the Bank's ability to recover even part of its exposure (matured exposure and/or deteriorated over-runs) – the Credit Control Department promptly provides the General Manager with a written recommendation that a risk position be downgraded to standstill, probable default or bad-debt status.

Risk Management 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 collects quarterly data on high-profile exposures and the Bank's individual lending limit (25% of own funds).

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 Board of Directors. 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 calculates the two 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 or 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 appropriate business departments, the General Manager decides whether or not the relevant problem loans should be reclassified as standstill positions, probable default or bad debts.

Once a risk position has been reclassified as a probable default, 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 an impaired position (rescheduled position).

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

After consulting with the appropriate 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.

If deemed 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 Department.

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, probable default, bad debts and rescheduled debts, including relative estimates of any forecast losses.

QUANTITATIVE INFORMATION

Credit quality

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

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

PORTFOLIO/CREDIT QUALITY		BAD DEBTS	PROBABLE IMPAIRMENT	IMPAIRED PAST-DUE POSITIONS	NOT IMPAIRED PAST-DUE POSITIONS	OTHER	TOTAL
1	FINANCIAL ASSETS AVAILABLE-FOR-SALE		1,308			43,714	45,022
2	FINANCIAL ASSETS HELD TO MATURITY					474,504	474,504
3	L&AS TO BANKS	405	1,770			1,580,547	1,582,722
4	L&AS TO CUSTOMERS	2,697	1,039	12	13,731	323,468	340,947
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
6	FINANCIAL ASSETS BEING DIVESTED						
31.12.2015		3,102	4,117	12	13,731	2,422,233	2,443,195
31.12.2014		2,290	6,078		32	3,037,382	3,045,782

On 31 December 2015, unimpaired overdue loans amounted to Euro 13.7 mn; this exposure, which matured less than a month ago, was promptly recovered during January 2016.

On 31 December 2015, exposures subject to concessionary measures (known as "forbearance" exposures) amounted to EUR 9.7 mn, entirely attributable to the portfolio of loans-to-customers; for more information on such exposures, see table A.1.6.

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

PORTFOLIO/CREDIT QUALITY		IMPAIRED ASSETS			UNIMPAIRED ASSETS			TOTAL (NET EXPOSURE)
		GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURE	SPECIFIC WRITE-DOWNS	NET EXPOSURE	
1	FINANCIAL ASSETS AVAILABLE-FOR-SALE	2,616	1,308	1,308	43,715	1	43,714	45,022
2	FINANCIAL ASSETS HELD TO MATURITY				474,581	77	474,504	474,504
3	L&AS TO BANKS	6,453	4,278	2,175	1,580,863	317	1,580,546	1,582,721
4	L&AS TO CUSTOMERS	26,493	22,744	3,749	339,517	2,318	337,199	340,948
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE							
6	FINANCIAL ASSETS BEING DIVESTED							
31.12.2015		35,562	28,330	7,232	2,438,676	2,713	2,435,963	2,443,195
31.12.2014		37,469	28,316	9,153	3,164,624	4,588	3,160,036	3,169,189

Unimpaired assets include exposures subject to renegotiation as part of collective agreements.

The following table shows the creditworthiness of exposures in the portfolio of financial assets held for trading purposes (securities and derivatives).

PORTFOLIO/CREDIT QUALITY		ASSETS OF POOR CREDIT QUALITY		TOTAL
		ACCUMULATED NEGATIVE VALUE	BOOK VALUE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			66,538
2	HEDGING DERIVATIVES			
31.12.2015				66,538
31.12.2014				63,435

A.1.3 - Exposures (cash and off-balance sheet) towards banks: gross/net values and overdue positions

Cash exposures include all financial activities for cash towards banks, regardless of their allocation to accounting portfolios (trading, available for sale, held to maturity, loans, fair-value activities, financial assets being sold).

"Off-balance sheet" exposures include all financial operations (other than cash) which involve credit risk, whatever the purpose of such transaction.

EXPOSURE TYPE/ VALUES		GROSS EXPOSURE				SPECIFIC WRITE- DOWNS	PORTFOLIO WRITE- DOWNS	NET EXPOSURE	
		IMPAIRED ASSETS			UNIMPAIRED ASSETS				
		UP TO 3 MONTHS	FROM OVER 3 MONTHS UP TO 6 MONTHS	FROM OVER 6 MONTHS UP TO 1 YEAR					MORE THAN 1 YEAR
A	CASH EXPOSURE								
A)	BAD DEBTS				4,682		4,278		404
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
B)	PROBABLE IMPAIRMENT	1,771					1		1,770
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
C)	IMPAIRED PAST DUE POSITIONS								
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
D)	NOT IMPAIRED PAST DUE POSITIONS								
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					1,966,828		364	1,966,464
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
TOTAL A		1,771			4,682	1,966,828	4,279	364	1,968,638
B	OFF-BALANCE SHEET EXPOSURE								
A)	IMPAIRED								
B)	NOT IMPAIRED					350,211			350,211
TOTAL B						350,211			350,211
TOTAL (A+B)		1,771			4,682	2,317,039	4,279	364	2,318,849

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

CAUSAL/CATEGORIES		BAD DEBTS	PROBABLE IMPAIRMENT	IMPAIRED PAST-DUE POSITIONS
A	OPENING GROSS EXPOSURE	4,207	784	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED			
B	INCREASES	475	1,848	
	B1 INFLOWS FROM PERFORMING POSITIONS		1,771	
	B2 TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS			
	B3 OTHER INCREASES	475	77	
C	DECREASES		861	
	C1 OUTFLOWS TO PERFORMING POSITIONS		649	
	C2 WRITE-OFFS			
	C3 ITEMS COLLECTED		208	
	C4 ITEMS ASSIGNED			
	C5 LOSSES ON DISPOSAL			
	C6 TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS			
	C7 OTHER DECREASES		4	
D	CLOSING GROSS EXPOSURE	4,682	1,771	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED			

A.1.4 bis - Cash exposures towards banks: movement of exposures subject to gross concessions, divided by quality of creditworthiness.

For the balance sheet as of 31 December 2015, information on the movement of gross cash exposures towards banks (subject to concessions) is not provided, in line with Banca d'Italia dispositions (see Part A – Section 4 “Other aspects” of this integrative note).

In any case, as can be seen from the previous A.1.3, as of 31 December 2015 there are no exposures towards banks subject to concessionary measures.

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

CAUSAL/CATEGORIES		BAD DEBTS		PROBABLE IMPAIRMENT		IMPAIRED PAST-DUE POSITIONS	
		TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A	OPENING GROSS EXPOSURE	3,945					
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED						
B	INCREASES	333		1			
	B1 WRITE-DOWNS			1			
	B2 LOSSES ON DISPOSAL						
	B3 TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS						
	B4 OTHER INCREASES (*)	333					
C	DECREASES						
	C1 VALUTATION WRITE-BACKS						
	C2 COLLECTION WRITE-BACKS						
	C3 PROFIT ON DISPOSAL						
	C4 WRITE-OFFS						
	C5 TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS						
	C6 OTHER DECREASES (*)						
D	CLOSING GROSS EXPOSURE	4,278		1			
	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

Cash exposures include all financial activities for cash towards customers, regardless of their allocation to accounting portfolios (trading, available for sale, held to maturity, loans, fair-value activities, financial assets being sold).

"Off-balance sheet" exposures include all financial operations (other than cash) which involve credit risk, whatever the purpose of such transaction.

EXPOSURE TYPE/ VALUES		GROSS EXPOSURE				UNIMPAIRED ASSETS	SPECIFIC WRITE- DOWNS	PORTFOLIO WRITE- DOWNS	NET EXPOSURE
		IMPAIRED ASSETS							
		UP TO 3 MONTHS	FROM OVER 3 MONTHS UP TO 6 MONTHS	FROM OVER 6 MONTHS UP TO 1 YEAR	MORE THAN 1 YEAR				
A	CASH EXPOSURE								
A)	BAD DEBTS		2,731	7	21,707		21,747		2,698
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
B)	PROBABLE IMPAIRMENT			55	4,596		2,303		2,348
	OF WHICH: EXP. SUBJECT TO CONCESSIONS				4,596		2,303		2,293
C)	IMPAIRED PAST DUE POSITIONS				13		1		12
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
D)	NOT IMPAIRED PAST DUE POSITIONS					13,824		93	13,731
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					523,445		2,256	521,189
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
TOTAL A			2,731	62	26,316	537,269	24,051	2,349	539,978
B	OFF-BALANCE SHEET EXPOSURE								
A)	IMPAIRED	4,751					2,828		1,923
B)	NOT IMPAIRED					404,180		1,020	403,160
TOTAL B		4,751				404,180	2,828	1,020	405,083
TOTAL (A+B)		4,751	2,731	62	26,316	941,449	26,879	3,369	942,330

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

CAUSAL/CATEGORIES		BAD DEBTS	PROBABLE IMPAIRMENT	IMPAIRED PAST-DUE POSITIONS
A	OPENING GROSS EXPOSURE	22,154	10,323	1
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED			
B	INCREASES	3,372	5,132	23
	B1 INFLOWS FROM PERFORMING POSITIONS	7	5,114	1
	B2 TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS	76		21
	B3 OTHER INCREASES	3,289	18	1
C	DECREASES	1,081	13,420	11
	C1 OUTFLOWS TO PERFORMING POSITIONS			1
	C2 WRITE-OFFS			
	C3 ITEMS COLLECTED	1,081		
	C4 ITEMS ASSIGNED			
	C5 LOSSES ON DISPOSAL			
	C6 TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS		88	10
	C7 OTHER DECREASES		13,332	
D	CLOSING GROSS EXPOSURE	24,445	2,035	13
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED			

1.7bis - Cash exposures towards customers: movement of exposures subject to gross concessions, divided by quality of creditworthiness.

For the balance sheet as of 31 December 2015, information on the movements of gross cash exposures towards customers (subject to concessions) is not provided, in line with Banca d'Italia dispositions. For more details, see the description in Part A – Section 4 “Other aspects” of this integrative note.

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

CAUSAL/CATEGORIES		BAD DEBTS		PROBABLE IMPAIRMENT		IMPAIRED PAST-DUE POSITIONS	
		TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A	OPENING GROSS EXPOSURE	20,126		4,245			
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED						
B	INCREASES	3,189		2,543		2	
	B1 WRITE-DOWNS	519					
	B2 LOSSES ON DISPOSAL						
	B3 TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS	17				2	
	B4 OTHER INCREMENTS	2,653		2,543			
C	DECREASES	1,568		5,793		1	
	C1 VALUTATION WRITE-BACKS	782		5,784			
	C2 COLLECTION WRITE-BACKS	786					
	C3 PROFIT ON DISPOSAL						
	C4 WRITE-OFFS						
	C5 TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS			9		1	
	C6 OTHER DECREASES						
D	CLOSING GROSS EXPOSURE	21,747		995		1	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED						

For the balance sheet as of 31 December 2015, details of overall value adjustments on exposures towards deteriorated customers (subject to concessions) are not provided, in line with Banca d'Italia dispositions. For more details, see the description in Part A – Section 4 “Other aspects” of this integrative note.

A.2 Distribution of positions by external and internal ratings

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

EXPOSURES		EXTERNAL RATING BANDS						UNRATED	TOTAL
		CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A	CASH EXPOSURES	74,349	19,887	945,375	529,711	104,707	53,785	782,495	2,510,309
B	DERIVATIVES		465	176				475	1,116
	B1 FINANCIAL DERIVATIVES		465	176				475	1,116
	B2 CREDIT DERIVATIVES								
C	GUARANTEES GIVEN		8,234	72,698	116,516	47,818	5,425	444,801	695,492
D	COMMITMENTS TO DISBURSE FUNDS							58,687	58,687
E	OTHERS								
TOTAL		74,349	28,586	1,018,249	646,227	152,525	59,210	1,286,458	3,265,604

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

EXTERNAL RATING 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.3.1 Guaranteed Banks' exposures

[illegible]

A.3.2 Guaranteed Clients' exposures

			NET EXPOSURE VALUE	COLLATERAL (1)				PERSONAL (2)								TOTAL (1+2)	
				PROPERTY		SECU- RITIES	OTHER COLLATER	CREDIT DERIVATIVES					ENDORSEMENT				
				MORTGAGE	FINANCIAL LEASING			OTHER DERIVATIVES					GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS		OTHERS
								CLN	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS					
1	CASH EXPOSURES GUARANTEED		142,431	8,842								129,272			3,573	141,687	
	1.1	FULLY GUARANTEED	42,106	8,842								29,692			3,573	42,107	
		OUT OF WHICH, IMPAIRED	279	95											183	278	
	1.2	NOT FULLY GUARANTEED	100,325									99,580				99,580	
		OUT OF WHICH, IMPAIRED															
2	OFF-BALANCE SHEET EXPOSURES GUARANTEED		66,862				3,094					17,522			38,201	58,817	
	2.1	FULLY GUARANTEED	51,033				1,694					11,138			38,201	51,033	
		OUT OF WHICH, IMPAIRED															
	2.2	NOT FULLY GUARANTEED	15,829				1,400					6,384				7,784	
		OUT OF WHICH, IMPAIRED															

B. Credit distribution and concentration

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

EXPOSURE / COUNTERPARTIES		GOVERNEMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES			INSURANCE COMPANIES			NON FINANCIAL COMPANIES			OTHERS		
		NET EXPOSURE	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	NET EXPOSURE	SPECIFIC WRITE- DOWNS	PORTFOLIO WRITE- DOWNS	NET EXPOSURE	SPECIFIC WRITE- DOWNS	PORTFOLIO WRITE- DOWNS
A	CASH EXPOSURE																		
A1	BAD DEBTS								12					2,601	21,583		96	152	
	OF WHICH: EXP. SUB. TO CONCE																		
A2	PROBABLE IMPAIRMENTS													2,347	2,303				
	OF WHICH: EXP. SUB. TO CONCE													2,298	2,298				
A3	PAST DUE POSITIONS													11	1				
	OF WHICH: EXP. SUB. TO CONCE																		
A4	OTHER ASSETS	187,919		31	39,495		201	6,769		46				289,834		3,297	12,252		82
	OF WHICH: EXP. SUB. TO CONCE																		
TOTAL A		187,919		31	39,495		201	6,769	12	46				294,793	23,887	3,297	12,348	152	82
B	OFF-BALANCE SHEET EXPOSURES																		
B1	BAD DEBTS													565	2,677				
B2	PROBABLE IMPAIRMENTS													1,359	151				
B3	OTHER IMPAIRED ASSETTS																		
B4	OTHER ASSETS				18,107									385,053		1,020			
TOTAL B					18,107									386,977	2,828	1,020			
TOTAL (A+B) 31.12.2015		187,919		31	57,602		201	6,769	12	46				681,770	26,715	4,317	12,348	152	82
TOTAL (A+B) 31.12.2014		145,796		2	51,930		262	7,532		19				904,538	32,104	4,752	11,388	13	87

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

EXPOSURES / GEOGRAPHICAL AREA			ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
			NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
A	CASH EXPOSURE											
	A1	BAD DEBTS	815	17,535		3,743		12		458	1,883	
	A2	PROBABLE IMPAIRMENTS	2,298	2,298					50	6		
	A3	PAST DUE POSITIONS	11	1								
	A4	OTHER ASSETS	270,142	966	95,075	643	46,825	316	43,795	68	79,084	355
TOTAL (A)			273,266	20,800	95,075	4,386	46,825	328	43,845	532	80,967	355
B	OFF-BALANCE SHEET EXPOSURE											
	B1	BAD DEBTS	565	1,299						1,378		
	B2	PROBABLE IMPAIRMENTS							1,359	151		
	B3	IMPAIRED										
	B4	OTHER ASSETS	333,022	982							70,137	38
TOTAL (B)			333,587	2,281					1,359	1,529	70,137	38
TOTAL (A+B) 31.12.2015			606,853	23,081	95,075	4,386	46,825	328	45,204	2,061	151,104	393
TOTAL (A+B) 31.12.2014			795,776	29,873	94,729	4,052	637	17	25,094	1,938	204,949	1,362

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

EXPOSURES / GEOGRAPHICAL AREA			ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
			NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
A	CASH EXPOSURE											
	A1	BAD DEBTS							405	4,277		
	A2	PROBABLE IMPAIRMENTS									1,770	1
	A3	PAST DUE POSITIONS										
	A4	OTHER ASSETS	753,435	49	617,126	169	74,349		136,651	67	384,902	79
TOTAL (A)			753,435	49	617,126	169	74,349		137,056	4,344	386,672	80
B	OFF-BALANCE SHEET EXPOSURE											
	B1	BAD DEBTS										
	B2	PROBABLE IMPAIRMENTS										
	B3	IMPAIRED										
	B4	OTHER ASSETS	105,553		13,359		5,732		48,360		177,206	
TOTAL (B)			105,553		13,359		5,732		48,360		177,206	
TOTAL (A+B) 31.12.2015			858,988	49	630,485	169	80,081		185,416	4,344	563,878	80
TOTAL (A+B) 31.12.2014			1,058,487	37	1,061,549	105	144,581		140,129	5,683	391,530	15

B.4 Large Exposures

BOOK VALUE	3,028,014
WEIGHTED AMOUNT	1,460,124
NUMBER OF LARGE EXPOSURES	117

The provisions contained in EEC Regulation no. 575/2013 state that the term “large exposure” for a banking organization refers to an exposure towards a customer or group of customers whose value equals or exceeds 10% of the eligible capital.

The provisions also state that the amount of a banking organization’s exposure to an individual client or group of connected clients may not exceed 25% of the eligible capital. The figure of 25% clearly takes account of techniques to reduce credit risk, the type of guarantee acquired and the nature of the borrower.

The corporate bodies responsible for controls will carry out programmed checks on the total exposure of customers or groups of customers that fall into the category of large exposures, at the same time providing appropriate information to the governing bodies.

C. Securitization and disposal of assets

C.1 Securitization

No data to report.

C.2 Disposals

No data to report.

C.3 Covered bonds

No data to report.

D. Structured entities not included in consolidated accounts (different from companies providing securitization)

No data to report.

E. Disposals

No data to report.

F. 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.

This process is subject to revision since, within the credit risk project, a specific tool is being implemented, designed to produce not only the entry score but also the associated PD for each counterparty.

In 2015 UBAE started an overall project aimed at boosting the efficiency and effectiveness of all the phases of the credit process (preliminary examination, granting loans, performance checks, analysing risk profile, assessing business activities), strengthening first- and second-level safeguards.

This project is closely linked to the business aim of upgrading to IFRS9 accounting principles, started during 2015; using information from the PDs, individual counterparties will be able to build new algorithms in order to establish accounting devaluations with regard to expected losses.

SECTION 2 – MARKET RISKS

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 analyzed through a reporting system that is adequate, shared and subject to periodic independent controls.

Financial transactions are recorded by the ObjFin software application forming part of the Bank's IT and accounting system. Risk control and management reporting requirements are adequately served by ObjFin.

The restructuring of the IT system took account of the 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.

The ObjFin application 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, ETF and options traded on regulated markets).

The ObjFin application 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 regulations 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 ObjFin to enable levels of control (first, second and third) to be carried out in real time by the competent units.

A reporting system has also been implemented within ObjFin 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.

B. Handling and measuring processes for interest-rate risks

Dealing on behalf of banks or corporate customers in interest-rate 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 risk position for either the Treasury Dept. or the Securities Dept.

Trading positions in interest-rate and exchange-rate derivatives, whether regulated or OTC, are entered in the 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 ten-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 ensures the accuracy of measurements obtained from the VaR model through quarterly back-testing.

QUANTITATIVE INFORMATION

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

TYPE / RESIDUAL MATURITY		SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
1	CASH ASSETS		44,932		9,803	10,322			
1.1	DEBT SECURITIES		44,932		9,803	10,322			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		44,932		9,803	10,322			
1.2	OTHER ASSETS								
2	CASH LIABILITIES								
2.1	REPO								
2.2	OTHER LIABILITIES								
3	FINANCIAL DERIVATIVES		595,536	90,000		335,000	10,000		
3.1	WITH UNDERLYING SECURITY:								
	- OPTIONS								
	* LONG POSITIONS								
	* SHORT POSITIONS								
	- OTHER DERIVATIVES								
	* LONG POSITIONS								
	* SHORT POSITIONS								
3.2	W/OUT UNDERLYING SECURITY:		595,536	90,000		335,000	10,000		
	- OPTIONS								
	* LONG POSITIONS								
	* SHORT POSITIONS								
	- OTHER DERIVATIVES		595,536	90,000		335,000	10,000		
	* LONG POSITIONS		315,177	70,000					
	* SHORT POSITIONS		280,359	20,000		335,000	10,000		

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

TYPE / RESIDUAL MATURITY			SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	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			338,146	48,715					
3.1	WITH UNDERLYING SECURITY:									
	- OPTIONS									
	* LONG POSITIONS									
	* SHORT POSITIONS									
	- OTHER DERIVATIVES									
	* LONG POSITIONS									
	* SHORT POSITIONS									
3.2	W/OUT UNDERLYING SECURITY:			338,146	48,715					
	- OPTIONS									
	* LONG POSITIONS									
	* SHORT POSITIONS									
	- OTHER DERIVATIVES			338,146	48,715					
	* LONG POSITIONS			301,845	24,411					
	* SHORT POSITIONS			36,301	24,304					

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

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		38,955	8,174					
3.1	WITH UNDERLYING SECURITY:								
	- OPTIONS								
	* LONG POSITIONS								
	* SHORT POSITIONS								
	- OTHER DERIVATIVES								
	* LONG POSITIONS								
	* SHORT POSITIONS								
3.2	W/OUT UNDERLYING SECURITY:		38,955	8,174					
	- OPTIONS								
	* LONG POSITIONS								
	* SHORT POSITIONS								
	- OTHER DERIVATIVES		38,955	8,174					
	* LONG POSITIONS		17,799	4,087					
	* SHORT POSITIONS		21,156	4,087					

2. Supervisory trading book: distribution of exposures in capital securities and share indices for the main countries where shares are listed

TYPE / SHARE INDICES		LISTED			NOT LISTED
		ITALY			
A	EQUITIES: TRADES SETTLED	778			
	LONG POSITIONS	778			
	SHORT POSITIONS				
B	EQUITIES: TRADES NO YET SETTLED				
	LONG POSITIONS				
	SHORT POSITIONS				
C	OTHER DERIVATIVES ON EQUITIES				
	LONG POSITIONS				
	SHORT POSITIONS				
D	DERIVATIVES ON SHARES INDICES				
	LONG POSITIONS				
	SHORT POSITIONS				

3. Supervisory trading book: internal models and other methods for analysing sensitivity

No data to report.

QUALITATIVE INFORMATION

2.2 – Price and Interest rate risk – Banking book

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

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 that might lead to a 200 bp parallel shift in the interest rate curve.

Readings for the indicator value 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 Asset Liability Management (ALM) program 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 hedging

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

C. Cash-flow hedging

UBAE’s portfolio includes interest rate derivatives (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 handled by the Treasury Department in the Finance Area.

Furthermore the Finance may hold IRS associated with bonds carried in the held-to-maturity (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

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	21,292	238,375	375,050	184,928	331,292	7,849	2,695	
	1.1 DEBTS SECURITIES		9,943	134,299		297,402			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		9,943	134,299		297,402			
	1.2 L&AS TO BANKS	17,964	89,059	201,107	121,692	29,988	405		
	1.3 L&AS TO CUSTOMERS	3,328	139,373	39,644	63,236	3,902	7,444	2,695	
	- A/C	2,993					421		
	- OTHER L&AS	335	139,373	39,644	63,236	3,902	7,023	2,695	
	- WITH AN OPTION FOR EARLY REDEMPTION	8	178	254	506	3,897	3,873	2,695	
	- OTHER	327	139,195	39,390	62,730	5	3,150		
2	CASH LIABILITIES	545,153	222,522	120,099	16,518	100,000			
	2.1 DUE TO CUSTOMERS	56,279	203	30					
	- A/C	56,279	203	30					
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	488,874	222,319	120,069	16,518	100,000			
	- A/C	485,944							
	- OTHER LIABILITIES	2,930	222,319	120,069	16,518	100,000			
	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	36,214							
	* LONG POSITIONS	18,107							
	* SHORT POSITIONS	18,107							

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

TYPE / RESIDUAL MATURITY		SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
1	CASH ASSETS	150,575	784,076	218,884	78,378	46,222			
	1.1 DEBTS SECURITIES		4,030	41,402		32,451			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		4,030	41,402		32,451			
	1.2 L&AS TO BANKS	139,004	713,184	176,642	78,378	13,771			
	1.3 L&AS TO CUSTOMERS	11,571	66,862	840					
	- A/C	11,571							
	- OTHER L&AS		66,862	840					
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		66,862	840					
2	CASH LIABILITIES	302,332	1,236,825						
	2.1 DUE TO CUSTOMERS	86,150	371						
	- A/C	86,150	371						
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	216,182	1,236,454						
	- A/C	198,834							
	- OTHER LIABILITIES	17,348	1,236,454						
	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	88,358	200,238						
	* LONG POSITIONS	44,179	100,119						
	* SHORT POSITIONS	44,179	100,119						

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

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	1,173	3,122		187				
	1.1 DEBTS SECURITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	1.2 L&AS TO BANKS	1,166			187				
	1.3 L&AS TO CUSTOMERS	7	3,122						
	- A/C								
	- OTHER L&AS	7	3,122						
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER	7	3,122						
2	CASH LIABILITIES	881	140						
	2.1 DUE TO CUSTOMERS	123	140						
	- A/C	123	140						
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	758							
	- A/C	758							
	- 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								

QUALITATIVE INFORMATION

2.3 - Currency risk

A. General aspects, risk management processes and measuring methods

UBAE's banking book utilizes a prevalence of US dollars for funding and euros for earning assets.

Securities held in the trading 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 risks

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.

QUANTITATIVE INFORMATION

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

ITEMS	CURRENCIES					
	US DOLLAR	POUNDS	SWISS FRANC	YEN	DINARS ARAB EMIRATES	OTHER
	USD	GBP	CHF	JPY	AED	
A. FINANCIAL ASSETS	1,278,196	3,215	238	591	235	209
A.1 DEBT SECURITIES	77,883					
A.2 EQUITIES	5					6
A.3 L&AS TO BANKS	1,121,035	93	238	591	235	196
A.4 L&AS TO CUSTOMERS	79,273	3,122				7
A.5 OTHER FINANCIAL ASSETS						
B. OTHER ASSETS	78	29	2	5		2
C. FINANCIAL LIABILITIES	1,539,157	304	67	637	13	
C.1 DUE TO BANKS	1,452,636	152	27	576	3	
C.2 DUE TO CUSTOMERS	86,521	152	40	61	10	
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. FINANCIAL DERIVATES	386,862	45,889	1,014		225	
- OPTIONS						
* LONG POSITIONS						
* SHORT POSITIONS						
- OTHER DERIVATIVES	386,862	45,889	1,014		225	
* LONG POSITIONS	326,256	21,459	427			
* SHORT POSITIONS	60,606	24,430	587		225	
TOTAL ASSETS	1,604,530	24,703	667	596	235	211
TOTAL LIABILITIES	1,599,763	24,734	654	637	238	
BALANCE (+/-)	4,767	(31)	13	(41)	(3)	211

2.4 Derivatives

A. Financial derivatives

During the 2015 financial year, UBAE bank did not carry out trading of derivative financial products for third parties; instead activity was restricted to the Bank's instruments in order to hedge market risks.

Banca UBAE mainly uses derivatives to cover its exposure on interest rates (IRS), and in particular on currency swaps in order to reduce exposure from a business point of view. The mitigation of market risk is made possible through the use of derivative instruments intended to cover the Bank's commitments.

The strategy pursued by the Bank is in fact aimed at limiting the effects of possible fluctuations in exchange rates, interest rates, and share prices by including the following derivatives in the portfolio: currency swaps, interest rate swaps, and equity index futures.

Instead of exchange derivatives, which enable the Bank to contain risks by setting the economic component generated by Forex operations, the interest-rate derivatives are used by the Bank to mitigate the effect of any adverse fluctuations in yields compared to the value of portfolio assets (securities and loans) and to minimize the time frame of risk exposure.

Taking short positions in futures (on share indexes) reduces the impact of lower prices on long-position shareholdings held in the portfolio.

The results of analysis carried out daily by the Risk Management Department are reported quarterly to the Risk Committee, the Board Committees (Internal Control Committee and the Risk Supervision Committee) and the Board of Directors.

In addition, similar to the approach for market risk, the derivatives (IRS) are used to set up and handle hedging operations for loans and securities HTM thus limiting the bank's exposure to interest-rate risk on the banking book.

The limited exposure to various market risks – as shown by the risk indicator which remains steadily below the regulatory threshold – is also a consequence of the prudent management policies adopted by the Board of Directors.

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

UNDERLYING ASSETS / DERIVATIVES TYPE			31.12.2015		31.12.2014	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
1	DEBT SECURITIES AND INTEREST RATES		345,000		68,255	
	A)	OPTIONS				
	B)	INTEREST RATES SWAP	345,000		68,255	
	C)	FORWARD				
	D)	FUTURES				
	E)	OTHERS				
2	EQUITIES AND SHARES INDICES					1,234
	A)	OPTIONS				
	B)	SWAP				
	C)	FORWARD				
	D)	FUTURES				1,234
	E)	OTHERS				
3	EXCHANGE RATES AND GOLD		118,490		227,959	
	A)	OPTIONS				
	B)	SWAP				
	C)	FORWARD	118,490		227,959	
	D)	FUTURES				
	E)	OTHERS				
4	GOODS					
5	OTHERS ASSETS					
TOTAL			463,490		296,214	1,234
AVERAGE			0		69,130	

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

PORTFOLIO / DERIVATIVES TYPE		POSITIVE FAIR VALUE TOTAL 31.12.2015		POSITIVE FAIR VALUE TOTAL 31.12.2014	
		OVER THE COUNTER	CORE COUNTER- PARTIES	OVER THE COUNTER	CORE COUNTER- PARTIES
A	TRADING BOOK	1,117		1,998	
	A) OPTIONS				
	B) INTEREST RATE SWAP	176			
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD	941		1,998	
	F) FUTURES				
	G) OTHERS				
B	BANKING BOOK: HEDGES				
	A) OPTIONS				
	B) INTEREST RATE SWAP				
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD				
	F) FUTURES				
	G) OTHERS				
C	BANKING BOOK: OTHER DERIVATIVES				
	A) OPTIONS				
	B) INTEREST RATE SWAP				
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD				
	F) FUTURES				
	G) OTHERS				
TOTAL		1,117		1,998	

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

PORTFOLIO / DERIVATIVES TYPE		NEGATIVE FAIR VALUE TOTAL 31.12.2015		NEGATIVE FAIR VALUE TOTAL 31.12.2014	
		OVER THE COUNTER	CORE COUNTER- PARTIES	OVER THE COUNTER	CORE COUNTER- PARTIES
A	TRADING BOOK	1,241		2,817	
	A) OPTIONS				
	B) INTEREST RATE SWAP	627		1,031	
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD	614		1,786	
	F) FUTURES				
	G) OTHERS				
B	BANKING BOOK: HEDGES				
	A) OPTIONS				
	B) INTEREST RATE SWAP				
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD				
	F) FUTURES				
	G) OTHERS				
C	BANKING BOOK: OTHER DERIVATIVES				
	A) OPTIONS				
	B) INTEREST RATE SWAP				
	C) CROSS CURRENCY SWAP				
	D) EQUITY SWAP				
	E) FORWARD				
	F) FUTURES				
	G) OTHERS				
TOTAL		1,241		2,817	

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

CONTRACTS NOT INCLUDED UNDER NETTING AGREEMENTS		GOV'TS & CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON FINANCIAL COMPANIES	OTHERS
1)	DEBT SECURITIES AND INTEREST RATES			347,628				
	- NOTIONAL VALUE			345,000				
	- POSITIVE FAIR VALUE			176				
	- NEGATIVE FAIR VALUE			627				
	- FUTURE EXPOSURE			1,825				
2)	EQUITIES AND EQUITY INDICES							
	- NOTIONAL VALUE							
	- POSITIVE FAIR VALUE							
	- NEGATIVE FAIR VALUE							
	- FUTURE EXPOSURE							
3)	CURRENCIES AND GOLD			121,129				
	- NOTIONAL VALUE			118,490				
	- POSITIVE FAIR VALUE			941				
	- NEGATIVE FAIR VALUE			614				
	- FUTURE EXPOSURE			1,084				
4)	OTHER							
	- NOTIONAL VALUE							
	- POSITIVE FAIR VALUE							
	- NEGATIVE FAIR VALUE							
	- FUTURE EXPOSURE							

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

UNDERLYING ASSETS / RESIDUAL MATURITY		UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
TRADING BOOK		118,490	335,000	10,000	463,490
A1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES		335,000	10,000	345,000
A2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
A3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD	118,490			118,490
A4	FINANCIAL DERIVATIVES ON OTHERS INSTRUMENTS				
BANKING BOOK					
B1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES				
B2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
B3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD				
B4	FINANCIAL DERIVATIVES ON OTHERS INSTRUMENTS				
TOTAL 31.12.2015		118,490	335,000	10,000	463,490
TOTAL 31.12.2014		237,978	58,237		296,215

B. Credit Derivatives

No data to report.

C. Credit and Financial derivatives

No data to report.

SECTION 3 – LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, handling processes, and methods for measuring liquidity risk

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).

The financial sources of the Banca UBAE are represented by its own funds, by retail customers' deposits, by funding from the interbank market also through the Eurosystem.

Given the composition of the Bank's assets, the type of business strategies defined by the Board of Directors that limit operations on short-term loans, liquidity risk for the Banca UBAE is not critical under normal conditions of financial markets. Also in view of interbank relations, and supporting the majority shareholder and establishing an "eligible" bond portfolio for use in operations of repurchase agreements, refinancing operations with the Eurosystem (LTRO and TLTRO), as well as the type and quality of its assets, the Banca UBAE has sufficient financial resources to meet most of its requirements. At present the available financial resources are adequate for the volume of current and future business activities.

The Bank is also constantly committed to seeking diversification of its funding sources with particular attention to volumes and costs.

The Bank's business units in charge of ensuring the correct application of liquidity policy are the Treasury Department that directly manages liquidity, the Risk Management Department which has the task of identifying the most effective risk indicators and monitoring their performance in relation to set limits, as well as supporting the activities of the Risk Committee which is responsible for making annual proposals to the Board of Directors of funding policies and liquidity risk management during the year, and suggesting any actions that will ensure carrying out the activity in full harmony with the approved risk policies.

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 memo (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 eligibility limit of financial instruments) as well as the performance trend of early warning indicators. Then every month, the Department calculates the ratios relating to funding concentration in order to evaluate performance over time.

In light of the new regulatory framework (Basel 3), UBAE reports monthly to the Banca d'Italia on the Liquidity Coverage Ratio (LCR) for which, starting in October 2015, the regulatory limit came into force, which will increase gradually over time.

Furthermore, the Delegated EU Regulation no. 61/2015 introduced a new method for calculating the above-mentioned ratio which is currently being implemented by the banking system with analysis and internal simulations.

In 2015 the policy governing the process of liquidity risk management was revised in order to modify the previous system of operational limits by introducing several organisational changes, along with two liquidity ratios (LCR and NSFR) and the monitoring tools required by European norms.

Risk Management 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.

[illegible]

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

[illegible]

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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 move has been made to revise all processes, on the other, an internal project is underway to implement an across-the-board tool aimed at risk assessment and loss data collection.

B. Handling and measuring processes for operational risks

Prior to the launching of new products or services, a thorough assessment of the risks associated with the new activity is carried out by the Finance Division jointly with the IT & Organization Division, Compliance & Anti-Money Laundering, Risk Management and Internal Auditing Departments, which is then submitted to General Management as a thorough analysis of the risks involved, together with the added value that could arise from the new initiatives.

QUANTITATIVE INFORMATION

		31.12.2015	31.12.2014
OPERATIONAL RISK		6,112	6,309
1	BASIC INDICATOR APPROACH	6,112	6,309
2	STANDARDIZED APPROACH		
3	ADVANCED METHOD		

Calculation of asset requirements against operational risks as of 31 December 2014 was determined with reference to the indicator described in article 316 of the CRR, instead of the gross operating income used previously. This change was also applied to the 2012 and 2013 financial years.

SECTION 5 – OTHER RISKS: COUNTERPARTY AND SETTLEMENT RISK

QUALITATIVE INFORMATION

A. General aspects, handling and measuring processes for counterparty risks

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 front-office ObjFin 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 Board of Directors, the Bank's Credit Committee or other competent body.

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

B. General aspects, handling and measuring processes for settlement risks

Except for transactions in OTC derivative instruments, which generate counterparty risk, the Banca UBAE negotiates both listed and unlisted financial and Forex instruments exclusively with a payment-versus-delivery clause, thereby limiting settlement risk exposure to the minimum.

SECTION 6 - CONCENTRATION RISK

QUALITATIVE INFORMATION

A. General aspects, handling processes and methods of measuring risk concentration

To limit the overall concentration level of exposures, UBAE operates according to the "large exposure" norms, by detecting and reporting exposures for weighted amounts exceeding 10% of its own funds, and monitoring respect for the lending limit, taking steps to report any over-run positions to the Oversight Body.

In order to reduce the risk of exceeding the lending limit, UBAE is developing an automatic calculation tool which enables business units to monitor continuously the percentage absorption of said limit.

The prudential norm (Pillar II) includes the calculation of an additional asset requirement against the risk of single name concentration for the corporate portfolio; in practical terms, the simplified algorithm applied for the purpose of determining capital absorption is based on the Herfindal coefficient of concentration and is calculated quarterly as part of the capital adequacy process.

Apart from carrying out analyses on capital adequacy, the Risk Management Department conducts quarterly stress-tests simulating, with balanced corporate exposures, a rise in the portfolio's concentration level.

The Risk Management Department carries out quarterly monitoring of the macro-risk limit and fixed risk tolerance, for each type of quantifiable risk, within the scope of the Risk Appetite Framework; the results are included in periodic reports sent to the Risk Committee, the Advisory Committees, and the Board of Directors.

Since the concentration linked to exposures towards banking counterparties does not form part of the overall calculation of capital absorption, albeit in line with regulatory dispositions, UBAE has introduced a system of internal operational limits aimed at safeguarding the exposure from such risks. The limits are monitored quarterly by the Risk Management Department and are included in periodic reports to the corporate bodies.

Finally, the Risk Management Department, at least annually, analyses the composition of the portfolio in terms of the economic sector in which the counterparty operates and the geographical area where it is located. This information is added to the analysis of the Bank's concentration profiles as a preliminary step towards stress testing in the field of credit risk.

PART F: INFORMATION ON SHAREHOLDERS' EQUITY

SECTION 1 – SHAREHOLDERS' EQUITY

A. QUALITATIVE INFORMATION

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the bank that is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

Ensuring that supervisory and capital adequacy requirements are met is a dynamic process based on objectives set right from the planning stage. Said objectives account for the potential evolution of risk, as well as the provisions of the Risk Appetite Framework (so-called RAF).

Also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans etc.).

Thus, the Bank monitors compliance with regulatory capital ratios and ensures capital adequacy as measured under the RAF throughout the year and on a quarterly basis.

The capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, UBAE estimates the impact on capital adequacy ratios and considers the necessary measures, if any, to meet requirements.

B. QUANTITATIVE INFORMATION

B.1 Shareholders' equity: breakdown

		31.12.2015	31.12.2014
1	SHARE CAPITAL	159,861	151,061
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	36,801	40,619
	OF EQUITY:	36,801	40,619
	A) LEGAL RESERVE	12,496	12,018
	B) STATUTORY RESERVE	23,835	
	C) OWN SHARES		
	D) OTHER	470	28,601
	OTHER RESERVES		
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	(14)	(68)
	-FINANCIAL ASSETS AVAILABLE FOR SALE	199	206
	-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	(213)	(274)
	-VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY		
	-SPECIAL REVALUATION LAWS		
7	PROFIT (LOSS) FOR THE YEAR	6,848	9,553
TOTAL		220,198	217,867

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

		31.12.2015		31.12.2014	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBT SECURITIES	199		206	
2	EQUITIES				
3	HOLDINGS IN UCI				
4	LOANS				
TOTAL		199		206	

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

			DEBT SECURITIES	EQUITY AND SHARES	HOLDINGS IN UCI	LOANS
1	OPENING BALANCE		206			
2	INCREASES		556			
	2.1	FAIR VALUE ADJUSTMENTS	269			
	2.2	INCOME STATEMENT REVERSAL OF NEGATIVE RESERVES	287			
		- FROM IMPAIRMENT	185			
		- FROM DISPOSALS	102			
	2.3	OTHER INCREASES				
3	DECREASES		563			
	3.1	FAIR VALUE ADJUSTMENTS	465			
	3.2	IMPAIRMENT WRITE-DOWNS				
	3.3	INCOME STATEMENT REVERSAL OF POSITIVE RESERVES: FROM DISPOSALS				
	3.4	OTHER DECREASES	98			
4	CLOSING BALANCE		199			

SECTION 2 – OWN FUNDS AND PRUDENTIAL RATIOS

2.1 Scope of application of the law

Consolidated own funds, risk-weighted assets and solvency ratios at 31 December 2014 were determined based on the new harmonised framework set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, as well as Bank of Italy's Circulars no. 285 and 286 (issued during 2013) and the update to Circular no. 154.

Pursuant to the provisions concerning own funds, the new regulatory framework will be gradually phased in over a transitional period extending until approximately 2017.

2.1.1 Banking own funds

A. QUALITATIVE INFORMATION

1. Common equity Tier 1 Capital (CET1)

A) Common equity Tier 1 Capital (CET1)

This item includes:

- 159.8 million Euro in paid-up capital instruments;
- 16.7 million Euro in share premium;
- 36.8 million Euro in other reserves, including retained earnings; specifically, this item includes the 2.5 million Euro profit at 30/06/2014 recognised under Own Funds pursuant to article 26 of the CRR.
- accumulated other comprehensive income, negative to the tune of 0.1 million Euro and consisting of:
 - ◇ 0.3 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
 - ◇ 0.2 million Euro in positive reserves for available for sale financial assets.

D) Items to be deducted from CET1

This item includes the following main aggregates:

1.5 million Euro in goodwill and other intangible assets.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes the following transitional adjustments:

- exclusion of unrealised gains on AFS securities, totalling 0.2 million Euro (-);
- positive filter on negative actuarial reserves (IAS 19), amounting to 0.1 million Euro.

2. Additional Tier 1 Capital (AT1)

G) Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime

No data to report.

3. Tier 2 Capital (T2)

M) Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime

This item includes the amount allowed by the supervisory norms relating to the compatibility of subordinated loan recognition, amounting to EUR 100 million.

O) Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions

This item includes:

- positive national filter introduced by Bank of Italy Circular no. 285, equal to 80% of the 50% of unre-alised gains on AFS securities, which amounts to 0,06 million Euro (+).

B. QUANTITATIVE INFORMATION

		31.12.2015	31.12.2014
A	COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	218,740	210,791
	OF WHICH CET1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
B	CET1 PRUDENTIAL FILTERS (+/-)		
C	CET1 GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME (A+/- B)	218,740	210,791
D	ITEMS TO BE DEDUCTED FROM CET1	(1,468)	(1,647)
E	TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)	117	136
F	TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)	217,389	209,280
G	ADDITIONAL TIER 1 CAPITAL (AT1) GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME		
	OF WHICH AT1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
H	ITEMS TO BE DEDUCTED FROM AT1		
I	TRANSITIONAL REGIME - IMPACT ON AT1 (+/-),		
L	TOTAL ADDITIONAL TIER 1 CAPITAL (AT1) (G-H+/-I)		
M	TIER 2 CAPITAL (T2) GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME	100,000	80,000
	OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
N	ITEMS TO BE DEDUCTED FROM T2		
O	TRANSITIONAL REGIME - IMPACT ON T2 (+/-)	60	98
P	TOTAL TIER 2 CAPITAL (T2) (M-N+/-O)	100,060	80,098
Q	TOTAL OWN FUNDS (F+L+P)	317,449	289,378

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 period³;
- 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 calculated on the quantity of assets approved as a result of the planning and budgeting process, and having an impact on credit risks, operating risks, concentration risk and country risk;
- 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.

(3) This large amount includes any additional asset requirements which, though not required by the regulations, are estimated internally to take account of UBAE's distinctive exposure to certain risks (country risk and geo-sectorial concentration risk).

B. QUANTITATIVE INFORMATION

CATEGORIES/VALUES			NON-WEIGHTED AMOUNT		WEIGHTED AMOUNT	
			31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014
A	RISK ASSETS					
A1	CREDIT AND COUNTERPARTY RISK					
	1	STANDARD METHODOLOGY	2,975,633	3,743,804	1,688,021	1,468,614
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
		2.1 BASED				
		2.2 ADVANCED				
	3	SECURITIZATION				
B	REGULATORY CAPITAL REQUIREMENTS					
B1	CREDIT AND COUNTERPARTY RISK				135,042	117,489
B2	CAPITAL REQUIREMENTS				62	15
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				7,844	4,571
	1	STANDARD METHODOLOGY			7,844	4,571
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				6,112	6,309
	1	BASIC INDICATOR APPROACH			6,112	6,309
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	TOTAL PRUDENTIAL REQUIREMENTS					
C	RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				149,060	128,384
C1	RISK-WEIGHTED ASSETS				1,862,124	1,596,998
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				11.67%	13.04%
C3	CAPITAL /RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				11.67%	13.04%
C4	TOTAL OWN FUNDS/ RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				17.04%	18.03%

PART G: MERGERS INVOLVING CORPORATE UNITS OR LINES OF BUSINESS

SECTION 1 – TRANSACTIONS COMPLETED DURING THE PERIOD

No data to report.

SECTION 2 – TRANSACTIONS COMPLETED AFTER YEAR-END

No data to report.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No data to report.

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. 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 2015.

1. COMPENSATION OF DIRECTORS, AUDITORS AND MANAGEMENT

Compensation during 2015 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.

DESCRIPTION

(1)	SHORT-TERM BENEFITS		3,524
	- DIRECTORS	1,635	
	- AUDITORS	148	
	- MANAGEMENT	1,741	
(2)	POST-SEVERANCE BENEFITS		92
(3)	OTHER BENEFITS		245

(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:

DESCRIPTION	SENIOR CORPORATE OFFICIALS	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	577	91	668
FINANCIAL LIABILITIES	650		650
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:

- company officer;
- stakeholder;

- 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.

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	223	113,085	113,308
FINANCIAL LIABILITIES	1,637,512	321,569	1,959,081
GUARANTEES OUTSTANDING	15,357	58,739	74,096

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	49	10,100	10,149
FINANCIAL LIABILITIES			
GUARANTEES OUTSTANDING	16,491	200	16,691

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

COSTS

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	1	385	386
COMM. ON LETTERS OF GUARANTEES	1,148	1,194	2,342
INTEREST	8,784	830	9,614
SUBORDINATED LOANS	2,553		2,553
TOTAL	12,486	2,409	14,895

REVENUES

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	103	3,321	3,424
COMM. ON LETTERS OF GUARANTEES			
INTEREST		407	407
TOTAL	103	3,728	3,831

COSTS

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			0
COMM. ON LETTERS OF GUARANTEES	5		
INTEREST			
SUBORDINATED LOANS			
TOTAL	5		0

REVENUES

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	44		44
COMM. ON LETTERS OF GUARANTEES	15	2	17
INTEREST			
TOTAL	59	2	61

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 INSTRUMENT

QUALITATIVE INFORMATION

No data to report.

QUANTITATIVE INFORMATION

No data to report.

PART L: SEGMENT REPORTING

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

To all shareholders

Pursuant to article 2429, paragraph 2, of the Italian Civil Code, the Board of Auditors is required to report to the shareholders' meeting on the supervisory activities carried out during the financial year.

We confirm that supervisory activities were conducted according to the rules of the Civil Code, of legislative decree no. 385 of 1 September 1993 (Consolidated Banking Act), of legislative decree no. 39 of 27 January 2010, of the statutory rules and regulations issued by the authorities exercising supervision and control, bearing in mind the principles of conduct recommended by the National Council of Chartered Accountants and Fiscal Experts.

With reference to the financial statements of the Banca UBAE SpA, at year's end 31 December 2015, showing a net profit of 6,847,514 euros, the Board of Auditors notes that they have been prepared in accordance with IAS/IFRS (International Accounting Standards and International Financial Reporting Standards), now in force, and were delivered to the Board of Auditors together with the annual report on 5 April 2016. Regarding the outcome, the Board of Auditors and the independent auditor have waived the terms of law. In particular, the financial statements at 31 December 2015 have been prepared according to the "Instructions for the preparation of company financial statements and consolidated financial statements of banks and financial parent companies of banking groups" issued by the Banca d'Italia with circular no. 262 of 22 December 2005 and subsequent updates. The notes on the financial statements provide not only the specific information required by law, but also information deemed appropriate to represent the financial position and financial performance of the Company. The report prepared by the Board of Directors contains the appropriate information on UBAE's performance, in a thorough and complete manner.

With regard to the manner in which the Board of Statutory Auditors carried out its institutional activity, it is acknowledged to have:

- participated in the meetings of the Board of Directors, the Executive Committee, the Risk Oversight Committee, the Remuneration and Governance Committee, the Internal Control Committee;
- met regularly with the Head of Internal Audit, Compliance and Risk Management department, to exchange information on operations and monitoring programmes;
- carried out periodic checks, ensuring compliance with the law and the Articles of Association, to ensure respect for the principles of correct administration and the adequacy of the organizational structure and internal control system;

- held regular exchanges of information with the heads of the independent auditors;
- constantly followed the events which the company has experienced.

1. **Atypical and/or unusual operations, including those of an intragroup nature or with affiliated parties.**

During the year, we have not found nor received information from the Board of Directors, the management, the independent auditors, the Head of Internal Audit, on the existence of atypical and/or unusual transactions with third parties, affiliated parties or intercompany operations. Transactions with affiliated parties are described by the Directors in the Notes. The Board of Auditors believes that the above-mentioned operations, of a routine nature, are believed to be appropriate and in the company interest, connected inherently with the achievement of corporate aims.

2. **Adequacy of the information provided in the management report prepared by the Directors, regarding atypical and/or unusual operations, including those of an intragroup nature or with affiliated parties.**

In addition to what is stated in paragraph 1, the Board of Auditors noted that, with regard to transactions with affiliated parties and/or related parties, pursuant to article 2391 bis of the Italian Civil Code, in compliance with the requirements for related persons as per circular no. 263 of the Banca d'Italia - 15th update of 3 July 2013, UBAE has adopted special internal regulations and specific procedures that ensure proper management and continuous monitoring of such operations.

3. **Supervision regarding consolidated law on legal auditing of accounts.**

The Board of Auditors has monitored:

- the financial reporting process;
- the effectiveness of the internal control systems, internal audit and risk management;
- the legal auditing of the annual accounts;
- the independence of the statutory auditor, in particular as regards the provision of non-audit services.

The Board of Auditors examined the plan of audit activities, as well as the report prepared by the statutory auditor whose work complements the overall picture of the control functions required by regulations in relation to the financial reporting process. The report, issued on 7 April 2016 pursuant to article 14 of legislative decree no. 39/2010, shows that the financial statements have been prepared in accordance with international accounting standards IAS/IFRS issued by the International Accounting

Standards Board and adopted by the European Union as of 31 December 2015, and in accordance with the provisions issued in implementation of article 9 of legislative decree no. 38/2005, and have been prepared on the basis of instructions issued by the Banca d'Italia with circular no. 242/2005 and subsequent amendments and additions. Therefore, it provides a true and fair overview of the financial position, financial performance and cash flows for the year ended 31 December 2015. Furthermore, in the opinion of the statutory auditor, the Directors' report is consistent with the balance sheet documents.

In periodic meetings to exchange information, the statutory auditor did not report to the Board of Auditors any acts or facts considered reprehensible, nor irregularities which required the preparation of specific reports.

4. Complaints as per article 2408, and petitions.

During the year 2015, the Board of Auditors did not receive any complaints pursuant to article 2408 of the Civil Code, nor any petitions.

5. Observations on respect for the principles of proper administration.

Through participation in meetings of the Board of Directors and the Internal Control Committee, and on the basis of information obtained or received from the Directors and the body in charge of statutory audit, the Board of Auditors has monitored compliance with the principles of proper management, checking management decisions with the general criteria of economic rationality and the Directors' obligation of due diligence in carrying out their mandate. In this regard the Board of Auditors has no comments to make.

6. Observations on the adequacy of the organizational structure and the internal control system.

To carry out its duties, the Board of Auditors monitored the adequacy of the organizational structure and the internal control system through direct observation, and by gathering information and conducting interviews with representatives of the auditing firm BDO S.p.A.

7. Information on corporate bodies.

With regard to corporate bodies, and with reference to the provisions of article 36 of decree law no. 201/2011 – assumption or exercise of managerial positions in oversight bodies or control in companies or groups of competitors operating in the credit, insurance or financial markets – the Board of Auditors noted that the Directors and the members of the Board of Auditors have assessed their situation and have taken the appropriate decisions in order to comply with said regulations.

8. **Conclusions regarding the supervisory activities carried out.**

The supervisory activities carried out by the Board of Auditors did not reveal any reprehensible facts, omissions or irregularities for inclusion in this report.

9. **Proposal by the Board of Auditors to the shareholders' meeting.**

In light of the foregoing and considering the contents of the statutory auditor's reports, the Board of Auditors has no objection, within the scope of their mandate, to the approval of the draft financial statements at 31 December 2015 submitted by the Board of Directors together with the proposal for allocating the result.

Rome, 7 April 2016

The Board of Statutory Auditors

Fabio Gallassi, Elenio Bidoggia, Francesco Rocchi

LEGAL AUDITORS' REPORT



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(This report has been translated into english from the italian original, solely for the convenience of international readers)

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ART. 14 AND 16 OF LEGISLATIVE DECREE NO.39 27 JANUARY 2010

**To the Shareholders of
Banca UBAE S.p.A.**

Report of the financial statements

We have audited the accompanying financial statements of Banca UBAE S.p.A., which comprise the balance sheet as of 31 December 2015, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and the explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree No. 38/05.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11, paragraph 3 of Legislative Decree No. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca UBAE S.p.A. as of 31 December 2015 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree No. 38/05.

Other matters

The financial statements for the year ended 31 December 2014 were audited by the auditor in charge at the time who expressed an unmodified opinion on those statements on April 14, 2015.

Report on compliance with other laws and regulation

Opinion on the consistency of the financial statements with the report on operations

We have performed the procedures required by auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Banca UBAE S.p.A., with the financial statements of Banca UBAE S.p.A.. In our opinion, the report on operations is consistent with the financial statements of Banca UBAE S.p.A. as of 31 December 2015.

Rome, April 7, 2016

BDO Italia S.p.A

Felice Duca

(Partner)

RESOLUTIONS PASSED BY THE SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 22.04.2016

AGENDA

1. Discussion and approval of the draft financial statements at 31 December 2015, and the Board of Directors' management report;
2. Statutory Auditors' Report;
3. Report by the independent auditing firm;
4. Proposed allocation of profit, and related resolutions;
5. Approval of the proposed 2016 remuneration and incentive policies for the Directors, Statutory Auditors, employees and collaborators linked to the Bank by unsubordinated employment contracts (pursuant to 7th update of circular no. 285 of 17 December 2013 concerning remuneration policies and practices, as well as incentives in banks and banking groups);
6. Assigning a bonus award to the members of the Board of Directors on the 2015 budget results;
7. Appointment of Directors;
8. Appointing BDO Italia SpA to replace BDO SpA as UBAE's statutory auditor for the years 2012/2020, responsible for the business segment;
9. Payment to BDO Italia SpA of an ad hoc amount for the extra work involved in auditing the financial statements at 31 December 2014 caused by the transfer of UBAE's IT system to another outsourcer.

Taking note of the Board of Directors' report, the Statutory Auditors' report and the independent auditors' report accompanying the financial statements for the year ended 31 December 2015, the shareholders' meeting adopted the following resolutions:

- approval of the financial statements at 31 December 2015, handing them over to the Board of Directors for ratification and acceptance;
- accepting the proposal put forward by the shareholder Libyan Foreign Bank regarding the distribution of profit as follows:

	EURO	
NET PROFIT	6,847,514.00	-
5% TO THE LEGAL RESERVE (ARTICLE 30 LETTER A OF ARTICLES OF ASSOCIATION)	345,000.00	=
RESIDUAL AMOUNT	6,502,514.00	+
SURPLUS EARNINGS FROM PREVIOUS YEAR	70,052.56	=
	6,572,566.56	-
DIVIDED 2015 TO BE DISTRIBUTED	3,286,000.00	-
ALLOCATION TO EXTRAORDINARY RESERVE	3,286,566.56	=
CARRIED OVER	00.00	

With the approval of the above allocation, the overall reserves will amount to Euro 57,048,427.73. The total equity of the Bank's paid-up capital, reserves, retained earnings and share premiums will therefore amount to Euro 216,909,227.73.

In addition, the shareholders' meeting confirmed Mr Sharef S. A. Shalabi as Chairman of the Board of Directors, already co-opted by the Board on 18 March 2016, and directors Amin Adulsalam Farag Botlag and Andrea Gemma, co-opted respectively on 30 November 2015 and 14 September 2015.

At the end of the meeting, the Chairman thanked the directors, auditors, general management and the bank personnel for their commitment in 2015 towards achieving positive results, with particular recognition and special thanks to the shareholder Libyan Foreign Bank for the constant support given to the Bank's activities and its financial needs.

ANNEX A

COUNTRY - BY - COUNTRY REPORTING AS AT 31 DECEMBER 2015

Regarding the obligations prescribed by circular no. 285 of 17 December 2013 "Supervisory Dispositions for Banks" – 4th update of 17 June 2014 on country-by-country reporting introduced by article 89 of directive no. 2013/36/EU ("CRD IV"), shown below are the details marked by letters a), b) and c) of Annex A of the First Part, Section III, Chapter 2, with reference to the situation at 31 December 2015.

a. Denomination and nature of activity

Denomination: Banca UBAE S.p.A.

Registered office: Roma, Via Quintino Sella 2

Milan branch: Piazza A. Diaz, 7

Representation office: Tripoli (Libya), O. Mukhtar Invest Complex

Corporate capital: EUR 159,860,800 fully paid up.

Activity:

Banca UBAE was set up in 1972 as the "Union of Arab and European Banks", as a banking institute with Italian-Arab capital. The shareholders of Banca UBAE include important banks:

- Libyan Foreign Bank - Tripoli;
- Unicredit - Rome;
- Banque Centrale Populaire and Banque Marocaine du Commerce Extérieur - Casablanca;
- Intesa Sanpaolo – Turin;

and leading Italian companies:

- Sansedoni Siena (Monte dei Paschi di Siena Foundation) – Siena;
- ENI Adfin (ENI Group) – Rome;
- Telecom Italia - Milan.

The current objective is to develop industrial and economic trading relations between Italy and the countries of North Africa and sub-Saharan Africa, the Middle East, the Indian sub-continent and the countries of Southeast Europe.

The main services offered to customers who work with foreign countries are: export financing, letters of credit, standby letters of credit, risk sharing, guarantees, finance, trading and financial syndications, as well as professional assistance in foreign countries through a network of local consultants.

The Banca UBAE currently operates in fifty countries with the support of 500 correspondent banks occupying a position of reference and reliability in the foreign trade sector. The bank does not have branches abroad.

- b. **Turnover¹ = EUR 37,160,349.00**
- c. **Number of employees on equivalent full-time basis² = 188**
- d. **Pre-tax profit¹ = EUR 11,269,311.00**
- e. **Tax on profits¹ = EUR 4,421,797.00**
- f. **Public contributions received = None, not applicable**

(1) "Turnover" is understood as the gross operating income as per item 120 of the income statement.

"Pre-tax profit" is understood as the sum of items 250 and 280 of the income statement.

"Tax on profits" is understood as the sum of taxes as per item 260 of the income statement.

(2) "Number of employees on equivalent full-time basis" is understood as the ratio between the overall number of hours worked by all the employees, excluding overtime, and the annual total laid down in the contract for a full-time employee.

ANNEX B

OBLIGATION TO PROVIDE INFORMATION FOR THE PUBLIC

All the material required by the Banca d'Italia circular no. 285 of 17 December 2013 on the subject of providing information for the public, will be published on the Bank's website at the following address:

www.bancaubae.it

More specifically, within a month of the shareholders' meeting to approve the financial statement, the document regarding the third Pillar will be published on the website, also containing information on:

- own funds (article 437, paragraph 2, of CRR);
- own funds in the period from 1 January 2014 to 31 December 2021 (article 492, paragraph 5, of CRR);
- financial activities without constraints (article 443 of CRR);
- financial leverage (article 451, paragraph 2, of CRR).

Furthermore, also on the subject of providing information for the public and regarding the Bank's remuneration policies, the data required by article 450 of the CRR as set out in the Banca d'Italia circular, will be published in the same way as described above.



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