BANCA UBAE
مصرف اليوباي

45°
1972 - 2017

ANNUAL REPORT AND BALANCE SHEET

2016

Your partner for International Business

A bridge between cultures since 1972

جسر بين الثقافات منذ عام 1972

MISSION

Identify the best banking solutions for our internationally oriented customers.

VISION

Be one of the best banks 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 2016) Eur 57,596,542

Listed by percentage:

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

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Fax	+39 06 42046415
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TRIPOLI (LIBYA) REPRESENTATIVE OFFICE

Address	Omar Mukhtar Street – Omar Mukhtar Investment Complex
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BOARD OF DIRECTORS 2015-2017

Appointed by Shareholders' Meeting on 30 April 2015

Chairman Sharef S.A. Shalabi (1)

Vice Chairman Alberto Rossetti

Directors
Omran M. Abosrewil
Mohamed Benchaaboun
Luigi Borri
Amin A. F. Botlag (2)
Abdelrazak M. Elhoush
Abdulhakim M.Eljabou
Omran M. Elshaibi
Elamari M.A. Mansur
Andrea Gemma (3)

Secretary to Board of Directors and Executive Committee *
Priscilla Simonetta

AUDITING BOARD **

Appointed by Shareholders' Meeting on 30 April 2015

Chairman Fabio Gallassi

Statutory Auditors
Francesco Rocchi
Elenio Bidoggia

Alternate Auditors
Sergio Montedoro
Daniele Terenzi

* 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) Appointed by shareholders on 22 April 2016, already co-opted on 18 March 2016 by the Board of Directors
(2) Appointed by shareholders on 22 April 2016, already co-opted on 30 November 2015 by the Board of Directors
(3) Appointed by shareholders on 22 April 2016, already co-opted on 14 September 2015 by the Board of Directors

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

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

Senior Executives

Head of Commercial	Massimo Castellucci
Head of Administrative & IT	Fabio Fatuzzo
Head of Credit & Risk	Giovanni Gargasole
Head of Finance	Antonino Sprizzi

Head of Tripoli Representation Office	Mahmud Ali Elesawi

KEY COMPANY DATA AND FINANCIAL/ECONOMIC RATIOS

FINANCIAL DATA	31 DEC 2014	31 DEC 2015	31 DEC 2016	
FINANCIAL ASSETS	€ 495,783,442	€ 591,166,976	€ 891,306,449	
BANKS FINANCING	€ 322,949,190	€ 643,263,680	€ 697,618,403	
DEPOSITS TO BANKS	€ 1,905,077,140	€ 1,163,243,204	€ 601,224,093	
CUSTOMER FINANCING	€ 446,164,551	€ 325,664,738	€ 354,394,696	
EARNING ASSETS	€ 3,169,974,323	€ 2,723,338,598	€ 2,544,543,641	
TOTAL ASSETS	€ 3,392,055,257	€ 2,786,816,994	€ 2,880,630,372	
DEPOSITS FROM BANKS	€ 2,673,179,411	€ 2,088,170,384	€ 1,963,258,630	
FREE DEPOSITS AND A/C WITH BANKS	€ 323,470,649	€ 313,003,182	€ 328,165,602	
SUBORDINATED LOANS	€ 100,000,000	€ 100,000,000	€ 100,000,000	
CUSTOMER FUNDING	€ 149,384,820	€ 143,298,742	€ 237,813,177	
TOTAL FUNDING	€ 3,246,034,880	€ 2,644,472,308	€ 2,629,237,409	
RESERVES	€ 57,253,002	€ 53,489,480	€ 57,596,542	
SHARE CAPITAL	€ 151,060,800	€ 159,860,800	€ 159,860,800	
NET PROFIT	€ 9,552,846	€ 6,847,514	€ 3,552,894	
GROSS WORTH	€ 217,866,648	€ 220,197,794	€ 221,010,236	
NET INTEREST INCOME	€ 22,745,387	€ 18,557,121	€ 21,347,896	
NET COMMISSIONS	€ 13,271,507	€ 13,247,423	€ 12,960,836	
NET FINANCIAL INCOME	€ 1,788,600	€ 5,355,805	€ 2,724,623	
NET TRADING INCOME	€ 37,805,494	€ 37,160,349	€ 37,033,355	
OPERATING CHARGES	€ (28,629,327)	€ (29,678,348)	€ (29,032,088)	
NET OPERATING PROFIT	€ 9,176,167	€ 7,482,001	€ 8,001,267	
NET PROFIT	€ 9,552,846	€ 6,847,514	€ 3,552,894	(*)
TURNOVER LETTERS OF CREDIT OIL	€ 993,710,000	€ 614,583,147	€ 5,110,434	
TURNOVER LETTERS OF CREDIT NON OIL	€ 1,607,970,000	€ 870,597,969	€ 1,330,899,456	
TURNOVER GUARANTEES	€ 281,374,620	€ 100,781,752	€ 125,118,475	
OUTSTANDING GUARANTEES	€ 424,990,450	€ 384,143,173	€ 454,428,397	
GROSS WORTH/TOTAL ASSETS	6.42%	7.90%	7.67%	
LOANS/DEPOSITS RATIO	25.67%	40.35%	45.91%	
INTERBANK RATIO	74.35%	75.23%	56.68%	
IMPAIRED LOANS/EARNING ASSETS	0.68%	0.16%	0.05%	
ROE NET PROFIT/PAID CAPITAL	5.69%	3.88%	2.01%	
ROE NET PROFIT/GROSS WORTH	4.38%	3.11%	1.61%	
ROI NET PROFIT/FUNDING & EARNING ASSETS	0.15%	0.13%	0.07%	
ROA NET PROFIT/TOTAL ASSETS	0.28%	0.25%	0.12%	(**)
OPERATING CHARGES/NET TRADING INCOME	75.73%	79.87%	78.39%	
NET PROFIT/NUMBER OF EMPLOYEES	€ 53,071	€ 36,230	€ 18,699	
NUMBER OF EMPLOYEES	180	189	190	
TOTAL CAPITAL RATIO	18.03%	17.04%	16.03%	
TIER I CAPITAL RATIO	13.04%	11.67%	10.95%	
ELIGIBLE NET WORTH	€ 289,377,942	€ 317,448,747	€ 316,202,581	

(*) This data includes extraordinary contributions to the National Resolution Fund for an amount of approximately Euro 3 Million

(**) as per art. 90-CRD IV (Capital Requirements Directives)

YOUR BANK FOR INTERNATIONAL BUSINESS

BANCA UBAE

مصرف اليوباي

Leptis Magna, Libya

ANNUAL REPORT

1 January - 31 December 2016

Mr. Sharef S.A. Shalabi

CHAIRMAN'S STATEMENT

To all shareholders

Banca UBAE witnessed challenging conditions throughout this past year, primarily as a result of the domestic crisis and the uncertain global political landscape that has significantly affected the Bank's targeted markets.

Despite these conditions, and thanks to the efforts undertaken by the Bank's management and personnel under the supervision of the Board of Directors, Banca UBAE has achieved reasonable results for its shareholders. Indeed, the past year has been full of initiatives and achievements.

Banca UBAE continued to assist customers who are active in foreign markets and elsewhere, by offering products and services more relevant to their business needs, despite an unsettled domestic economic framework.

The Bank placed greater attention on its domestic clientele and endeavoured to locate new income-generating opportunities by implementing policies geared to retain business counterparties and boost Italian exports through the grant of credit facilities.

Notably, Banca UBAE:

a) continued to provide specialist advice through the current foreign network of consultants, the Rome HQ, the Milan branch and the representation office in Tripoli (Libya) and made international services and products available in Italy and abroad, as well as involving credit insurance companies;

b) continued to strengthen financial and trade cooperation with the African Development Bank and the Union of Arab Banks, in order to explore new business opportunities and signed partnership agreements as well as improving the quality of customer care in terms of liquidity and economic conditions;

c) expanded the number of partner banks in Italy and abroad for trade finance, thus further developing UBAE's role as a point of reference for Italian regional banks with regard to supporting the expansion of their international business;

d) provided tailor-made financial products through its branch in Via XX Settembre (Rome) for companies and embassies to the Italian State, the Vatican and FAO;

e) gave new impetus during the year to the existing activity of factoring carried out by the Milan branch with a dedicated desk;

f) revised the internal financial limits in order to enlarge the treasury's mismatching grid while respecting the limits set by the Supervisory Board;

g) increased the Bank's securities' portfolio, especially with low-risk bonds issued by governments and central administrations of North African countries.

During 2016, Banca UBAE continued with its existing commercial policy aimed at building business abroad, pinpointing exciting challenges in new markets and marketing activity focused on traditional partners and primary European banks- entities that were the target for intensive business visits in order to boost trade relations.

The Bank paid close attention to the containment of overheads without reducing the efficiency of the operating structure.

These actions had an impact especially in the second half of 2016 bringing satisfactory economic benefits to the Bank which was able to take advantage of business opportunities in international and domestic markets, evaluating carefully the risk map involved – risks that have led to some stability in advanced markets against the tangible increase in the risk factor of emerging foreign countries and in some geographical areas such as the Middle East and North Africa, where the Bank's traditional core business is located.

It is worth noting that the respectable agency Fitch confirmed UBAE's rating as "BB". This assessment, based solely on the Bank's stand-alone operational capability, must be viewed positively against the current difficult situation in Libya which has to be considered as a risk for UBAE since the Bank's majority shareholder is headquartered there.

Furthermore, Fitch also recognised Banca UBAE's sound and prudent management together with its good asset quality and liquidity.

Referring to the report for a more detailed analysis on the state of its accounts, I would like to highlight the positive economic results achieved in consideration of certain factors that have heavily influenced the sector in which the Bank operates, such as the economic loss of the last few years by almost 10% of the Italian GDP and about 25% of industrial production – factors that have certainly affected the balance sheets of Italian banks, especially credit quality and profitability.

In this regard, I would like to highlight the good percentage of UBAE's non- performing loans compared to that reported by the Italian banking system; this fact confirms the prudent policy adopted by Banca UBAE and the careful evaluation of risks that has always been part of its character.

It should also be noted that the Bank's 2016 results are even more satisfactory considering that Banca d'Italia, in order to settle the crisis of the four Italian banks that went into default at the end of 2015, required all banks which are incorporated in Italy and Italian branches of non-EU banks to pay extra contributions (as well as the ordinary one) to the National Resolution Fund. Such contributions, included on UBAE's income statement for 2016, amounted to about Euro 4.5 million.

Allocating part of the 2016 earnings to increase the Bank's equity – as proposed by the Board of Directors to the Shareholders' Meeting – will help to stabilize the "Total Capital Ratio" and "Tier 1" which amounted respectively to 16.03% (previously 17.04%) and 10.95% (previously 11.67%); these levels are considered adequate to meet the limits set by European regulations on the subject of banks' solidity.

The overall conditions of the domestic and overseas markets where the Bank is active have improved slightly although the global economic growth remains modest and characterized by uncertainty. The economic policies of the new US administration have not yet been set out in detail and the outcome of the Brexit referendum in the United Kingdom has not yet produced the expected effects on international financial markets.

The outlook has improved slightly in emerging economies but remains uncertain in the major advanced countries; the expected growth of international trade has again been revised downwards. The main risks are due to geopolitical tensions fuelled by the conflict in the Middle East, the continuing threat of terrorism and fears that political developments in some countries could give rise to the closure of national borders.

The worldwide Gross Domestic Product (GDP) in 2016 stood at around 2.6% while the forecasts for 2017 and 2018 are respectively 3.5% and 3.7%. The growth (+4.1%) in the economies such as Brazil, Russia and the countries of sub-Saharan Africa should offset the slowdown in the growth of China and other advanced economies.

In the Eurozone, economic growth continues at a modest rate. The risks of deflation seem to have been reduced, but inflation in December rose slightly, while still remaining at a relatively low level.

In such a situation, to maintain the expansive monetary policies, the European Central Bank (ECB) has extended the programme for purchasing securities to cover the whole of 2017.

In 2016 the GDP in Europe stood at 1.6% with forecasts of a slight rise in 2017 (+1.7% circa) and in 2018 (+1.8% circa). The main risks for the Eurozone are its economic fragility, the crisis of sovereign debts, and the vulnerability of the banking sector.

The GDP for 2017 is expected to continue at about +0.9%. Forecasts for the next two years (confirmed by the first months of 2017) show that the GDP should range between +1.0% and +1.1%.

The improvement in the credit market continues, although to a small extent, helped by the cyclical recovery and the measures taken by the ECB Governing Council. After a prolonged period of decline, loans to the private non-financial sector increased in 2016. The credit quality of Italian banks continues to benefit from the economic situation, reporting a decrease in the flow of impaired loans.

The scale of the net outstanding loans inherited from the long crisis – while still high and continuing to affect credit risks and the profitability of banks – stood at about 85.5 billion euros in 2016, confirming the 4% reduction of net bad debts from its peak in December 2015 (Euro 89 billion). The ratio of net non-performing loans to total loans was 4.8% compared to 4.94% in 2015 and to 0.86% of the pre-crisis period.

Regarding the economies of countries in the Middle East and North Africa (MENA) – the Bank's traditional target markets – an upswing of +3.5% is forecast for 2016 with further slight improvement in 2017. Most of the MENA countries will see a gradual increase in growth, more marked in those that import raw materials and slightly less in those that export materials.

As shareholders, you will be pleased to know that in 2016 your Bank achieved satisfactory financial results given the economic environment in which it operates. I am confident that Banca UBAE will continue to pursue its growth path with equally satisfactory results thanks to the good position acquired in target areas, its well- established role as a credit intermediary for certain specific markets, backed by the strong strategic guidelines that government bodies and General Management intend to adopt. All this confirms that Banca UBAE operates in the interest of its shareholders as a profitable investment.

Finally, I would like to express my appreciation for the commitment and dedication shown by the Directors, the Statutory Auditors, the General Management as well as the staff, in achieving the 2016 results despite the unfavorable environment referred to above.

A heartfelt thank you goes to the shareholders for their support and confidence in the Bank, and especially to our majority shareholder, the Libyan Foreign Bank, for having always met the Bank's financial needs.

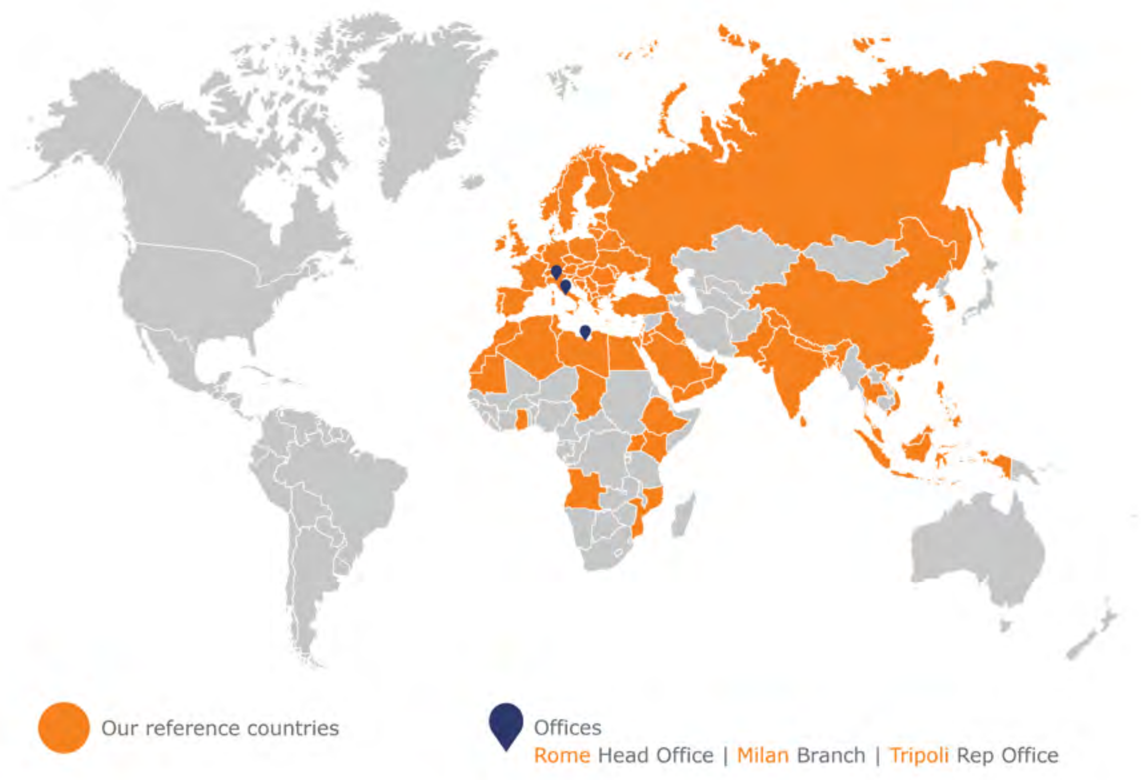
Mr. Sharef S.A. Shalabi

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

EUR/mn

COUNTRIES	2016		2015		2014	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
1 LIBYA	1,816	1,076	3,420	1,488	8094	2,849
2 ALGERIA	4,269	3,710	3,020	4,143	6,275	4,268
3 EGYPT	1,537	3,087	1,985	2,951	1,872	2,835
4 BANGLADESH	1,323	509	1,287	474	865	273
5 PAKISTAN	599	622	578	440	477	430
6 MAURITANIA	105	31	139	27	193	55
7 TUNISIA	2,243	2,924	2,300	3,033	2,299	3,220
8 ANGOLA	409	189	876	259	928	399
9 BAHREIN	123	264	79	203	74	225
10 LEBANON	35	1,168	37	1,188	43	1,294
11 GERMANY	59,454	52,713	56,809	51,023	54,618	50,060
12 MOROCCO	836	1,613	797	1,469	657	1,530
13 OMAN	50	816	77	651	141	435
14 SAUDI ARABIA	2.561	4,191	3,354	5,138	5,502	4,503
15 SRI-LANKA	340	236	366	186	396	219
16 UK	10,996	22,478	10,575	22,484	10,071	20,907
17 JORDAN	43	764	50	666	42	711
18 YEMEN	4	52	6	60	11	146
19 ETHIOPIA	52	325	58	307	56	264
20 SPAIN	19,535	20,968	18,391	19,854	17,035	17,944
21 QATAR	848	905	1,343	986	1,704	1,076
22 KUWAIT	929	1,103	184	777	142	796
23 MALTA	351	1,568	272	1,563	212	1,549
24 IRAQ	2.944	619	3,365	917	2,950	1,270
25 TURKEY	7,474	9,599	6,621	10,005	5,507	10,084
26 FRANCE	32,547	43,923	32,109	42,548	30,646	42,014
27 MOZAMBICO	368	44	360	55	331	72
28 CROATIA	1,488	2,549	1,400	2,583	1,393	0
29 SWITZERLAND	10,600	19,015	10,847	19,239	10,534	19,074
TOTAL	163,880	197,061	160,707	194,716	163,067	188,502
UBAE'S SHARE	2	1,323	601	840	405	1,676
%	0.00	0.67	0.37	0.43	0.25	0.89

CLOSE TO OUR CUSTOMERS WORLDWIDE



Sabratha, Libya

SUMMARY OF OPERATIONS

1 January - 31 December 2016

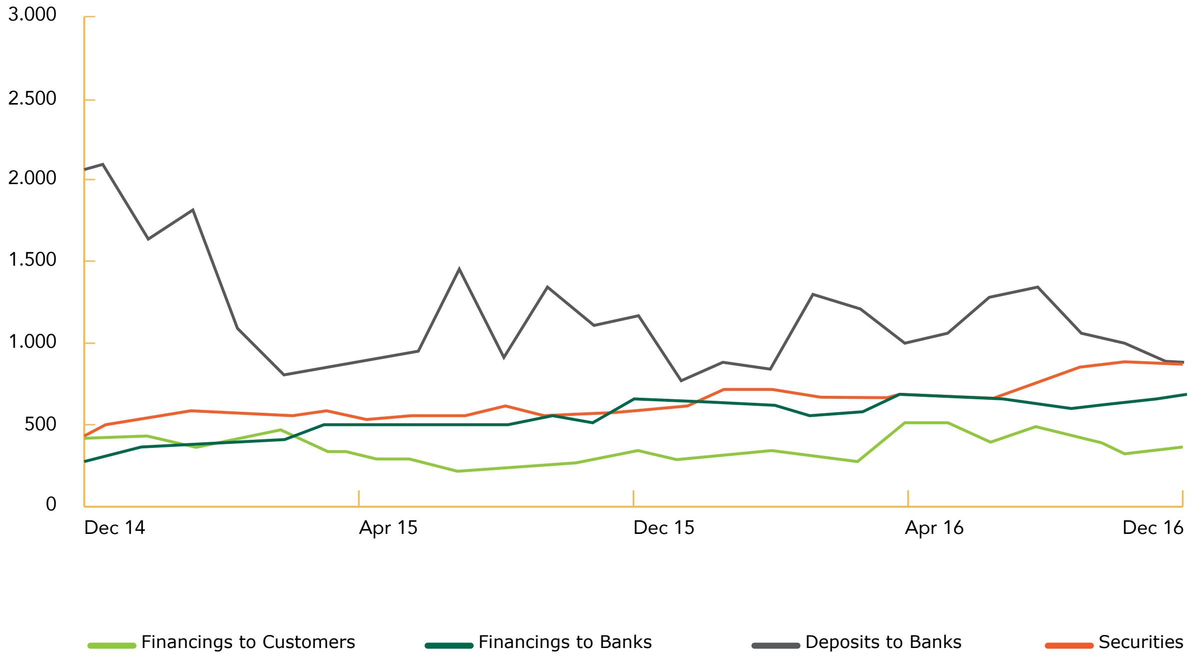
BANKING OPERATIONS IN 2016

Loans and Advances

The Bank's activities are mainly directed towards promoting financial brokerage in support of commercial transactions with counterparties that conduct import-export activities or which implement infrastructure projects in countries of interest; at the same time, interventions on the retail market are limited.

During the year, despite the difficulties caused by the continuing economic and financial crisis affecting world markets, commitments to banking entities and other counterparties have increased.

The graph below reflects a repositioning policy in the funding sector whose structure has been rebalanced:



Considering the risk of short-term loans of a non-commercial nature to corporate customers, and the fact that they are unrelated to the Bank's core business, such loans constitute an insignificant volume of the Bank's activities, and tend to be limited to customers for whom UBAE already provides support for trade finance operations.

In general terms, the credit risk is appropriate to the size of the Bank and is not unduly high.

Commercial Operations on Foreign Markets

This year, too, commercial activity towards the countries of interest was the Bank’s main strength earning significant revenues to cope with the difficult conditions of financial markets.

In 2016, the international situation was characterised by uncertainty, even though worldwide growth gradually strengthened but did not lead to a strong recovery in sales. The economy remains subdued and is affected by certain factors such as the slowdown of the Chinese economy, the decline in commodity prices, the slow growth of productivity, some political and social shocks such as Brexit, and the new protectionist policies announced by the US administration.

The overall situation is adversely affected by the prolonged political and social crisis in some countries of North Africa and the Middle East, with the worsening in certain areas (such as Libya and Yemen) as well as the slow economic growth in the Euro zone, and in particular Italy whose economy, albeit gradually consolidating, is growing very slowly.

In this weak economic period, the Bank has been able to react quickly and effectively towards new business opportunities, thanks to the market position gained in recent years.

During 2016, an intense and successful promotional campaign was conducted towards countries of interest in order to consolidate market shares already acquired against international competition, and towards new markets in expansion.

Several steps were taken to develop business by identifying new targets in terms of customers and products; this policy has enabled the Bank to counter the adverse volatility of the markets in which it operates, and to achieve good results.

In 2016, the Bank undertook a strong marketing campaign towards selected financial entities especially to expand commercial operations aimed at increasing the number and value of letters of credit and international guarantees not related to petroleum activities. This policy, in fact, has proved successful in order to counteract the fall in commercial activities related to the import and export of crude oil; the latter transactions, for the reasons described above (low oil prices and geopolitical crisis in some exporting countries) showed a marked decrease in 2016.

In particular, the management successfully adopted a strategy to sign collaboration agreements with Italian regional banks for UBAE to handle their customers’ business activities.

Revenues from commercial activities amounted to Euro 28.11 million (previously Euro 26.07 million) of which 40% deriving from commissions on letters of credit and sureties, 57.5% from financing and commercial discounting operations, and 2.5% from factoring activities.

The geographic origin of the above revenues show that 76.6% were created abroad and 23.4% in Italy.

New operations related to factoring, which began at the Milan branch in 2015, showed good growth with interesting volumes of business by the end of 2016.

At the same time, UBAE continued to carry out a careful analysis and close monitoring of customers against possible risks (credit, market, operational and reputational).

In 2016 the Bank carried out its activities regularly, carefully assessing the situation of various sectors of the economy in the countries of interest conditioned particularly by the trend in oil prices. In fact, the high volatility of oil prices is undermining public spending and fiscal plans, with negative effects especially for exporters of raw materials in the MENA area (Middle East and North Africa).

Many of the oil-producing countries, for which our Bank has provided trading and financial services for years with satisfactory results, could be forced, in the short term, to review their budget policies with a direct impact on investments and reforms already in place.

In this unsettled economic framework for 2016, UBAE continued to assist customers who are active on foreign and other markets by offering products and services that are more relevant to their business needs.

In 2016, thanks to an effective commercial stimulus, promotional activities continued to develop business abroad, through missions to implement existing activities and to identify new business opportunities in order to diversify sources of income in the banking and corporate sectors involved in international commerce.

Effective actions were taken by the Bank aimed at expanding new and established markets in the Far East (i.e. Bangladesh, Singapore), Eastern Europe (i.e. Croatia, Serbia and Albania) and North Africa (i.e. Kenya, Mozambique, Ethiopia, Angola) all of which have started to show the first positive results which will gradually consolidate over the coming years.

In fact, despite the continuing economic crisis – also highlighted by the price of crude oil that has certainly affected the expectations of some emerging countries regarding their growth – the Bank has nevertheless followed very closely the economic dynamics of their economies in order to take advantage of any tangible signs, consequently laying the foundations for development initiatives in the near future.

During the year the Bank also continued to promote interesting operations involving Italian companies of high standing, large banks and major public sector companies; these agreements represent an implicit recognition of professionalism and long-standing experience gained by the Bank in the commercial sector.

The credit risk associated with these operations is safeguarded by insurance policies with companies specialised in the field.

The annual figures shown below describe the evolution:

EUR/000

	2016		2015		2014	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
LETTERS OF CREDIT: NUMBER	1,336	(56.38)	3,063	(18.54)	3,760	(7.91)
NON OIL LETTERS OF CREDIT: TURNOVER	1,330,900	52.87	870,598	(43.17)	1,531,812	54.96
OIL LETTERS OF CREDIT: TURNOVER	5,110	(99.17)	614,583	(35.10)	947,031	(33.71)
% OF TOTAL EXPORTS		0.67		0.43		0.89
% OF TOTAL IMPORTS				0.37		0.25
COMMISSIONS ACCRUED	7,822	8.55	7,206	(23.22)	9,385	(0.37)

The increase in the values recorded in 2016 confirms, as mentioned above, the positive effects of the actions taken by the Bank despite the continuing difficult situation in some key countries – such as Egypt, Turkey and Algeria – with a positive impact on the volume of non-oil letters of credit which largely offset the economic impact of reduced activities related to oil and its derivatives.

The figures for the guarantees sector show the following trend:

EUR/000

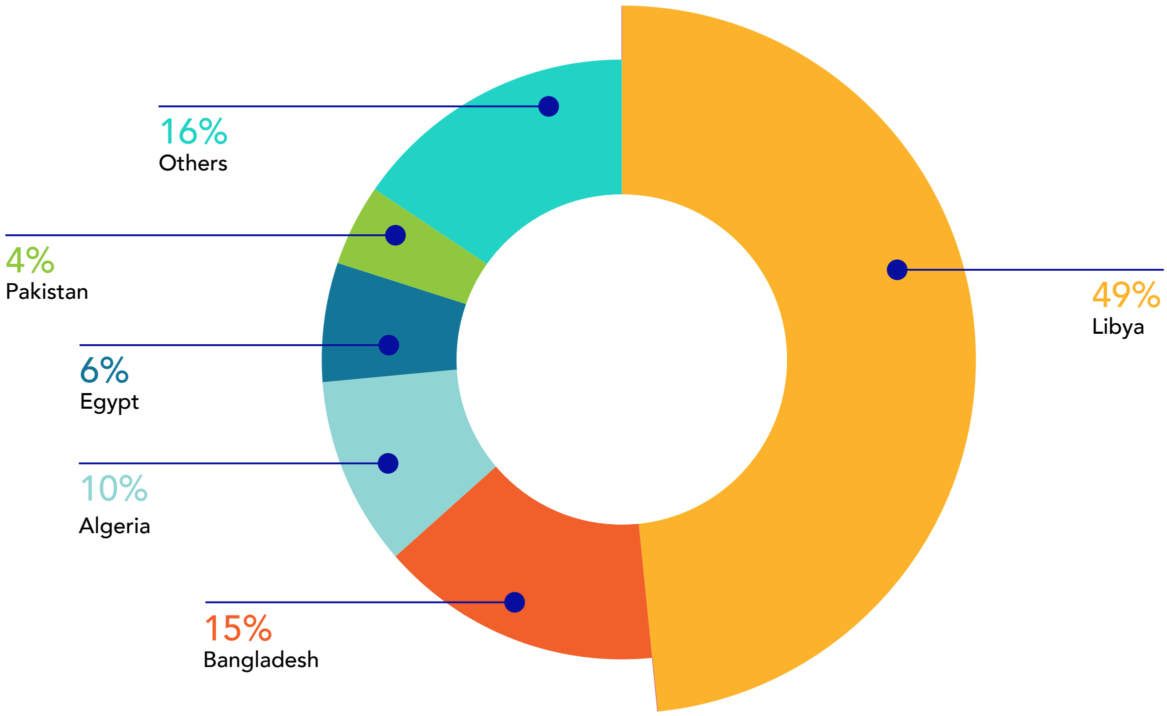
	2016		2015		2014	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
GUARANTEES ISSUED IN YEAR	125,118	24.15	100,782	(63.56)	276,587	69.14
GUARANTEES: OUTSTANDING AT EoY	454,428	18.30	384,143	(9.61)	424,990	25.88
COMMISSIONS RECEIVED	3,546	(9.01)	3,897	1.25	3,849	21.11

Guarantees – issued mainly for leading Italian companies against exports and/or relevant contracts in foreign markets of interest – showed an increase in turnover (24.15%) mainly due to the Bank’s commercial activity in such markets. The increase in volume, especially in the second half of the year, produced good economic returns at year’s end, recovering from the uninspiring start of the first half of 2016; in fact, revenues stood at satisfactory levels, although down compared to the previous year (-9.01%).

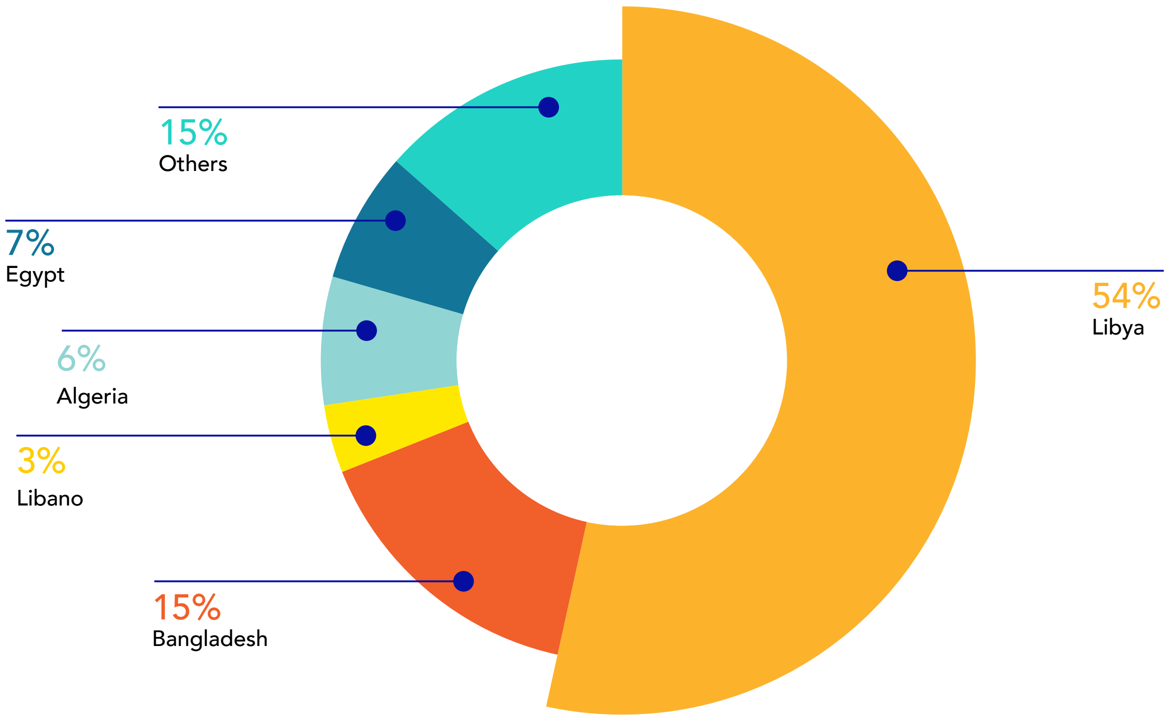
It is expected that the efforts made by the Bank in this area will have a full income return as early as next year.

The composition by country of origin of letters of credit received and brokered can be represented as follows:

NON OIL L/Cs - Turnover 2016

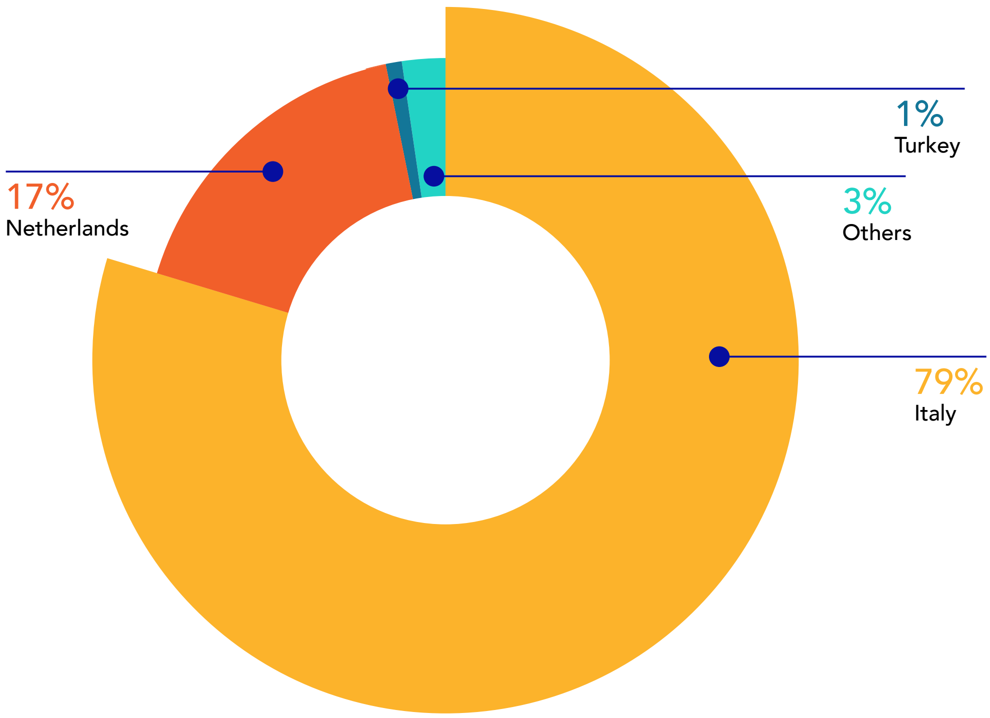


L/Cs - Commissions 2016

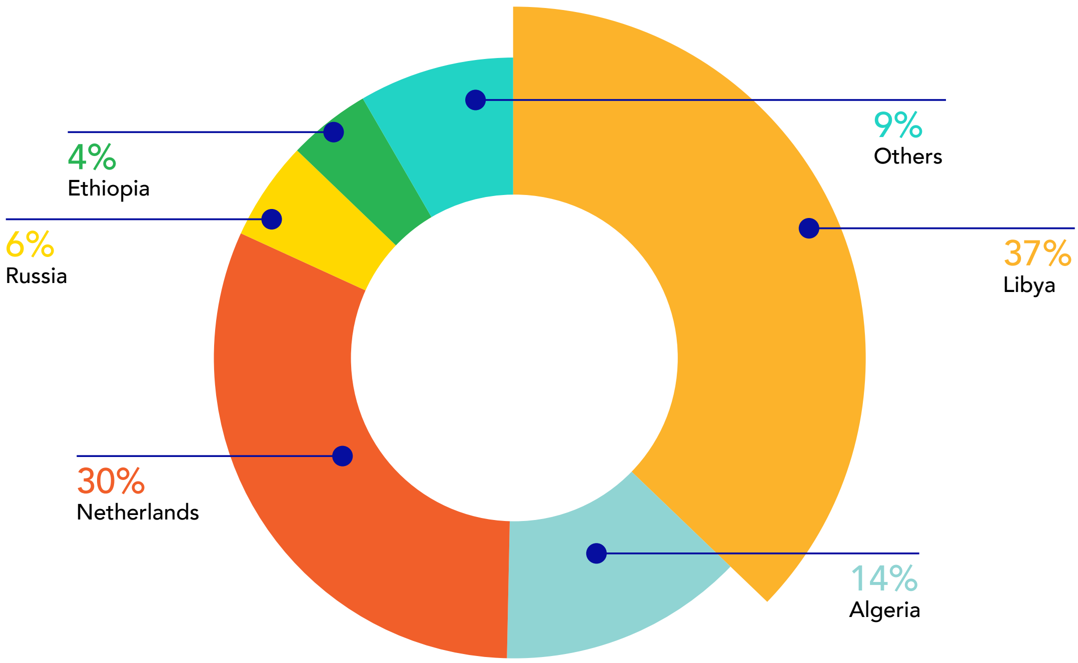


The composition by country of origin of applicants and beneficiaries of L/Gs can be represented as follows:

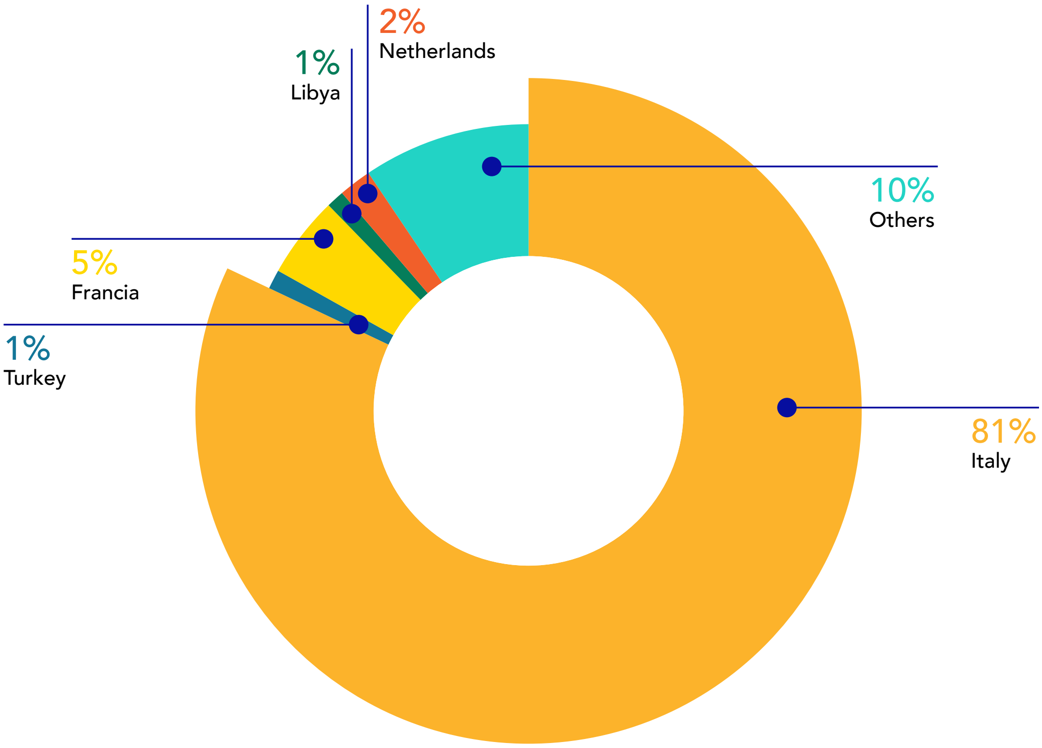
L/Gs - Applicant



L/Gs - Beneficiary



L/Gs - Commissions 2016



Financial market operations

During 2016 the Bank took strong action to find more lucrative forms of income and investment compared to the funds collected from institutional counterparties and customers.

Average volumes handled during the year recorded an increase over the previous period.

The funds raised in 2016 had a fairly regular pattern, reaching quite good values; this level of performance shows, and at the same time confirms, the shareholders' expectations in the Bank's ability to seek objectives (risk and return) inspired by the sound and prudent management of funds raised, and their proper administration.

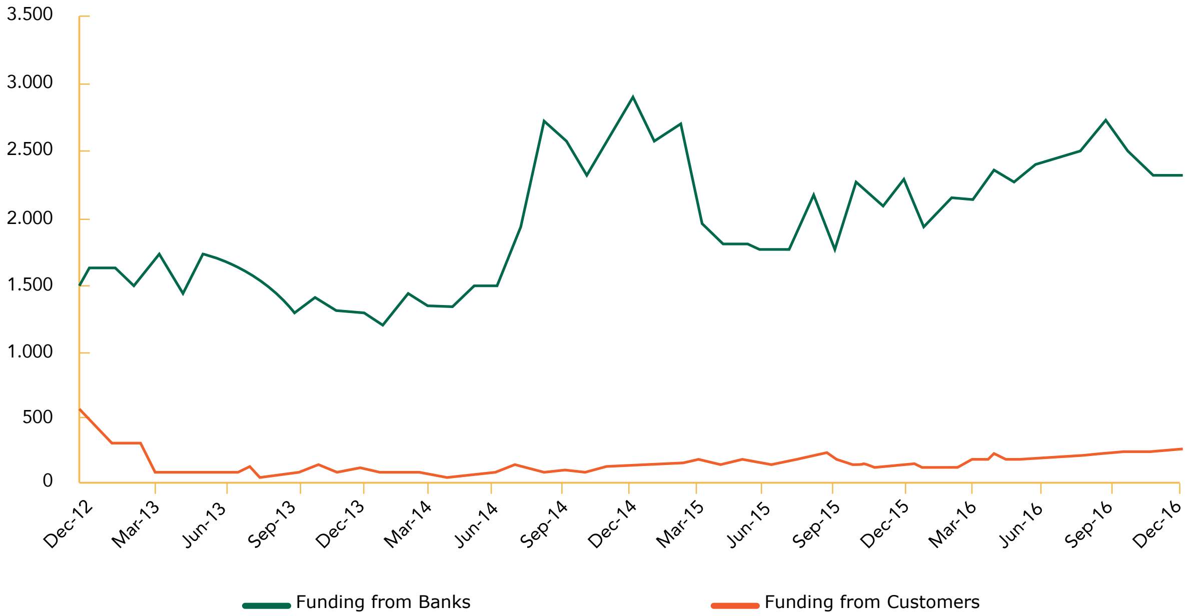
Despite the unsettled nature of the economic crisis, UBAE continued to pursue its business goals by allocating the funds raised to forms of commercial support, facilitated by the Libyan Foreign Bank which has renewed two security agreements with UBAE, totalling USD 415 million and EUR 100 million, aimed mainly at strengthening the bank's funding and enabling more intra-group transactions in compliance with Banca d'Italia current regulations on related parties.

The average balance of total deposits during the period (due to banks and customers) and the percentage change from the previous quarter are summarised in the following table:

FUNDING 2016 EUR/000

FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
2,177,305	(7.04)	2,504,335	15.02	2,747,500	9.71	2,579,152	(6.13)

The diagram below shows the main sources of funding during the period:



Managing financial assets

The operations for different types of instruments handled by the Bank reached satisfactory volumes at year-end, in line with previous periods. Several actions were undertaken always aimed at improving the Bank's profitability to ensure returns and risks in line with those generated by other commitments.

In a very complex year, characterised by various critical issues such as the worsening of the financial crisis in some countries – UBAE's core business – action was taken to put in place a more intense and careful analysis of the counterparties and yield margins, prompting the Bank to limit operations in the trading sector, in order to identify, especially in the segment of fixed assets, the most profitable opportunities offered by financial markets appropriate to increase the flow of interest.

The sector of fixed investment also showed a significant increase in volumes.

The Bank revised the size limits of its securities portfolio in order to continue undertaking financial transactions with credit institutions also in the form of private placement of discountable securities at the ECB, and is opening its own business dealing with forms of investment in fixed-income bonds issued by governments and central banks of Asian and North African countries.

The composition of the portfolio at year's end reflects investments made primarily in bonds issued by supervised institutions, Italian State bonds and securities issued by governments or central institutions – not the EU – with an average remaining life of 1.37 years for the trading book and for 1.62 years for the investment portfolio (HTM). The use of synthetic products, aimed at reducing the interest rate risk at operational level, brought the average duration to 0.96 years for the trading book and 1.16 years for the investment portfolio.

In practice, the Bank maintained a securities portfolio with a very low risk profile (credit and interest rate).

The Bank's policy was to restrain investments in the stock market with the aim of limiting most of the risks that might arise from this sector, and to encourage investment in the bond segment, in variable rate and fixed issues, linking the latter to synthetic products able to limit any risks arising from interest rate volatility.

The results show that the strategy adopted in 2016 – working in a market that was certainly unfavourable and conditioned (in terms of liquidity) by the interest-rate policies adopted by the European Central Bank – has been able to achieve significant results in investing and trading (trade securities, derivatives and foreign exchange).

Investments in securities have been made in accordance with the following guidelines:

a) investment portfolio (i.e. held to maturity/available for sale):

- variable-rate issue with profitability higher than interbanking level, to be held in portfolio until maturity;
- fixed rate issues, with maturity mostly in the short term (also as a result of hedging instruments) issued mainly by the Italian State in order to ensure compliance with the regulatory threshold for Liquidity Coverage Ratio (LCR);
- fixed rate issues of mainly Italian bonds (private placement); these investments were also made for reasons of liquidity risk management in order to increase the Bank's liquidity buffer.

b) trading portfolio:

- fixed or variable rate issues selected on the basis of expecting short-term capital gains;
- shares of leading national and international companies with high capitalisation, shares in investment funds (Exchange Traded Funds) as well as futures and options on indices (FTSE MIB Futures and MIBO Options) and on equities.

Given the continuing uncertainty in financial markets (and following suggestions from customers), UBAE has decided to postpone the use of new techniques and instruments for managing its portfolio, such as harmonised products and collective bodies of investment savings (mutual funds).

Interbanking activities

Activities in this area continued to be influenced mainly by the global financial crisis and the monetary policies adopted by the ECB through the Eurosystem programme for purchasing securities (Quantitative Easing) that continued throughout 2016.

During the year, the ECB confirmed the expansionary measures (previously adopted) with regard to liquidity, and the programme for the purchase of securities; these measures are aimed at expanding the supply of money in order to increase credit for businesses and families, under acceptable conditions, with the goal of boosting the private investment economy.

Throughout 2016, the ECB maintained a high level of monetary stimulus to ensure that inflation would return to the pre-set values; the interest rates and the bond purchase programme were unchanged. The main rate remained at an all-time low of 0.00%, the rate on bank deposits at -0.40% and marginal re-financing at 0.40%.

During 2016, the Bank was able to count on average deposit volumes at a considerably higher level than 2015.

The financial situation outlined above persuaded the Bank to adopt a treasury management strategy that has proved able to limit these negative aspects with satisfactory results.

The short money market and loans to foreign banks in the short and medium term, although reaching good levels have decreased from the previous year as a result of various actions taken by the Bank to improve the return on investments; as described above, it has proved impossible to negotiate acceptable spreads on monetary markets especially in the Eurozone.

Assets managed by the Treasury Department in the major currencies stood at around Euro 2.5 billion in countervalue, an increase of about 11% compared to the previous year (Euro 2.2 billion).

Furthermore, to support current and future activities in medium-term lending, the Bank, in spite of market uncertainty, has started to consolidate its own funds by obtaining an extension of deposit duration from certain counterparties.

Furthermore, in order to continue the diversification of funding sources and to support new business and financial activities, the Bank continued to conduct open market operations in 2016, guaranteed by securities at the ECB, with a duration of three months and an amount of Euro 100 million.

Results of the financial year

The net result for the year under review amounted to EUR 3.5 million, down compared to the previous period (-48.15%).

Despite the difficult economic situation characterised by modest growth and slowed down by Eurozone political factors, by financial market volatility and geopolitical tensions in some countries of interest, UBAE closed 2016 with a result that may considered satisfactory.

The result can be considered positive thanks to stable revenues, the careful management of operating costs and stability and, on the whole, of adjustments and provisions.

The lower net profit compared to the previous year, which was EUR 6.8 million, is attributable primarily to the circumstances summarised below:

- *the net result was burdened by the decision of the Banca d'Italia in December to request additional contributions from the entire national banking sector to the National Resolution Fund (NRF) in the form of two new annual quotas (besides the ordinary quota of around Euro 1.5 million paid in June 2016 to the Single Resolution Fund – SRF) bearing in mind the financial needs of the FNR to rescue four Italian banks that were on the verge of bankruptcy at the end of 2015. For UBAE this contribution (ordinary and extraordinary), mandatory by law, involved a total outlay of Euro 4.5 million approximately; the end result for the year, excluding this amount, would have amounted to approximately Euro 6.8 million.*

- *the expansionary monetary policy that the European Central Bank continued to pursue, had a direct impact on short-term interest rates, especially in the interbank sector – where UBAE Bank is particularly active – bringing the spread to an extremely low level (virtually zero).*

The result of the interest margin still amounted to Euro 21.34 million (+15.04% compared to 31 December 2015); the increase, despite the turbulence of financial markets, is the result of the Bank seeking diversified forms of investments while limiting the risk profile.

However, on the negative side, there was a decrease in intermediation (-15.75%); this result, while positive in absolute terms (Euro 18.7 million), is the result of the Bank's strategic decisions to seek different forms of profitable investments; it is a test of the Bank's ability to operate effectively while adapting to sudden changes in the reference markets.

Value adjustments and provisions reflect the prudential assessment made by the governing body; in line with the criteria adopted and the methodology applied in previous years, the amount of funds allocated to cover credit risks was considered appropriate.

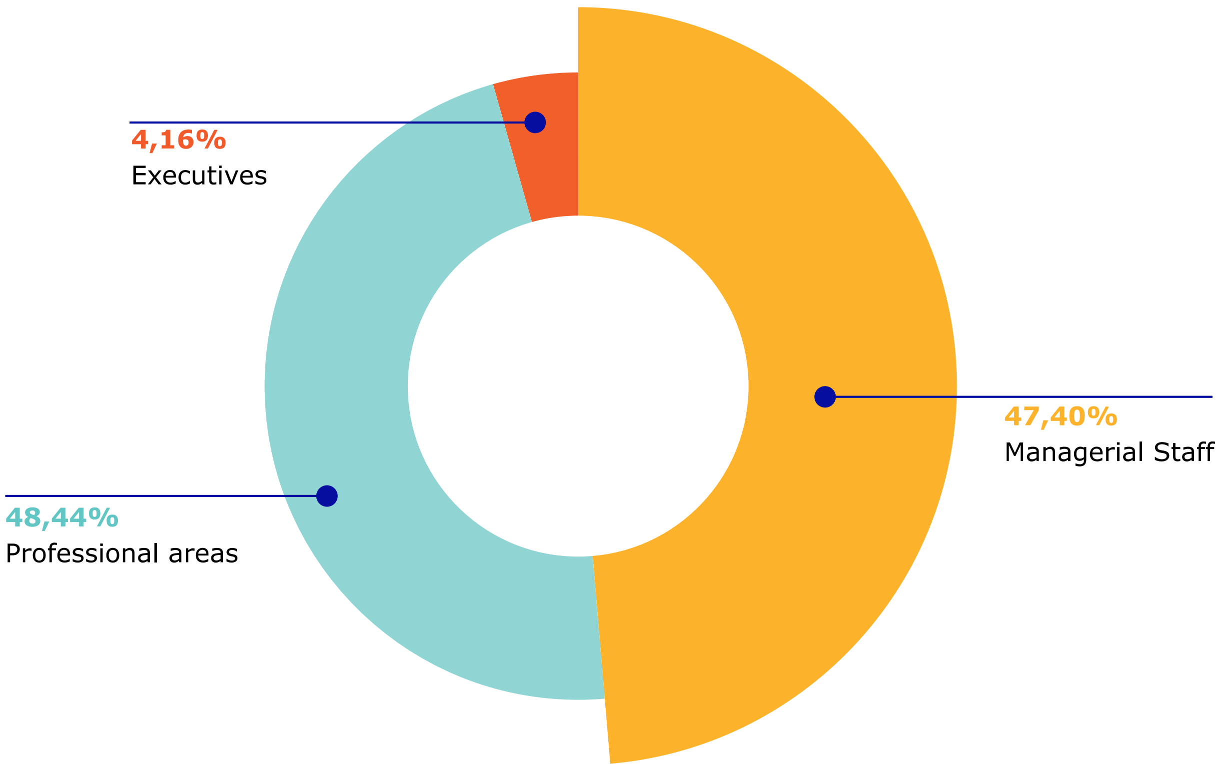
On completion of that assessment and taking into account the lower risk to which the Bank is exposed as of 31 December 2016, in particular towards certain customers, there was a net write-back of about Euro 0.6 million.

Net income taxes recorded in the balance sheet amounted to Euro 2.3 million, down by 51.18% compared to the previous year (Euro 4.4 million). This difference, as reported in detail in the notes (*see Income Statement, Section 18*) is mainly due to a pre-tax profit at 31 December 2016 less than that of 31 December 2015.

ORGANIZATION AND PERSONNEL

1. PERSONNEL

During 2016, the Bank continued to build an organisation based on people (and for people), their skills and professional qualifications, their willing and prompt cooperation to meet the customers' needs and achieve positive economic goals in the short, medium and long term.
This spirit animates the strategic drivers that constantly guide Banca UBAE in its daily commitment to enhance its human capital.
The chosen path therefore guides the Bank in a continuous process of change based on the close interdependence of environment, strategy and structure, through the implementation of all the levers required for the care and development of employees.



During the year, the Bank focused on strengthening the core business and the main organisational processes as well as the handover to a coming generation.
Accordingly, these activities have led to the hiring of **5 people** (two managers and three professionals) and the exit of **2 people** (from the category of executives) so that the workforce now stands at 192.

In terms of qualifications, the personnel is distributed as follows:

- **4.16% Executives**
- **47.40% Managerial Staff**
- **48.44% Professional areas**

The table below shows the composition of the workforce in 2015 and 2016.

	31.12.2016		31.12.2015	
	N°	%	N°	%
EXECUTIVES	8	4,16%	8	4.23%
MANAGERIAL STAFF	91	47,40%	92	48.68%
PROFESSIONAL AREAS	93	48,44%	89	47.09%
	192		189	

During the year, further progress was made in stabilising the Bank's organisational chart, including conversion of fixed-term contracts into open-ended contracts.

The management has also undertaken the following activities:

1. intaining and updating the *performance management system*, aimed at a better understanding and evaluation of professional performance; the focus was therefore on directing the management's actions towards objectives and behaviour patterns that directly affect UBAE's business (pinpointing the critical factors of the Bank's success and translating them into goals and organisational management);

2. consolidating a *policy of professional growth* supported by actions of internal mobility and career paths;

3. consolidating a *rewarding system* linked to performance and results

4. promoting a culture of *safety* and *security* at *work* by means of training and information initiatives; besides activities governed by legislative decree no. 81/2009 (for instance, 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 appointments, as well as an opportunity for the Bank to take care of its employees through a reference point for their welfare;

5. maintaining an *integrated training system*. Since 2008, UBAE has been defining and implementing training sessions aimed at the growth of its internal personnel. 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 as well as the recent regulatory innovations. Specifically, we have introduced training activities on specialised 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; the nature and impact of the project is mainly social, involving the expected turnover between parents and their offspring.

2. ORGANIZATION

The Organisation & IT Systems Department is responsible for all activities aimed at improving the Bank's operations, organisational structures, regulations and corporate processes.

During the year 2016, the department has carried out intensive work to stabilise and settle the Bank's IT system.

It has continued the development, started previously, of growth and renewal through the planning and implementation of several complex projects.

The new system has gained a high level of satisfaction among users as well as a net reduction in the critical issues that arose at the time of the changeover to the current outsourcer.

It should be noted that during the year 2016 there were no significant ITC incidents; the system is deemed resilient and able to provide appropriate response to operating signals in terms of timing and quality.

2016 was a particularly intense year as regards innovations that have affected the operating system; the main objective for 2016 was to activate various applications relating to money services, as well as the multi-channel system that has enabled the Bank to expand its product portfolio for customers, thus ensuring that UBAE is aligned with its competitors in the retail and corporate segments.

Specifically, the following services were activated or upgraded in 2016:

- *prepaid cards*
- *debit cards*
- *ATM systems*
- *biometric signature with dematerialisation of operations conducted in bank;*
- *"Telepass" (electronic toll collection system on motorways).*

In addition, activities were completed for implementing Home Banking and Corporate Banking.

Close attention was given to upgrading the security systems; in particular a new procedure was activated for calculating IT risks.

Regarding detection of possible IT threats, several services were activated:

- *a security service operation centre (SOC) with the Checkpoint firm (market leader) together with British Telecom (TLC infrastructure used by the Bank) in order to monitor all the online traffic generated via the Bank;*

- *other services with the outsourcer Cedacri to monitor all online activities in the fields of home banking and corporate banking.*

These systems intercept malware and other IT attacks; in particular there is a system to monitor anti-fraud activities through the Reply firm (also a leader in IT security).

In the field of Disaster Recovery and Business Continuity, a number of tests planned for 2016 were carried out successfully and no critical areas were detected.

The Organisation Department has also set up a data governance system; this strategic project uses "Intrinsic Quality Factor" methodology (IQF) in order to implement the Bank's first system of internal data quality.

On the subject of IT governance, various policies and procedures were set up in 2016 such as data governance, secure payments, IT security, data classification, asset management, identity and access management. Such policies will receive full approval and implementation during 2017.

Another important project (in collaboration with the consulting firm Deloitte) involved developing an application to monitor liquidity on a daily basis.

An important and critical aspect was the ongoing work on IFRS9 where the Bank – supported by experts in the field – engaged in various activities; particularly intense was the analysis and development of the new DIRA product that will enable the departments involved to normalise the financial statements downloaded from various external info providers in order to create a track that can be edited online using a unique program owned by Moody's (RiskCalc). A workflow program was developed with Moody's to guide the process of production and historicising of PD and entry scores.

Together with the outsourcer Cedacri (assisted by Deloitte), a collaboration began on two macro areas of credit and finance; briefly, the project involves the following aspects:

- *analysis of products and business models with specific classification and measurement;*

- *revising the decisional tree in order to ensure, by product family, achieving the requirements of the SPPI test and if not (in the event of interest rate mismatching) the next benchmark test;*

- *calculating impairment.*

A particularly challenging phase was the start-up for the project K4F (Arcares) specialised in managing factoring products. All the regulatory interfaces were launched in 2016.

From the regulatory point of view, a new procedure was activated for normative processes and for dealing with whistleblowing procedures and operational risks (RiskShelter).

In particular the credit, finance and trade finance processes were revised and released, and in 2017 we expect to finalise the remaining processes.

Finally and importantly, the revision program was created for the organisational model (MOG) pursuant to legislative decree no. 231/2011, as well as the drafting of new protocols; such activity (soon to be concluded) provides for the automatic computerisation of risk analysis consistent with the evolution of crime and highly sensitive activities.

3. DEPARTMENT FOR DEVELOPING EXTERNAL AND INSTITUTIONAL RELATIONS

The Department of External & Institutional Relations focuses on two main activities:

- promoting and consolidating institutional relations with counterparts in Italy and abroad, such as embassies, ministries and multinational development banks;
- planning strategic projects for marketing, communications and product development.

The underlying objectives of the Department's activities concern innovation and quality of products and services offered to customers, whether correspondent banks or incorporated companies, as well as preserving UBAE's reputation and the proper channelling of its image.

The driving forces that have guided the activities throughout the year are focused on four main areas:

A. Developing external and institutional relations

The projects linked to this sector of activities occupy a significant place within the Department and involve the development of synergies with institutional bodies by setting up partnerships aimed at providing tangible support to Italian businesses with interests in the expanding markets where UBAE operates.

During 2016 important collaboration agreements were set up, and the main ones include: ICE, Chianti Banca, Banca Sella, Banca Valsabbina and Banca di Cividale, Cassa Rurale & Artigiana di Cantù.

B. Strategic analyses

Drawing up reports and analyses to provide clear briefs to the General Management and the Commercial Department on subjects of interest in support of strategic decisions, including:

- preliminary analyses of potential business activities with new countries and products;
- analyses of openings towards new foreign countries;
- strategic analyses on behalf of the General Management and the Commercial Department.

C. Business development

Activities carried out in collaboration with the Commercial Department and the Finance Department aimed at boosting strategic opportunities for UBAE and consolidating relationships with the main customers in Italy and other countries. The initiatives undertaken in 2016 focused mainly on organising round tables and training seminars for customers in Italy and abroad.

Below are the main activities organised during the year:

- ***The International Arab Banking Summit*, Rome 29-30 May 2016.**

Event organised by the Union of Arab Banks where UBAE participated as a sponsor; the 2016 edition took a close look at the impact of climate change on the banking and financial system. The summit was attended by leading figures from the main Arab banks in the Mediterranean area and the Persian Gulf, specialised in traditional and Islamic banking;

- ***Mediterranean Oil & Gas*, Rome 25-26 May 2016.**

The event was attended by representatives of the Oil & Gas sectors from producer countries as well as many institutional figures from Italy and abroad;

- ***Developing businesses on foreign markets*, Viareggio 13 October 2016.**

Seminar organised by Banca UBAE in collaboration with ConCredito. Representatives from UBAE took part in the round table for Tuscan businesses interested in internationalising their products and services, as well as their foreign networks.

- ***On-the-job training* for correspondent Banks**

Theoretical and practical training courses where UBAE's expert staff work alongside interns from other banks and corporate customers.

D. Corporate identity and external communications

An integral part of the Department's activities is dealing with corporate identity, coordinated image and external communications. The consistency of communications makes it possible to boost and consolidate UBAE's brand awareness in the eyes of markets, customers and competitors.

The main projects involved in this activity are: the press and media office dealing with journalists, Italian and international press agencies, and drawing up communiqués and articles; creating brochures and sales materials, and managing the content and graphic style of the corporate internet website.

4. RISK MANAGEMENT

The Bank has continued its application of the procedures and methodologies of the overall internal capital calculation methods, as described in ICAAP reports (Internal Capital Adequacy Assessment Process). It also operated in compliance with national and international regulations, maintaining careful monitoring of exposure to business risks, especially by strengthening the liquidity risk management process and integrating the analysis in terms of capital adequacy with the measurement of country risk, the risk of geo-sectorial concentration and strategic risk with assessment of transfer risk and the risk of excessive leverage.

From an organisational standpoint, the ICAAP statement, besides defining the roles and responsibilities of the different internal units involved in the process, outlines the operational stages for each type of risk (measurable or not) and governs the internal capital calculation for quantifiable risks, as well as stress testing methodologies and analysis techniques.

It should be emphasized that, for the purposes of prudential standards issued by the Banca d'Italia, and in particular the risk measurements envisaged by Pillar II, the Banca UBAE is rated Class 3, enabled to use simplified methods for measurable risks and mitigation policies and procedures for non-measurable risks.

For analytical purposes of capital adequacy, three additional prudential requirements are also considered to cover country risk, the risk of geo-sectorial and strategic risk concentration. These requirements are not prescribed by law, but were included in the internal assessments of capital adequacy in order to consider all the relevant risks to the Bank's activities. In particular, country risk, estimated according to internal calculation, is used to take into account the Bank's exposure generated by the special operations carried out in certain countries. It should be noted that the regulatory framework for the internal control system provides for the introduction of country risk (and transfer risk) amongst the new risks to be analysed in the ICAAP report.

The supervisory review process aims to ensure continuous compliance with capital requirements (with reference to the risks considered in Pillar I and the quantifiable risks considered in Pillar II, and to the risks deemed relevant by the Bank) and to provide the Board of Directors and the General Management with the necessary information to set up the capital strengthening policies of the Bank efficiently and effectively.

This process has helped to achieve the following specific objectives:

- sensitising the governing bodies about the issues pertaining to risk and capital planning;
- making the Bank more aware of exposure to different types of risk arising from its business activities;
- introducing the concept of additional types of risk measurement (such as concentration risk, interest rate on banking book, as well as country risk, geo-strategic and sectorial concentration) strengthening the organizational and management tools for other risks (liquidity risk, risk of excessive leverage and reputational risk);

- underlining the need to develop measurement tools and risk monitoring that are more efficient and appropriate;
- expanding the time horizon of internal investigation (prospective analysis) and the reference scenario (stress testing);
- improving the strategic planning process by introducing capital policies closely linked to the Bank's risk profile and therefore the results that emerge from the ICAAP report.

Regarding changes in the regulatory field, the Bank has already begun to study impact analysis and internal development projects, while also taking advantage of external specialist support. In particular, the following issues have been addressed:

- 15th update of Banca d'Italia circular no. 263/2006 of 2 July 2013. In the course of 2016 the Bank took steps to implement the internal management policy regarding country risk, transfer risk and the risk of excessive financial leverage. The Board of Directors also defined and approved the policy governing market risk management and the policy on interest rate risk for the banking book. In addition, the policy has been revised regarding liquidity risk and internal methodology of asset absorption.

  With regard to the Risk Appetite Framework, monitoring and quarterly reporting were implemented, and at the same time the annual review was started of risk tolerance limits in the light of regulatory, operational and strategic changes.

  As for IT risk, the following documents were prepared: the strategy for the governance of IT security, the outsourcing policy, the analysis of IT risk methodology, the IT security policy, and the policy for third-party management. For 2016 the following projects are planned: selection and implementation of a data quality solution; definition of processes and possible use of tools for planning IT resources; and the economic evaluation of ICT projects.

- Delegated regulation (EU) 2015/61 supplementing regulation (EU) 575/2013 (CRR) on the new calculation approach for the Liquidity Coverage Ratio (LCR) for banks and financial institutions. The regulation introduced a "dual track" for supervisory reports and temporary reports "Interim LCR Reporting" to be replaced in September by the finalised reporting system; the Bank continued to provide reporting, and in addition has implemented a management calculation of the LCR to verify compliance with regulatory limits.

- Decision taken by the European Commission on 12 December 2014 – the Bank has experienced a significant increase in the capital requirement for credit risk due to increasing the weighted risks applied to exposures in countries where the Bank has business interests.

- IFRS9 – On the subject of scoring and PD, the Bank launched an internal project to implement a tool to assign a score to each counterparty and the related PD. In the course of 2017 the project will focus on building PDs complying with accounting standard IFRS9 and the development of interfaces between the various systems.

By April 2017, the ICAAP statements relating to the assessment of capital on 31 December 2016 must be sent to the Banca d'Italia. With regard to public disclosure, the Bank will publish the information and quantitative data required under Pillar III of prudential standards, on the corporate website in the "Financials" area before the deadline for publishing the balance sheet.

• Credit Risk Management and Counterparty Risk

The criteria of sound and prudent management of credit risks had an effect on the granting, monitoring and reviewing of loans.
Specifically, with regard to credit risk, the following steps have been taken:

- the systematic release of entry scores for banking and corporate entities;
- periodic monitoring of loan performance highlighting internal abnormalities (in arrears) and external ones (Risk Centre);
- periodic stress testing.

The exposure to credit and counterparty risk is monitored constantly, both in terms of compliance with operating limits (performance control) – by specific Credit & Control Management – and deterioration in portfolio quality in terms of capital absorption (credit risk control) by the Risk Management Department.
The measurement of internal capital for credit risk is carried out by applying the standardised method as recommended by current prudential norms.
For the purposes of ICAAP, Risk Management also analyses scenarios under stress testing by simulating the impact on capital requirement generated by negative information such as the default of sovereign States, or certain economic sectors, or the deterioration of the economic situation.

As for counterparty risk, the Risk Management Department in cooperation with the Finance Department monitors the daily exposure, adjusted "mark-to-market", in order to check the compliance of credit lines granted to individual counterparties.

The measurement of internal capital against counterparty risk is carried out by applying the current value method as required by law. To comply with the regulatory framework (Basel 3), capital requirement is also calculated in order to adjust the risk assessment of creditworthiness, known as Credit Valuation Adjustment (CVA).

• Market Risk Management

The operations of the Finance Department and compliance with the operational limits set by internal regulations are monitored constantly by the first and second level control functions by means of the front office platform known as ObjFin.
The reports, produced on a daily basis, refer to individual offices and indicate the settlement of positions, as well as the performance of various risk/sensitivity indicators (i.e. VaR, Stop Loss).

Compliance with internal operating limits is monitored daily and any abnormalities are reported promptly to the responsible control bodies in order to allow corrective actions to be taken and/or starting the authorisation process governed by internal regulations.

Risk Management prepares a monthly report for the Risk Committee and the Board's advisory bodies, describing the monitoring activities, the exceptions found and the performance analysis conducted.

The measurement of internal capital for market risk is carried out by applying the standard methods required by current prudential norms.

The Bank does not intend to apply for recognition of internal models for calculating capital requirement on market risk.

During 2016, an internal policy was approved governing the process of market risk management, containing in addition to the internal operating limits, the indication of warning thresholds and any internal authorisation thresholds to be activated in the event of exceeding the limit.

• Operating Risk Management

Despite having opted for the basic calculation method (Basic Indicator Approach) in determining the capital requirement under the prudential regulations, the Bank is implementing a risk management system that can evaluate and monitor over time the exposure to operational risks and the extent of losses that might result. To this end, the Bank continued activities aimed at implementing across-the-range tools containing common mapping data (processes and standards) that can be used integrally for risk assessment and data loss collection. Once the project is finalised, the internal policy regarding the process of operational risk management will be established.

• Management of other risks

- Liquidity risk

Exposure to liquidity risk is constantly monitored by the Finance desk, while the Risk Management Department is responsible for monitoring the second level of the operating limits set by internal regulations, as well as the reporting process destined weekly to the Banca d'Italia.

The management process for this risk is governed by internal policy, revised in 2016, and provides for a contingency funding plan. The internal operating limits provide a threshold of risk tolerance, survival limits and a limit of eligibility for financial instruments.

Quarterly stress tests are also conducted according to three different scenarios (funding, commitments and liquidity buffer), together with performance monitoring of early warning indicators, the concentration funding ratios, the monitoring tools themselves and the liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio).

Regarding the instruments, the Bank uses the JCompass tool as well as an ALM product (ERMAS) linked directly by the accounting ledgers and able to provide the corporate maturity ladder and the database for conducting stress tests.

- Concentration risk

The prudential regulations issued by the Banca d'Italia (Pillar II) require a specific capital requisite to take into account the concentration by counterparty or groups of related counterparties (for the corporate portfolio). For the quantification of internal capital (according to the simplified method enabled by the norms), the Bank makes use of a calculation tool with access to supervisory reporting data. As for stress testing, the Risk Management Department conducts quarterly internal simulations to assess the impact of any strategic-operational changes.

The Bank also supplements the internal measurements by providing an additional capital requirement for the risk of Geo-Sectorial Concentration based on the quantitative methodology developed by the trade association applied to the corporate portfolio for Italy.

Regarding "single name" concentration risk towards banking counterparties, the Bank monitors internal operating limits and provides quarterly reporting, in order to minimise risk exposure.
With regard to concentration risk by sector and by geographical area, for which the law does not prescribe any quantification, at present the Bank has opted for a qualitative evaluation of the loan portfolio as a whole and for the application of quantification methodology proposed by ABI with respect to Italian corporate entities (risk of geo-sectorial concentration).

- Interest rate risk on the banking book

Compliance with the internal operating limit (set conservatively below the regulatory threshold) is monitored by the Risk Management Department by means of an integrated product (JCompass) for the treasury. In terms of ICAAP, for the quantification of internal capital (according to the calculation algorithm required by the norms), the Bank makes use of an IT product ALM (ERMAS) linked directly to the accounting ledgers and able to provide the maturity ladder. This product is also used to conduct stress tests assuming shifts in the interest rate curve (parallel and otherwise).

In 2016 an internal policy was approved governing the management process for the interest rate risk on the banking book. In addition to the regulatory limit (Risk Indicator) and the RAF limits, the policy contains operating limits for cumulative gaps, the related warning thresholds, and possible internal authorisation thresholds to be activated in the event of exceeding the limit.

- Country risk and transfer risk

In the light of international operations conducted by the Bank, the political risk attached to certain countries where business interest are focused also gained increasing attention in 2016. From a management point of view, the Board of Directors is responsible for granting a credit line for each country, and for regulating loans to countries that have a rating below BBB or are unrated.

In order to quantify exposure to risk, the Risk Management Department has introduced an internal estimation methodology for determining additional capital requirement in respect of country risk, supplementing the internal analysis of capital adequacy.
This capital requirement, although not required by law, is calculated according to internal estimates based on exposure data gathered for supervisory reporting, and the probability of a banking or currency crisis differentiated by country, taking into account the balance sheet provisions made for budgetary purposes.

In 2016 the new version of the internal policy was approved, reflecting the changes made to the calculation algorithm in order to take into account updated techniques for estimating probability of crisis in a country, and to avoid the risk of double computation (see European Commission's executive decision of 12 December 2014 on the equivalence of supervisory requirements of certain third-party countries and territories relating to the treatment of exposures under EU regulation no. 575/2013).

Regarding transfer risk, the Bank has decided to include such risk, from the quantitative point of view, in the wider field of country risk; while from a qualitative point of view, the material nature of this risk is assessed by analysing the loan portfolio and determining the relevance of exposures to countries in the transfer risk category (provided by the Italian Banking Association - ABI).

- Risk of excessive financial leverage

In the light of the current regulatory framework, the risk of excessive leverage has been included among the risks to be assessed in the ICAAP and, while not providing a minimum regulatory level, a specific leverage ratio was introduced.

Since 2014, the internal policy has listed the ways of identifying risk in terms of assessing, measuring and monitoring. In particular, the Bank has decided to monitor the level of leverage ratio in order to comply with an internal limit and establishing an early warning threshold.

- Strategic risk

Strategic risk has a high level of management complexity and requires qualitative assessments and scenarios in order to quantify the possible impacts resulting from changes in the operating and/or regulatory field. The Bank is institutionalizing the formulation of the scenarios required to build the balance sheet and the three-year plan, measuring the variability of total revenues intended as an approximation of risk and as a measure of an additional capital requirement that supplements the analysis of capital adequacy.

- Reputational risk

Due to the complexity of its treatment, this risk requires qualitative assessments and mitigation actions, especially preventive ones, closely linked to the detrimental nature of the event.

While the quantification of capital absorption is not envisaged, the Bank has defined an internal policy for dealing with reputational risk that, in addition to defining roles and responsibilities for the different internal units involved, outlines patterns of adverse events, identifies the policies of mitigation required to limit the negative effects and/or to prevent the occurrence of the damaging event, and establishes intervention strategies in the event of a "reputational crisis".

5. IT SYSTEMS

In 2016, the Systems Department focused on projects that have led to a gradual but noticeable upgrading of the IT infrastructure in terms of products and technologies.

In particular, the renewal process was completed for the equipment in Rome and Milan; the TLC infrastructure was updated and the operating systems were upgraded. Worth noting is the complete overhaul of the multimedia infrastructure owned by the Bank.

A particularly challenging phase was the 2016 project to change the Reuters infrastructure from "dealing extra" to "FXT Eikon" – these activities will be completed by the early months of 2017.

Importantly, in terms of time and human resources involved, the enforcement activities of our security infrastructure were completed; in particular, completion of activities to prevent possible vulnerabilities in the system, concerning the part for updating hardware (patch management) and continuous updating of the antivirus system.

Other major initiatives involved updating the backup infrastructure for the virtual environment, and the program for sharing network drives.

6. MANAGEMENT REPORTING

During the year the Bank continued to refine systems of internal briefing and management reporting in order to develop a prompt "information system" able to provide wider availability of analytical and reconciled data.

From the standpoint of management control, thanks to ongoing IT projects, the Bank sought to increase the time-to-market of management data in order to support not only communication with the governing bodies and the bank system as a whole, but also the changing needs of planning and controlling results.

Following the change to the new IT outsourcer, start-up activities continued for reporting systems and parameterising the new system in order to achieve full use and to develop new management tools.

The strengthening of the new ITC infrastructure set out to achieve optimal results not only in terms of the system's effectiveness and efficiency but also in terms of greater availability of daily and monthly data reports in order to assess the Bank's financial position, its earning capacity, and the stability of information flows in terms of performance.

Finally, integration of the management briefing systems is bringing significant and increasing benefits in terms of completeness of the data, leading to a further reduction in processing time, the development of new areas of analysis, and improvements in reporting for the benefit of the various Relationship Managers in the Bank's commercial and financial areas as well as the General Management.

7. LOGISTICS

The Bank continued to take steps to improve its offices in Rome, Milan and Morena for optimal use of the business premises in addition to regular maintenance activities. Important work was carried out to modernise the electro-mechanical equipment with the replacement of air conditioning and heating.

Significant steps were also taken in redefining the spaces of the Rome office to allow logistical solutions aimed at a more rational use of office space for the benefit of staff, optimising and redistributing the space in order to increase functional aspects.

Work was completed on a new air conditioning system ensuring the Bank's compliance with current regulations on energy saving and pollution; from 2017 this upgrade will lead to significant energy savings.

8. SECURITY & PRIVACY DEPARTMENT

During 2016 there was a complete renovation of forms and contracts on privacy and the processing of personal data. In the second half of the year, close scrutiny took place to adapt the Bank to the new privacy norms – GDPR (General Data Protection Regulation) – which will start in May 2018.

The year 2016 also saw an upgrade of the IT system to enable data management for the "Guarantor 2" norm.

Regarding subjects closely connected with security, the activation phase was completed for the new IT risk-analysis tool and the release of the technical specifications in order to implement the workflow component of the risk-analysis process.

Importantly, the Bank's IT services underwent several tests for vulnerability assessment and auditing, in particular the IT system to ensure compliance with Banca d'Italia regulation no. 285/11 checking the adequacy of the structure and the regulatory processes.

These tests showed that the Bank's technical infrastructure is basically sound and conforms to security and compliance norms.

Another important project is the new procedure for "identity management" and "access management" in order to make the phases of granting and revoking users safer.

Still on the subject of security, the department set up a new program to monitor and control IT incidents, and started software selection to find a specific product in order to make the e-mail application more secure in terms of data and document transmission.

Finally and very importantly, an operational security plan was defined involving investment spread over three years, to be submitted to the governing bodies. The project will enable the Bank to establish a system of preventive controls and to develop the capability and quality response to cyber threats.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT:		CHANGE	
	31.12.2016	31.12.2015	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	287,014	225,483	61,531	27.29
LOANS AND ADVANCES				
- TO CUSTOMERS	358,902	340,948	17,954	5.27
- TO BANKS	1,298,842	1,582,721	(283,879)	(17.94)
FINANCIAL ASSETS HELD FOR TRADING	53,852	69,008	(15,156)	(21.96)
FIXED ASSETS				
- FINANCIAL (1)	837,455	522,159	315,296	60.38
- TANGIBLE	23,354	23,278	76	0.33
- INTANGIBLE	1,329	1,468	(139)	(9.47)
OTHER ASSETS (2)	19,882	21,752	(1,870)	(8.60)
TOTAL ASSETS	**2,880,630**	**2,786,817**	**93,813**	**3.37**
LIABILITIES				
ACCOUNTS PAYABLE				
- TO CUSTOMERS	237,813	143,299	94,514	65.96
- TO BANKS	2,391,424	2,401,174	(9,750)	(0.41)
FINANCIAL LIABILITIES HEAD FOR	3,228	1,241	1,987	160.11
EARMARKED PROVISIONS (3)	2,181	2,334	(153)	(6.56)
OTHER LIABILITIES (4)	24,974	18,571	6,403	34.48
SHAREHOLDERS' EQUITY				
- CAPITAL AND RESERVES	217,457	213,350	4,107	1.93
- NET PROFIT FOR THE YEAR	3,553	6,848	(3,295)	(48.12)
TOTAL LIABILITIES	**2,880,630**	**2,786,817**	**93,813**	**3.37**

(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	
	31.12.2016	31.12.2015	AMOUNT	%
NET INTEREST INCOME	21,348	18,557	2,791	15.04
NET NON-INTEREST INCOME (1)	15,687	18,603	(2,916)	(15.67)
GROSS OPERATING INCOME	**37,035**	**37,160**	**(125)**	**(0.34)**
PERSONNEL EXPENSES	(18,854)	(18,817)	(37)	0.20
OTHER ADMINISTRATION EXPENSES AND OPERATING CHARGES (2)	(11,388)	(11,137)	(251)	2.25
GROSS OPERATING RESULT	**6,793**	**7,206**	**(413)**	**(5.73)**
NET ADJUSTMENTS TO TANGIBILE AND INTANGIBILE FIXED ASSETS	(1,429)	(1,333)	(96)	7.2
PROVISIONING, WRITE-DOWNS AND WRITE-UPS (3)	468	5,397	(4,929)	(91.33)
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**5,832**	**11,270**	**(5,438)**	**(48.25)**
INCOME TAX FOR THE YEAR	(2,279)	(4,422)	2,143	(48.46)
NET PROFIT FROM CONTINUING OPERATIONS	**3,553**	**6,848**	**(3,295)**	**(48.12)**
NET RESULT FROM NON-CONTINUING OPERATIONS				
NET PROFIT FOR THE YEAR	**3,553**	**6,848**	**(3,295)**	**(48.12)**

(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

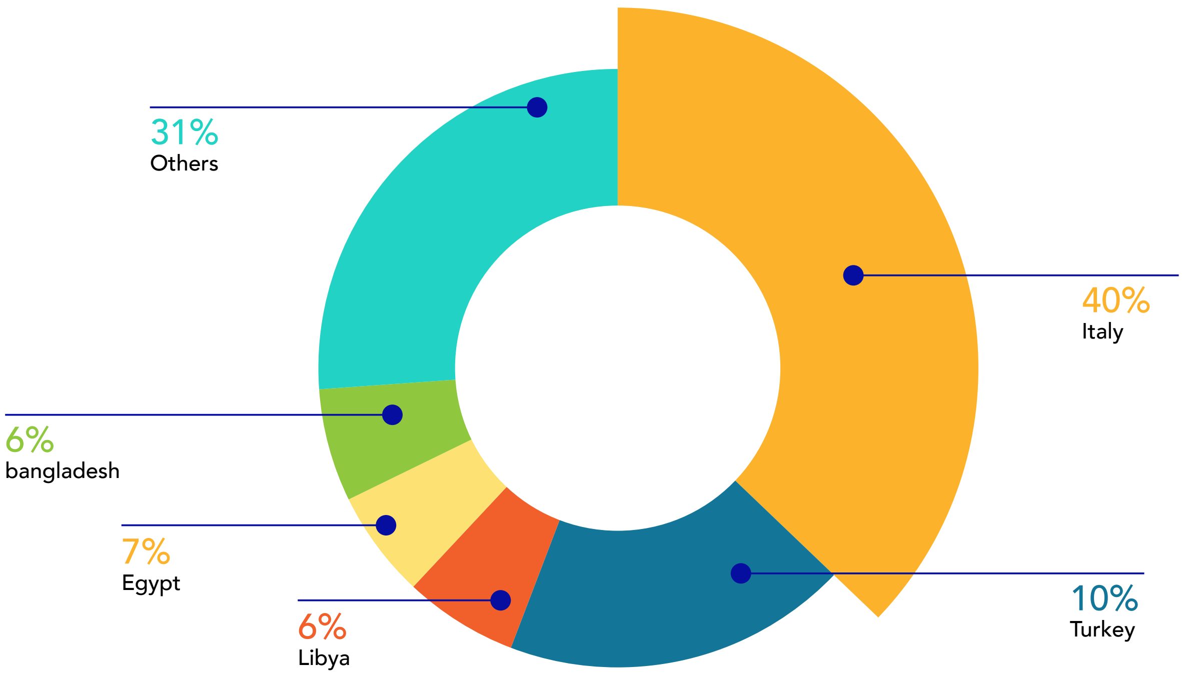
Credit

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2016	31.12.2015	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	215,054	258,619	(43,565)	(16.85)
IN OTHER CURRENCIES	143,849	82,329	61,520	74.72
LOANS AND ADVANCES TO BANKS:				
IN EUROS	285,972	460,892	(174,920)	(37.95)
IN OTHER CURRENCIES	1,012,871	1,121,829	(108,958)	(9.71)
TOTAL	1,657,745	1,923,669	(265,924)	(13.82)

The diagram below shows the geographic distribution of loans granted by UBAE as of 31 December 2016:

Loans by country 2016



Loans and advances to customers

The balance of loans to customers showed a rise of 5.27% mainly due to increased financing operations for corporate entities.

During the year 2016, the Bank continued to give appropriate support to its customers, especially to companies that have sound business prospects and business continuity, by providing targeted funding to support their activities. At the same time, the Bank continued its policy of credit-risk diversification with the aim of meeting the concentration limits set by the norms for large exposures.

The main type of operations carried out by UBAE concern financial support to Italian business operators for their trade finance activities with countries involved in the Bank's core business, including participation in pools organised by leading banks, supported by primary credit insurance firms.

In 2016 special attention was also given to the factoring business which achieved satisfactory results by the end of the year.

Receivables are shown net of specific and general adjustments. For the accounting policies adopted, see *the supplementary note (Part A – Accounting Policies).*

Loans and advances to banks

Loans to banks at year's end, despite the decrease in the balance of approximately EUR 284 million (-17.96%), registered fairly reasonable average amounts. The volumes were affected by interest rate policies pursued by the ECB, which influenced investment decisions in this sector.

Fund raising achieved quite good results although still influenced by the reduction of oil flows mainly due to the decrease in crude oil exports to Italy from producing countries (especially Libya) and at the same time, the low price of crude oil during the year stood at an average of USD 37 per barrel, a factor that has affected the Bank's business performance with customers operating in the energy sector.

Consequently, also for a precise strategic decision, the Bank has preferred to concentrate fund raising mainly on the most profitable forms of investment such as Italian government bonds, bank bonds or securities issued by central governments of other countries, rather than less profitable operations such as the interbank market.

Impaired loans (cash and non cash)

EUR/000

	31.12.2016			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	41,392	(33,079)	8,313	79.9%
BAD DEBTS	29,354	(28,187)	1,167	96.0%
	12,015	(4,889)	7,125	40.7%
IMPAIRED PAST DUE POSITION	23	(2)	21	10.0%
NON IMPAIRED ASSETS	2,466,089	(3,716)	2,462,372	0.2%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	2,507,481	(36,795)	2,470,686	1.5%

	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%

The total amount of impaired loans before value adjustments amounted to Euro 41.4 million, down by Euro 4 million compared to Euro 45 million last year.
During the year, write-downs totalling EUR 0.4 million were made relating to expected losses on loans to customers and the zeroing of problem positions where there is very little chance of recovery.
As part of prudent provisions made in previous years that have affected our portfolio (i.e. performing loans, to customers and banks, including loans to counterparties resident in countries at risk), there was a recovery of about EUR 1 million for the regular return of previously classified operations at risk, particularly corporate customers.
The ratio of commitments (excluding bank deposits) and gross NPLs amounted to 1.17% (formerly 1.43%) and 0.05% (formerly 0.16%) compared with net NPLs. Both figures are largely satisfactory when compared with those of the banking system (10.4% and 4.9%).

The table below shows a summary of the Bank's non-performing loans:

HEDGING OF CREDITS BY STATUS	31.12.2016	31.12.2015	31.12.2014
HEDGING OF BAD DEBTS	96.02%	88.67%	69.31%
HEDGING OF PROBABLE IMPAIRMENTS	40.70%	38.39%	38.22%
OVERALL HEDGING OF IMPAIRMENTS	79.92%	74.23%	63.25%
HEDGING "IN BONIS"	0.15%	0.17%	0.31%
OVERALL HEDGING OF CREDITS	1.47%	1.65%	2.01%

PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31.12.2016	31.12.2015	31.12.2014
CREDITS "IN BONIS"	99.66%	99.48%	98.99%
IMPAIRED CREDITS:	0.34%	0.52%	1.01%
- BAD DEBTS	0.05%	0.16%	0.68%
- PROBABLE IMPAIRMENTS	0.29%	0.36%	0.33%
- PAST DUE CREDITS	0.00%	0.00%	0.00%

RISK RATIOS	31.12.2016	31.12.2015	31.12.2014
GROSS IMPAIRED CREDITS/GROSS CREDITS	1.65%	2.00%	2.70%
GROSS BAD DEBTS/GROSS CREDITS	1.17%	1.43%	2.18%
NET IMPAIRED CREDITS/NET CREDITS	0.34%	0.52%	1.01%
NET BAD DEBTS/NET CREDITS	0.05%	0.16%	0.68%

The results expressed by the indices relating to risks are very positive, both in absolute terms and when compared to similar situations in the Italian banking system.

Financial assets

The consistency of financial assets – including securities, derivatives and minority equity interests – amounted to Euro 888 million and represents a net increase of Euro 298 million compared to the previous year.

This change is a result of the increase in financial activities for the investment securities portfolio (HTM) and the portfolio of assets available for sale (AFS).

As mentioned above, given the low spread levels affecting the money market, the Bank has increased investment in the securities portfolio by taking up low-risk bond investments issued by governments and centralised administrations of Asian and North African countries.

The Bank has also continued its commitment towards banking counterparties and government securities by underwriting discountable ECB securities, evaluating such investments in terms of yield and the issuers' credit standing.

The Bank's policy in this sector was also to preserve, at optimal levels, the share of securities in the HTM and AFS portfolios intended as High Quality Liquid Assets (HQLA) in order to meet the requirements of the short-coverage indicator (Liquidity Coverage Ratio) prescribed by law.

The Bank has not made any transfers between existing portfolios during the reporting period.

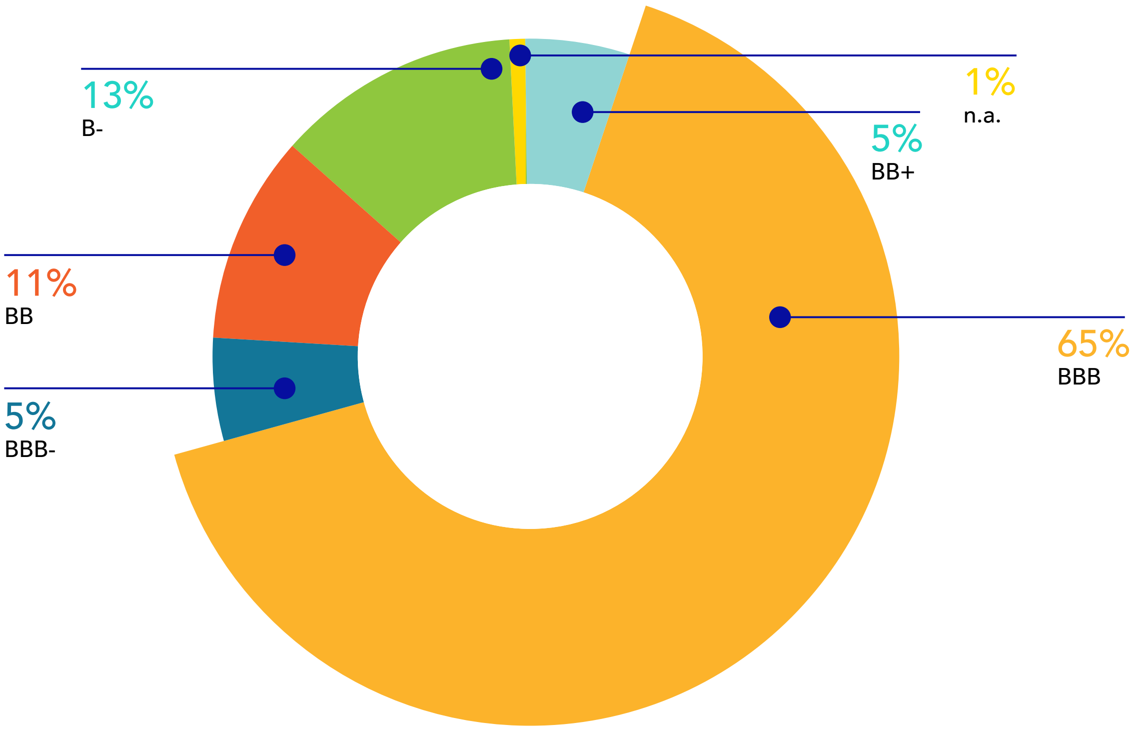
Overall, the policy adopted in the sector of financial assets enabled the Bank to achieve the following results:

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2016	31.12.2015	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	53,852	69,008	(15,156)	(21.96)
LIABILITIES HELD FOR TRADING	(3,228)	(1,241)	(1,987)	160.11
ASSETS AVAILABLE FOR SALE	209,000	47,655	161,345	338.57
ASSETS HELD TO MATURITY	628,455	474,504	153,951	32.44
TOTAL	888,079	589,926	298,153	50.54

The diagram below shows the assets to be held to maturity and the AFS divided by rating at the time.

HTM - AFS per rating



For the criteria used to evaluate the securities, as well as those for distinguishing between trading and investment securities, please refer to the description in the supplementary note *(Part A – Accounting Policies).*

It should be noted that the value of securities and trading derivatives is directly in line with the market value, whereas the value of other securities (HTM and AFS) is measured at amortised cost.

In accordance with the general prudential policy adopted by the Bank relating to credit risk, financial assets to be held to maturity were assessed as well as those available for sale; this generated a negative impact on the income statement of Euro 20,000.

Accounts Payable

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2016	31.12.2015	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	114,730	56,515	58,215	103.01
IN OTHER CURRENCIES	123,083	86,784	36,299	41.83
PAYABLE TO BANKS				
IN EUROS	674,292	947,780	(273,488)	(28.86)
IN OTHER CURRENCIES	1,717,133	1,453,394	263,739	18.15
TOTAL	2,629,237	2,544,473	84,765	3.33

The amounts due to banks and customers are stated at amortised cost.

The table above shows the data and the changes that took place in Euro and currency deposits made by customers and banks.

As indicated in the management report, funding from institutional counterparties during 2016 had a constant trend, achieving more than satisfactory results.

The volume of deposits by corporate customers – especially counterparties resident in countries of interest to the Bank – showed a substantial increase compared to last year.

Assets

The table below shows the changes in the Bank's assets:

EUR/000

	CAPITAL	SHARE PREMIUM	RESERVES	NET PROFIT	TOTAL
31.12.2015	159,861	16,702	36,717	6,848	**220,128**
01.01.16-31.12.16 MOVEMENTS:					**220,128**
APPROPRIATION OF PROFIT: RESERVES			3,646	(3,646)	
DIVIDENDS				(3,202)	**(3,202)**
VALUTATION RESERVE			531		**531**
NET PROFIT				3,553	**3,553**
31.12.2016	**159,861**	**16,702**	**40,894**	**3,553**	**221,010**

The net assets of Banca UBAE, including valuation reserves and profit for the period up to 31 December 2016, amounted to approximately Euro 221 million, a slight increase compared to last year (Euro 220 million).

The Ordinary Shareholders' Meeting, when approving the balance sheet 2015, decided to allocate the profit for the year to an increase in reserves (Euro 3.5 million) and to distribute part of the dividends to shareholders (Euro 3.3 million).

At year's end, UBAE had a Tier 1 capital ratio of 10.95% compared to 11.67% at 31 December 2015. The total capital ratio stood at 16.03% compared to 17.04% for the year 2015.

The capital ratios can be regarded as satisfactory when examined against the introduction of regulatory principles, and taking into account the volumes of activity in 2016; such values enabled the Bank to achieve an efficient balance between increased capital risk and new regulations.

In addition, following the review process and prudential assessments carried out by the Banca d'Italia (SREP), the regulatory authorities have determined the new capital requirements that the Bank will have to hold in 2016, in addition to the minimum required by the current norms; to date, the Bank is in line with the new requisites set by the Supervisory Authority.

Shares

The share capital of the Bank as of 31 December 2016 amounted to Euro 159,860,800 and is divided into 1,453,280 ordinary shares with a value of Euro 110 each.

Subordinated Loan

The prospect of continued strengthening of second-level capital resources and to ensure full compliance with the indices and normative requirements, the majority shareholder – Libyan Foreign Bank – approved a five-year extension in 2015 of the subordinated loan stipulated in 2008 for a total value of Euro 100,000,000 fully paid up; the subordinated loan matures in 2023 and the repayment plan provides for the repayment of the first tranche from 2019.

COMMENTS ON THE INCOME STATEMENT

Net Interest Income

EUR/000

	BALANCE AS AT:		VAR 31.12.16/31.12.15	
	31.12.2016	31.12.2015	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	40,930	31,504	9,426	29.92
20. INTEREST CHARGES	(19,582)	(12,947)	(6,635)	51.25
NET INTEREST INCOME	21,348	18,557	2,791	15.04
30. DIVIDENDS AND OTHER PROCEEDS	2	15	(13)	(86.67)

The net interest margin increased by 15.04% to Euro 21.3 million (Euro 18.5 million in the previous year).

The 2016 result is due to a careful investment policy carried out by the Bank, of renewed investment strategies focusing on more profitable forms, and new activities started in 2016.

This result should also be viewed positively since it is affected by the expansionary policies of the ECB which, through long-term refinancing operations and quantitative easing, has made low-cost funding available for the full year.

The outcome of such an approach was very low levels of interbank rates which stood at negative levels or close to zero, thus reducing the spread gap in the market where UBAE is very active.

Against this background, UBAE has been active in seeking alternative and more profitable uses in order to limit the adverse effects described above and to maintain an appropriate return on investments from typical finance activities, by shifting many of its investments, compared to the previous year, into the area of financial activities.

This approach, together with positive levels of loans to businesses and banks, has enabled a positive result taking into account the need to ensure compliance with liquidity ratios set by external regulations and by the mismatching of maturities, in accordance with the guidelines drawn up by the Board of Directors.

NET NON-INTEREST INCOME

Income from financial intermediation can be summarised as follows:

EUR/000

	BALANCE AS AT:		VAR 31.12.14/31.12.13	
	31.12.2016	31.12.2015	AMOUNT	%
40. COMMISSIONS RECEIVED	16,375	19,061	(2,686)	(14.09)
50. COMMISSIONS PAID	(3,414)	(5,813)	2,399	(41.27)
NET COMMISSIONS	12,961	13,248	(287)	(2.17)
80. TRADING ASSETS	2,745	5,537	(2,792)	(50.42)
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF AFS	(21)	(185)	164	(88.65)
190. OTHER OPERATING PROCEEDS	3,068	2,025	1,043	51.51
NET NON-INTEREST INCOME	18,753	20,625	(1,872)	(9.08)

Income from intermediation and other sources has declined compared to the previous year.

The balance of net commissions amounted to Euro 18.7 million (previously Euro 20.6 million in 2015).

In this sector, the Bank saw a double speed for 2016. A first part conditioned by the significant drop in oil prices, the difficult economic and political situation in many of the Bank’s core markets, by monetary policy decisions adopted by some countries which proved complex for foreign traders. And a second part which benefited from the new strategies adopted by the Bank, aimed at identifying business opportunities in countries with appropriate risk profiles, and replacing some of the Bank’s traditional partners whose political and social conditions have prevented the continuation of trade relations.

This policy started to give positive economic returns in the second semester, enabling the Bank to achieve a good end-of-year result.

ADMINISTRATION EXPENSES

EUR/000

	BALANCE AS AT:		VAR 31.12.16/31.12.15	
	31.12.2016	31.12.2015	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	11,089	10,926	163	1.49
SOCIAL SECURITY CONTRIBUTIONS	3,358	3,253	105	3.23
STAFF SEVERANCE PAYMENTS	741	709	32	4.51
OTHER EXPENSES	1,382	1,226	156	12.72
TOTAL EMPLOYEE EXPENSES	**16,570**	**16,114**	**456**	**2.83**
ADMINISTRATORS	1,584	1,881	(297)	(15.79)
STATUTORY AUDITORS	92	148	(56)	(37.84)
NON-STAFF ASSOCIATES	608	674	(66)	(9.79)
TOTAL PERSONNEL EXPENSES	**18,854**	**18,817**	**37**	**0.20**
B) OTHER ADMINISTRATION EXPENSES	14,456	13,162	1,294	9.83
TOTAL	**33,310**	**31,979**	**1,331**	**4.16**

Administrative expenses, which amounted to EUR 33.31 million at 31 December 2016, were up 4.1% compared to 2015 (Euro 31.98 million).

The cost of employees amounted to Euro 16.6 million, substantially in line with the previous year, up by +2.85%. This is mainly due to an increase in the number of staff which rose by 3 (up to year's end) as well as higher wages resulting from upgrading and the renewed collective bargaining contract.

Other administrative expenses amounted to Euro 14.4 million, slightly up compared to the previous year (Euro 13.2 million). The result includes the cost relating to the contribution of Euro 4.5 million (Euro 2.3 million in 2015) required by Banca d'Italia for the Single Resolution Found and the National Resolution Fund. During 2016, UBAE also paid the ordinary share amounting to about Euro 1.5 million.

The end-of-year result does not include the contribution to the National Resolution Fund; however, the administrative costs stood at values lower than those of 2015 reflecting the emphasis that UBAE always gives to controlling general expenses without jeopardising the Bank's organisational efficiency.

COMPOSITION OF THE BANK'S NET RESULT

EUR/000

	BALANCE AS AT:				VAR 31.12.16/31.12.15	
	31.12.2016		31.12.2015		AMOUNT	%
GROSS OPERATING PROFIT		6,793		7,206	(413)	(5.73)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,429)		(1,333)	(96)	7.20
NET IMPAIRMENT ADJUSTMENTS:						
TO LOANS	(349)		5,764			
TO FINANCIAL ASSETS AVAILABLE FOR SALE	(53)		(3,848)			
TO FINANCIAL ASSETS HELD TO MATURITY	33		(42)			
TO OTHER FINANCIAL OPERATIONS	932		3,677			
NET PROVISIONING FOR RISKS AND CHARGES	(95)		(154)			
TOTAL		468		5,397	(4,929)	(91.33)
PROFIT BEFORE TAX		5,832		11,270	(5,438)	(48.25)
INCOME TAX FOR THE YEAR		(2,279)		(4,422)	2,143	(48.46)
NET PROFIT		3,553		6,848	(3,295)	(48.12)

The comparison of the year's results at the respective reporting dates showed a profit of Euro 3.5 million at 31 December 2016 and Euro 6.8 million at 31 December 2015 after provisions for income taxes of Euro 2.3 million (Euro 4.4 million at 31/12/2015).

For the reasons stated above, the end result at 31 December 2016 is definitely positive considering that it was achieved in an unstable economic situation and above all influenced by the cost of the mandatory contributions – ordinary and extraordinary – held by Banca d'Italia, which amounted to approximately Euro 4.5 million.

At 31 December 2016, while making a prudential assessment of exposures and in view of the positive development of certain receivables subject of attention in previous years, the governing bodies felt that the funds allocated were sufficient, in some cases decreasing the amounts as a result of reduced risk exposure. The write-backs amounted to approximately Euro 0.6 million at 31 December 2016 against Euro 5.2 million at 31 December 2015.

Provisions for risks and charges stood at Euro 0.15 million at 31 December 2015 compared to Euro 0.1 million at 31 December 2016.

With regard to the Bank's VAT position for the years 2005 to 2008, under litigation by the Inland Revenue, the decision was taken – in line with what was done in the past – not to make provisions since the Bank's conduct, as attested by the tax consultants, has been found to comply with current norms.

For more information on the above data, please see the supplementary note, part C) Income Statement, while the proposed allocation of profit is set out in the section "Allocation of net income".

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

In January 2017, Fitch Ratings confirmed the Bank's long-term rating as BB with negative outlook.

The ratings may be considered positive. Specifically, the long-term Issuer Default Rating (IDR) is based on the assessment of the Bank's creditworthiness apart from any type of external financial support, as attested by the Viability Rating which was confirmed at BB level.

OTHER INFORMATION

The Bank does not engage in research and development. The Bank does not hold its own treasury shares.

Information concerning related parties can be found in **Section H** of the supplementary note.

PROPOSAL TO THE SHAREHOLDERS

1. APPROVAL OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 2016, considered jointly and in their several postings, as proposed by this Board of Directors.

2. APPROPRIATION OF NET PROFIT 2016

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

	EURO
NET PROFIT	3,552,894.00
LESS 5% TO LEGAL R (ART. 30 LETTER A OF THE ARTICLES OF ASSOCIATION)	178,000.00
	3,374,894.00
PLUS PROFIT RETAINED FROM PREVIOUS PERIODS	2,566.56
	3,377,460.56
LESS DIVIDEND TO BE DISTRIBUTED	1,688,730.28
LESS ALLOCATION TO THE EXTRAORDINARY RESERVE	1,685,000.00
PROFIT TO BE CARRIED FORWARD	3,730.28

IF THE ABOVE SCHEME IS APPROVED, SHAREHOLDERS' EQUITY WILL AMOUNT TO EUR 219,325,236.00 AND WILL BE COMPOSED AS FOLLOWS:

SHARE CAPITAL	159,860,800.00
SHARE PREMIUM ACCOUNT	16,702,216.00
RESERVES	42,758,489.72
PROFIT CARRIED FORWARD	3,730.28
	219,325,236.00

Rome, 31 March 2017

THE CHAIRMAN

Head Office, Rome

FINANCIAL STATEMENTS

(amounts in euros)

1 January - 31 December 2016

BALANCE SHEET: ASSETS

	ASSETS	31.12.2016	31.12.2015
10	CASH AND CASH EQUIVALENTS	287,014,183	225,482,685
20	FINANCIAL ASSETS HELD FOR TRADING	53,852,150	69,008,036
40	FINANCIAL ASSETS AVAILABLE FOR SALE	208,999,595	47,655,434
50	FINANCIAL ASSETS HELD TO MATURITY	628,454,704	474,503,507
60	LOANS AND ADVANCES TO BANKS	1,298,842,497	1,582,721,089
70	LOANS AND ADVANCES TO CUSTOMERS	358,902,215	340,948,035
110	TANGIBLE FIXED ASSETS	23,353,513	23,277,947
120	INTANGIBLE FIXED ASSETS, OF WHICH: GOODWILL	1,329,107	1,468,190
130	TAX ASSETS	15,698,333	17,421,052
	A) CURRENT	10,606,989	11,983,389
	B) DEFERRED	5,091,344	5,437,663
150	OTHER ASSETS	4,184,075	4,331,019
TOTAL ASSETS		2,880,630,372	2,786,816,994

BALANCE SHEET: LIABILITIES

	LIABILITIES	31.12.2016	31.12.2015
10	ACCOUNTS PAYABLE TO BANKS	2,391,424,232	2,401,173,566
20	ACCOUNTS PAYABLE TO CUSTOMERS	237,813,178	143,298,742
40	FINANCIAL LIABILITIES HELD FOR TRADING	3,227,719	1,241,314
80	TAX LIABILITIES	4,242,412	6,454,591
	A) CURRENT	3,863,493	6,356,323
	B) DEFERRED	378,919	98,268
100	OTHER LIABILITIES	20,731,199	12,116,528
110	STAFF SEVERANCE FUND	1,566,198	1,718,926
120	PROVISIONS FOR RISKS AND CHARGES	615,198	615,533
	A) PENSIONS AND SIMILAR		
	B) OTHER	615,198	615,533
130	VALUATION RESERVES	531,310	(14,238)
160	RESERVES	40,363,016	36,801,502
170	SHARE PREMIUM RESERVE	16,702,216	16,702,216
180	SHARE CAPITAL	159,860,800	159,860,800
190	TREASURY STOCK		
200	NET PROFIT FOR THE YEAR	3,552,894	6,847,514
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,880,630,372	2,786,816,994

INCOME STATEMENT

	ITEMS	31.12.2016	31.12.2015
10	INTEREST AND SIMILAR INCOME	40,929,901	31,504,262
20	INTEREST CHARGES AND SIMILAR EXPENSES	(19,582,005)	(12,947,141)
30	NET INTEREST INCOME	21,347,896	18,557,121
40	COMMISSION INCOME	16,374,901	19,060,833
50	COMMISSION EXPENSE	(3,414,065)	(5,813,410)
60	NET COMMISSIONS	12,960,836	13,247,423
70	DIVIDENDS AND SIMILAR INCOME	1,713	3,026
80	NET TRADING INCOME	2,745,423	5,537,387
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	(20,800)	(184,608)
	A) LOANS AND ADVANCES		
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	(20,800)	(184,608)
	C) FINANCIAL ASSETS HELD-TO-MATURITY		
	D) OTHER FINANCIAL ASSETS		
120	GROSS OPERATING INCOME	37,035,068	37,160,349
130	NET IMPAIRMENT ADJUSTMENTS:	562,469	5,549,470
	A) LOANS AND ADVANCES	(348,977)	5,763,017
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	(53,010)	(3,848,210)
	C) FINANCIAL ASSETS HELD-TO-MATURITY	32,819	(42,017)
	D) OTHER FINANCIAL ASSETS	931,637	3,676,680
140	NET INCOME FROM FINANCIAL OPERATIONS	37,597,537	42,709,819
150	ADMINISTRATION EXPENSES:	(33,309,754)	(31,978,349)
	A) PERSONNEL	(18,853,691)	(18,816,613)
	B) OTHER	(14,456,063)	(13,161,736)
160	NET PROVISIONING FOR RISKS AND CHARGES	(95,422)	(154,225)
170	NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS	(765,515)	(806,198)
180	NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS	(662,944)	(527,038)
190	OTHER OPERATING INCOME / CHARGES	3,068,290	2,025,302
200	OPERATING CHARGES	(31,765,345)	(31,440,508)
250	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	5,832,192	11,269,311
260	INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS	(2,279,298)	(4,421,797)
270	NET PROFIT FROM CONTINUING OPERATIONS	3,552,894	6,847,514
290	NET PROFIT FOR THE YEAR	3,552,894	6,847,514

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2016	31.12.2015
10	NET PROFIT (LOSS)	3,552,894	6,847,514
	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	(22,460)	61,530
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	568,008	(7,898)
110	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL		
120	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY		
130	OTHER SOURCES OF INCOME, AFTER TAX	545,548	53,632
140	COMPREHENSIVE INCOME	4,098,442	6,901,146

STATEMENT OF CHANGES IN EQUITY - 01.01.2016 - 31.12.2016

	BALANCE AS AT 31.12.2015	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2016	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2016
							CHANGES TO EQUITY							
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2016	
SHARE CAPITAL														
A) ORDINARY SHARES	159,860,800		159,860,800											159,860,800
B) OTHER SHARES														
SHARE PREMIUM ACCOUNT	16,702,216		16,702,216											16,702,216
RESERVES														
A) FROM PROFITS	36,801,502		36,801,502	3,561,514										40,363,016
B) OTHER														
REVALUATION RESERVES	(14,238)		(14,238)										545,548	531,310
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR	6,847,514		6,847,514	(3,561,514)	(3,286,000)								3,552,894	3,552,894
SHAREHOLDERS' EQUITY	220,197,794		220,197,794		(3,286,000)								4,098,442	221,010,236

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
							CHANGES TO EQUITY							
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2015	
SHARE CAPITAL														
A) ORDINARY SHARES	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

CASH FLOW STATEMENT

	INDIRECT METHOD	31.12.2016	31.12.2015
A	OPERATING ACTIVITIES		
1	OPERATIONS	4,474,637	4,301,962
	NET PROFIT FOR THE YEAR	3,552,894	6,847,514
	CAPITAL GAINS (LOSSES) ON FINANCIAL ASSETS HELD FOR TRADING AND FINANCIAL ASSETS/ LIABILITIES CARRIED AT FAIR VALUE		
	CAPITAL GAINS (LOSSES) ON HEDGING ASSETS		
	NET IMPAIRMENT ADJUSTMENTS	(562,469)	(5,549,470)
	NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	1,428,459	1,333,236
	NET PROVISIONS FOR RISKS AND CHARGES AND OTHER REVENUES (COSTS)	(335)	(390,078)
	UNSETTLED TAXES AND DUTIES	(489,460)	2,007,130
	NET POST TAX ADJUSTMENTS TO GROUPS OF ASSETS EARMARKED FOR DISPOSAL		
	OTHER ADJUSTMENTS	545,548	53,630
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	(120,445,550)	(822,939,495)
	FINANCIAL ASSETS HELD FOR TRADING	(15,155,886)	(54,334,653)
	FINANCIAL ASSETS CARRIED AT FAIR VALUE		
	FINANCIAL ASSETS AVAILABLE FOR SALE	161,344,161	(15,844,582)
	LOANS AND ADVANCES TO BANKS: DEMAND	(283,878,592)	(645,305,241)
	LOANS AND ADVANCES TO BANKS: OTHER		
	LOANS AND ADVANCES TO CUSTOMERS	17,391,711	(110,765,986)
	OTHER FINANCIAL ASSETS	(146,944)	3,310,967
3	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	95,213,450	(608,610,346)
	ACCOUNTS PAYABLE TO BANKS: DEMAND	(9,749,334)	(595,476,494)
	ACCOUNTS PAYABLE TO BANKS: OTHER		
	ACCOUNTS PAYABLE TO CUSTOMERS	94,514,436	(6,086,078)
	OUTSTANDING SECURITIES		
	FINANCIAL LIABILITIES HELD FOR TRADING	1,986,405	(1,575,875)
	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE		
	OTHER FINANCIAL LIABILITIES	8,461,943	(5,471,899)
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	220,133,637	218,631,111

INDIRECT METHOD		31.12.2016	31.12.2015
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:	155,316,139	167,470,675
	PURCHASE OF EQUITY INVESTMENTS		
	PURCHASE OF FINANCIAL ASSETS HELD TO MATURITY	153,951,197	165,562,770
	PURCHASE OF TANGIBLE FIXED ASSETS	841,081	1,542,837
	PURCHASE OF INTANGIBLE FIXED ASSETS	523,861	365,068
	PURCHASE OF BUSINESS UNITS		
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/DIVESTMENT ACTIVITIES	**(155,316,139)**	**(167,470,675)**
C	FUNDING		
	ISSUE (PURCHASE) OF TREASURY STOCK		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS		
	DISTRIBUTION OF DIVIDENDS AND OTHER	(3,286,000)	(4,570,000)
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	**(3,286,000)**	(4,570,000)
NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR		61,531,498	46,590,436

RECONCILIATION	31.12.2016	31.12.2015
CASH AND CASH EQUIVALENTS AT START OF YEAR	225,482,685	178,892,249
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	61,531,498	46,590,436
CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
CASH AND CASH EQUIVALENTS AT THE YEAR END	287,014,183	225,482,685

OUR MISSION:
TO CREATE ADDED VALUE FOR OUR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES

BANCA
UBAE
مصرف اليوباي

The Board of Directors

NOTES TO THE FINANCIAL STATEMENTS

1 January - 31 December 2016

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements at 31 December 2016 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 31 March 2017, the Board of Directors (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 27 April 2017 (first call) and 28 April 2017 (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 31 March 2017, 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 2016 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 the 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 15 December 2015, 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 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 plus/minus signs 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 events after year's end

During the period between the closing date for these Financial Statements and their approval by the BD on 31 March 2017, no significant events have occurred that would require either a change in the approved figures or the need for additional information.

Information concerning business continuity

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

Section 4 – Other aspects

In accordance with 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. The annual fee, agreed at the time of accepting the appointment, amounts to Euro 56,000 plus VAT.

4.a - 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 2016 or in previous years, whose application became compulsory from 2016, concerning which no significant impacts have been found affecting the drawing up of the current balance sheet.

4.a.1 - International accounting principles in force from 2016

TITLE OF DOCUMENT	ISSUE DATE	DATE OF COMING INTO FORCE	DATE OF HOMOLOGATION	EU REGULATION AND PUBLICATION DATE
Plan for defined benefits: employees' contributions	November 2013	1 February 2015 (for IASB: 1 July 2014)	17 December 2014	(EU) 2015/29 9 January 2015
Improvements to International Financial Reporting Standards	December 2013	1 February 2015 (for IASB: 1 July 2014)	17 December 2014	(EU) 2015/28 9 January 2015
Accounting procedure for purchases of interest in activities with joint control (changes to IFRS 11)	May 2014	1 January 2016	24 November 2015	(EU) 2015/2173 25 November 2015
Clarification on acceptable amortisation methods (changes to IAS 16 and IAS 38)	May 2014	1 July 2016	2 December 2015	(EU) 2015/2231 3 December 2015
Annual cycle of improvements to IFRS 2012-2014	September 2014	1 January 2016	15 December 2015	(EU) 2015/2343 16 December 2015
Information sheet (changes to IAS 1)	December 2014	1 January 2016	18 December 2015	(EU) 2015/2406 19 December 2015
Method of net assets in separate balance sheet (changes to IAS 27)	August 2014	1 January 2016	18 December 2015	(EU) 2015/2441 23 December 2015
Investment entity: applying exception of consolidation (changes to IFRS 10, IFRS 12, IAS 28)	December 2014	1 January 2016	22 September 2016	(EU) 2016/1703 23 September 2016

4.a.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 2017 or on a subsequent date. Banca UBAE has not taken advantage of the early application option.

TITLE OF DOCUMENT	ISSUE DATE	DATE OF COMING INTO FORCE	DATE OF HOMOLOGATION	EU REGULATION AND PUBLICATION DATE	NOTES AND REFERENCES TO THIS CONTROL LIST
IFRS 15 – Revenues from contracts with customers	May 2014[1]	1 January 2018	22 September 2016	(EU) 2016/1905 29 October 2016	Advance application is allowed
IFRS 9 – Financial instruments	July 2014	1 January 2018	22 November 2016	Regulation (EU) no. 2016/2067 issued by Commission on 22 November 2016	

(1) The amendment that changed the effective date of IFRS 15 was published in September 2015

4.a.3 - International accounting principles IAS/IFRS, amendments and interpretations issued by the IAS, 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.

TITLE OF DOCUMENT	DATE ISSUED BY IASB	DATE OF COMING INTO FORCE OF IASB DOCUMENT	DATE OF FORECAST HOMOLOGATION BY THE EU
Standards			
IFRS 16: Leases	January 2016	1 January 2019	2017
Amendments			
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	Deferred until completion of IASB project on equity method	Conclusion of IASB project on equity method
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised	January 2016	1 January 2017	4th quarter 2016
Amendments to IAS 7: Disclosure Initiative	January 2016	1 January 2017	4th quarter 2016
Clarifications to IFRS 15: Revenues from Contracts with Customers	April 2016	1 January 2018	1st semester 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	1 January 2018	2nd semester 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	1 January 2018	2017

4.b - Preliminary information on the state of progress and implementation of the new international accounting principle IFRS9

The IFRS9 "financial instruments", issued by the IASB in July 2014 and homologated by the European Commission with EU regulation no. 2016/2067, will replace the IAS39 "financial instruments: recognition and measurement", as of 1 January 2018. The process of revising IAS39 has been divided into three phases:

1. "Classification and measurement",

2. Calculation of value adjustments on financial instruments ("Impairment"),

3. Accounting for loan coverage ("Hedge accounting").

The classification and measurement of financial assets will depend on the operating mode (business model) adopted by the bank, and the contractual characteristics of the cash flows relating to the financial instrument (known as the SPPI test). These elements will determine the methodology for measuring the financial instrument which can be:

- at amortised cost,
- at fair value through profit or loss,
- at fair value through other comprehensive income.

The combined effect of applying the management model and the test on the characteristics of the instrument's cash flows could result in a different allocation between instruments measured at fair value and those at amortised cost, compared to those prescribed by IAS39.

The classification of financial liabilities does not change substantially compared to IAS39. For financial liabilities designated at fair value, the change in fair value attributable to own credit risk should be recognised in a net equity reserve, instead of on the income statement as required by IAS39, except in cases defined by the principle (i.e. accounting asymmetry).

Regarding the impairment of financial assets, the principle requires a single model to be applied to all financial assets not classed at fair value with impact on the income statement, with particular attention to the rules for calculating value adjustments according to the concept of expected loss. More specifically, at the time of initial recognition, the value adjustments will be calculated on the basis of the expected loss at 12 months; however, if a significant increase in the credit risk is noted with respect to the date of initial recognition, the value adjustments must be calculated on the basis of the expected loss over the entire residual life of the financial instrument.

Based on these elements, financial instruments are classified in three stages:

- the first stage includes unimpaired financial instruments for which there has not been a significant increase in credit risk with respect to the date of initial recognition. The impairment is determined on the basis of an expected loss at one year (twelve-month expected credit loss);

- the second stage includes financial instruments for which there has been a significant worsening of creditworthiness with respect to the date of initial recognition, leading to their classification as "underperforming". In such cases, the impairment is determined on the basis of the expected loss over the instrument's remaining life (lifetime expected loss); therefore, the calculation changes from an estimate of expected loss over twelve months to an estimate based on the remaining life of the instrument;

- the third stage includes impaired financial instruments. For loans classified in this category, the expected loss is shown on a lifetime chart but, unlike Stage 2 positions, the calculation of the lifetime expected loss is analytical.

The expected loss should consider all available data including information about past events, current conditions and forecasts of future economic conditions.

In terms of impact on the income statement, impairment recognition will be more focused on the forward-looking components and, at least in the first application, will lead to an increase in value adjustments, with respect to the current requirements of IAS39 (model based on incurred loss). With reference to hedge accounting, the principle simplifies the parameters creating a stronger bond with risk management strategies. The principle does not regulate macro hedge accounting which will be dealt with in a separate project.

IFRS9 requires mandatory application from 1 January 2018, with the possibility of earlier application.

State of progress in Banca UBAE and future steps

At the end of 2015, UBAE started an internal project on the adoption of IFRS9, assigned to a working group coordinated by the Area Operations Manager, made up of various units including Administration and Reporting, Risk Management and Organisational Management, Credit Analysis, Performance Control, Sales and Finance, with the support of an external consultant.

At the same time, the working group also participates in groups specifically set up by ABI and the outsourcer Cedacri (assisted by the consulting firm Deloitte).

In the credit field, UBAE is moving ahead in terms of "Classification and Measurement", to define their business model, with the help of the consultants mentioned above, necessary for the valuation of financial assets under the new accounting principle IFRS9. The outsourcer Cedacri is making available systems for calculating the SPPI test for the Finance and Commercial Departments in order to check transactions.

At present the most complex and delicate activity is the new process of "Impairment" and in particular the future obligation to assess the Bank's activities in light of their expected losses.

For the purposes of impairment calculation, two other variables are required in addition to credit exposure estimate upon default (**EAD** – already available in UBAE): the probability of default (**PD**), and the percentage involved in the event of "loss given default" (**LGD**).

Regarding PD, the Bank currently uses Moody's Risk Calc™ program in order to obtain, for management purposes, the entry scores and PD (one year) for individual banks and corporate counterparts. For credit exposures regarding the central administration of States, the PD (one year) under IFRS9 will be available using Moody's Credit Edge™ program.
From an IT perspective, in consultation with the outsourcer, the Bank has adopted a customised solution for the application incorporating data on entry scores and PDs arising from programs used internally and supplied by Moody's.

In regard to gathering **LGD**, the Bank is following two paths: the first aimed at checking the data provided by the existing programs (see Moody's Risk Calc™) based on market benchmarks, and secondly the possibility of building LGD databases using UBAE's experience.

Another aspect under close investigation relates to obtaining "lifetime PD" to be used for assessing exposures that will undergo a significant deterioration of creditworthiness compared to the initial recognition. The criteria for determining this deterioration are now being finalised.

Because the application of the new IFRS9 principle could have a marked impact on financial statements (not yet quantifiable), a "parallel running" operation has been planned during the second half of 2017 in accordance with the outsourcer.

In the finance area, UBAE is moving ahead to identify the methodological choices and interventions to be made, the valuation model, processes and systems to be used, to ensure compliance with the principle.

In early 2017, the new operating and organisational model will be formalised with the assistance of external consultants, taking into account the current project with the outsourcer Cedacri.

More specifically, activities in the various areas can be summarised briefly as follows:

- Assessment C&M: the Bank will carry out a survey in order to define the business model for the securities portfolio and the rules for conducting the SPPI test, formalising functional requirements for updating systems and processes;

- Impairment Assessment: a first assessment of the securities portfolio will be made, defining the transfer policy for classification of "bucket positions" (categories), identifying any information gaps in processing parameters and criteria, formalising macro-functional requirements for upgrading accounting systems and processes.

The main phases of the IFRS9 project will be completed by June 2017, followed by a first simulation in order to pinpoint and resolve any problems arising from the Bank's peculiar operations and to ensure compliance with the IFRS9 accounting principle.

4.c - 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 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.

4.d - 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.

4.e - Information has to be provided in financial reports on audits covering impairment of asset values (impairment tests), with specific reference to the provisions of 14539 and 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.

4.f - Contributions to deposit guarantee schemes and resolution mechanisms

With Directive 2014/49/EU (Deposit Guarantee Schemes Directive - "DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014 and the establishment of the Single Resolution Mechanism Act (EU Regulation no. 806/2014 of 15 July 2014), the European legislature introduced significant changes to the regulation of banking crises, with the aim of strengthening the single market and systemic stability. Following the implementation of these directives into national law, as from 2015, banking entities are obliged to provide the funds needed to finance the Interbank Fund for Deposit Protection (FITD) and the National Resolution Fund, merged with the Resolution Fund Act (FRU), starting in 2016, via payment of regular contributions and extraordinary contributions.

In compliance with DGSD Directive, the FITD required Italian banks to pay annual ordinary contributions up to the target level of 0.8% of the total of protected deposits of banks participating in FITD. Such a level should be achieved compulsorily by 3 July 2024. The size of the contribution requested from individual banks is in proportion to the scale of its existing protected deposits on 30 September each year compared to the total amount of protected deposits of Italian banks participating in FITD and the degree of risk inherent in consortium banks with protected deposits, compared to the degree of risk of all the other banks participating in FITD.

As required by BRRD, Italian banks must pay an annual ordinary contributions in order to provide the FRU with financial resources at least equal to 1% of the total of protected deposits held by authorised credit institutions in all the participating member States. Such a level should be achieved compulsorily by 1 January 2024. The contributions of each entity are computed as the ratio between the amount of its liabilities (net of protected deposits and own funds and, for institutions belonging to a group, net of intercompany liabilities) compared to total liabilities (net of protected deposits and own funds) of Italian banks and the degree of risk in respect of each credit institution with respect to the degree of risk of all other Italian banks.

It should be noted that, should the available financial resources of FITD and/or FRU not be sufficient to ensure repayment to depositors or to fund the resolution, credit institutions are expected to cover the amount by paying extraordinary contributions.

For the year ended 31 December 2016, the ordinary contribution was included in item 150 "Other administrative expenses" in the implementation of IFRIC 21 "Fees and charges", whereby the liability for payment of a fee (the contributions in question have been considered equivalent to a fee, in accounting terms) arises with the "obligatory factor", i.e. when the obligation arises from the payment of annual dues.

UBAE's ordinary contribution to the FRU for the year 2016 amounted to 1.49 million euros (at 31 December 2015 the ordinary contribution was 0.5 million euros).

It must be made clear that the contribution has been fully paid since the Bank has not taken the option to pay a 15% quota through "Irrevocable Payment Commitments";

UBAE's total contribution to FITD for the year 2016 was Euro 50,000 (the share for the year 2015 was limited to 37,000 euros as required for the second half only).

It should also be noted that, on 27 December 2016, UBAE received a communication from the Banca d'Italia regarding two additional annual contributions (pursuant to article 1, paragraph 848, of law no. 208 of 28 December 2015). The provision governs the manner in which the banking system ensures that the National Resolution Fund (FNR) has the necessary financial means to fulfil its obligations (before the single resolution mechanism) in cases where the ordinary and extraordinary contributions are not sufficient to cover resolutions already started. In more detail, the law provides that banks pay extra contributions, in addition to the ordinary contributions paid to the FRU, which must remain within the overall limit set by articles 70 and 71 of EU Regulation no. 806/2014; for 2016 alone, two additional annual contributions were required. Taking into account the financial needs related to the overall resolution of the four banks (*Banca Popolare Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti*) which started at the end of 2015, the Banca d'Italia proceeded to request the two additional quotas provided for in 2016. With its note of 25 January 2017 the Banca d'Italia specified that the communication of 27 December 2016 was binding and unconditional and, as such, it must recognised as a liability under the provisions of IFRIC 21 "Fees and charges". For UBAE, the additional contribution amounted to 2.98 million, which was then included on the income statement under item 150 "Other administrative costs" offsetting item 100 "Other liabilities".

In its communication of 27 December 2016, the Banca d'Italia showed, finally, that the earlier decision could be reconsidered in the future according to the evolution of the regulatory framework that will take place during conversion into law of decree no. 237 of 23 December 2016. This decree states that Banca d'Italia may determine that the additional contributions "are due in a time frame defined by the same, not exceeding five years." In light of the regulatory framework, it cannot be excluded that in the future other "obligatory factors" may be identified different to the one used in the preparation of these financial statements.

Finally, note that the start of the four banks' resolution crisis (cited above) on 22 November 2015 led to the Bank paying 1.7 million euros as an extraordinary contribution to the National Resolution Fund, fully included in the financial year 2015 on the income statement under item 150 "Other administrative expenses".

A.2 MAIN BALANCE SHEET ITEMS

1 – FINANCIAL ASSETS HELD FOR TRADING (HFT)

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 their 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 (HTM)

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. Level 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. Level 2 – methods based on observable market parameters, such as market prices for similar instruments, or the fact that all the instrument's significant factors, including credit and liquidity spreads, can be derived from observable market data. Methods in this group offer little scope for discretion since all parameters used, be it for the same or similar instruments, are ultimately drawn from the market, hence they allow for the replication of quotes from active markets.

3. Level 3 – methods based on unobservable market parameters (mark-to-model). These are widely accepted and used, and include calculating the present value of future cash flows and estimating volatilities; models are revised during their development and periodically thereafter to ensure maximum and durable consistency. As methods in this group rely heavily on significant inputs from sources other than the market, the Bank's management will have to make estimates and assumptions.

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

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

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

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

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

c. For derivatives, fair value is represented by:

- the quoted price on the last trading day of the relevant period if the instrument is traded on a regulated market;
- if the instrument is an over-the-counter (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

		31.12.2016			31.12.2015		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS HELD FOR TRADING	26,605	10,305	16,942	36,809	15,085	17,114
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
3	FINANCIAL ASSETS AVAILABLE FOR SALE	201,952	3,089	3,958	41,262	2,453	3,941
4	HEDGING DERIVATIVES						
5	TANGIBLE FIXED ASSETS						
6	INTANGIBLE FIXED ASSETS						
	TOTAL	228,557	13,394	20,900	78,071	17,538	21,055
1	FINANCIAL LIABILITIES HELD FOR TRADING		3,228			1,241	
2	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE						
3	HEDGING DERIVATIVES						
	TOTAL		3,228			1,241	

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.4.5.2 Annual changes in assets held at fair value on a recurring basis (level 3)

		FINANCIAL ASSETS HELD FOR NEGOTIATION	FINANCIAL ASSETS HELD AT FAIR VALUE	FINANCIAL ASSETS AVAILABLE FOR SALE	HEDGING DERIVATES	TANGIBLE ASSETS	INTANGIBLE ASSETS
1	**INITIAL AMOUNTS**	**17,114**		**3,941**			
2	**INCREASES**	**40**		**183**			
2.1	ACQUISITIONS						
2.2	PROFITS ALLOCATED TO:						
	2.2.1 INCOME STATEMENT						
	OF WHICH: CAPITAL GAINS						
	2.2.2 NET ASSETS			12			
2.3	TRANSFERS TO OTHER LEVELS						
2.4	OTHER INCREASE CHANGES	40		171			
3	**DECREASES**	**212**		**166**			
3.1	SALES			14			
3.2	REIMBURSEMENTS						
3.3	LOSSES ALLOCATED TO:						
	3.3.1 INCOME STATEMENT	170		52			
	OF WHICH: CAPITAL LOSSES	170		52			
	3.3.2 NET ASSETS						
3.4	TRANSFERS TO OTHER LEVELS						
3.5	OTHER DECREASE CHANGES	42		100			
4	**CLOSING BALANCE**	**16,942**		**3,958**			

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

		31.12.2016				31.12.2015			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	FINANCIAL ASSETS HELD TO MATURITY	628,455	391,881	236,574		474,504	400,252	74,871	
2	LOANS & ADVANCES TO BANKS	1,298,842			1,298,842	1,582,721			1,582,721
3	LOANS & ADVANCES TO CUSTOMERS	358,902			358,902	340,948			340,948
4	TANGIBLE FIXED ASSETS HELD FOR INVESTMENT								
5	NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED								
	TOTAL	2,286,199	391,881	236,574	1,657,744	2,398,173	400,252	74,871	1,923,699
1	ACCOUNTS PAYABLE TO BANKS	2,391,424			2,391,424	2,401,170			2,401,170
2	ACCOUNTS PAYABLE TO CUSTOMERS	237,813			237,813	143,299			143,299
3	DEBT SECURITIES OUTSTANDING								
4	LIABILITIES ASSOCIATED WITH ASSETS BEING DIVESTED								
	TOTAL	2,629,237			2,629,237	2,544,469			2,544,469

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

	31.12.2016	31.12.2015
A) CASH	895	836
B) FREE DEPOSITS WITH CENTRAL BANKS	286,119	224,647
TOTAL	287,014	225,483

The item b) contains an overnight deposit made at the Banca d'Italia of EUR 285 million

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: breakdown by type

ITEMS/VALUES		31.12.2016			31.12.2015		
		L1	L2	L3	L1	L2	L3
A	**NON-DERIVATIVE ASSETS**						
1	DEBT SECURITIES	26,605	4,907	16,942	34,549	13,758	17,114
	1.1 STRUCTURED SECURITIES			6,999	9,490		7,139
	1.2 OTHER DEBT SECURITIES	26,605	4,907	9,943	25,059	13,758	9,975
2	EQUITY SECURITIES				778		
3	HOLDINGS IN UCI				1,482	210	
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		26,605	4,907	16,942	36,809	13,968	17,114
B	**DERIVATIVES**						
1	FINANCIAL DERIVATIVES		5,398			1,117	
	1.1 FOR TRADING		5,398			1,117	
	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)			5,398			1,117	
TOTAL (A+B)		26,605	10,305	16,942	36,809	15,085	17,114

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

The item concerns bond issued by supervised counterparties and corporate for an overall nominal value of EUR 48 million.

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

ITEMS / VALUES		31.12.2016	31.12.2015
A	**NON-DERIVATIVE ASSETS**		
1	**DEBT SECURITIES**	**48,454**	**65,421**
A)	GOVERNMENTS AND CENTRAL BANKS	4,907	
B)	OTHER PUBLIC-SECTOR ENTITIES		9,803
C)	BANKS	31,390	55,618
D)	OTHER ISSUERS	12,157	
2	**EQUITY SECURITIES**		**778**
A)	BANKS		
B)	OTHER ISSUERS		778
	- INSURANCE UNDERTAKINGS		423
	- FINANCIAL COMPANIES		
	- NON-FINANCIAL COMPANIES		355
	- 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)		48,454	67,891
B	**DERIVATIVES**		
A)	BANKS	5,398	1,117
	- FAIR VALUE	5,398	1,117
B)	CUSTOMERS		
	- FAIR VALUE		
TOTAL (B)		5,398	1,117
TOTAL (A+B)		53,852	69,008

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		31.12.2016			31.12.2015		
		L1	L2	L3	L1	L2	L3
1	**DEBT SECURITIES**	**201,952**	**3,089**	**1,360**	**41,262**	**3,761**	**1,308**
	1.1 STRUCTURED						
	1.2 OTHER	201,952	3,089	1,360	41,262	3,761	1,308
2	**EQUITIES**			**2,598**			**2,633**
	2.1 VALUED AT FAIR VALUE			2,540			
	2.2 VALUED AT COST			58			2,633
3	**HOLDINGS IN UCI**						
4	**LOANS**						
	4.1 STRUCTURED						
	4.2 OTHER						
TOTAL		201,952	3,089	3,958	41,262	3,761	3,941

Item 1 “debt securities” level 1 consists of bonds issued by the Italian State for an overall nominal value of Euro 190 million maturing in 2017 and 2020, and bonds issued by italian societies for an overall nominal value of Euro 5 million. Level 2 consists of bond issued by foreign institutional counterparty for an overall nominal value of Euro 3.7 million. Level 3 consists of bonds issued by italian society for an overall nominal value of 2.5 million

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

ITEMS/VALUES		31.12.2016	31.12.2015
1	**DEBT SECURITIES**	**206,401**	**45,022**
A)	GOVERNMENTS AND CENTRAL BANKS	200,100	43,714
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER ISSUERS	6,301	1,308
2	**EQUITIES**	**2,598**	**2,633**
A)	BANKS		
B)	OTHER ISSUERS	2,598	2,633
	- INSURANCE UNDERTAKINGS		
	- FINANCIAL COMPANIES		
	- NON-FINANCIAL COMPANIES	2,598	2,633
	- OTHER		
3	**HOLDINGS IN UCI**		
4	**LOANS**		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		208,999	47,655

SECTION 5 – FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

5.1 Financial assets held to maturity: breakdown by type

		31.12.2016				31.12.2015			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	**DEBT SECURITIES**	**628,455**	**391,881**	**236,574**		**474,504**	**400,252**	**74,871**	
	1.1 STRUCTURED								
	1.2 OTHER	628,455	391,881	236,574		474,504	400,252	74,871	
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 614,2 million.

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

		31.12.2016	31.12.2015
1	**DEBT SECURITIES**	**628,455**	**474,504**
A)	GOVERNMENTS AND CENTRAL BANKS	310,764	144,205
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS	317,691	330,299
D)	OTHER ISSUERS		
2	**LOANS**		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		628,455	474,504
TOTAL FAIR VALUE		628,192	480,728

SECTION 6 – LOANS AND ADVANCES TO BANKS – ITEM 60

6.1 Loans and advances to banks: breakdown by type

		31.12.2016				31.12.2015			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
A.	**L&AS TO CENTRAL BANKS**	**11,223**				**457**			
1.	TERM DEPOSITS								
2.	MANDATORY RESERVE								
3.	REPOS								
4.	OTHER	11,223				457			
B.	**L&AS TO OTHER BANKS**	**1,287,619**				**1,582,264**			
1.	**LOANS**	**1,287,619**				**1,582,264**			
1.1	CURRENT ACCOUNTS AND FREE DEPOSITS	103,892				158,110			
1.2	TERM DEPOSITS	497,332				780,486			
1.3	OTHER	686,395				643,668			
	3.1 REPOS								
	3.2 FINANCIAL LEASES								
	3.3 OTHER	686,395				643,668			
2.	**DEBT SECURITIES**								
	2.1 STRUCTURED SECURITIES								
	2.2 OTHER SECURITIES								
	TOTAL	1,298,842				1,582,721			

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

BV= Book Value.
FV= Fair value.

Line item B.1.2 "Term deposits" concerns the mandatory reserve settled indirectly through Istituto Centrale Banche Popolari for EUR 25.8 mn (EUR 20.4 mn in 2015).
Line item B.1.3 "Other" includes impaired positions for EUR 455 th (EUR 405 th in 2015).

SECTION 7 – LOANS AND ADVANCES TO CUSTOMERS – ITEM 70

7.1 Loans and advances to customers: breakdown by type

		31.12.2016					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
LOANS		**355,117**		**3,785**			
1	CURRENT ACCOUNTS	831		2,660			
2	REPOS						
3	MORTGAGES	8,626		98			
4	CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	2,706		8			
5	FINANCIAL LEASES						
6	FACTORING	9,992					
7	OTHER LOANS (*)	332,962		1,019			
DEBT SECURITIES							
8	STRUCTURED SECURITIES						
9	OTHER SECURITIES						
TOTAL		355,117		3,785			

follows

		31.12.2016					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
LOANS		**438,058**		**8,107**			
1	CURRENT ACCOUNTS	14,503		781			
2	REPOS						
3	MORTGAGES	8,745		95			
4	CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	2,667					
5	FINANCIAL LEASES						
6	FACTORING						
7	OTHER LOANS	311,284		2,873			
DEBT SECURITIES							
8	STRUCTURED SECURITIES						
9	OTHER SECURITIES						
TOTAL		337,199		3,749			

(*) The figure of Euro 311,284 mainly consists of the following components: Euro 200,358 the discounted bills; Euro 106,855 the export financing

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

		31.12.2016			31.12.2015		
		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**	**355,117**		**3,785**	**337,199**		**3,749**
A)	GOVERNMENTS						
B)	OTHER PUBLIC-SECTOR ENTITIES	20,710			29,692		
C)	OTHER ISSUERS	334,407		3,785	307,507		3,749
	- NON-FINANCIAL COMPANIES	268,404		3,678	288,486		3,652
	- FINANCIAL COMPANIES	53,770			6,769		
	- INSURANCE COMPANIES						
	- OTHERS	12,233		107	12,252		96
TOTAL		355,117		3,785	337,199		3,749

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		31.12.2016	31.12.2015
1.1	**OWNED**	**23,354**	**23,278**
	A) LAND	8,187	8,187
	B) BUILDINGS	14,820	14,808
	C) MOVABLES	175	182
	D) ELECTRONIC SYSTEMS	11	24
	E) OTHER	161	77
1.2	**LEASED**		
	A) LAND		
	B) BUILDINGS		
	C) MOVABLES		
	D) ELECTRONIC SYSTEMS		
	E) OTHER		
TOTAL		23,354	23,278

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**	**21,899**	**1,770**	**2,373**	**2,321**	**36,550**
	A1	TOTAL NET WRITE-DOWNS		7,091	1,588	2,349	2,244	13,272
	A2	OPENING NET BALANCE	8,187	14,808	182	24	77	23,278
B	**INCREASES**			**701**	**22**	**5**	**128**	**854**
	B1	PURCHASES		701	22	5	128	854
	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**			**690**	**29**	**17**	**41**	**778**
	C1	SALES						
	C2	DEPRECIATION		690	29	17	41	778
	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**	**14,818**	**174**	**11**	**164**	**23,354**
	D1	TOTAL NET WRITE-DOWNS		7,781	1,617	2,366	2,285	14,050
	D2	GROSS CLOSING BALANCE	8,187	22,600	1,792	2,378	2,449	37,404
E	**VALUATION AT COST**		**8,187**	**14,818**	**174**	**11**	**164**	**23,354**
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

			31.12.2016		31.12.2015	
			LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL					
A2	OTHER INTANGIBLE ASSETS		1,329		1,468	
	A2.1	ASSETS VALUED AT COST	1,329		1,468	
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS	1,329		1,468	
	A2.2	ASSETS ASSESSED AT FAIR VALUE				
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B OTHER ASSETS				
TOTAL			1,329		1,468	

12.2 Intangible fixed assets: yearly variations

			GOODWILL	OTHER: GENERATED IN-HOUSE		OTHER: GENERATED EXTERNALLY		TOTAL
				LIMITED	UNL	LIMITED	UNL	
A		**OPENING BALANCE**				**1,468**		**1,468**
	A1	TOTAL NET WRITE-DOWNS						
	A2	NET OPENING BALANCE				1,468		1,468
B		**INCREASES**				**533**		**533**
	B1	PURCHASES				533		533
	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**				**672**		**672**
	C1	SALES						
	C2	WRITE-DOWNS:				672		672
		- AMORTIZATION				672		672
		- 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**				**1,329**		**1,329**
	D1	TOTAL NET WRITE-DOWNS						
E		**GROSS CLOSING BALANCE**				**1,329**		**1,329**
F		**VALUATION AT COST**				**1,329**		**1,329**

Limited: finite duration Unlimited: indefinite duration

Other intangible assets as of 31 December 2016 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

		31.12.2016	31.12.2015
TOTAL		5,091	5,438
INCOME STATEMENT		5,091	5,438
1	TAX LOSSES		
2	LOAN LOSSES	4,495	4,666
3	OTHER	596	772
SHAREHOLDERS' EQUITY			
4	VALUTATION RESERVES		
5	OTHER		

13.2 Deferred Tax liabilities: breakdown

		31.12.2016	31.12.2015
TOTAL		379	98
1	INCOME STATEMENT		
2	SHAREHOLDERS' EQUITY	379	98
	VALUTATION RESERVES	379	98
	OTHER		

13.3 Changes in prepaid Tax assets: contra-item in the income statement

			31.12.2016	31.12.2015
1	**OPENING BALANCE**		**5,438**	**5,463**
2	**INCREASES**		**32**	
	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	32	
3	**DECREASES**		**379**	**25**
	3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR	379	25
		A) REVERSALS	379	25
		B) WRITE-DOWNS FOR INTERVENING NON-RECOV.		
		C) DUE TO CHANGES IN ACCOUNTING POLICIES		
		D) OTHER		
	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**		**5,091**	**5,438**

13.4 Changes in deferred Tax liabilities: contra-item in the income statement

No data to report.

13.6 Changes in deferred Tax liabilities: contra-item in shareholders' equity

			31.12.2016	31.12.2015
1	**OPENING BALANCE**		**98**	**102**
2	**INCREASES**		**281**	
	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	281	
3	**DECREASES**			**4**
	3.1	DEFERRED TAX LIABILITIES ANNULLED DURING THE YEAR		4
		A) REVERSALS		
		B) DUE TO CHANGES IN ACCOUNTING POLICIES		
		C) OTHER		4
	3.2	REDUCTIONS IN TAX RATES		
	3.3	OTHER DECREASES		
4	**CLOSING BALANCE**		**379**	**98**

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

		31.12.2016	31.12.2015
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PARTIES	4,184	4,331
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)		
TOTAL		4,184	4,331

LIABILITIES

SECTION 1 – ACCOUNTS PAYABLE TO BANKS – ITEM 10

1.1 Accounts payable to banks: breakdown by type

			31.12.2016	31.12.2015
1	**ACCOUNTS PAYABLE TO CENTRAL BANKS**		**328,165**	**313,003**
2	**ACCOUNTS PAYABLE TO OTHER BANKS**		**2,063,259**	**2,088,171**
	2.1	CURRENT ACCOUNTS AND FREE DEPOSITS	309,652	696,284
	2.2	TERM DEPOSITS	1,653,607	1,291,887
	2.3	LOANS	100,000	100,000
		2.3.1 REPO		
		2.3.2 OTHER	100,000	100,000
	2.4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY		
	2.5	OTHER LIABILITIES		
TOTAL			2,391,424	2,401,174
FAIR VALUE LEVEL 1 FAIR VALUE LEVEL 2 FAIR VALUE LEVEL 3			2,391,424	2,401,174
TOTAL FAIR VALUE			2,391,424	2,401,174

The Item 1 includes deposits received from foreign Central Banks

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

			31.12.2016	31.12.2015
1	CURRENT ACCOUNTS AND FREE DEPOSITS		208,385	142,552
2	TERM DEPOSITS		29,221	745
3	LOANS			
	3.1	REPO		
	3.2	OTHER		
4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY			
5	OTHER ACCOUNTS PAYABLE		207	2
TOTAL			237,813	143,299
FAIR VALUE LEVEL 1				
FAIR VALUE LEVEL 2				
FAIR VALUE LEVEL 3			237,813	143,299
TOTAL FAIR VALUE			237,813	143,299

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

		31.12.2016					31.12.2015				
		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	373,460		3,228			463,490		1,241		
1.1	HELD FOR TRADING	373,460		3,228			463,490		1,241		
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		373,460		3,228			463,490		1,241		
TOTAL (A+B)		373,460		3,228			463,490		1,241		

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

			31.12.2016	31.12.2015
1	LIABILITIES ARISING FROM THE IMPAIRMENT OF:		2,916	3,848
	A	CONTINGENT EXPOSURES	2,916	3,848
	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)		17,815	8,269
TOTAL			20,731	12,117

The item includes extraordinary contributions to the National Resolution Fund for an amount of approximately Euro 3 million (see Item 9.5 of the Income Statement: Other administrative expenses).

SECTION 11 – STAFF SEVERANCE FUND – ITEM 110

11.1 Staff severance fund: yearly variations

			31.12.2016	31.12.2015
A	**OPENING BALANCE**		**1,719**	**1,903**
B	**INCREASES**		**72**	**87**
	B.1	PROVISIONING FOR THE YEAR	72	87
	B.2	OTHER INCREASES		
C	**DECREASES**		**225**	**271**
	C.1	SEVERANCE PAYMENTS	204	148
	C.2	OTHER DECREASES	21	123
D	**CLOSING BALANCE**		**1,566**	**1,719**
TOTAL			1,566	1,719

11.1.1 Rates

ANNUAL TECHNICAL	1.21%
ANNUAL INFLATION RATE	1.50%
REAL ANNUAL SALARY	4.00%
OVERALL ANNUAL SALARY	3.00%
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 1.21%;
- the annual frequencies of turnover advances are inferred from the Bank's long-standing experience and the frequencies arising from the experience of the consulting firm (Managers & Partners) on a significant number of similar business enterprises.

11.1.2 Reconciliation of actuarial valuations under IAS 19

	31.12.2016	31.12.2015
OPENING BALANCE	**1,719**	**1,903**
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	29	27
BENEFITS PAID	(204)	(148)
TRANSFERS		
EXPECTED LIABILITIES	**1,544**	**1,782**
ACTUARIAL LOSS	(22)	63
CLOSING BALANCE	**1,566**	**1,719**

11.4 Other information

PROVISIONING FOR THE YEAR	**72**
PENSION COSTS	36
FINANCIAL CHARGES	
ACTUARIAL LOSS	36
OTHER	

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: breakdown

			31.12.2016	31.12.2015
1	COMPANY PENSION PLANS			
2	OTHER PROVISIONS FOR RISKS AND CHARGES		615	615
	2.1	LITIGATION		
	2.2	STAFF CHARGES	615	615
	2.3	OTHER		
TOTAL			615	615

12.2 Provisions for risks and charges: yearly variations

			COMPANY PENSION FUNDS	OTHER PROVISIONS	TOTAL
A	**OPENING BALANCE**			**615**	**615**
B	**INCREASES**			**95**	**95**
	B.1	PROVISIONING FOR THE YEAR		95	95
	B.2	VARIATIONS DUE TO THE PASSING OF TIME			
	B.3	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
	B.4	OTHER INCREASES			
C	**DECREASES**			**95**	**95**
	C.1	AMOUNT DRAWN DURING THE YEAR		95	95
	C.2	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
	C.3	OTHER DECREASES			
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

ITEMS/VALUES		31.12.2016	31.12.2015
1	SHARE CAPITAL	159,861	159,861
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	40,363	36,801
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	531	(14)
7	PROFIT (LOSS) FOR THE YEAR	3,553	6,848
TOTAL		221,010	220,198

14.2 Share capital: yearly variations in number of shares

			COMMON	OTHER
A		**SHARES AT START OF YEAR**	**1,453,280**	
		- FULLY PAID UP	1,453,280	
		- NOT FULLY PAID UP		
	A1	TREASURY STOCK		
	A2	SHARES OUTSTANDING: OPENING BALANCE	1,453,280	
B		**INCREASES**		
	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		
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	**40,894**			
A) LEGAL RESERVE	13,241	B	13,241	
B) EXTRAORDINARY RESERVE	26,722	A,B,C	26,722	
C) FTA/IFRS RESERVES	531			
D) RETAINED PROFITIFRS 2005	398			
E) RETAINED PROFIT	2	A,B,C	2	
OTHER RESERVES				
TOTAL	**57,596**			
AMOUNT NOT ALLOCATABLE	14,170			
AMOUNT ALLOCATABLE	**43,426**			

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

OTHER INFORMATION

1 GUARANTEES ISSUED AND COMMITMENTS

			31.12.2016	31.12.2015
1)	**FINANCIAL GUARANTEES ISSUED**		**49**	**49**
	A)	TO BANKS	49	49
	B)	TO CUSTOMERS		
2)	**COMMERCIAL GUARANTEES ISSUED**		**855,795**	**695,442**
	A)	TO BANKS	544,768	349,045
	B)	TO CUSTOMERS	311,027	346,397
3)	**IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS**		**123,279**	**58,687**
	A)	TO BANKS	43,951	
	I)	DRAW-DOWN CERTAIN		
	II)	DRAW-DOWN UNCERTAIN	43,951	
	B)	TO CUSTOMERS	79,328	58,687
	I)	DRAW-DOWN CERTAIN		
	II)	DRAW-DOWN UNCERTAIN	79,328	58,687
4)	**COMMITMENTS UNDERLYING CREDIT DERIVATIVES: HEDGING SALES**			
5)	**ASSETS PLEDGED AS COLLATERAL FOR THIRD-PARTY LIABILITIES**			
6)	**OTHER COMMITMENTS**			
TOTAL			979,123	754,178

2 ASSETS PLEDGED AS COLLATERAL FOR OWN LIABILITIES AND COMMITMENTS

		31.12.2016	31.12.2015
1	FINANCIAL ASSETS HELD FOR TRADING		10,000
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE		
3	FINANCIAL ASSETS AVAILABLE FOR SALE		
4	FINANCIAL ASSETS HELD TO MATURITY	500	90,000
5	LOANS & ADVANCES TO BANKS		
6	LOANS & ADVANCES TO CUSTOMERS		
7	TANGIBLE FIXED ASSETS		

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**		**1,087,801**
	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)	43,892
		1 ISSUED BY REPORTING BANK	14,379
		2 OTHER	29,513
	C)	THIRD-PARTY SECURITIES DEPOSITED WITH THIRD PARTIES	179,515
	D)	SELF-OWNED SECURITIES DEPOSITED WITH THIRD PARTIES	864,394
D	**OTHER TRANSACTIONS**		

Note that the Bank's memorandum accounts include third-party funds for a countervalue of EUR 3.4 billion (EUR 3.3 billion as of 31 December 2015) 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	31.12.2016	31.12.2015
1	FINANCIAL ASSETS HELD FOR TRADING	2,120			2,120	1,546
2	FINANCIAL ASSETS AVAILABLE FOR SALE	489			489	320
3	FINANCIAL ASSETS HELD TO MATURITY	10,748			10,748	8,248
4	L&AS TO BANKS		18,934		18,934	14,053
5	L&AS TO CUSTOMERS		8,636		8,636	7,337
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE					
7	HEDGING DERIVATIVES					
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED			3	3	
TOTAL		13,357	27,570	3	40,930	31,504

Interest income from impaired L&As to customers amounted to EUR 27,866 (compared to EUR 284,760 as at 31.12.15)

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	31.12.2016	31.12.2015
		DEBT SECURITIES	LOANS				
1	FINANCIAL ASSETS HELD FOR TRADING	740				740	23
2	FINANCIAL ASSETS AVAILABLE FOR SALE	130				130	131
3	FINANCIAL ASSETS HELD TO MATURITY	3,794				3,794	915
4	L&AS TO BANKS		15,898			15,898	11,698
5	L&AS TO CUSTOMERS		3,490			3,490	1,630
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
7	HEDGING DERIVATIVES						
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED						
9	OTHER ASSETS						
TOTAL		4,664	19,388			24,052	14,397

1.4 Interest charges and similar expenses: breakdown

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2016	31.12.2015
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	**167**			**167**	**122**
2	ACCOUNTS PAYABLE TO BANKS	**19,255**			**19,255**	**12,795**
3	ACCOUNTS PAYABLE TO CUSTOMERS	**113**			**113**	**30**
4	SECURITIES OUTSTANDING					
5	FINANCIAL LIABILITIES HELD FOR TRADING					
6	FINANCIAL LIABILITIES ASSESSED AT FV					
7	OTHER LIABILITIES AND ALLOWANCES			46	46	
8	HEDGING DERIVATIVES					
TOTAL		19,536		46	19,582	12,947

1.6 INTEREST CHARGES AND SIMILAR EXPENSEX: OTHER INFORMATION

1.6.1 Interest charges on liabilities denominated in foreign currency

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2016	31.12.2015
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	**22**			**22**	**61**
2	ACCOUNTS PAYABLE TO BANKS	**14,363**			**14,363**	**9,248**
3	ACCOUNTS PAYABLE TO CUSTOMERS	**64**			**64**	**5**
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		14,449			14,449	9,314

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

2.1 Commission income: breakdown

			31.12.2016	31.12.2015
A)	**GUARANTEES ISSUED**		13,156	14,886
B)	**CREDIT DERIVATIVES**			
C)	**MANAGEMENT, BROKERAGE AND ADVISORY SERVICES**		644	52
	1	TRADING IN FINANCIAL INSTRUMENTS		
	2	FOREX	644	5
	3	ASSET MANAGEMENT		
		3.1 INDIVIDUAL		
		3.2 COLLECTIVE		
	4	CUSTODY AND ADMINISTRATION OF SECURITIES		47
	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**		31	
E)	**SECURITIZATION SERVICING**			
F)	**FACTORING SERVICES**		70	
G)	**TAX AND DEBT COLLECTION SERVICES**			
H)	**MANAGEMENT OF MULTILATERAL TRADING SERVICES**			
I)	**KEEPING AND MANAGEMENT OF CURRENT ACCOUNTS**		16	40
J)	**OTHERS SERVICES**		2,458	4,083
TOTAL			16,375	19,061

The item “Other services” includes receivable commissions relating to loans and discounts granted to customers and banks

2.3 Commission expense: breakdown

			31.12.2016	31.12.2015
A)	**GUARANTEES RECEIVED**		**2,428**	**3,833**
B)	**CREDIT DERIVATIVES**			
C)	**MANAGEMENT AND BROKERAGE SERVICES**		**40**	**3**
	1	TRADING IN FINANCIAL INSTRUMENTS		2
	2	FOREX	40	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**		**946**	**1,977**
TOTAL			3,414	5,813

The item "Other Services" includes about Euro 2 million of backdated commissions to banking counterparties on guarantees issued by UBAE, and about Euro 0.7 million 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

		31.12.2016		31.12.2015	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING			3	
B	FINANCIAL ASSETS AVAILABLE FOR SALE	2			
C	FINANCIAL ASSETS ASSESSED AT FAIR VALUE				
D	EQUITY INVESTMENTS				
TOTAL		2		3	

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**		**45**	**526**	**772**	**678**	**(879)**
	1.1	DEBT SECURITIES	45	479	772	114	(362)
	1.2	EQUITIES		11		271	(260)
	1.3	HOLDINGS IN UCI		36		293	(257)
	1.4	LOANS					
	1.5	OTHER					
2	**FINANCIAL LIABILITIES HELD FOR TRADING**						
	2.1	DEBT SECURITIES					
	2.2	OTHER					
3	**OTHER FINANCIAL LIABILITIES: FOREX DIFFERENTIALS (*)**						**3,687**
4	**DERIVATIVES (**)**		**619**	**1,584**	**193**	**2,752**	**(62)**
	4.1	FINANCIAL DERIVATIVES:	619	1,584	193	2,752	(62)
		- ON DEBT SECURITIES AND INTEREST RATES	619	664	193	1,799	(709)
		- ON EQUITIES AND EQUITY INDICES		920		953	(33)
		- ON FOREIGN CURRENCIES AND GOLD					680
		- OTHER					
	4.2	CREDIT DERIVATIVES					
TOTAL			664	2,110	965	3,430	2,745

(*) The amount reflects the profit on the valuation of foreign currency
(**) The capital gains and losses (Euro 1,4 million), 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 1,3 million) and item 40 of liabilities (infra Euro 1,9 million)

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

			31.12.2016			31.12.2015		
			PROFIT	LOSS	NET RESULTS	PROFIT	LOSS	NET RESULTS
FINANCIAL ASSETS								
1	DUE FROM BANKS							
2	LOANS TO CUSTOMERS							
3	FINANCIAL ASSETS AVAILABLE FOR SALE			21	(21)		185	(185)
	3.1	DEBT SECURITIES					185	(185)
	3.2	EQUITIES (*)		21	(21)			
	3.3	QUOTAS OF UCI						
	3.4	LOANS						
4	FINANCIAL ASSETS HELD TO MATURITY							
TOTAL ASSETS				21	(21)		185	(185)
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)				31.12.2016 (1-2)	31.12.2015
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	L&AS TO BANKS		274	24					**(298)**	**489**
	- LOANS		274	24					(298)	489
	- SECURITIES									
B	L&AS TO CUSTOMERS	2	70	81		103			**(50)**	**5,274**
	IMPAIRED LOAN BOUGHT									
	- LOANS									
	- SECURITIES									
	OTHERS	2	70	81		103			(50)	5,274
	- LOANS	2	70	81		103			(50)	5,274
	- SECURITIES									
C	TOTAL	2	344	105		103			(348)	5,763

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

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

		WRITE-DOWNS (1) SPECIFIC		WRITE-BACKS (2) SPECIFIC		31.12.2016 (1-2)	31.12.2015
		WRITEOFFS	OTHERS	A	B		
A	DEBT SECURITIES		54		1	**(53)**	**(1,308)**
B	EQUITIES						**(2,540)**
C	HOLDINGS IN UCI						
D	L&AS TO BANKS						
E	L&AS TO CUSTOMERS						
F	TOTAL		54		1	(53)	(3,848)

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)				31.12.2016 (1-2)	31.12.2015
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	SECURITIES			2		35			33	(42)
B	L&AS TO BANKS									
C	L&AS TO CUSTOMERS									
D	TOTAL			2		35			33	(42)

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

8.4 Net impairment adjustments to other financial instruments: breakdown

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2016 (1-2)	31.12.2015
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	GUARANTEES ISSUED					932			932	3,677
B	CREDIT DERIVATIVES									
C	COMMITMENTS TO DISBURSE FUNDS									
D	OTHER INSTRUMENTS									
E	TOTAL					932			932	3,677

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

SECTION 9 – ADMINISTRATION EXPENSES – ITEM 150

9.1 Personnel expenses: breakdown

			31.12.2016	31.12.2015
1	**STAFF**		**16,570**	**16,113**
	A)	WAGES AND SALARIES	11,089	10,926
	B)	SOCIAL SECURITY CONTRIBUTIONS	3,358	3,253
	C)	SEVERANCE PAYMENTS		
	D)	PENSION PAYMENTS		
	E)	ALLOCATIONS TO THE STAFF SEVERANCE FUND		
	F)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		708
		- DEFINED CONTRIBUTION		708
		- DEFINED BENEFIT		
	G)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:	741	
		- DEFINED CONTRIBUTION	741	
		- DEFINED BENEFIT		
	H)	COSTS ARISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
	I)	OTHER BENEFITS TO STAFF	1,382	1,226
2	**NON-SALARIED PERSONNEL**		**608**	**674**
3	**DIRECTORS**		**1,676**	**2,030**
4	**RETIRED PERSONNEL**			
5	**EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS**			
6	**EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS**			
TOTAL			18,854	18,817

9.2 Average number of staff: breakdown by category

A)	SENIOR MANAGERS	8
B)	EXECUTIVE CADRES	91
C)	OTHER STAFF	93
TOTAL		192

9.4 Other staff benefits

	31.12.2016	31.12.2015
EARLY RETIREMENT PAYMENTS		
OTHER PAYMENTS	1,382	1,226
TOTAL	1,382	1,226

9.5 Other administration expenses: breakdown

		31.12.2016	31.12.2015
A)	IT EXPENSES	2,103	1,849
B)	EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:		
	- RENTALS AND OTHER FEES	157	139
	- OTHER	663	789
C)	EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,688	2,793
D)	EXPENSES FOR PROFESSIONAL SERVICES	2,972	3,807
E)	INSURANCE PREMIUMS	134	50
G)	ADVERTISING	240	307
H)	INDIRECT DUTIES AND TAXES	540	552
I)	OTHER:	4,959	2,876
	OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)	4,471	2,309
TOTAL		14,456	13,162

The item (i) “Other” at 31 December 2016 includes the charges incurred for the Single Resolution Fund (SRF) and the National Resolution Fund (NRF), relating to the ordinary and extraordinary contributions required by the Banca d’Italia, amounting to approximately Euro 4.5 million. During 2016, the amount of Euro 1.5 million (ordinary share) was paid to the SRF; the remaining amount of approximately Euro 3 million (outstanding share) was recorded, as per Banca d’Italia’s instructions, under item 100 “Other liabilities” on the balance sheet

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

10.1 Net provisioning for risks and charges: breakdown

	31.12.2016	31.12.2015
LITIGATION		
OTHER RISKS AND CHARGES	95	154
TOTAL	95	154

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

11.1 Net adjustments to tangible fixed assets: breakdown

			DEPRECIATION (A)	IMPAIRMENT WRITE-DOWNS (B)	WRITEBACKS (C)	NET RESULT (A+B-C)
A	**TANGIBLE FIXED ASSETS**					
	A1	OWNED	766			766
		- USED IN OPERATIONS	766			766
		- HELD FOR INVESTMENT				
	A2	LEASED				
		- USED IN OPERATIONS				
		- HELD FOR INVESTMENT				
TOTAL			766			766

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

12.1 Net adjustments to intangible fixed assets: breakdown

			DEPRECIATION (A)	IMPAIRMENT WRITE-DOWNS (B)	WRITEBACKS (C)	NET RESULT (A+B-C)
A	**INTANGIBLE FIXED ASSETS**					
	A1	OWNED	663			663
		- DEVELOPED IN-HOUSE				
		- OTHER	663			663
	A2	LEASED				
TOTAL			663			663

SECTION 13 – OTHER OPERATING INCOME / CHARGES – ITEM 190

13.1 Other operating charges: breakdown

	31.12.2016	31.12.2015
OTHER OPERATING CHARGES	265	254
TOTAL	265	254

13.2 Other operating income: breakdown

	31.12.2016	31.12.2015
DUTIES AND TAXES RECOUPED	246	32
RENTALS AND FEES	5	4
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	65	92
- OTHER	1,457	1,646
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	1,560	505
TOTAL	3,333	2,279

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

		31.12.2016	31.12.2015
1	**CURRENT TAX (-)**	**1,895**	**(4,388)**
2	VARIATIONS IN CURRENT TAX FOR PRIOR YEARS (+/-)		
3	CURRENT TAX REBATE FOR THE YEAR (+)		
4	VARIATION IN PRE-PAID TAXES (+/-)	384	(33)
5	VARIATION IN DEFERRED TAXES (+/-)		
6	**INCOME TAX FOR THE YEAR (-) (-1+ / -2+ / -3+ / -4+ / -5)**	**2,279**	**(4,421)**

18.2 Reconciliation of theoretical tax liability and actual book liability

	31.12.2016	31.12.2015
PROFIT BEFORE TAX	**5,832**	**11,269**
THEORETICAL IRES AND IRAP DUE (33,07%)	1,913	3,727
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES	348	656
IRAP ADJUSTMENTS FOR WRITE-OFFS	(34)	(2)
TAXES ON NON-DEDUCTIBLE COSTS	(2)	257
PRE-PAID AND DEFERRED TAXES	366	33
NET WORTH INCREASE BENEFIT	(312)	(250)
TOTAL TAXES	2,279	4,421
NET PROFIT	3,553	6,848

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

	31.12.2016	31.12.2015
NET PROFIT	3,553	6,848
NUMBER OF SHARES	1,453,280	1,453,280
PROFIT PER SHARE	2.44	4.71

PART D: COMPREHENSIVE INCOME DETAIL

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10	**NET PROFIT (LOSS)**			**3,553**
OTHER COMPREHENSIVE INCOME AFTER TAX WITHOUT RECLASSIFICATION TO PROFIT OR LOSS		**(22)**		**(22)**
20	TANGIBLE ASSETS			
30	INTANGIBLE ASSETS			
40	ACTUARIAL PROFIT (LOSS) ON DEFINED-BENEFIT PLANS	(22)		(22)
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		**849**	**(281)**	**568**
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:	849	(281)	568
	A) FAIR-VALUE ADJUSTMENTS	849	(281)	568
	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**	**827**	**(281)**	**546**
140	**COMPREHENSIVE NET INCOME**	**827**		**4,098**

PART E: RISKS AND THEIR COVERAGE

GOVERNANCE

Banca UBAE has adopted a governance model of the traditional type, suitably modified to take into account the specific characteristics of the shareholders (since October 2010, the Libyan Foreign Bank holds 67.55% of the capital, with voting rights) and the need to ensure the effective operation of corporate bodies.

Besides the Shareholders' Meeting representing all interests, the traditional model contains the following bodies:

- the **Board of Directors** (with 9 to 11 members) is a supervisory and management body; as stated in the byelaws, pursuant to article 2381 of the Civil Code, the Board may delegate some of its powers and faculties – if deemed appropriate – to an Executive Committee, within the limits of the law and the byelaws;

- the **Executive Committee** if appointed (forming part of the Board of Directors and composed of 5 to 7 members) is delegated by the Board to carry out activities as a management body, on the basis of the powers granted by the Statute[1];

- the **General Manager,** appointed by the Board of Directors, exercises a management function as Chief Executive and deals with the preliminary phases of matters submitted to the Board of Directors and, if appointed, the Executive Committee;

- the **Auditing Board** is a control body.

The Board of Directors of Banca UBAE has decided to exercise its powers using internal committees for research and advisory purposes, each of which must include independent directors (at least two in the Controls & Risks Committee; at least one in the Remuneration Committee). The Advisory Committees, without deliberative powers, are currently as follows:

- Committee for Controls and Risks

- Committee for Remuneration

Each of these Committees has its own regulations governing its composition, scope and functions.

(1) Pursuant to article 22 of the Articles of Association (approved by the extraordinary meeting of shareholders on 15 June 2015) the Board of Directors has decided – for the time being – to postpone the appointment of the Executive Committee on the understanding that it may be established in the future if the Board deems it necessary

BOARD OF DIRECTORS

Exclusively, the Board:

- decides on corporate strategies and operations;
- approves the business and financial plans as well as the budget;
- draws up the Internal Regulations;
- approves the organisation chart and decides on any changes to it;
- re-examines periodically the points listed above, depending on the evolution of corporate business and external relations, in order to ensure effectiveness over time; to this end, the Board promotes the full use of the ICAAP results to determine business strategies and decisions;
- establishes the guidelines for the internal controls system, approves the establishment of internal control functions (Internal Audit, Compliance and Risk Management) ensuring that the system of internal controls is consistent with the Bank's strategic guidelines and Risk Appetite Framework;
- ensures that the efficiency, effectiveness and functionality of the internal control system are regularly evaluated and that the results of the checks are promptly brought to the attention of the Board;
- ensures that the design, adoption and maintenance of the IT system is correct, complete and swift to respond;
- decides on the setting up and closing down of branches and representation offices in Italy and abroad;
- decides on the acquisition and disposal of major holdings;
- oversees the preparation of the annual balance sheet accompanying it with a report as required by law;
- appoints and revokes the members of the Supervisory Body pursuant to legislative decree 231/2001;
- establishes the remuneration and incentive policies for the members of corporate bodies with strategic supervision, management and control, and the remaining staff, including any plans based on financial instruments, and criteria for determining compensation to be granted in case of early termination of employment or of early termination of office, including the set limits for this amount in terms of the annual fixed remuneration and the maximum amount that results from their application, to be submitted to the Shareholders' Ordinary Meeting.

According to the Internal Regulations, the Board of Directors exercises the power to grant loans and may approve credit facilities within the limits of current legislation.

The Board of Directors delegates to the Executive Committee (if appointed), the Credit Committee, the General Manager and the Deputy General Manager, powers to grant loan facilities within the pre-set limits.

The Board of Directors is exclusively responsible for decisions relating to credit lines under article 136 of the Consolidated Banking Law (T.U.B.) and loans granted to related parties, based on the relevant procedure.

Generally, it is up to the Board of Directors, upon proposal of the General Manager, to take decisions in relation to non-performing loans and impairment losses, as well as any agreements for the restructuring of loans exceeding the delegated set limits.

Regarding possible arrangements for the restructuring of loans, the decision-making powers, regardless of the duration, are delegated to the Executive Committee, the General Manager and Deputy General Manager, in accordance with the pre-set limits.

In addition, each year, on the General Manager's proposal, the Board of Directors approves a spending plan and investments for the following year containing, among other things, an annual budget on general expenses divided into sections and sub-sections.

All acts of extraordinary administration relating to operations not regarding loans, are delegated to the Executive Committee (if appointed) and the General Manager within the set limits.

For personnel management, the Board of Directors is responsible for:

- appointing and dismissing the General Manager, the Deputy General Manager, the Assistant General Managers and other executives, members of the Committees that the Board may establish, as well as the consultants of the Bank's foreign trade network and those deemed necessary to support the Board;

- appointing and dismissing (giving reasons) the heads of the corporate control offices after consulting the Auditing Board;

- taking decisions on any ad interim positions within the General Management;

- granting powers of representation and signature, on the General Manager's proposal, to staff who are not qualified as executives, by approving special service orders;

- approving, on the General Manager's proposal, the corporate supplementary contract;

- hiring non-executive staff on open-ended contracts (employees, cadres).

EXECUTIVE COMMITTEE

According to internal regulations, the Executive Committee (if appointed) is responsible for:

- granting credit lines under normal and emergency conditions, according to the powers delegated by the Board of Directors;
- examining and reviewing, on the Risk Committee's proposal, the current operating limits in the Finance Area, in accordance with the strategic guidelines set by the Board of Directors;
- authorising divestment operations from the HTM portfolio (held-to-maturity) proposed by the Risk Committee, in the event of necessity and urgency.

GENERAL MANAGER

The General Manager attends meetings of the Board of Directors, without voting rights, and submits documents and materials for examination and approval by that body, providing any clarification that may be required.

The General Manager participates, without voting rights, in meetings of the Executive Committee (if appointed) and is entitled to put forward proposals. He submits to the Executive Committee documents for consideration and approval, providing any clarification that may be required.

In addition, the General Manager is responsible for:

- implementing the administrative acts connected with the Bank's ordinary business and is responsible for activating the resolutions of the advisory bodies;
- representing the top level of the organisation and actively participating in management functions, receiving the information flows for corporate bodies.

AUDITING BOARD

The Auditing Board is responsible for overseeing compliance with the law and articles of association, compliance with the principles of correct administration and the adequacy of the Bank's organisational, administrative and accounting structure.

In particular, the Board of Statutory Auditors monitors the completeness, adequacy, functionality and reliability of the internal control system and the Risk Appetite Framework.
In addition, the Auditing Board verifies the effectiveness of all the structures and control functions involved and their proper coordination, promoting actions to correct any deficiencies or irregularities.

The Auditing Board promptly informs the Banca d'Italia of any acts or facts of which it has knowledge in the exercise of its duties that may constitute an irregularity in the management of the Bank or a breach of the rules governing banking.

To carry out its duties, the Auditing Board has constant information flows from other corporate bodies and control functions.

The Auditing Board also performs the functions of the supervisory body, established under legislative decree no. 231/2001, regarding the administrative liability of entities, supervising operations and compliance with models of the Bank's organisation and management.

ADVISORY COMMITTEES

Controls & Risks Committee

The Controls and Risks Committee (CCR) provides support and advice to the Board of Directors but only with consultative and advisory functions; it also has investigative functions towards Departments involved in issues that fall within its competence (internal controls, risks, governance).

Remuneration Committee

The Remuneration Committee provides support and advice to the Board of Directors but only with consultative and advisory functions; it exercises strategic supervision for matters concerning the remuneration of executives (directors and auditors) and the employees.

INTERNAL CONTROL SYSTEM

UBAE's system of internal control is the set of rules, procedures and organisational elements aimed at ensuring the sound and prudent management of the Bank's business, through a process of identifying, measuring, managing and monitoring the main risks involved.
The internal control system is designed according to the legal and regulatory framework, the organizational structure of the Bank, and in line with the standards and best national and international practices.

At present UBAE's system of internal control and risk management is organised as follows:

- **line controls** (i.e. "first level controls") aimed at ensuring the proper running of operations; these controls are carried out by operational units (i.e. hierarchical controls, systematic and random) also by various offices that report to the managers of operating units, carried out as part of the back office activities;

- **controls on risks and compliance** (i.e. "second level controls"), assigned to units other than production, which are intended to ensure the proper implementation of the risk management process, compliance with operational limits for the various offices, and compliance with standards of business operations; these controls are conducted mainly by the Risk Management Department and the Compliance Department; in particular, the Risk Management Department is responsible for the definition of risk measurement methods and monitoring compliance with the risk limits, while the Compliance Department is responsible for verifying alignment with the relevant legislation, also performing verification activities;

- **internal review** (i.e. "third level controls"), aimed at identifying anomalous trends, violations of procedures and regulations, and to periodically check that the system of internal controls is complete, functional and adequate in terms of efficiency and effectiveness, including checks on the IT system (ICT audit), with pre-set frequency in relation to the nature and intensity of risks; such activities are carried out by the Internal Audit Department.

Below is a brief description of the main aspects of the Bank's internal controls system.

Model of governance

UBAE has set up a system of rules, procedures and organisational units to ensure:

- compliance with corporate strategies;

- effectiveness of corporate processes;

- compliance with operations required by norms, supervisory obligations, regulations and internal procedures;

- protecting the corporate system from losses.

The achievement of these objectives depends on the collaboration of the various players in the control system, each within the limit of their responsibility. Described below are the roles and functions according to the current organisation.

As part of internal controls and risk management, the Board of Directors has approved the establishment of some internal committees, together with their operating regulations.

Internal Managerial Committees

The **Credit Committee** consists of the General Manager, Deputy General Manager, Assistant General Manager for operations, and Assistant General Manager for business activities.

The Credit Committee is responsible for proposing credit lines to the Board of Directors and the Executive Committee (if established), exercise the powers of custody within the limits delegated by the Board of Directors, withdrawing credit lines approved by the Executive Committee and/or by the Board of Directors, except for those within the application of article 136 of the Consolidated Banking Law (T.U.B.) and against related parties, and is competent to discuss any matter concerning the granting of credit and the relative risk monitoring.

The **Risk Committee** consists of the General Manager, Deputy General Manager, Assistant General Manager for operations, and Assistant General Manager for business activities.

The Risk Committee provides the Board of Directors with guidelines for managing individual risks, quantifiable or not; the committee discusses and evaluates the Internal Capital Adequacy Assessment Process (ICAAP), the periodic reports relating to the absorption of regulatory and economic capital, the effectiveness of the policies to identify, measure and manage all the risks, periodically evaluating the suitability of technical human resources, procedures and policies to control these IT systems, simulations and periodic reports regarding the monitoring of regulatory limits, internal operating limits, risk indicators; the committee proposes to the Board of Directors changes in the operating limits assigned to the different portfolios and possible exemptions; discusses and evaluates the operational strategies of the Finance Department; submits to the Board of Directors (and in case of necessity and urgency to the Executive Committee) divestment transactions from the HTM maturity portfolio (held-to-maturity); it examines the Risk Appetite Framework (RAF) verifying the consistency of the Bank's risk profile with the limitations required.

The **Personnel Committee** is made up of the General Manager, Deputy General Manager (with voting rights) and the Assistant General Manager for operations, Assistant General Manager for business activities, and the Head of Human Resources (without voting rights).

The Personnel Committee examine the proposals, as a preliminary step, relating to recruitment of personnel and the processing of their contracts, defines criteria and procedures relating to career advancement and the payment of the variable component in line with the remuneration policies established by the responsible body; it also examines, as a preliminary step, the Corporate Supplementary Contract.

ROLES AND RESPONSIBILITIES OF THE BANK'S CONTROL UNITS

Risk Management Department

The Risk Management Department is a staff unit that reports functionally to the General Manager and hierarchically to the Board of Directors also via the Controls & Risks Committee.

The Department provides support to strategic planning decided by top management, ensuring monitoring and reporting of every risk category in view of set 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 category.

Communication and analysis of risk profiles are conducted by means of an appropriate reporting system that is shared and subject to periodic independent review.

Concerning ICAAP (Internal Capital Adequacy Assessment Process), the Department develops, updates and finalises methodologies and instruments for monitoring risks and assessing impact; it is responsible for risk management models, conducting stress tests and carrying out analyses of probable scenarios; it also supports the capital management process.

Regarding the Risk Appetite Framework (RAF), the Department carries out monitoring and periodic reporting of the likelihood of risks, and also deals with annual revision. According to the current management process, the Department Head is responsible for giving opinions on operations of major importance in terms of their compliance with the Risk Appetite Framework.

The Department Head attends the meetings of the Risks Committee without voting rights, acting as secretary. Periodically he briefs the Controls & Risks Committee on the Department's activities.

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 2016 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.

Premise

As is known, the supervisory regulations provide for selective differentiation of methods of calculating capital requirements for market risk, credit risk (including counterparty risk) and operational risk (Pillar I), based on the size and operational complexity of the banks, and on the Supervisory Authority's assessments.

Banca UBAE has adopted the standard method for calculating the requirement to cover credit risk and market risk, and the Basic Indicator Approach (BIA) for calculating operational risk.

For the purposes of the "prudential control process" (ICAAP – Internal Capital Adequacy Assessment Process), individual banks have to internally assess the overall adequacy of their assets compared to other types of risks, not considered in the calculation of capital requirements under Pillar I of the prudential norms.

The whole process is based on the principle of proportionality according to which the risk management procedures, internal control mechanisms, capital assessment, as well as the frequency and intensity of the review by the Supervisory Board, depend on the nature, size and complexity of the activities conducted by each bank.

For this reason, the Banca d'Italia has divided the banks and intermediaries into three groups for the purposes of applying Pillar II norms.

Specifically, UBAE is part of the third group characterised by banks using the standard methods under Pillar I and who have gross assets of less than EUR 3.5 billion. The banks included in the third group adopt the simplified methods for the calculation and assessment of other risks to be considered as part of Pillar II.

It should be noted that, as part of the latter categories of risk (concentration risk by counterparty or groups of related counterparties, and the interest rate risk on the banking book) the regulations require a calculation method which leads to extra capital requirements above the regulatory requirements under Pillar I[2].

Also since 2013, to take account of UBAE's specific operations in countries at high risk, the Bank introduced as part of the Pillar II an additional capital requirement, although not required by law, regarding country risk. In order to consider all relevant risks for the Bank, another capital requirement has been introduced for the risk of geo-sectorial concentration, with the aim of quantifying the risk resulting from the concentration of the Bank's lending to certain macro-sectors. Finally, given the current economic situation, as of 2015, the Bank has also required, for the purposes of capital adequacy, an additional capital requirement in respect of strategic risk estimated by using an internal calculation method.

The activities conducted under the supervisory review process are reported annually to the Supervisory Authority through the ICAAP report. The statement referring to the data at 31 December 2016 will be sent to the Banca d'Italia by the end of April 2017.

Regarding compliance with public disclosure obligations of data and information on each risk category (Pillar III), the Bank will publish the tables (with quality and quantity information) on the company website (in the "Financials" area) before the budget deadline.

(2) For the other "quantifiable" risk, that is, the liquidity risk, there is no requirement for the allocation of additional capital, but rather the implementation of a management system that includes building a maturity ladder, running stress tests as well as defining an internal policy and a contingency funding plan

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Monitoring policies and credit risk management in UBAE Bank are defined by a framework resolution, approved by the Board of Directors, which specifies:

- the corporate bodies and their powers, delegated to grant loans;
- the process for selecting and evaluating loans;
- the criteria for spreading credit exposure, by category of customers and countries;
- the monitoring process and risk control, in relation to compliance with the capital requirements (Pillar I) against credit risk, and the supervisory discipline for large risks;
- the operational limits placed on exposure, weighted by risk, technical form, and category of customer and country.

Every year, the Board of Directors assesses the adequacy of management policies for credit risks with regard to current and future exposures forecast by the Risk Management Department.

UBAE’s mission is to promote and develop any type of relationship (financial, commercial, industrial and economic) in the international field. The Bank's priority business, even if not exclusive, is to encourage relations between the “countries of the Mediterranean and the Middle East” and Europe, as well as between them and the rest of the world.

Achievement of this mission, established in more than 40 years of activities in favour of its customers, involves adopting policies for selecting and granting loans, distinguished by strict professional criteria.

In particular, UBAE promotes the financing of commercial transactions to and from countries of economic interest, whose beneficiaries are banks and businesses, resident and non-resident. The commercial nature of the funding depends on the technical forms adopted and the overall evaluation of the beneficiary’s activities.

The use of purely financial instruments for non-banking entities belonging to countries of economic interest is therefore subject to constraints in terms of quality and quantity. The Board of Directors establishes individual limits for the weighted risk exposure in certain countries and for technical forms, on the basis of precise scenario analysis together with sound and prudent management.

The measurement of internal capital for credit risk is carried out by applying the standard method as required by prudential norms. Moreover, in view of stress testing, scenario analyses are performed by simulating the impact in terms of capital requirements generated by sudden shocks such as the default of sovereign States or certain economic sectors, or the deterioration of the overall economic situation.

As part of the Risk Appetite Framework, the Risk Management Department monitors the performance, on a quarterly basis, of the macro risk limit and credit risk tolerance; the results of the tests are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

2. Policies for managing credit risk

2.1 Organisational aspects

The Board of Directors, on the proposal of the Credit Committee and after informing the other bodies involved, deliberates the granting of loans, establishing:

- the risk class that the customer belongs to;
- the maximum amount of weighted exposure for the risk;
- the technical forms of loans to be granted, including acceptable guarantees and duration, generating risk exposure on the basis of the weighting system adopted.

Financial market operations (deposits and exchange rates) are part of the technical aspects, including the purchase of bonds as a stable investment (investment portfolio).
For countries that are non-investment grade, the decision-making bodies (Board of Directors), as a preliminary step, approve an overall exposure limit (country plafond) which includes all entities resident there.
Subsequently, the relevant decision-making bodies approve loan proposals for individual entities resident there.

The Risk Management Department conducts daily monitoring to ensure compliance with the credit limits granted to counterparties with whom the Finance Department operates; while a specific unit, within the Credit Management & Control Department, is responsible for monitoring the performance of credit exposures.

In any case, the credit lines granted to a customer, or group of connected customers, are subject to a maximum lending limit required by the regulations on large exposures, assessed according to the Bank's eligible capital[3].

Finally, in all cases of risk positions that exceed the limits set by the loan-granting decision, internal regulations govern the authorisation process specifying who has power of signature and the limits of amount and time to be followed during re-entry.

(3) Prudentially, UBAE has set an internal lending limit for companies below the regulatory level

2.2 Systems of management, measurement and control

When granting or reviewing loans, the Credit Department assigns or updates an entry score for each credit counterparty, representing a summarised assessment of the creditworthiness of the entity proposed for the assignment. The entry score (expressed in points) is calculated using specific software, which enables the comparison of the financial statements of the proposed party and those in different databases for bank and corporate counterparts (Italian and foreign). The rating also resulting from the comparison between the financial statements of similar counterparties (peer analysis) can be enhanced by an analyst's subjective estimates, regarding organisational and qualitative aspects.
The weighting of the individual factors in the allocation of the final score is achieved using a methodology consolidated over the years.

The entry score also makes it possible to assign each counterparty an internal risk class, enabling the adoption of risk-weighted pricing models and the summarised assessment of the overall quality of the Bank's credit portfolio, with obvious repercussions on the commercial planning process.

When monitoring loans, the Credit Performance Department compiles and updates a list of risk positions to be kept under observation, based on the information available from external sources (Risk Centre, prejudicial acts, press reports), and internal sources (output of performance monitoring applications on the percentage of use and overdraft on credit lines, reports by commercial bodies on specific countries and/or economic sectors, anomalies in payments due, legal actions to protect the bank's credit).

The managers of the commercial bodies involved will send a monthly report to the Credit Performance Department regarding the reasons for the anomalies found on the reported positions and any actions taken to reduce credit risk.

In any case, those responsible are required to report without delay to the Credit Performance Department any information useful for updating the list of positions under observation.

Whenever actively monitoring loans, the Credit Performance Department regularly sends communications to the General Management for information.

In addition, every six months, the Legal Department reports to the Board of Directors on the performance of impaired risk positions (doubtful loans, overdue loans and those likely to default). Proposals for new loans to customers or groups of related customers whose risk positions are under observation, are approved by the Board of Directors, regardless of the amount and technical form.

Whenever appropriate, coinciding with events that might result in an objective deterioration of the possibility of partial or complete recovery of credit exposure (past due date and/or impaired), the Credit Control Department immediately proposes to the General Management, with written justification, the reclassification of the risk position as non-performing (likely to default or impaired).

In the area of Pillar I, the Risk Management Department is responsible for monitoring the capital requirement for credit risk and, on the basis of quarterly reports from the Supervisory Board showing the risk matrix, Risk Management submits to the Risk Committee quarterly reports on capital adequacy. For ICAAP purposes, Risk Management is also involved in organising stress tests to be submitted to the Risk Committee in order to assess the impact in terms of internal capital.

The department also receives quarterly information relating to large exposures and individual lending limits (25% of eligible capital).

2.3 Ways of reducing credit risk

The individual risk position can be supported by personal or real guarantees.

It is possible to replace the existing risk position against the guaranteed party by the risk position against the guarantor where the latter is characterised by a lower requirement only under the following conditions:

- the guarantee is specific and covers the risk associated with an ordinary or ad hoc credit line;

- the security is unconditional, that is, the bank may require the guarantor to settle at any time;

- the guarantor is independent of the guaranteed party, in other words, the risk of default by the guarantor is not influenced by the risk of default by the guaranteed party.

Where these conditions do not exist, the individual risk position of the guaranteed party is not replaced when calculating the Bank’s overall risk position.
It is possible to accept the constitution of real guarantees in favour of the bank, in the recognised contractual forms, with the following types of activities:

- cash amounts deposited with the bank;

- cash amounts deposited with trustworthy banks (or to our liking); in the latter case, acceptance of collateral is subject to a special resolution by the appropriate governing body;

- bond securities issued by parties with rating not less than investment grade, deposited with the bank;

- bond securities issued by parties with rating not less than investment grade, deposited with international clearing organizations, trustworthy banks (or to our liking); in the latter case, acceptance of collateral is subject to a special resolution by the appropriate governing body;

- receivables due;

- receivables accruing;
- real estate for residential and commercial use.

With the exception of guarantees on receivables due or accrued, and real estate, the value of cash sums and the value at market prices of the financial instruments are deducted from the individual risk position generated by an ordinary or ad hoc loan, to which the guarantees specifically relate. The net individual risk position is considered in the calculation of the bank's overall risk position.

The deliberation relating to ordinary or ad hoc loans, secured by collateral, can indicate the minimum percentage that the guarantee has to maintain with respect to the value of the approved credit exposure.
UBAE does not purchase credit risk protection by means of credit derivatives (CDS).

2.4 Impaired financial activities

Based on the proposal of the Credit Control Department, and after consulting the commercial offices involved, the General Manager immediately requests reclassification of problem exposures as likely to default or impaired.

Reclassifying a non-performing risk position as likely to default makes it impossible to propose new credit lines in favour of the customer or customers connected to it, and immediately activates measures to recover the exposure.

The General Manager also authorises negotiations with the customer on how to improve the deteriorated risk position.
Proposals for new loans to be granted to customers whose positions are reclassified as likely to default, must be approved by the Board of Directors, regardless of the amount or technical form.

The General Manager, after consulting the offices involved and the Credit Control Department, also takes the necessary steps to protect the bank's interest, by ensuring, in the event of reclassification of a non-performing position, the immediate withdrawal of the credit lines granted, and activation of legal recovery procedures.

Activating legal recovery procedures automatically involves the reclassification of non-performing positions.
If appropriate, the General Manager may allow the commercial offices involved (supported by the Legal Department) to have dealings with customers whose positions have been reclassified as non-performing.

The General Manager, with the support of the Credit Control Department and the Legal Sector, reports quarterly to the Board of Directors on positions reclassified as likely to default or impaired, as well as restructured positions, together with related analytical loss estimates.

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					206,401	**206,401**
2	FINANCIAL ASSETS HELD TO MATURITY					628,455	**628,455**
3	L&AS TO BANKS	456			56,481	1,241,905	**1,298,842**
4	L&AS TO CUSTOMERS	539	3,226	21	953	354,164	**358,903**
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
6	FINANCIAL ASSETS BEING DIVESTED						
31.12.2016		995	3,226	21	57,434	2,430,925	**2,492,601**
31.12.2015		3,102	4,117	12	13,731	2,422,233	**2,443,195**

At 31 December 2016, unimpaired past-due loans amounted to Euro 57 million relating to positions correctly returned in the early days of January 2017.

At 31 December 2016, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 2 million, entirely attributable to the portfolio of "loans to customers"; more information on these exposures can be found in 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				207,764	1,363	206,401	**206,401**
2	FINANCIAL ASSETS HELD TO MATURITY				628,499	44	628,455	**628,455**
3	L&AS TO BANKS	4,853	4,397	456	1,298,728	342	1,298,386	**1,298,842**
4	L&AS TO CUSTOMERS	26,607	22,821	3,785	357,515	2,398	355,117	**358,902**
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE							
6	FINANCIAL ASSETS BEING DIVESTED							
31.12.2016		31,460	27,218	4,241	2,492,506	4,147	2,488,359	**2,492,600**
31.12.2015		35,562	28,330	7,232	2,438,676	2,713	2,435,963	**2,443,195**

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		LOW QUALITY CREDIT		TOTAL
		ACCUMULATED NEGATIVE VALUE	BOOK VALUE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			53,852
2	HEDGING DERIVATIVES			
31.12.2016				53,852
31.12.2015				66,538

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				4,853		4,397		456
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
B)	PROBABLE IMPAIRMENT								
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
C)	IMPAIRED PAST DUE POSITIONS								
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
D)	NOT IMPAIRED PAST DUE POSITIONS					56,509		28	56,481
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					1,591,344		358	1,590,986
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
TOTAL A					4,853	1,647,853	4,397	386	1,647,923
B	**OFF-BALANCE SHEET EXPOSURE**								
A)	IMPAIRED								
B)	NOT IMPAIRED					594,167			594,167
TOTAL B						594,167			594,167
TOTAL (A+B)					4,853	2,242,020	4,397	386	2,242,090

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		4,682	1,771	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES		171		
	B1	INFLOWS FROM PERFORMING POSITIONS			
	B2	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS			
	B3	OTHER INCREASES	171		
C	DECREASES			1,771	
	C1	OUTFLOWS TO PERFORMING POSITIONS			
	C2	WRITE-OFFS			
	C3	ITEMS COLLECTED			
	C4	ITEMS ASSIGNED			
	C5	LOSSES ON DISPOSAL			
	C6	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS			
	C7	OTHER DECREASES		1,771	
D	CLOSING GROSS EXPOSURE		4,853		
	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.

In any case, as can be seen from the previous A.1.3, as of 31 December 2016 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**		**4,277**		**1**			
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED							
B	**INCREASES**		**120**					
	B1	WRITE-DOWNS						
	B2	LOSSES ON DISPOSAL						
	B3	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS						
	B4	OTHER INCREASES (*)	120					
C	**DECREASES**							
	C1	VALUTATION WRITE-BACKS			1			
	C2	COLLECTION WRITE-BACKS						
	C3	PROFIT ON DISPOSAL						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS						
	C6	OTHER DECREASES (*)			1			
D	**CLOSING GROSS EXPOSURE**		**4,397**					
	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					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				22,368		21,829		539
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
B)	PROBABLE IMPAIRMENT				4,215		990		3,225
	OF WHICH: EXP. SUBJECT TO CONCESSIONS				1,979		990		989
C)	IMPAIRED PAST DUE POSITIONS		9	1	13		2		21
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
D)	NOT IMPAIRED PAST DUE POSITIONS					960		6	954
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					892,147		3,755	888,392
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
TOTAL A			9	1	26,596	893,107	22,821	3,761	893,131
B	**OFF-BALANCE SHEET EXPOSURE**								
A)	IMPAIRED	2,166					1,987		179
B)	NOT IMPAIRED					391,105		929	390,176
TOTAL B		2,166				391,105	1,987	929	390,355
TOTAL (A+B)		2,166	9	1	26,596	1,284,212	24,808	4,690	1,283,486

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**		**24,445**	**2,035**	**13**
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	**INCREASES**		**229**	**2,236**	**11**
	B1	INFLOWS FROM PERFORMING POSITIONS		2,236	11
	B2	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS	48		
	B3	OTHER INCREASES	181		
C	**DECREASES**		**2,306**	**56**	**1**
	C1	OUTFLOWS TO PERFORMING POSITIONS			1
	C2	WRITE-OFFS			
	C3	ITEMS COLLECTED	2,306		
	C4	ITEMS ASSIGNED			
	C5	LOSSES ON DISPOSAL			
	C6	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS		48	
	C7	OTHER DECREASES		8	
D	**CLOSING GROSS EXPOSURE**		**22,368**	**4,215**	**23**
	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

CAUSAL/CATEGORIES			EXPOSURES SUBJECT TO GROSS CONCESSIONS: IMPAIRED	EXPOSURES SUBJECT TO GROSS CONCESSIONS: UNIMPAIRED
A		**OPENING GROSS EXPOSURE**	**1,979**	
		OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED		
B		**INCREASES**		
	B1	INCREASES FROM EXP. IN BONIS NOT SUBJECT TO CONCESSIONS		
	B2	INCREASES FROM EXP. IN BONIS SUBJECT TO CONCESSIONS		
	B3	INCREASES FROM EXP. SUBJECT TO IMPAIRED CONCESSIONS		
	B4	OTHER INCREASES		
C		**DECREASES**		
	C1	DECREASES OF EXP. IN BONIS NOT SUBJECT TO CONCESSIONS		
	C2	DECREASES OF EXP. IN BONIS SUBJECT TO CONCESSIONS		
	C3	DECREASES OF EXP. SUBJECT TO IMPAIRED CONCESSIONS		
	C4	WRITE-OFFS		
	C5	ITEMS COLLECTED		
	C6	ITEMS ASSIGNED		
	C7	LOSSES ON DISPOSAL		
	C8	OTHER DECREASES		
D		**CLOSING GROSS EXPOSURE**	**1,979**	
		OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED		

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**		**21,747**		**995**	**990**	**1**	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED							
B	**INCREASES**		**186**				**1**	
	B1	WRITE-DOWNS	28					
	B2	LOSSES ON DISPOSAL						
	B3	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS	5					
	B4	OTHER INCREMENTS	153				1	
C	**DECREASES**		**104**		**5**			
	C1	VALUTATION WRITE-BACKS	2					
	C2	COLLECTION WRITE-BACKS	100					
	C3	PROFIT ON DISPOSAL						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS			5			
	C6	OTHER DECREASES	2					
D	**CLOSING GROSS EXPOSURE**		**21,829**		**990**	**990**	**2**	
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED							

Total adjustments on concessionary exposures relate to financing a company rated as likely to default (PD).

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		23,413	103,206	683,611	564,746	217,335	56,920	891,823	**2,541,054**
B	DERIVATIVES			1,695	572	2,579			553	**5,399**
	B1	FINANCIAL DERIVATIVES		1,695	572	2,578			553	**5,398**
	B2	CREDIT DERIVATIVES								
C	GUARANTEES GIVEN			33,149	138,093	126,760	60,351	18,584	478,907	**855,844**
D	COMMITMENTS TO DISBURSE FUNDS				18,973				104,306	**123,279**
E	OTHERS									
TOTAL			23,413	138,050	841,249	694,085	277,686	75,504	1,475,589	3,525,576

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 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed Banks' exposures

			NET EXPOSURE VALUE	COLLATERAL (1)				PERSONAL (2)									TOTAL (1+2)
				PROPERTY		SECU-RITIES	OTHER COLLATER	CREDIT DERIVATIVES					ENDORSEMENT CREDITS				
								CLN	OTHER DERIVATIES								
				MORTGAGE	FINANCIAL LEASING				GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS	
1	**CASH EXPOSURES GUARANTEED**		**360,393**				**360,374**										**360,374**
	1.1	FULLY GUARANTEED	350,905				350,905										350,905
		OUT OF WHICH, IMPAIRED															
	1.2	NOT FULLY GUARANTEED	9,488				9,469										9,469
		OUT OF WHICH, IMPAIRED															
2	**OFF-BALANCE SHEET EXPOSURES GUARANTEED**		**137,841**				**137,456**										**137,456**
	2.1	FULLY GUARANTEED	137,107				137,107										137,107
		OUT OF WHICH, IMPAIRED															
	2.2	NOT FULLY GUARANTEED	734				349										349
		OUT OF WHICH, IMPAIRED															

A.3.2 Guaranteed Clients' exposures

	NET EXPOSURE VALUE	COLLATERAL (1)				PERSONAL (2)									TOTAL (1+2)
		PROPERTY		SECU-RITIES	OTHER COLLATERAL	CREDIT DERIVATIVES					ENDORSEMENT CREDITS				
						CLN	OTHER DERIVATIES								
		MORTGAGE	FINANCIAL LEASING				GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS	GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS	
1 CASH EXPOSURES GUARANTEED	**44,238**	**8,526**												**35,711**	**44,237**
1.1 FULLY GUARANTEED	44,238	8,526												35,711	44,237
OUT OF WHICH, IMPAIRED	281	99												183	282
1.2 NOT FULLY GUARANTEED															
OUT OF WHICH, IMPAIRED															
2 OFF-BALANCE SHEET EXPOSURES GUARANTEED	**64,032**				**3,160**									**58,366**	**61,526**
2.1 FULLY GUARANTEED	56,654				1,760									54,894	56,654
OUT OF WHICH, IMPAIRED															
2.2 NOT FULLY GUARANTEED	7,378				1,400									3,472	4,872
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					440	21,662		99	155	
OF WHICH: ESC[1]																		
A2 PROBABLE IMPAIRMENTS													3,226	990				
OF WHICH: ESC[1]													990	990				
A3 PAST DUE POSITIONS													12	1		8	1	
OF WHICH: ESC[1]																		
A4 OTHER ASSETS	515,771			20,710		140	53,770		363				286,862		3,176	12,233		82
OF WHICH: ESC[1]																		
TOTAL A	515,771			20,710		140	53,770	12	363				290,540	22,653	3,176	12,340	156	82
B OFF-BALANCE SHEET EXPOSURES																		
B1 BAD DEBTS													179	1,987				
B2 PROBABLE IMPAIRMENTS																		
B3 OTHER IMPAIRED ASSETTS																		
B4 OTHER ASSETS				27,150									363,025		929			
TOTAL B				27,150									363,204	1,987	929			
TOTAL (A+B) 31.12.2016	515,771			47,860		140	53,770	12	363				653,744	24,640	4,105	12,340	156	82
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

ESC[1] = exposures subject to concessions

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 WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
A CASH EXPOSURE										
A1 BAD DEBTS	509	17,460		3,879		12	30	478		
A2 PROBABLE IMPAIRMENTS	990	990	2,236							
A3 PAST DUE POSITIONS	20	2								
A4 OTHER ASSETS	476,756	2,447	126,382	469	44,145	298	153,230	345	88,833	202
TOTAL (A)	478,275	20,899	128,618	4,348	44,145	310	153,260	823	88,833	202
B OFF-BALANCE SHEET EXPOSURE										
B1 BAD DEBTS	180	564						1,423		
B2 PROBABLE IMPAIRMENTS										
B3 IMPAIRED										
B4 OTHER ASSETS	299,661	892							90,514	37
TOTAL (B)	299,841	1,456						1,423	90,514	37
TOTAL (A+B) 31.12.2016	778,116	22,355	128,618	4,348	44,145	310	153,260	2,246	179,347	239
TOTAL (A+B) 31.12.2015	606,853	23,081	95,075	4,386	46,825	328	54,204	2,061	151,104	393

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 WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
A	**CASH EXPOSURE**										
A1	BAD DEBTS							456	4,397		
A2	PROBABLE IMPAIRMENTS										
A3	PAST DUE POSITIONS										
A4	OTHER ASSETS	638,854	55	345,510	117	23,386		282,070	136	357,648	**77**
TOTAL (A)		638,854	55	345,510	117	23,386		282,526	4,533	357,648	77
B	**OFF-BALANCE SHEET EXPOSURE**										
B1	BAD DEBTS										
B2	PROBABLE IMPAIRMENTS										
B3	IMPAIRED										
B4	OTHER ASSETS	128,000		90,852		675		72,127		302,513	
TOTAL (B)		128,000		90,852		675		72,127		302,513	
TOTAL (A+B) 31.12.2016		766,854	55	436,362	117	24,061		354,653	4,533	660,161	77
TOTAL (A+B) 31.12.2015		858,988	49	630,485	169	80,081		185,416	4,344	563,878	80

B.4 Large Exposures

BOOK VALUE	2,246,907
WEIGHTED AMOUNT	1,144,199
NUMBER OF BALANCE SHEET POSITIONS	129
NUMBER OF WEIGHTED POSITIONS	22

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

At present, the Bank has an instrument that rates each counterparty with an internal score and a probability of default (PD) built on an external sample of findings observed over a ten-year period. On the basis of the score provided by the Credit Analysis & Investigation Department, it is possible to determine for each counterparty the internal values of expected loss (EL) and unexpected loss (UL), for use in determining a minimum pricing level (including the opportunity cost linked to equity reserves) as part of a risk-adjusted performance measurement.

In 2015, the Bank launched a comprehensive project aimed at increasing the efficiency and effectiveness of all phases of the credit process (preliminary phase, granting loans, performance monitoring, analysing risk profiles, evaluating business activities), thereby strengthening safeguards at the first and second levels.

This project is closely linked to the corporate aim of aligning the accounting standard IFRS9; in fact, using the information of the PDs for individual counterparties, it will be possible to start building new algorithms for determining write-downs in the event of expected losses.

SECTION 2 – MARKET RISKS

2.1 – Price and interest rate risk: Trading book

QUALITATIVE INFORMATION

A. General aspects

The Board of Directors sets the maximum accepted level of market risk for the trading portfolio, which corresponds to the economic capital the Bank is willing to allocate to cover its risk.

During 2016, the policy for managing market risks was approved (foreign exchange, position and settlement) and operational limits were set, together with the relevant responsibilities and monitoring procedures.

Compliance with limits is monitored daily by the Middle Office Department (first level control) and the Risk Management Department (second level) based on output data provided by the ObjFin program.

The transactions of the Finance Department are registered by the ObjFin program, integrated into the Bank’s accounting information system, where the internal operating limits have been replicated to allow real-time monitoring by the relevant offices. The reporting system has also been implemented within the program enabling automatic reports to be produced, in order to inform various competent bodies in accordance with the frequencies set out on the situation concerning positions, risks and exceeding operational limits.

The program handles the following financial instruments:

- traditional Forex and OTC derivatives;
- traditional money markets and derivatives (FRA, IRS, OIS);
- bonds and derivatives;
- equity and derivatives (index futures, stock futures, ETFs, and options traded on regulated markets).

In particular:

- position risk on the trading portfolio is expressed in terms of value VaR, with 99% confidence level and a holding period of 10 days;
- counterparty risk is calculated by applying the current-value method of positions in OTC derivatives;

- the interest-rate risk is expressed in terms of sensitivity to rate-curve shifts (duration).

In setting the rules, the Board of Directors followed two basic principles:

- every type of operation must match a portfolio of financial instruments;

- each risk identified in relation to types of operation must match one desk manager.

The adoption of these criteria makes the exercise of delegated powers more transparent and enables more effective control.

B. Management processes and methods for measuring interest-rate risks

Brokerage activity between the market and customers (banking and corporate) relating to interest-rate and foreign-exchange derivatives, can generate daily misalignments in the related portfolio followed by a temporary increase in exposure to the general risk position, held by the Treasury Department and the Financial Markets Department.

The trading positions in interest-rate and foreign-exchange derivatives (both regulated and OTC) are recorded on the front office system, which also supports the daily pricing of the instruments and the calculation of profits/losses not realised. The risk of each open position on financial instruments is expressed in terms of value VaR, with a holding period of 10 days and a 99% confidence level, and is subject to compliance with the quantitative limits proposed by the Risk Committee, approved by the Board of Directors and monitored daily by the Risk Management Department.

Adjusting the limits results in the activation of the verification procedures, making it possible to eliminate the exposure.

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**			**20,884**	**2,993**	**7,472**	**10,905**			
	1.1	DEBT SECURITIES		20,884	2,993	7,472	10,905			
		- WITH AN OPTION FOR EARLY REDEMPTION					5,820			
		- OTHER		20,884	2,993	7,472	5,085			
	1.2	OTHER ASSETS								
2	**CASH LIABILITIES**									
	2.1	REPO								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATIVES**			**1,225,158**	**100,972**	**13,309**	**97,434**	**10,000**		
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**		**1,225,158**	**100,972**	**13,309**	**97,434**	**10,000**		
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES		**1,225,158**	**100,972**	**13,309**	**97,434**	**10,000**		
		* LONG POSITIONS		396,248	50,860	6,693	9,487			
		* SHORT POSITIONS		828,910	50,112	6,616	87,947	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**			**4,787**			**937**			
	1.1	DEBT SECURITIES		4,787			937			
		- WITH AN OPTION FOR EARLY REDEMPTION								
		- OTHER		4,787			937			
	1.2	OTHER ASSETS								
2	**CASH LIABILITIES**									
	2.1	REPO								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATIVES**			**591,987**	**228**	**13,596**				
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**		**591,987**	**228**	**13,596**				
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES		**591,987**	**228**	**13,596**				
		* LONG POSITIONS		561,576	114	6,766				
		* SHORT POSITIONS		30,411	114	6,830				

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**			**121,602**	**765**					
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**		**121,602**	**765**					
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES		**121,602**	**765**					
		* LONG POSITIONS		57,268						
		* SHORT POSITIONS		64,334	765					

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

No data to report.

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

No data to report.

2.2 – Price and Interest rate risk – Banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and methods for measuring interest - rate risk

The prudential norms (Pillar II) involve calculation of an additional capital requisite for the interest-rate risk on the banking book, and require banks to monitor the size of this risk through the calculation of a "risk indicator", corresponding to a sudden parallel shift in the rate curve of 200 bps.

The value of this indicator should not exceed the limit of 20% of own funds; this value is much higher than that found by UBAE which is lower due to the high concentration of deposits and loans in a time frame of 12 months and the existence of derivatives that reduce risk.
From a management point of view, internal regulations have introduced an internal limit below the regulatory threshold of 5%[4] of own funds, as they are more consistent with the Bank's actual exposure to risk.

For ICAAP purposes, the Risk Management Department uses an ALM program (Asset Liability Management) to conduct quarterly tests on the maturity ladder, and monitors compliance with the internal operating limit using the simplified approach.

The department also conducts quarterly stress testing on exposure assuming parallel shifts but not in the rate curve.

On a quarterly basis, as part of the Risk Appetite Framework, the Risk Management Department monitors the performance of the macro risk limit and risk tolerance for the interest-rate risk on the banking book; the results of the tests are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

B. Fair value coverage

UBAE does not hold derivatives in its portfolio to hedge assets and liabilities at fair value.

C. Hedging of financial flows

In its portfolio, UBAE holds interest-rate derivatives (IRS and OIS) in order to provide management with macro-hedging of the interest margin in cash flows from banking activities (bonds and loans). Hedging and trading of derivative instruments is handled by the Finance Department's treasury office.

(4) This percentage appears in the Risk Appetite Framework as a specific risk tolerance for interest-rate risk on the banking book

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	INDEF-INITE
1	**CASH ASSETS**	**47,514**	**409,928**	**453,315**	**78,380**	**183,349**	**3,149**	**2,455**	
	1.1 DEBTS SECURITIES		240,053	300,282	300	121,583			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		240,053	300,282	300	121,583			
	1.2 L&AS TO BANKS	43,709	78,160	130,255	49,590	123	375		
	1.3 L&AS TO CUSTOMERS	3,804	91,715	22,778	28,490	61,644	2,774	2,455	
	- A/C	3,144					347		
	- OTHER L&AS	660	91,715	22,778	28,490	61,644	2,427	2,455	
	- WITH AN OPTION FOR EARLY REDEMPTION	79	179	1,776	537	4,097	2,315	2,455	
	- OTHER	581	91,536	21,002	27,953	57,546	112		
2	**CASH LIABILITIES**	**348,415**	**244,552**	**7,004**	**89,050**	**100,000**			
	2.1 DUE TO CUSTOMERS	114,531	199						
	- A/C	114,324	199						
	- OTHER LIABILITIES	207							
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER	207							
	2.2 DUE TO BANKS	233,884	244,353	7,004	89,050	100,000			
	- A/C	186,960							
	- OTHER LIABILITIES	46,924	244,353	7,004	89,050	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 DERIVATIES**								
	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**	**104,257**							
	* LONG POSITIONS	52,128							
	* SHORT POSITIONS	52,128							

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	INDEF-INITE
1	**CASH ASSETS**	**87,741**	**770,854**	**193,537**	**55,607**	**195,822**			
	1.1 DEBTS SECURITIES		24,355			148,284			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		24,355			148,284			
	1.2 L&AS TO BANKS	87,741	612,845	189,498	55,607	47,538			
	1.3 L&AS TO CUSTOMERS		133,654	4,039					
	- A/C								
	- OTHER L&AS		133,654	4,039					
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		133,654	4,039					
2	**CASH LIABILITIES**	**238,883**	**1,573,417**	**25,030**					
	2.1 DUE TO CUSTOMERS	92,551	28,902						
	- A/C	92,551	28,902						
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	146,332	1,544,515	25,030					
	- A/C	121,437							
	- OTHER LIABILITIES	24,894	1,544,515	25,030					
	2.3 DEBT SECURITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.4 OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
3	**FINANCIAL DERIVATIES**								
	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**	**142,302**							
	* LONG POSITIONS	71,151							
	* SHORT POSITIONS	71,151							

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	INDEF-INITE
1	**CASH ASSETS**	**2,904**	**7,070**	**766**	**212**				
	1.1 DEBTS SECURITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	1.2 L&AS TO BANKS	2,897	277	17	212				
	1.3 L&AS TO CUSTOMERS	7	6,793	749					
	- A/C								
	- OTHER L&AS	7	6,793	749					
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER	7	6,793	749					
2	**CASH LIABILITIES**	**2,766**	**120**						
	2.1 DUE TO CUSTOMERS	1,511	120						
	- A/C	1,511	120						
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	1,255							
	- A/C	1,255							
	- 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 DERIVATIES**								
	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								

2.3 - Currency risk

QUALITATIVE INFORMATION

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	DINARS ARAB EMIRATES	POUNDS	CANADIAN DOLLARS	NORWEGIAN CROWNS	OTHER
	USD	AED	GBP	CAD	NOK	
A. FINANCIAL ASSETS	**1,308,305**	**144**	**590**	**6,867**	**1,396**	**1,961**
A.1 DEBT SECURITIES	178,485					
A.2 EQUITIES	5					6
A.3 L&AS TO BANKS	993,228	144	590	74	1,396	1,198
A.4 L&AS TO CUSTOMERS	136,587			6,793		757
A.5 OTHER FINANCIAL ASSETS						
B. OTHER ASSETS	**62**		**14**			**3**
C. FINANCIAL LIABILITIES	**1,837,330**	**3**	**676**		**1,395**	**811**
C.1 DUE TO BANKS	1,715,877	3	546			706
C.2 DUE TO CUSTOMERS	121,453		130		1,395	105
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. FINANCIAL DERIVATES	**605,811**	**90,834**	**23,551**	**7,055**		**927**
- OPTIONS						
* LONG POSITIONS						
* SHORT POSITIONS						
- OTHER DERIVATIVES	605,811	90,834	23,551	7,055		927
* LONG POSITIONS	568,455	45,354	11,766	148		
* SHORT POSITIONS	37,356	45,480	11,785	6,907		927
TOTAL ASSETS	1,876,822	45,498	12,370	7,015	1,396	1,964
TOTAL LIABILITIES	1,874,686	45,483	12,461	6,907	1,395	1,738
BALANCE (+/-)	2,136	15	(91)	108	1	226

2.4 Derivatives

A. Financial derivatives

During 2016, UBAE did not engage in negotiating financial derivatives on behalf of third parties; instead, the Bank restricted activities on its own account to hedging tools against market risk.

UBAE mainly uses derivatives aimed at hedging its exposure on interest rates (IRS) and in particular on exchange rates (SWAP) in order to reduce exposure, viewed from a management perspective.

Mitigation of market risk is carried out using derivative instruments intended to cover the Bank's lending commitments in management terms.

The strategy pursued by the Bank aims to reduce the possible effects of fluctuations in exchange rates, interest rates, and stock prices by including in the portfolio the following derivatives: currency swaps, interest rate swaps and equity derivatives (futures and options).

Unlike exchange-rate derivatives (which can be neutralised by fixing the Forex level), interest-rate derivatives are used by the bank rate to mitigate the possible effects of adverse fluctuations in yield compared with the value of portfolio assets (securities and loans) thereby minimising the time frame of risk exposure. Taking short-term positions in equity derivatives (futures and options) alleviates the impact of lower prices on long-term equity positions held in the portfolio.

The results of the daily checks conducted by the Risk Management Department are submitted as a monthly report to the Risk Committee, Advisory Committees and Board of Directors.

In addition, similar to the situation with market risks, derivative instruments (IRS and OIS) are used to engage in hedging loans and HTM securities thus reducing the bank's exposure to the interest-rate risk on the banking book. Low exposure to this risk, resulting from the risk-level indicator which is kept below the regulatory threshold, is also due to the prudent strategies adopted by the Board of Directors.

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

UNDERLYING ASSETS / DERIVATIVES TYPE			31.12.2016		31.12.2015	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
1	**DEBT SECURITIES AND INTEREST RATES**		**392,434**		**345,000**	
	A)	OPTIONS				
	B)	INTEREST RATES SWAP	392,434		345,000	
	C)	FORWARD				
	D)	FUTURES				
	E)	OTHERS				
2	**EQUITIES AND SHARES INDICES**					
	A)	OPTIONS				
	B)	SWAP				
	C)	FORWARD				
	D)	FUTURES				
	E)	OTHERS				
3	**EXCHANGE RATES AND GOLD**		**664,605**		**118,490**	
	A)	OPTIONS				
	B)	SWAP				
	C)	FORWARD	664,605		118,490	
	D)	FUTURES				
	E)	OTHERS				
4	**GOODS**					
5	**OTHERS ASSETS**					
TOTAL			1,057,039		463,490	

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

PORTFOLIO / DERIVATIVES TYPE			POSITIVE FAIR VALUE TOTAL 31.12.2016		POSITIVE FAIR VALUE TOTAL 31.12.2015	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A	**TRADING BOOK**		**5,398**		**1,117**	
	A)	OPTIONS				
	B)	INTEREST RATE SWAP	318		176	
	C)	CROSS CURRENCY SWAP				
	D)	EQUITY SWAP				
	E)	FORWARD	5,080		941	
	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			5,398		1,117	

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

PORTFOLIO / DERIVATIVES TYPE		NEGATIVE FAIR VALUE TOTAL 31.12.2016		NEGATIVE FAIR VALUE TOTAL 31.12.2015	
		OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A	**TRADING BOOK**	**3,228**		**1,241**	
A)	OPTIONS				
B)	INTEREST RATE SWAP	945		627	
C)	CROSS CURRENCY SWAP				
D)	EQUITY SWAP				
E)	FORWARD	2,283		614	
F)	FUTURES				
G)	OTHERS				
B	**BANKING BOOK: HEDGES**				
A)	OPTIONS				
B)	INTEREST RATE SWAP				
C)	CROSS CURRENCY SWAP				
D)	EQUITY SWAP				
E)	FORWARD				
F)	FUTURES				
G)	OTHERS				
C	**BANKING BOOK: OTHER DERIVATIVES**				
A)	OPTIONS				
B)	INTEREST RATE SWAP				
C)	CROSS CURRENCY SWAP				
D)	EQUITY SWAP				
E)	FORWARD				
F)	FUTURES				
G)	OTHERS				
TOTAL		3,228		1,241	

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**			**394,334**				
	- NOTIONAL VALUE			392,434				
	- POSITIVE FAIR VALUE			318				
	- NEGATIVE FAIR VALUE			945				
	- FUTURE EXPOSURE			637				
2)	**EQUITIES AND EQUITY INDICES**							
	- NOTIONAL VALUE							
	- POSITIVE FAIR VALUE							
	- NEGATIVE FAIR VALUE							
	- FUTURE EXPOSURE							
3)	**CURRENCIES AND GOLD**			**678,496**			**117**	
	- NOTIONAL VALUE			664,491			114	
	- POSITIVE FAIR VALUE			5,080				
	- NEGATIVE FAIR VALUE			2,280			2	
	- FUTURE EXPOSURE			6,645			1	
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		**949,605**	**97,434**	**10,000**	**1,057,039**
A1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES	285,000	97,434	10,000	392,434
A2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
A3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD	664,605			664,605
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 31.12.2016		949,605	97,434	10,000	1,057,039
TOTAL 31.12.2015		118,490	335,000	10,000	463,490

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, management processes and methods for measuring liquidity risk

Regarding liquidity risk, defined as the Bank's inability to meet its payment obligations due to unexpected difficulties in raising funds on the market and/or promptly liquidating positions in financial instruments, banks that are allowed to use simplified methods are not required to calculate additional capital requirements (Pillar II); however, such banks must set up an internal policy that establishes the operating limits to be observed and the procedures to follow in case of a liquidity crisis (contingency funding plan).

Banca UBAE's financial sources are made up of its own funds, deposits by retail customers, and funding from the interbank market and through the Eurosystem.

UBAE's liquidity risk is not critical under normal financial market conditions, taking into account the composition of the Bank's assets, and the strategies established by the Board of Directors limiting operations to short-term receivables.

Also, Banca UBAE has raised sufficient financial resources to satisfy its needs, in view of interbank relations, the majority shareholder's support and the establishment of an "eligible" bond portfolio for use in short-term and repurchase operations with the Eurosystem refinancing operations (LTRO and TLTRO), as well as the type and quality of its assets.

At present the available financial resources are adequate for the volume of current and future activities. The Bank is also committed to seeking diversification of its sources of funding with a focus on volumes and costs.

The Bank's business areas in charge of ensuring the correct application of liquidity policy are: the Treasury which is responsible for the direct management of liquidity; the Risk Management Department which has the task of selecting the most effective risk indicators and monitoring trends with reference to pre-set limits, and support the activities of the Risk Committee which is responsible for proposing annually to the Board of Directors the funding policies and management of liquidity risk, and suggesting actions during the year that will ensure that activities are carried out in full harmony with the approved risk policies.

In addition to outlining management guidelines, UBAE's policy distributes roles and responsibilities among the offices involved; at the same time, the contingency funding plan, linked to an early warning indicator to highlight any crisis situations, defines the strategies of intervention in the event of liquidity stress, providing extraordinary procedures to ensure the survival of the Bank even under stressful conditions.

The Risk Management Department, in accordance with the provisions of policies on liquidity risk management, monitors compliance with internal operating limits and warning thresholds for early warning systems, and conducts quarterly stress tests. It also produces a weekly report on liquidity (standard reporting format) for the Banca d'Italia, while for internal purposes it produces a report on monitoring activities for the Risk Committee, Advisory Committees and Board of Directors.

In particular, the Risk Management Department builds the maturity ladder on a weekly basis (according to the outflow and inflow distributed by time-based maturity bands) and monitors compliance with the internal operating limits (risk tolerance threshold, survival limits and eligibility limit on financial instruments) as well as the trend of early warning indicators. Then, each month the department calculates the ratio relative to the concentration of the collection and the monitoring tools in order to assess the time frame. Regarding the liquidity ratio (LCR and NSFR), the department conducts monitoring and periodic reporting.

In particular, given the current regulatory framework (Basel 3), the Bank monitors the level of the liquidity coverage ratio on a daily basis using an automated tool, and sends a monthly report to the Banca d'Italia.

Monitoring this ratio highlights compliance with the current regulatory limit (70%), reaching an average of over 100%.

On a quarterly basis, the Risk Management Department conducts stress tests assuming three different scenarios that act respectively on the assets, on funding and liquidity buffers, and analyses the effect of these scenarios on survival limits of one week and one month.

In the first scenario, reflecting a difficulty in mobilising deposits, retention of a fixed proportion of lending to banks is assumed in a period of one month excluding the overnight range (the assumption is that overnight loans are balanced by overnight deposits) that determines the increase of the negative gaps at one week and one month; in the second scenario, reflecting a difficulty in obtaining financing counterparts, a displacement of bank funding is assumed from subsequent time segments to 1 month of the overnight band, again generating an increase of the negative gaps between one week and one month. Finally, the third scenario assumes the downgrading (by an ECAI) of the issuers of the securities held by the Bank (both HFT and HTM). This downgrade is reflected in the reduction of the liquidity buffer, or the loss of eligibility of the security or an increase in the "haircut" applied.

For ICAAP purposes, the Risk Management Department uses an ALM program (Asset Liability Management) to build the maturity ladder, to monitor internal operating limits and to conduct stress tests.

QUANTITATIVE INFORMATION

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

ITEMS / MATURITY LADDER			SIGHT	1 TO 7 DAYS	OVER 7 TO 15 DAYS	OVER 15 DAYS TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A	**CASH ASSETS**		**17,569**	**101,886**	**7,236**	**33,700**	**237,328**	**331,604**	**112,903**	**329,561**	**9,601**	**25,798**
	A1	GOV'T SECURITIES						175,467	1,440	180,500		
	A2	LISTED DEBT SECURITIES		95,000		198	140,409	3,652	8,239	85,900	2,538	
	A3	HOLDINGS IN UCIs										
	A4	L&AS	17,569	6,886	7,236	33,502	96,919	152,485	103,224	63,161	7,063	25,798
		- TO BANKS	13,365	1,138	1,913	18,540	30,641	130,452	74,396	132	375	25,798
		- TO CUSTOMERS	4,204	5,748	5,323	14,962	66,278	22,033	28,828	63,029	6,689	
B	**CASH LIABILITIES**		**300,415**	**5,598**		**50,699**	**236,503**	**7,009**	**89,343**	**60,000**	**40,000**	
	B1	DEPOSITS AND A/C	300,208	5,598		2,699	236,503	7,009	89,343			
		- FROM BANKS	185,884	5,598		2,500	236,503	7,009	89,343			
		- FROM CUSTOMERS	114,324			199						
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	207			48,000				60,000	40,000	
C	**OBS TRANSACTIONS**		**53,391**	**32,428**	**998,631**	**394,500**	**7,039**	**972**	**65,437**			
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		32,428	998,631	394,500	7,039	972	13,309			
		* LONG POSITIONS		14,130	422,434	15,000	4,170	860	6,693			
		* SHORT POSITIONS		18,297	576,197	379,500	2,869	112	6,616			
	C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE	1,263									
		* LONG POSITIONS	318									
		* SHORT POSITIONS	945									
	C3	DEPOSITS AND LOANS TO BE SETTLED										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	52,128						52,128			
		* LONG POSITIONS							52,128			
		* SHORT POSITIONS	52,128									
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										

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

ITEMS / MATURITY LADDER			SIGHT	1 TO 7 DAYS	OVER 7 TO 15 DAYS	OVER 15 DAYS TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A	**CASH ASSETS**		**87,642**	**252,654**	**39,215**	**145,474**	**334,571**	**195,151**	**58,973**	**193,056**	**5,653**	
	A1	GOV'T SECURITIES			164		25,807	2,127	3,308	117,636	5,653	
	A2	LISTED DEBT SECURITIES		403		52		8	463	27,986		
	A3	HOLDINGS IN UCIs										
	A4	L&AS	87,642	252,251	39,051	145,422	308,764	193,016	55,202	47,434		
		- TO BANKS	87,631	249,226	28,353	117,846	216,437	188,951	55,202	47,434		
		- TO CUSTOMERS	11	3,024	10,698	27,576	92,327	4,065				
B	**CASH LIABILITIES**		**238,883**	**200,476**	**298,210**	**342,509**	**735,073**	**25,155**				
	B1	DEPOSITS AND A/C	238,883	200,476	298,210	342,509	735,073	25,155				
		- FROM BANKS	146,331	200,376	298,210	313,970	734,786	25,155				
		- FROM CUSTOMERS	92,551	100		28,539	287					
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES										
C	**OBS TRANSACTIONS**		**71,151**	**32,234**	**162,317**	**371,192**	**26,244**	**52,405**	**13,596**	**18,974**		
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		32,234	162,317	371,192	26,244	228	13,596			
		* LONG POSITIONS		18,128	158,644	368,864	15,939	114	6,766			
		* SHORT POSITIONS		14,106	3,673	2,328	10,305	114	6,830			
	C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C3	DEPOSITS AND LOANS TO BE SETTLED										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	71,151					52,177		18,974		
		* LONG POSITIONS						52,177		18,974		
		* SHORT POSITIONS	71,151									
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										

1.C Financial assets and liabilities: breakdown by residual contractual maturity – others

ITEMS / MATURITY LADDER		SIGHT	OVER 1 TO 7 DAYS	OVER 7 TO 15 DAYS	OVER 15 DAYS TO 1 MONTH	OVER 1 MONTH TO 3 MONTHS	OVER 3 TO 6 MONTHS	OVER 6 TO 12 MONTHS	OVER 1 YEAR	OVER 5 YEARS	INDEFINITE
A	**CASH ASSETS**	**2,904**				**7,147**	**794**	**211**			
A1	GOV'T SECURITIES										
A2	LISTED DEBT SECURITIES										
A3	HOLDINGS IN UCIs										
A4	L&AS	2,904				7,147	794	211			
	- TO BANKS	2,897					16	211			
	- TO CUSTOMERS	7				7,147	778				
B	**CASH LIABILITIES**	**2,766**				**120**					
B1	DEPOSITS AND A/C	2,766				120					
	- FROM BANKS	1,255									
	- FROM CUSTOMERS	1,511				120					
B2	DEBT SECURITIES										
B3	OTHER LIABILITIES										
C	**OBS TRANSACTIONS**		**330**	**66,731**	**35,781**	**18,760**	**765**				
C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		330	66,731	35,781	18,760	765				
	* LONG POSITIONS		230	33,370	17,742	5,926					
	* SHORT POSITIONS		100	33,362	18,039	12,828	765				
C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	* LONG POSITIONS										
	* SHORT POSITIONS										
C3	DEPOSITS AND LOANS TO BE SETTLED										
	* LONG POSITIONS										
	* SHORT POSITIONS										
C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
	* LONG POSITIONS										
	* SHORT POSITIONS										
C5	FINANCIAL GUARANTEES ISSUED										
C6	FINANCIAL GUARANTEES RECEIVED										
C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
	* LONG POSITIONS										
	* SHORT POSITIONS										
C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
	* LONG POSITIONS										
	* SHORT POSITIONS										

SECTION 4 – OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects

UBAE calculates the capital requirement for operational risk by applying the Basic Indicator Approach (BIA) in accordance with current prudential norms.
At present, there is no project to require the application of the standardised approach. Despite having opted for the basic calculation method, UBAE is implementing an operational risk management system that can evaluate and monitor over time the exposure to operational risk and the extent of losses that might result. On the one hand, a draft revision is underway of all processes, and on the other hand, there is an ongoing internal project to implement across-the-range tools aimed at risk assessment and loss data collection activities.

B. Management processes and methods for measuring operational risks

Whenever new products and services come into service, a full analysis of the risks associated with the new operations, for submission to the General Directorate, is carried out by the Finance Department in collaboration with Organisation & Systems, Compliance, Risk Management and Internal Auditing Departments.

QUANTITATIVE INFORMATION

		31.12.2016	31.12.2015
OPERATIONAL RISK		**6,073**	**6,112**
1	BASIC INDICATOR APPROACH	6,073	6,112
2	STANDARDIZED APPROACH		
3	ADVANCED METHOD		

Capital requirements relating to operational risks were calculated at 31 December 2016, based on the indicator referred to in article 316 CRR.

As part of the Risk Appetite Framework, the Risk Management Department on a quarterly basis monitors compliance with the macro risk limit and risk tolerance for operational risks; the results are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

SECTION 5 – OTHER RISKS: COUNTERPARTY AND SETTLEMENT RISK

QUALITATIVE INFORMATION

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

Brokerage activity in OTC derivatives for interest and exchange rates creates a risk that, at maturity, the counterparty does not settle contractual obligations (counterparty risk); once the expiry date has been exceeded, counterparty risk becomes a settlement risk in the event of default by the counterparty.
Counterparty risk is monitored, both overall and in relation to individual types of exposure, using the front office ObjFin system that handles internal operating limits.

Each counterparty, both banking and corporate, authorised to negotiate forward derivatives, is validated by the Board of Directors, the Credit Committee or other competent bodies of the Bank, by granting specific ad hoc credit lines. The limits are controlled by the front office system through daily recalculation of all existing positions, based on updated prices. The results of the daily tests are used by the Risk Management Department to produce a monthly report for the Risk Committee, Advisory Committees and Board of Directors.

Measuring internal capital against counterparty risk is carried out by applying the current value method.

As part of the Risk Appetite Framework, the Risk Management Department monitors the performance (on a quarterly basis) of the macro risk limit and risk tolerance for counterparty risk (including Credit Valuation Adjustment); the results are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

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

Except for operations in OTC derivatives, which generate counterparty risks, the UBAE Bank negotiates financial instruments and foreign exchange, both listed and unlisted, only with a "payment versus delivery" clause, limiting exposure to settlement risk.

SECTION 6 - CONCENTRATION RISK

QUALITATIVE INFORMATION

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

In order to control the overall concentration of exposures, the Bank operates in compliance with the legislation on large exposures, locating and reporting the exposures with weighted amounts exceeding 10% of eligible capital, and monitoring compliance with the lending limit, in order to report any overdrawn positions to the financial authority.
To reduce the risk of exceeding the lending limit, the Bank is developing an automatic calculation tool which enables business units to continuously monitor the rate of absorption of this threshold.

The prudential norms (Pillar II) provide for the calculation of an additional capital requirement on the single name concentration risk for the corporate portfolio; in practical terms, the simplified algorithm applied for the purposes of determining capital absorption is based on the Herfindal concentration index and is calculated quarterly for the purposes of capital adequacy.

In addition to conducting tests of capital adequacy, the Risk Management Department also carries out quarterly stress testing which simulates an increase in the portfolio's concentration at the same level as corporate exposures.

In addition, the analysis of capital adequacy is combined with the capital requirement involved in the risk of geo-sectorial concentration; to this end, quantitative methodology is applied, developed by the trade association for the determination of an add-on sheet for corporate exposures resident in Italy.

As part of the Risk Appetite Framework, the Risk Management Department on a quarterly basis monitors compliance with the macro risk limit and risk tolerance and the risk of single name concentration for the risk of geo-sectorial concentration; the results of the tests are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

The concentration related to exposures for counterparty banks does not fall within the scope of calculating capital absorption; however, in line with regulatory requirements, the Bank has established a system of internal operational limits designed to minimise exposure to this risk. The limits are monitored on a quarterly basis by the Risk Management Department and are periodically reported to the governing bodies.

Finally, the Risk Management Department conducts a quarterly analysis of the composition of the portfolio as a function of the economic sector in which the counterparty operates and the geographical area in which it resides. This data supplements and completes the analysis of the Bank’s concentration profiles and precedes stress testing in the field of credit risk.

SECTION 7 – COUNTRY RISK

QUALITATIVE INFORMATION

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

Banca UBAE measures the capital requirement for country risk by applying an internal calculation method for determining additional capital that complements the internal analysis in terms of capital adequacy. The rationale for this additional amount, although not required by law, is due largely to the special operations conducted by the Bank in certain geographical areas.

From a management point of view, the Board of Directors grants a credit line for each country, and regulates the credits to countries that have a rating below BBB or are unrated.

However, internal policy governs the procedures for identifying, assessing, measuring and monitoring country risk and transfer risk. This policy was reviewed during 2016 in order to implement the decisions of the European Commission on banks that are resident in non-equivalent countries.

Regarding transfer risk, from a quantitative point of view, the Bank has decided to include such risk in the wider field of country risk; from a qualitative point of view, the material existence of the risk is assessed periodically by analysing the loan portfolio composition and determining the relevance of exposures towards countries belonging to the classes of transfer risk supplied by the trade association.

On a quarterly basis, as part of the Risk Appetite Framework, the Risk Management Department monitors the performance of the macro risk limit and risk tolerance for country risk; the results of the tests are periodically reported to the Risk Committee, Advisory Committees and Board of Directors.

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

		31.12.2016	31.12.2015
1	SHARE CAPITAL	159,861	159,861
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	40,363	36,801
	OF EQUITY:	40,363	36,801
	A) LEGAL RESERVE	13,241	12,496
	B) STATUTORY RESERVE	26,724	23,835
	C) OWN SHARES		
	D) OTHER	398	470
	OTHER RESERVES		
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	531	(14)
	-FINANCIAL ASSETS AVAILABLE FOR SALE	767	199
	-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	(236)	(213)
	-VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY		
	-SPECIAL REVALUATION LAWS		
7	PROFIT (LOSS) FOR THE YEAR	3,553	6,848
	TOTAL	221,010	220,198

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

		31.12.2016		31.12.2015	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBT SECURITIES	767		199	
2	EQUITIES				
3	HOLDINGS IN UCI				
4	LOANS				
TOTAL		767		199	

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

			DEBT SECURITIES	EQUITY AND SHARES	HOLDINGS IN UCI	LOANS
1	**OPENING BALANCE**		**199**			
2	**INCREASES**		**866**			
	2.1	FAIR VALUE ADJUSTMENTS	866			
	2.2	INCOME STATEMENT REVERSAL OF NEGATIVE RESERVES				
		- FROM IMPAIRMENT				
		- FROM DISPOSALS				
	2.3	OTHER INCREASES				
3	**DECREASES**		**299**			
	3.1	FAIR VALUE ADJUSTMENTS	18			
	3.2	IMPAIRMENT WRITE-DOWNS				
	3.3	INCOME STATEMENT REVERSAL OF POSITIVE RESERVES: FROM DISPOSALS				
	3.4	OTHER DECREASES	281			
4	**CLOSING BALANCE**		**766**			

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 deter-mined based on the new harmonized 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;
- 40.4 million Euro in other reserves, including retained earnings;
- accumulated other comprehensive income, negative to the tune of 0.8 million Euro and consisting of:
- 0.24 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
- 0.53 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:

- 1.3 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 unrealized losses on AFS securities, totaling 0.31 million Euro;
- positive filter on negative actuarial reserves (IAS 19), amounting to 0.13 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:

- the positive national filter introduced by Bank of Italy Circular no. 285, equal to 80% of the 50% of unrealized gains on AFS securities, which amounts to 0,23 million Euro (+).

B. QUANTITATIVE INFORMATION

		31.12.2016	31.12.2015
A	**COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS**	**217,482**	**218,740**
	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)**	**217,482**	**218,740**
D	**ITEMS TO BE DEDUCTED FROM CET1**	**(1,329)**	**(1,468)**
E	**TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)**	**(180)**	**117**
F	**TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)**	**215,973**	**217,389**
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**	**100,000**
	OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
N	**ITEMS TO BE DEDUCTED FROM T2**		
O	**TRANSITIONAL REGIME - IMPACT ON T2 (+/-)**	**230**	**60**
P	**TOTAL TIER 2 CAPITAL (T2) (M-N+/-O)**	**100,230**	**100,060**
Q	**TOTAL OWN FUNDS (F+L+P)**	**316,203**	**317,449**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

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

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

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

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

- *prospective internal capital*, i.e. the total internal capital amount 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.

(*) 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	
			31.12.2016	31.12.2015	31.12.2016	31.12.2015
A	**RISK ASSETS**					
A1	**CREDIT AND COUNTERPARTY RISK**					
	1	STANDARD METHODOLOGY	3,174,812	2,975,633	1,840,291	1,688,021
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
		2.1 BASED				
		2.2 ADVANCED				
	3	SECURITIZATION				
B	**REGULATORY CAPITAL REQUIREMENTS**					
B1	CREDIT AND COUNTERPARTY RISK				147,223	135,042
B2	CAPITAL REQUIREMENTS				99	62
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				4,458	7,844
	1	STANDARD METHODOLOGY			4,458	7,844
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				6,073	6,112
	1	BASIC INDICATOR APPROACH			6,073	6,112
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	TOTAL PRUDENTIAL REQUIREMENTS					
C	**RISK ASSETS AND CAPITAL REQUIREMENT RATIOS**				**157,853**	**149,060**
C1	RISK-WEIGHTED ASSETS				1,973,172	1,862,124
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				10.95%	11.67%
C3	CAPITAL /RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				10.95%	11.67%
C4	TOTAL OWN FUNDS/ RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				16.03%	17.04%

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 2016

1. COMPENSATION OF DIRECTORS, AUDITORS AND MANAGEMENT

Compensation during 2016 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**		**3.329**
	- DIRECTORS	1.366	
	- AUDITORS	84	
	- MANAGEMENT	1.879	
(2)	**POST-SEVERANCE BENEFITS**		**98**
(3)	**OTHER BENEFITS**		**227**

(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	563	89	652
FINANCIAL LIABILITIES	758		758
GUARANTEES OUTSTANDING			

2. DEALINGS WITH RELATED PARTIES

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

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

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

a. company officer;

b. stakeholder;

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

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

1. companies or entities established in a non-company form controlled by a related party;

2. parties that control one of the related parties indicated in points 2 and 3 of the relative definition, that is, parties either directly or indirectly subject to joint control with the same related party;

3. close family members of a related party and companies or entities controlled by the latter.

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

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

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	199	120,939	121,138
FINANCIAL LIABILITIES	1,533,197	594,973	2,128,169
ISSUED COMMITMENTS	5,517	136,574	142,091

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS		7,501	7,501
FINANCIAL LIABILITIES	117		
ISSUED COMMITMENTS	13,601		13,601

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		127	127
COMM. ON LETTERS OF GUARANTEES	1,318	1,380	2,698
INTEREST	13,907	1,828	15,735
SUBORDINATED LOANS	2,541		2,541
TOTAL	17,766	3,336	21,101

REVENUES

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS		2,420	2,420
COMM. ON LETTERS OF GUARANTEES			
INTEREST		745	745
TOTAL		3,165	3,165

COSTS

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	31		31
INTEREST			
SUBORDINATED LOANS			
TOTAL	31		31

REVENUES

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	12		12
INTEREST		40	40
TOTAL	12	40	52

Relations and dealings with related parties are not considered to be critical inasmuch as they fall within the Bank’s normal credit and service activities.

No atypical or unusual transactions or dealings were conducted with related parties during the year that, in terms of significance or the amount concerned, could have given rise to doubts as regards safeguarding the Bank’s equity position.

Dealings with related parties are duly conducted at market terms and conditions, and in any event always based on evaluations of economic convenience in conformity with the regulations in force, providing adequate substantiation as regards the reasons for and convenience of such dealings.

The Financial Statements do not include either provisions for or losses as a result of doubtful receivables from related parties. Concerning the latter, only an overall write-down for total receivables has been applied.

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

QUALITATIVE INFORMATION

No data to report.

QUANTITATIVE INFORMATION

No data to report.

PART L: SEGMENT REPORTING

No data to report.

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 Civil Code, the auditors are required to report to the shareholders on the supervisory activities conducted during the year. We confirm that supervisory activities were carried out according to the rules of the Civil Code, legislative decree no. 385 of 1 September 1993 Consolidated Banking Act (T.U.B.), legislative decree no. 39 of 27 January 2010, the statutory rules and regulations of the authorities exercising supervision and control, also taking into account the code of conduct recommended by the National Association of Certified Chartered Accountants.

With reference to the balance sheet of Banca UBAE S.p.A., closed on 31 December 2016, which shows a net profit of EUR 3,552,894, the Auditing Board states that it has been prepared in accordance with IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) currently in force, and was sent to the Auditing Board together with the management report on 31 March 2017. In particular, the financial statements at 31 December 2016 were prepared on the basis of the "Instructions for preparing company financial statements and consolidated financial statements of banks and leaders of banking groups" issued by the Banca d’Italia with circular no. 262 of 22 December 2005 and subsequent updates.

The notes to the accounts, in addition to the specific requirements of the rules on financial statements, provide information deemed appropriate to represent the company’s equity and financial and economic situation.
The report prepared by the Board of Directors contains appropriate information – deemed to be exhaustive and complete – on corporate management.

With regard to the manner in which the Auditing Board carried out its institutional activity, it confirms that it has:

- attended the meetings of the Board of Directors, the Controls and Risks Committee (formerly, Internal Controls Committee and Risk Supervision Committee) and the Remuneration and Governance Committee;

- met regularly with the Internal Audit officers, Compliance and Risk Management departments, in order to exchange information on operations and monitoring programmes;

- carried out periodic checks, ensuring compliance with the law, the Statute, respect for the principles of correct administration, as well as the adequacy of the organizational structure and internal control system;

- held a regular exchange of information with the heads of the independent auditors;
- constantly followed the events to which the company was exposed.

1. **Atypical and/or unusual transactions, including intercompany or affiliated parties**

   During the year, we did not find or receive 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 or intercompany parties.

   Transactions with affiliated parties are illustrated by the Directors in the explanatory notes.

   The Board believes that the above-mentioned operations of an ordinary nature, are appropriate and in the company's interests, connected and related to the realization of the social aims.

2. **Adequacy of the information provided in the management report concerning atypical and/or unusual transactions, intragroup or with affiliated parties**

   In addition to what has been stated in paragraph 1, the Auditing Board noted that, with regard to transactions with affiliated parties and/or related entities, pursuant to article 2391 bis of the Italian Civil Code, in compliance with the requirements regarding related parties referred to in circular no. 285 issued by the Banca d'Italia on 17 December 2013, the Banca UBAE has adopted special internal regulations and specific procedures to ensure that such operations are continuously managed and monitored.

3. **Supervisory activities on the Consolidated Statutory Auditing of Accounts**

   The auditors monitored: (i) the financial reporting process; (ii) the effectiveness of internal control systems, internal audit and risk management; (iii) the audit of the annual accounts; (iv) the independence of the statutory auditor, in particular as regards the provision of non-audit services.

   The Auditing Board 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 established by legislation in relation to the financial reporting process.

   The report, issued on 12 April 2017 under article 14 of legislative decree no. 39/2010, shows that the financial statements were prepared in accordance with IAS/IFRS international accounting standards issued by the International Accounting Standards Board and adopted by the European Union, in force at 31 December 2016, and in accordance with the provisions issued in implementation of article 9 of legislative decree no. 38/2005, and were prepared on the basis of instructions issued by Banca d'Italia with circular no. 262/2005 and subsequent amendments and additions.

Therefore, the report gives a true and fair view of the financial position, financial performance and cash flows for the year ended 31 December 2016. Moreover, in the opinion of the statutory auditor, the management report is consistent with the balance sheet documents.

Regular meetings with the statutory auditor to exchange mutual information, did not indicate to the Auditing Board acts or facts considered reprehensible or irregularities which required specific reports.

4. **Complaints based on article 2408 and statements**

During the year 2016, the Auditing Board did not receive any complaints pursuant to article 2408 of the Italian Civil Code, nor were any statements received.

5. **Comments on compliance with principles of proper administration**

The Auditing Board, including participation in meetings of the Board of Directors and the Controls and Risks Committee, on the basis of information obtained or received from the members and from the person in charge of statutory auditing, has monitored compliance with the principles of proper management, checking the appropriateness of management decisions with general criteria of economic rationality and compliance with their obligation of due diligence in carrying out their mandate. In this regard the Auditing Board has no relevant observations to make.

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

The Statutory Auditors monitored the adequacy of the organizational structure and the internal control system for each area of operation, through direct observation, information gathering and interviews with representatives of the auditing firm BDO Italia S.p.A.

7. **Information on corporate bodies**

Regarding corporate bodies of governance, the Auditing Board noted, with reference to the provisions of article 36 of legislative decree no. 201/2011 – assumption or exercise of managerial positions in supervisory bodies or control of companies or groups of competitors operating in banking, insurance or financial markets – that the directors and members of the Auditing Board have assessed their situation and have taken the appropriate steps to comply with the above legislation.

8. **Final remarks on supervisory activities**

   As a result of its activities, the Auditing Board did not find any reprehensible facts, omissions or irregularities to be included in this report.

9. **Proposals by the Auditing Board to the shareholders' meeting**

In view of the foregoing, the Auditing Board, given the provisions of the Statutory Auditors' reports, does not find, for matters within its competence, impediment to the approval of the draft financial statements at 31 December 2016 submitted by the Board of Directors. With reference to the proposed destination of the result, also for the year 2016, the Auditing Board reminds the Supervisory Body to pursue policies aimed at boosting capital.

Rome, 12 April 2017

The Auditing Board: 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 comprises the statement of financial position as of December 31st, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other 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. 43 of Legislative Decree No. 136/2015.

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. 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 December 31st 2016 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. 43 of Legislative Decree No. 136/2015.

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 under the responsibility of the directory 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 December 31st 2016.

Rome, April 12, 2017

BDO Italia S.p.A

Emmanuele Berselli

(Partner)

RESOLUTIONS PASSED BY THE SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 28.04.2017

AGENDA

1. Discussion and approval of the draft financial statements as at 31 December 2016 and of the management report prepared by the Board of Directors;

2. Report by the board of statutory auditors;

3. Report by the external auditing firm;

4. Proposal for allocation of profits and relative resolutions;

5. Approval of proposed remuneration and incentive policies 2017 for directors, statutory auditors, employees and the Bank's collaborators on non-employed rapports (see 7th update of circular no. 285 of 17 December 2013 on remuneration and incentive policies and practices in banks and banking groups);

6. Award to members of the Board of Directors for the result of the 2016 financial statements;

7. Modifying the composition of the Board of Directors.

The Shareholders' Meeting took note of the management report by the Board of Directors, the report by the Board of Statutory Auditors and the report by the external auditing firm on the financial statements for the year ended 31 December 2016, and adopted the following resolutions:

- approving the financial statements as of 31 December 2016 and handing them on to the Board of Directors for ratification;

- welcoming the following proposal for distributing the year's earnings:

	EURO	
NET PROFIT	3,552,894.00	-
5% TO THE LEGAL RESERVE (ARTICLE 30 LETTER A OF ARTICLES OF THE BANK'S STATUTE)	178,000.00	=
RESIDUE	**3,374,894.00**	**+**
SURPLUS PROFITS FROM PREVIOUS YEARS	2,566.56	=
	3,377,460.56	**-**
DIVIDED 2016 TO BE DISTRIBUTED	1,688,730.28	-
ALLOCATION TO EXTRAORDINARY RESERVE	1,685,000.00	=
CARRIED OVER TO NEXT YEAR	3,730.28	

With the approval of this allocation, the reserves as a whole will amount to Euro 59,464,436. The Bank's total assets including paid-up capital, reserves and retained earnings and share issue charges will thus amount to Euro 219,325,236.

At the end of the meeting, the Chairman thanked the directors, the general management and the Bank's staff for their dedication and commitment to achieving the 2016 economic result, and also expressed its appreciation of the auditing board for the diligent and continuous support provided to the Board of Directors through regular participation in the meetings held by the Board and the advisory committees. The Chairman also expressed gratitude to the shareholders, in particular the Libyan Foreign Bank, for its constant support of the Bank's activities and financial needs.

ANNEX A

COUNTRY - BY - COUNTRY REPORTING AS AT 31 DECEMBER 2016

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 2016.

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. **Turnover[1] = EUR 37,035,068.00**

c. **Number of employees on equivalent full-time basis[2] = 192**

d. **Pre-tax profit[1] = EUR 5,832,192.00**

e. **Tax on profits[1] = EUR 2,279,298.00**

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.

BANCA UBAE

TRADE COMMERCIAL BUSINESS
L/Cs Finance and Guarantees for Export - Import Operations

SYNDICATIONS & ENERGY
Managing Trade in the Energy and Infrastructure Sectors

FACTORING
A service for which the Bank has set up a dedicated desk at its Milan Branch

FINANCE
Treasury and Forex Business

ADVISORY ACTIVITIES
Traditional banking products and distinctive tailor-made solutions, as well as linking our customers with primary foreign banks in countries we cover

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Morocco
Kuwait, Saudi Arabia

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